(9:40 a.m.)

MR. NOSEWORTHY, CHAIRMAN: Good morning. Another glorious day. Hopefully it'll compensate a little bit for what's in the news these days which is nothing very good, I'm afraid. For those who've got money in the stock market, you'd probably need two weeks of 40 degrees and the sun splitting the rocks to even, and then perhaps it wouldn't make up ... but it is a nice morning. Are there any preliminary matters this morning before we begin? Okay. Good morning, Mr. Browne. Good morning, Mr. Reeves.

MR. REEVES: Good morning, Chair.

MR. NOSEWORTHY, CHAIRMAN: If you would perhaps, Mr. Browne, continue with your cross-examination, if you're ready.

MR. BROWNE, Q.C.: Good morning, Mr. Chairman, members of the Board. Good morning, Mr. Reeves.

MR. REEVES: Good morning.

MR. BROWNE, Q.C.: I want to go to, continue on with what we've been doing. We just have a few more of these committees, these working groups to go through, and then I want to turn to **CA-190** which has specific references and minutes. I'm not going to review them all but I'm going to review some, so that's where we're headed. But in reference to group, Working Group No. 14, and this is in the **Exhibit 201**, on page 44, down below it you'll see the date, May 5, 1999. There was a joint meter shop review. What was the purpose of that review, Mr. Reeves, please?

MR. REEVES: It's on page 44?

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

MR. REEVES: Yes, May 5th. The scope of the committee was to review the meter shop operations of both utilities with the objective of reducing costs to the ultimate customer through the coordination of such activities.

MR. BROWNE, Q.C.: And if you look at the Steering Committee's evaluation and the Working Group's evaluation on the next page there's a reference to savings of $175,000 per year. The Steering Committee's evaluation and the Working Group's recommendations seem to be the same. What was the Working Group's recommendation, sir?

MR. REEVES: Starting at 14.79?

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

MR. REEVES: While the management members of a team could support the respective Option 3, their company processing all meters, the group as a whole could only support Option 6. Option 6 provided a savings of six percent, approximately $70,000 per year from the status quo while either company operating one accredited (phonetic) shop, the savings to the ultimate consumer are 28 percent, approximately $175,000.

MR. BROWNE, Q.C.: Now has this Working Group recommendation been activated? Are we into the process of saving the $175,000?

MR. REEVES: We do not have a joint meter shop between both utilities. We do our meters separately right now, using a different method to do it.

MR. BROWNE, Q.C.: Well why do we have the recommendation if it's not being followed?

MR. REEVES: Again, this is one of the committees that no consensus could be achieved as to how we would proceed.

MR. BROWNE, Q.C.: And I see in **Draft No. 20** the report on page 45. If you continue on there you'll, in your binders, you'll see it, **Draft No. 20, C01, CA-201(A)**, page 45. I just want to make a quick reference to that, and that's a further report of the (inaudible) dated January 4, 2001. Do you have that there?

MR. REEVES: Yes, I do.

MR. BROWNE, Q.C.: And what's the last line in that report?

MR. REEVES: "Since the Committee met, Newfoundland Power has determined that using an outside contractor was most cost-effective than attaining accreditation based on the small number of meters which it has."

MR. BROWNE, Q.C.: So has Newfoundland Power contracted out this work, do you know?

MR. REEVES: That's correct.

MR. BROWNE, Q.C.: They've contracted out meters, this ...

MR. REEVES: That's correct, yes.

MR. BROWNE, Q.C.: And you haven't?

MR. REEVES: No, we have not. We have ... we did a review of where we were with our meter shop and we found it to be more cost-effective to have our shop accredited.

MR. BROWNE, Q.C.: How could one utility have contracted it out and the other, alleging savings, and the other utility, you claim it's not worthwhile to contract it out despite the fact we have a report saying if both utilities work together we could have $175,000 per year in savings?

MR. REEVES: Both of our meter shops were different. For instance, one of the things that I guess could be, could not be agreed upon, I guess, by the Working Group as to which utility should have the meter shop. The equipment that we have in our meter shop is relatively new in

comparison to the Newfoundland Power equivalent and for us to upgrade our test boards, which was required for accreditation, was a small amount of dollars. I understand that Newfoundland Power, if they had to upgrade their test boards for accreditation, they would have had to spend a lot more money, so I guess what they did, they compared the upgrading of their test boards to contracting out and where they had to spend more money, the contracting out option was probably the preferred option for them. In Hydro when we did a similar evaluation we found that it was better for us to become accredited and therefore it would be less costly than contracting out, from the information that we have, from what our people conducted.

MR. BROWNE, Q.C.: And that's your explanation, sir, and we'll note that, but we also note the recommendations. So where's the savings here for the consumer? Have they gotten anything out of this?

MR. REEVES: I would say that there has been savings. I'm not able to quantify them to you right now but where we are right now, like, it was only this year that we became fully accredited and my intention, as we have an accredited shop now, is to go to Newfoundland Power and to, which I've already asked, to see if they, instead of contracting out their meters, if they can have their meters tested in our shop, but those discussions, the real discussions on that particular thing has not been finalized yet.

(9:45 a.m.)

MR. BROWNE, Q.C.: So I guess it would depend on the terms of the contract with Newfoundland Power.

MR. REEVES: Yes. What we would like to know is what they would be paying for the contracting out per meter to see if we could better that and that would be our goal.

MR. BROWNE, Q.C.: Well we had a joint committee looking at this. I find it surprising that one utility would jump the gun and go contracting out when this was under discussion, there's a recommendation from a consultation group that worked over a three-year period. Did you find that surprising yourself?

MR. REEVES: There was a number of discussions, I guess, that took place between ourselves, both utilities, and I guess it really came down to where the meter shop should be, and ...

MR. BROWNE, Q.C.: So it was a jurisdiction thing, was it?

MR. REEVES: If that's the word that you want to use.

MR. BROWNE, Q.C.: Newfoundland Power wanted it over on their premises and you wanted it on yours. That's what I refer to when I talk about jurisdiction. Is that what we are squabbling about here now?

MR. REEVES: What could not be agreed on as to which utility would have the meter shop, and I guess it was our opinion that we had the most modern equipment that we felt that the test facility should be with Hydro, and that's what we were working towards.

MR. BROWNE, Q.C.: Working Group No. 15, the technical training.

MR. REEVES: Are you back on the report 19?

MR. BROWNE, Q.C.: Yes, I'm sorry. I'm on the May 5 one now, '99. What was the purpose of that Working Group and what was the result, sir?

MR. REEVES: This group was for the two training sections of both utilities to get together to see if we could, as it says here ... well, probably I should read the scope as I've been consistently doing. "Explore opportunities for cooperation in the design, purchase and/or delivery of technical training programs that meet the strategic business needs and employee development priorities of both utilities, to review and focus on three principal areas, training programs offered by manufacturers of equipment used by both companies, communications and information technology training programs, trades and technology training including skills upgrading."

MR. BROWNE, Q.C.: How would this be beneficial from a cost-saving perspective, Mr. Reeves?

MR. REEVES: One thing that may happen in this particular group, say if Newfoundland Power, for instance, were bringing in a technical trainer on, say, a transformer or a particular recloser or something, then one of the things that we may be able to do is that they would advise us and then if we had similar equipment and then we could participate in the training program rather than having to bring in our trainers separately, and therefore we would get it done more effectively and the converse is true as well.

MR. BROWNE, Q.C.: And the Working Group made a number of recommendations, one recommendation being **15.80**. Can you read that recommendation and advise if that has been implemented?

MR. REEVES: "That Newfoundland Power and Newfoundland and Labrador Hydro share the physical training space available at both companies but especially those facilities in St. John's, Bishop's Falls and Stephenville."

MR. BROWNE, Q.C.: Has that been done for training purposes? Have you saw to it?

MR. REEVES: I'm not able to say that it has or it has not been done.

MR. BROWNE, Q.C.: Who could say? You were on the

committee, you were Hydro's representative, you are giving evidence here.

MR. REEVES: I could take it upon myself to determine if we have used it ...

MR. BROWNE, Q.C.: Yes, that might be ...

MR. REEVES: ... if you would like for me to do that.

MR. BROWNE, Q.C.: And was there any qualification here in terms of the savings which could be realized? Like in the meters you quantified $175,000, but in this particular working group, was there a quantification of how much money we're talking about here?

MR. REEVES: I remember those discussion, this particular one as to how we would be able to determine, and my recollection is that it would be very difficult to do that. There may be some opportunities, two that come to mind. Say, for instance, if we were going to go for outside space for a training session and the other utility had adequate space for that training, that may be a way. Like, the other one is if we were able to coordinate, as I said a second ago, on bringing in trainers. And my recollection from just talking to, I guess, one of my staff, is that there was one course that we held in the last little while, in the last year or so, that I think we offered seats to Newfoundland Power's personnel to attend as well.

MR. BROWNE, Q.C.: And did they?

MR. REEVES: I think they did but I stand ...

MR. BROWNE, Q.C.: Because the result of the Steering Committee's evaluation, if you could read that out, the second part of it on page 48, the last two lines there ...

MR. REEVES: "The Steering Committee is in agreement that there is a savings in the issue of joint training and using the other utility's facilities where practical."

MR. BROWNE, Q.C.: But we don't know if this has been done minus the reference you just made.

MR. REEVES: No.

MR. BROWNE, Q.C.: You think there may have been something there.

MR. REEVES: Yeah.

MR. BROWNE, Q.C.: The report, this particular draft, **Draft No. 19**, has a number of conclusions and recommendations. They're found on page 49, some of them, of the May 5, 1999, version. The overview of the process there, Section A, "A summary of service enhancements," can you read that into the record commencing there, the three paragraphs that commence with that one?

MR. REEVES: "A summary of service enhancements"?

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

MR. REEVES: "The service *(sic)* of service enhancements and cost savings is provided in Section B below. These will be achieved by greater cooperation. The structure of the review did not, however, lend itself to recommend changes which impacted negatively one or more parties."

MR. BROWNE, Q.C.: Now what does that mean, "The structure of the review did not lend itself to recommend changes which impacted negatively one or more parties"? What does that mean?

MR. REEVES: I guess it goes back to, as I said a number of times here, is that there was not unanimous consent amongst the committees for different reasons. Also there was a concern by the union representatives that if we were able to coordinate, it may in effect cut down some of the overtime that would be available to union personnel and there was also concern that it may eventually end up impacting on the staffing levels of both companies, and that was, I think, generally held by both unions.

MR. BROWNE, Q.C.: And you are aware, both of you are into a rate based system now?

MR. REEVES: Now we are, yes.

MR. BROWNE, Q.C.: Do you know how that works?

MR. REEVES: Personally?

MR. BROWNE, Q.C.: Yes.

MR. REEVES: I generally know how it works but I don't know the intricacies of it, no.

MR. BROWNE, Q.C.: One party had to get rid of a facility or cooperate with the other, would that facility come out of their rate base or be sold?

MR. REEVES: That would be my understanding, yes.

MR. BROWNE, Q.C.: And the rate base determines, I guess, their rate of return and their overall, the overall profits that these companies, your companies would make. Is that not true?

MR. REEVES: That's correct, yes.

MR. BROWNE, Q.C.: So given these facts, what hope is there for cooperation, real cooperation?

MR. REEVES: Well I guess what we were trying to say here is that the structure of this way that we attempted to do it with the coordination of the unions at that time, it was a, I guess both companies were trying to work much more closely with the unions to bring in cost savings and more reliabilities but really when we really got down to it, I guess it got more difficult to achieve.

MR. BROWNE, Q.C.: The report on page 49, the Overview

of Process, the last paragraph you began ... you read the first two paragraphs. The paragraph beginning, "It was generally felt," can you read that into the record, please?

MR. REEVES: "It was generally felt that while there are not a lot of areas of overlap, there are a few areas where a different approach may result in lower cost. One such example would be in the area of distribution, operation and maintenance in the Springdale/Baie Verte area. A plan could be developed to work towards a more streamlined operation, say, over five years. This could result in requiring fewer workers with associated cost savings. This might involve a reduction in the total number of staff and may involve doing work for each other at times. The agreement such as this could not be reached given the diversity of the group."

MR. BROWNE, Q.C.: When you ... it says, "A plan could be developed to work towards a more streamlined operation over, say, five years," has that plan been activated?

MR. REEVES: On this particular area there, no, it hasn't, but I think some of what, where we can achieve some efficiencies, would be addressed in the MOU that was signed between both parties.

MR. BROWNE, Q.C.: Now this report, the last committee meeting was in May 1999, and it appeared to lay dormant for a while and then it reactivates on January 4, 2000, with **Draft No. 20**, January 4, 2001. How did it come to be dormant and how did it come to be reactivated?

MR. REEVES: The May 5th report was the last report that the Steering Committee as a whole saw, all four members, and was during that May meeting. Most of us will remember that the fall of 1999, there was a big issue on the go, which was Y2K. It sort of engulfed both utilities to ensure that we were able to slide through the new year without difficulties on our system, so that occupied a fair bit of time, I guess, of myself and Mr. Evans. In addition to that, Hydro was in negotiations with its union. That started in the fall of '99 and continued up until probably late to early, or late spring, early summer, and I also think there was probably some re-election of business unit people, but I don't have that information, but I'm not sure if it was then or before that, but that also caused us some delays. So what happened, after the Y2K and we got through our negotiations, Mr. Evans and I, I guess, met on a number of occasions to try to reactivate the process, and what we did is that we both took the report that had been done to date, which is Version 19, and we worked on it with the intent, because, as you said a second ago, it was starting to become a little bit stale, it's now a year old, things are changing, so what we attempted to do was to update the report to where we were then and to ask ourselves questions so that when we would get back together with the full Steering Committee, we could reactivate the process and finalize this report, and that is what Version 20 is, is the work ... the difference between 19 and 20 is the work of Mr. Evans and I trying to get ready to reactivate the process.

MR. BROWNE, Q.C.: And is the process reactivated now?

MR. REEVES: No, it's not. As I think I've indicated before, is that Mr. Evans left Newfoundland Power earlier this year, has been replaced by Mr. Ludlow. I've mentioned to Mr. Ludlow a couple of times, as we meet on a regular basis, as was pointed out previously, that we would like to reactivate the process. Starting, I guess, in May this year I sort of got preoccupied with the process that we're going through now and we have not reactivated the process.

MR. BROWNE, Q.C.: So when our friend, Mr. Brushett, says in his report to the Board, and if you want to reference that, you'll find it in the report of 2000. Is it 2000? 2000 ... the **Annual Financial Review, 2000**, if you want to make reference to that. Page 35, "The Joint Steering Committee Coordination of Utilities." Have you got that there?

MR. REEVES: Yes, I do.

MR. BROWNE, Q.C.: Can you read that into the record?

MR. REEVES: The full two paragraphs?

MR. BROWNE, Q.C.: Yes, "The Joint Steering Committee" ...

MR. REEVES: "This is a joint committee consisting of union representatives from Hydro and Newfoundland Power. The Committee was" ...

MS. BUTLER, Q.C.: I wonder can we wait until we get it on our screen, sorry?

MR. REEVES: Oh, I'm sorry.

MR. O'RIELLY: Page 35?

MR. BROWNE, Q.C.: Page 35, Mr. O'Rielly, beginning with, "This is a joint committee." Go back, yeah.

MR. REEVES: One more, I think. Keep going up. There it is right there.

MR. BROWNE, Q.C.: Okay, "Joint steering committee."

MR. REEVES: Okay.

MR. BROWNE, Q.C.: Yes.

MR. REEVES: "This is a joint committee consisting of union representatives from Hydro and Newfoundland Power. The committee was established in early 1997 to review potential opportunities for coordination that could result in lowering the overall cost of providing electrical service. The overall mandate of the Steering Committee is to advise and make recommendations to the utilities based

on reviews that are carried out on their behalf. It was indicated by management in 1999 that most of the review of the Joint Steering Committee have been concluded *(sic)*, however, a" ...

MR. BROWNE, Q.C.: "Have been conducted," sir.

MR. REEVES: Sorry. I'm ... sorry.

MR. BROWNE, Q.C.: That's okay.

MR. REEVES: "Have been conducted, however, a report was not finalized. According to an update provided by management, there were several minor opportunities for a change identified and implemented, however, towards the end of the process there was little value added in finalizing a written report."

MR. BROWNE, Q.C.: Where would Mr. Brushett get that conclusion, "Towards the end of the process there was little value added in finalizing a written report"?

(10:00 a.m.)

MR. REEVES: Well that's, I guess, what was given earlier this year, which would have come from me. I'm the representative which would have given this to our people to give to the PUB auditors, and I guess what I meant by that is that there has been a number of changes since 1999 and whether we should reactivate this process now knowing that there was a general, at least four committees, there was no consensus whether we should actually restart this process or not, I don't know, and in my discussions with Mr. Ludlow, this would be one of the things that I would be talking about. Ideally, if there are not a lot of changes to be made to report, it would be nice to have that document finished, but whether there's any value added in finishing that document now is the question.

MR. BROWNE, Q.C.: And we're into our fourth year now. It started May 1997, it was finished May 2001, and I put to you, Mr. Reeves, that even if one of the areas have been implemented, the meter saving, say if that had been implemented over a four-year period, we would have savings in the, according to your numbers, of $600,000 alone.

MR. REEVES: The way that we've done it now, I know that we've had some efficiencies in our meter shop and I think Newfoundland Power has had some in theirs. Whether we've achieved exactly what would have been in the report, I don't know, and at this point I can't quantify those.

MS. BUTLER, Q.C.: Mr. Chairman, I wonder if I just might note for the record that the witness has indicated that Newfoundland Power might have benefits from its meter shop, to make it clear Newfoundland Power does not have a meter shop. It's contracted out.

MR. REEVES: I'm sorry, I used the term incorrectly, meter services. I understand you don't have a meter shop.

MR. BROWNE, Q.C.: There are other minutes, more particular minutes, in reference to these meetings that you attended, and some of these can be found in **CA-190**. I don't intend to take you through each and every committee, but if you can go to **CA-190** momentarily, I will bring you through some of them. And for the record, what are these minutes of, Mr. Reeves, please?

MR. REEVES: This is **CA-190**?

MR. BROWNE, Q.C.: Yes. **CA-190** has a number of minutes attached, first begin with March 5, 1997.

MR. REEVES: And these are the minutes that we kept of our Steering Committee meetings starting on March the 5th, 1997, and going to the last one which would be up to and including May the 10th, 1999, which was meeting number 36.

MR. BROWNE, Q.C.: And these minutes, they were particular to individual groups or are these the minutes that you kept yourself?

MR. REEVES: This is the actual Steering Committee itself, not the task groups.

MR. BROWNE, Q.C.: Sure.

MR. REEVES: And normally the way it worked is that the host of the meeting would keep the minutes.

MR. BROWNE, Q.C.: Okay, that's fair. Can you go to the minutes of April 9, 1997? Yesterday I'd asked you about the two headquarters at Whitbourne, and here we get more detail as to exactly what might be in Whitbourne, the headquarters of Newfoundland Power and then down the road the headquarters of Newfoundland Hydro, and you find in Item 9 some particulars, indeed as these were in 1997. Can you read Item 9 into the record, sir?

MR. REEVES: This is April the 9th, 1997?

MR. BROWNE, Q.C.: This is the April 9, 1997, meeting.

MR. REEVES: And the meeting was held in Whitbourne?

MR. BROWNE, Q.C.: This meeting is the fourth meeting, I believe.

MR. REEVES: That's right. It was held in Whitbourne.

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

MR. REEVES: Yeah. And Item No. 9, on page two?

MR. BROWNE, Q.C.: Page two of that, sir.

MR. REEVES: "Following the meeting, Berkley Pinsent conducted a tour of the Newfoundland Power Whitbourne facility with headquarters approximately, which

headquarters approximately 20 persons to service Newfoundland Power's 12,000 customers between New Harbour and Trepassey. The group then visited the Newfoundland and Labrador Hydro Whitbourne facility which was staffed, which has a staff of approximately 40 and maintains transmission lines and thermal stations from Sunnyside to Oxen Pond and the Burin Peninsula where Rod Hefford provided a tour."

MR. BROWNE, Q.C.: And these two headquarters, according to your evidence yesterday, are in proximity to each other?

MR. REEVES: Yes, they're not too far apart.

MR. BROWNE, Q.C.: Can you refer to the minutes of June 27, 1997? It's minutes of meeting number seven, and under Item 3, the fourth bullet that's on the top of page two. It is stated there, "NLH," that's your company ...

MR. REEVES: That's correct.

MR. BROWNE, Q.C.: ... "is exploring extending its yard in Whitbourne. The committee should be asked to see if this is an area of coordination." Now there are two facilities there, one by Newfoundland Power and one owned by yourselves. Why would you be interested in extending your yard in Whitbourne?

MR. REEVES: I think I explained this one to the proceedings yesterday. If my memory serves me right, we had a number of a poles and other equipment which was actually stored outside of our fenced area and there was some concern over security of that material, so what we were in the process of doing was to look at the option of fencing, so, and that came up, if I remember correctly, during the visit that we had out there. So what was an option was, instead of extending, or fencing our particular area that we were using, would be to be able to use an area over in Newfoundland Power's warehouse, in their yard.

MR. BROWNE, Q.C.: Then the final result, was it used, the area in Newfoundland Power's warehouse?

MR. REEVES: No, it was not, and there was an evaluation done, again if my memory serves me right, that in order for us to, because we had, I think what we had stored outside was primarily poles, transmission poles, along with some other stuff, and in order to utilize the Newfoundland Power yard, we would have to do a capital investment there as well to keep the poles off the ground, and that would have been just as expensive, I think, as the, to fencing.

MR. BROWNE, Q.C.: So have you done any expansion of your yard in Whitbourne, of your own yard?

MR. REEVES: Again from memory, in retrospect I think what we may have done is, I'm not, I don't recall that we fenced our yard but we may have moved some of the materials that could have been taken into the fenced yard and left the poles outside. I think that's what happened.

MR. BROWNE, Q.C.: You left the poles outside.

MR. REEVES: Yes, on the ramps that they were under, because who's going to go in and take a 70-foot pole?

MR. BROWNE, Q.C.: You might have a point. Page two, you also say, "Questions asked about the storage of blasting supplies and whether this could be coordinated between the two utilities." Has there been a coordination of blasting supplies between the two utilities? I guess that involved the storage of these supplies or what did it involve? You're in a better position to tell us.

MR. REEVES: I'm just thinking now because we do, again if memory serves me right, we do at some of our locations keep blasting supplies for blasting holes for poles and that, and I really right now can't answer if there was a requirement for coordination on that particular item or not. I don't remember.

MR. BROWNE, Q.C.: So you don't remember it coming forward as a result, that there would be storage of blasting supplies. You have no recollection of that?

MR. REEVES: I have no recollection of that right now, no.

MR. BROWNE, Q.C.: Can you go to the minutes of August 11 and your conclusion of that particular meeting? What did that meeting, those minutes reflect? What do they reflect, the August 11, 1997, minutes, meeting number eight?

MR. REEVES: Conclusion ...

MR. BROWNE, Q.C.: Yeah. What does it reflect? What are the minutes about?

MR. REEVES: Well, it was again a regular meeting that we had. It was held in Central Newfoundland and we visited the Newfoundland Power facilities and the Newfoundland Hydro facilities and we had the meeting at the Hydro facilities in Central, in Bishop's Falls actually. That's where our facility is.

MR. BROWNE, Q.C.: So you went and toured both facilities. And then your conclusion is found on page, the last page, and I think they're your minutes. August 14, 1997 they're dated. Can you read that into the record?

MR. REEVES: "Overall the visit to Central Newfoundland by the Hydro/Newfoundland Power Steering Committee was very beneficial. Touring the facilities of both utilities in this region will be useful information as the Steering Committee performs the future evaluation of the Working Committee reports."

MR. BROWNE, Q.C.: And how was it beneficial? In what

way? How did it benefit consumers? Where were the savings that resulted from the Central Newfoundland area?

MR. REEVES: What the Steering Committee, I guess, early on in its meetings, I guess, thought and decided, that because the Newfoundland Power representatives were not familiar with our facilities and vice versa, so what we decided to do is to go and visit some of our locations and the locations that we decided to visit is where, the areas where we are jointly located in, and that would be Whitbourne, Central and Stephenville, and you'll see later on that we also visited Stephenville. So what I was trying to reflect here in these minutes is that this visit to Central Newfoundland gave all four members a better understanding of the facilities of both utilities.

MR. BROWNE, Q.C.: And I put it to you we had to wait till 1997 for the two utilities to tour each other's facilities and one to see what the other was offering?

MR. REEVES: I didn't ... that's not what I meant by, in my response just then. If you remember, I've been in TRO since 1995. I doubt if our Business Unit Manager has ever visited Newfoundland Power's facilities and vice versa. Mr. Evans has been with Newfoundland Power for a long period of time, involved in distribution. He may have had more opportunity to do that, but the line of work that I was in with Hydro before did not offer me that opportunity.

MR. BROWNE, Q.C.: The meetings of September 19 and September 26, they're recorded as one, meeting number nine, and on page two, Item 7, we come back to Whitbourne again. Whitbourne seemed to be on your minds. I wonder why. "Storage space, questions regarding Whitbourne's yard space, sharing and storage of computer tapes, need a response after which report can be finalized and accepted." What are the computer tapes that you're attempting to store and where were they to be stored?

(10:15 a.m.)

MR. REEVES: My recollection on this particular one is that both utilities store a lot of their IT information, their computer information, on tape or disk or whatever, and you store it off premises in the case of a fire so that all the data is not lost. So I know in Hydro we store our computer tapes off site and I think Newfoundland Power does the same. So what we were looking at is, was there an opportunity that we could even, you know, if we could take a place and store our tapes on their facilities and vice versa type thing. That's what that one was intended to be. Not a lot ...

MR. BROWNE, Q.C.: And was that implemented?

MR. REEVES: Pardon me?

MR. BROWNE, Q.C.: Was that idea put into an implementation?

MR. REEVES: I'm not sure that I remember that. I know that at one point in time we looked at some of the potential sites on one of our tours but I'm not sure if that was implemented or not.

MR. BROWNE, Q.C.: And there's an item there in those minutes as well on page three of Section 7.5. It says, "Contracting out of the companies, not necessarily the province. Can NLH test Class 3 gloves? Action, John." What's the contracting out we're talking about here? Can you speak to that, Mr. Reeves?

MR. REEVES: This falls under protective equipment, test facilities. "Contracting out of the province, out of the companies, necessarily the province." I guess the question here is that, as I explained yesterday, we have a piece of test equipment for the testing of our gloves for our line workers, which they use in the performance of their duties, and the question was asked by John, John Evans, is whether that could be contracted out.

MR. BROWNE, Q.C.: Was it ever quantified into what savings could be realized?

MR. REEVES: No, it was not, not that I remember, if any.

MR. BROWNE, Q.C.: The meeting reconvened on September 26th, and we see Item 12, the area of communications. We see you had two communications officers get involved, Mr. Pike and Mr. Barrett. And what was the purpose of having them involved? Was there to be a release of some kind?

MR. REEVES: What we tried to do throughout the process was to advise our employees of both utilities that this activity was on the go and to just keep them appraised of the situation, and if I remember correctly there was probably two or three releases within the companies.

MR. BROWNE, Q.C.: And what about advising the consumers that was on the go, that there was an effort being made to, for both companies to bring down costs and implement cost-saving measures? Was any thought given to that, issuing a release to advise the public or the Public Utilities Board or ...

MR. REEVES: I don't remember that being discussed.

MR. BROWNE, Q.C.: Now under "Transmission" there at the bottom of the page, there's a question posed, "Why are NP poles more expensive?" So why are they more expensive?

MR. REEVES: The context, from memory again, the context of this item being put here is that Hydro has no occasion, as we upgrade our lines, have occasion to go out and buy a large bulk purchase of poles and we're able to get a very

favourable price for that, and that's what it was being compared to, what Newfoundland Power would be paying versus what we would pay on our large bulk orders or poles.

MR. BROWNE, Q.C.: And your poles, you told us, are a lot longer than Newfoundland Power's, are they not?

MR. REEVES: Most of our poles would be longer than Newfoundland Power's, although we also buy poles for distribution as well, not as many as Newfoundland Power would buy but we would buy those.

MR. BROWNE, Q.C.: And what was the result? Did you agree to work together on the acquisition of these poles?

MR. REEVES: My recollection is that we didn't, we are not doing joint purchases on poles.

MR. BROWNE, Q.C.: Still no joint purchases on poles.

MR. REEVES: No, that's my recollection.

MR. BROWNE, Q.C.: Despite the fact we see on September 26, 1997, there's an alert that Newfoundland Power's poles might be more expensive. How is that serving the consumer?

MR. REEVES: As I ... Newfoundland Power has additional arrangement for the way that they buy their poles as I understand it. It's through one supplier throughout the province and what we do is, because we have different requirements from year to year, we buy most of our poles on, by the contract basis where we buy them for a particular job. We also have some that we keep in storage for our safety stock, but most of our poles that we would buy from year to year would be depending on the actual capital program that we would be involved in.

MR. BROWNE, Q.C.: But we're talking about buying jointly, the two utilities. I imagine Newfoundland Power, if one were to review their capital budget, you'd also, you will always see some pole purchasing there, I would think. I think that would be a fair comment.

MR. REEVES: I would suspect that you would, yes.

MR. BROWNE, Q.C.: And they haven't approached you to see how you can do it cheaper since there was an alert that they are paying too much, it appears? Not to your knowledge?

MR. REEVES: Not ... well, on poles in particular I'm not aware that there has been a discussion on that.

MR. BROWNE, Q.C.: On page five of those minutes, right at the top of the page, the question is posed, "Are customers better served because the two companies use a different design criteria?" What's that all about, Mr. Reeves?

MR. REEVES: This is in common standards and it's under transmission and the question is being asked, we have one design criteria for some of our structures and that and Newfoundland Power has another one, and during this process, in particular in the distribution section, if you'll excuse me, which was on the previous page, even though we coordinated a lot in the past so that we do have the common standards so that we are able to share spare parts and that, what we found going through this review is that some of our standards sort of drifted apart a bit, and what we were able to do in these activities was again to focus the two standards to be very similar, however ...

MR. BROWNE, Q.C.: And has this been remedied? Are the standards now similar?

MR. REEVES: Most standards are similar. There are a couple that are not and that's due to either the particular work method of the utility or a particular requirement for a different standard, and the one that comes to mind relates to, and I think you may see reference in some of these minutes, is the cold temperature steel. Hydro, for its transmission lines, specs when it goes out for hardware for its transmission lines, a cold temperature steel. This is a steel which is just treated a little differently but it gives you different quantity, qualities that can react to the, what we think is the environment that we're in, and therefore we would have less, better reliability as a result of using that. When we were going through this, I guess it was determined that Newfoundland Power does not use cold temperature steel and now most of their work is distribution, most of our work is transmission. We spec that primarily for transmission, however, if the same part is used on transmission and distribution, because we've spec'ed it for transmission, then we would be using a cold temperature steel component on distribution, and Newfoundland Power does not do that and that would be one of the differences, as I understand it, would be between two standards.

MR. BROWNE, Q.C.: But Newfoundland Power has some generation as well. Wouldn't that require ... they have eight percent of the province as generation.

MR. REEVES: Newfoundland Power's generation is, I guess, of a different category or, than ours. Most of our generation would be in the, say, 40, 50 megawatt range or larger. Components are, in most cases, very specific to a particular generation. In some cases we're not even able to because of the way that the plants were built and these are very site specific plants. We'd have to store material for a site specific plant. A lot of Newfoundland Power's generation is probably because they've been in, you know, generating longer than we have, goes back a longer history than we do, their units are a little bit older, so again the parts would be different. So there wasn't a lot of

commonality as I recall between the generations for the storage of parts.

MR. BROWNE, Q.C.: In reference to the engineering designs, some efforts have been made to produce commonality as you state.

MR. REEVES: In particular the, where I think we made the most progress and was just a re-focusing, I think, of our two standards, was in the distribution, was in the distribution part in their work group.

MR. BROWNE, Q.C.: And the fifth bullet down under "Substations" states, "We should seek out opportunity, Section 7.0, to find and eliminate overlaps and provide savings." Do you recall that, as to what that was all about?

MR. REEVES: No, I'd have to go back to the working task group if you want me to do that.

MR. BROWNE, Q.C.: "Can we share software?" Do you know what that was about?

MR. REEVES: That one sort of comes to mind. We use software ... one of the software updates that we do, if I remember correctly, is to work with the grounding in our substations for the safety of our employees and equipment, and I think there's a piece of software that is used for that and we have one version and I think Newfoundland Power has another version, and again because of, I guess, being able to share it, you can't always do that, like, unless you have the right arrangements in place with the vendor, and I don't ... I think in this particular case it did not work out the way that we thought it might.

MR. BROWNE, Q.C.: So are you working on it to ensure that there is some commonality there?

MR. REEVES: On that particular piece of software?

MR. BROWNE, Q.C.: Yes.

MR. REEVES: If my memory serves me right, we weren't able to coordinate because of a vendor concern and therefore we got our own.

MR. BROWNE, Q.C.: Now, Section 8, "Could NP and NLH do work for each other?" Who posed that question, do you recall?

MR. REEVES: This is in the substation now and I'm not sure. I don't know who raised that question.

MR. BROWNE, Q.C.: Can you read out the next, the last bullet there, beginning with, "Have we always"?

MR. REEVES: "Have we always taken the approach which provides best value to consumer? Can we be more aggressive on behalf of the consumer, not just S/S?"

MR. BROWNE, Q.C.: What does "SS" mean?

MR. REEVES: I'm not sure what that means right now, I'm sorry.

MR. BROWNE, Q.C.: Could it mean "say so"?

MR. REEVES: I'm not sure. I remember the minutes that I did up better than the ones that Mr. Evans did up, obviously because I wrote them, but these are actually done by Mr. Evans.

MR. BROWNE, Q.C.: These are Mr. Evans' minutes?

MR. REEVES: Yeah. The Newfoundland Power ... what we tried to as best we could, we did coordinate back and forth and we also had meetings in the IBEW's meeting rooms, and in those cases they kept the minutes, so we tried to share around the responsibilities as best we can, but this one here may have been Mr. Evans' memos *(sic)* because the meeting was actually held on Kenmount Road, so that's, that means to me that Mr. Evans was the Chair and the minute taker.

MR. BROWNE, Q.C.: And you reviewed the minutes, I guess, after you saw them.

MR. REEVES: Yes, and probably at the time I knew what that meant but I can't put ...

MR. BROWNE, Q.C.: But you wouldn't want to make any suggestion as to what it might mean.

MR. REEVES: No, I'm sorry, I don't.

(10:30 a.m.)

MR. BROWNE, Q.C.: Can we go to meeting number 12? Committee number five is dealing with storage space again at Whitbourne, but it also mentions storage space at NP's facility on Topsail Road. What was being suggested there?

MR. REEVES: That's the computer tapes that I referenced earlier on.

MR. BROWNE, Q.C.: Okay. That's the computer tapes.

MR. REEVES: Yes. We're still checking into that and we're still checking into the pole yard at Whitbourne.

MR. BROWNE, Q.C.: So this meeting was December 11, 1997.

MR. REEVES: Yes.

MR. BROWNE, Q.C.: And this is October 2001 and you're still checking into whether or not it would be expeditious to store your computer tapes at Topsail Road.

MR. REEVES: That's my ...

MR. BROWNE, Q.C.: Is that what you're telling the Board?

MR. REEVES: That's my recollection of it, yes. Now there

would be not a lot of savings in that particular item but ...

MR. BROWNE, Q.C.: Well obviously there's some objective to it if it was raised. Wouldn't you admit to that, Mr. Reeves?

MR. REEVES: There would be a possible benefit, yes.

MR. BROWNE, Q.C.: Committee number 11 there in that particular number, page three, there's an action there that references you. Can you tell us about that?

MR. REEVES: That's committee number 11?

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

MR. REEVES: "Dave has forwarded to the Working Committee a draft report of the Engineering Standards Work Committee's Report. The Working Committee is now evaluating these reports for the purpose of developing recommendations."

MR. BROWNE, Q.C.: Was there any result to that, the Engineering Standards Working Committee Report? Were you able to agree upon common standards?

MR. REEVES: That's the item I just went through a couple of minutes ago.

MR. BROWNE, Q.C.: Okay.

MR. REEVES: Yes.

MR. BROWNE, Q.C.: So that's repetitive ...

MR. REEVES: Yes.

MR. BROWNE, Q.C.: ... and I won't ask you ...

MR. REEVES: But what happened here is that in the inventories and common spares, when they did their first review, what one of their recommendations was is that if we are able to standardize more we might be able to keep less inventory and also be able to share more, and what they wanted to do was to see the copy of the reports from the Engineering Standards Report to see how they were making out in regard to reconciling their differences in the standards.

MR. BROWNE, Q.C.: Meeting number 14, February 3, 1997 ...

MR. REEVES: Actually I think that should be '98, shouldn't it?

MR. BROWNE, Q.C.: 1998.

MR. REEVES: Yes. It was a typo.

MR. BROWNE, Q.C.: We see here that in reference to that storage of tape that Newfoundland Power now tells you that they can make space available at Topsail Road for tape storage, but yet it hasn't been done.

MR. REEVES: Well, I can't remember that it was or was not done, as I indicated a minute ago.

MR. BROWNE, Q.C.: On page four of that, under "Working Group Reports For Review," under the one, "Protective Equipment Test Facilities," there's a reference to closing a facility. Can you explain that to us? Maybe you want to read it into the record, "In the Executive Summary," it begins with.

MR. REEVES: "In the Executive Summary it states the Committee was unanimous in its recommendations that in the short-term there would not be a substantial cost benefit to close one of the facilities.

MR. BROWNE, Q.C.: And then someone asked a question rhetorically ...

MR. REEVES: "What is actually meant by not to be substantial?"

MR. BROWNE, Q.C.: And did you ever get to the bottom of that, what do you mean by not to be substantial? What kind of savings are we talking about here?

MR. REEVES: I'd have to go to the report to see if there's something in the report to determine that. From the top of my head I just don't remember right now what the savings might have been.

MR. BROWNE, Q.C.: On page 15, not, page four, I'm sorry, reference is made to page 15, Section 7.4, and it says, "While Newfoundland Power have a net savings if it were to buy the new equipment and reduced testing cycles for rubber gloves." This is something we've addressed already, is it?

MR. REEVES: No. Actually I think this one is at ... if I remember correctly, Newfoundland Power had in their capital budget to purchase a piece of test equipment and if I'm not mistaken they had delayed it by a year, I think, or so, trying to do evaluation as to whether it was the best thing to do or not, and I think when these discussions took place, I think it also came into the discussions. That's from memory. Now what transpired there in the end, I don't know if they ended up buying that piece of equipment or not. I just don't know.

MR. BROWNE, Q.C.: Meeting number 15 held February 23, 1998, at a union office has you present.

MR. REEVES: Yes. This is the Newfoundland Power ...

MR. BROWNE, Q.C.: Meeting number 15, have you ...

MR. REEVES: Held at IBEW 1620.

MR. BROWNE, Q.C.: Yes, that's the one.

MR. REEVES: That's right, yes.

MR. BROWNE, Q.C.: And we're back to that Hydro storing tapes at an outside location, and it says that, "Hydro is interested in a space Newfoundland Power has available." And then it says, "Newfoundland Hydro has viewed Newfoundland Power's sites at Topsail Road for tape storage, however, a final decision has not been made," and this is February 23, 1998, and we still don't know if a final decision has been made.

MR. REEVES: I personally don't know at this point in time.

MR. BROWNE, Q.C.: It appears that things keep coming up in these minutes and nothing is getting done, just as I read through them. Is that a fair comment?

MR. REEVES: There were a couple of items like, for instance, the one on pole storage area in Whitbourne keeps coming up, but what we were trying to do was to avoid a capital expenditure and we weren't spending money to do that but it had to be evaluated properly in order to proceed with it.

MR. BROWNE, Q.C.: We had missed a point previously, I just want to go and check. If you can just return for a moment to meeting number 13 of January 8, 1998.

MR. REEVES: Number 13, January the 8th, 1998?

MR. BROWNE, Q.C.: Yes. And if you go to page three, the final Steering Committee Report, right on the bottom of the page, if you have it there, can you read that out for us, please?

MR. REEVES: It's a bit small, isn't it?

MR. BROWNE, Q.C.: Yes.

MR. REEVES: For some reason it got shrunk down and that's all I had in my records. Sorry about that.

MR. BROWNE, Q.C.: That's fine.

MR. REEVES: "Final Steering Committee Report. It was agreed that Angela Doyle," now Angela Doyle is Mr. Evans' secretary and in sharing around the responsibility, she was given the task of typing the report ...

MR. BROWNE, Q.C.: Sure.

MR. REEVES: ... "would coordinate the production and addition of a Steering Committee Report. It was noted that both Newfoundland Power and Newfoundland and Labrador Hydro need to agree on a consistent methodology for counting employees."

MR. BROWNE, Q.C.: What does that mean?

MR. REEVES: Well I think as has been discussed here on a number of occasions in front of the Board, is that Newfoundland Power has, I guess, traditionally been for a while counting their employees by FTE and Hydro is moving towards that, and that's what that discrepancy is, because what we were trying to do is get into a similar format.

MR. BROWNE, Q.C.: And that was January 8, 1998, and it still hasn't been activated? You still have no consistent methodology of counting employees?

MR. REEVES: Well, we are in the process of converting in Hydro to FTEs.

MR. BROWNE, Q.C.: And what's the date which that will be remedied? What's the activation date for that? Are we talking years, months, days?

MR. REEVES: I'm not sure what the plan is for that. That ...

MR. BROWNE, Q.C.: Whose bailiwick would that fall under now?

MR. REEVES: The best thing is for me to find out and get back to you.

MR. BROWNE, Q.C.: Okay, thank you. It's just taking me a few moments because I don't want to get into redundancy if it can be avoided at all. Can we go to meeting number 33, please?

MR. REEVES: Meeting 33, April 14th, '99?

MR. BROWNE, Q.C.: April 14, 1999, and under "Items Arising," the second bullet there, can you read that out to us?

MR. REEVES: "Dave is working on information regarding why greater than 50 percent of the work required more than two line workers."

MR. BROWNE, Q.C.: And you continue.

MR. REEVES: "He is also obtaining an indication of the type of work, construction, maintenance, etc., that is performed by the Springdale crew."

MR. BROWNE, Q.C.: And after you worked on that information, what did you find?

MR. REEVES: This was referencing something in their report, and, if you wouldn't mind, I could go back to the task group?

MR. BROWNE, Q.C.: Certainly, sir.

MR. REEVES: I'm just looking for the exact reference that we would have been talking about, but in the, one of the reports, I guess it's the ...

MR. BROWNE, Q.C.: We're talking about the Springdale/Baie Verte area, I gather?

MR. REEVES: Yes, yes.

MR. BROWNE, Q.C.: That's the area we saw yesterday where there were some problems.

MR. REEVES: There is a comment that was attached, I guess, by, in the report that was being drafted. Probably I could read that for you, if you wouldn't mind.

MR. BROWNE, Q.C.: If that would help us, help the Board.

MR. REEVES: It would help me to recall my memory.

MR. BROWNE, Q.C.: Okay, thank you.

MR. REEVES: "Also when Newfoundland Power calculated the number of kilometers of distribution line per worker or number of customers per line worker for their 13 rural districts, they did not include the support that their rural line workers received from their more urban line depots. Newfoundland Power's Baie Verte/Springdale crew, two line workers received support from the Grand Falls-Windsor and the Corner Brook crews. Hydro's Springdale crew is self-sufficient. Approximately 50 percent of Hydro's work requires more than two line workers. Some of that work could be completed by two line workers but would require much longer outages to customers, therefore, Newfoundland Power's calculation of the number of line workers required should include the line worker's support provided by outside crews to enable a true comparison." That's for reference, I guess ...

MR. BROWNE, Q.C.: Newfoundland Power is saying you had too many people working on the lines, but you went back and had the discussion and investigation and found Newfoundland Power was using some central crews?

MR. REEVES: Yes. Like the way ... I think we've already, I've already indicated that, but in Springdale and Baie Verte, Newfoundland Power has one line worker in each location, and what they do is that they travel between both communities to assist each other for jobs that require two line workers. Hydro completes very little, if any, work with just one line worker. So I think the other observation that was made is that while most of the work would require more than two line workers, and in the paragraph there is that sometimes if you're taking an outage on a line, what the utility would try to do, and I'm sure Newfoundland Power are the same, is that they would try to get all the work done possible that's required to be done on the line and would probably have more than one crew working on the line at a time if there was a larger job, so that's why in the comment in the task group report is that more than 50 percent of the work that was being done required more than two people. It's the nature of the work that was actually being done by that crew out in Baie Verte. Is that clear or have I muddied the waters?

MR. BROWNE, Q.C.: It sounded like a dispute to me between the two companies as to ...

MR. REEVES: It's a different philosophy in operation. As it says right there, we have a self-sufficient area there in Springdale and Baie Verte areas. If we're doing ... there are some jobs that we can just send two people on, if it's like installing a transformer pole, that would probably require two line workers. We would do that. But if there's a section of line and it requires, say, insulator replacement, and it's insulator replacements on, say, ten poles, what we would endeavour to do is to consolidate all of our crews in the area, say the three or four crews that live there, and we would take the line out and we would go and do that work. Newfoundland Power on the other hand, as I understand it, is that if they got to replace a transformer using the exact same examples, if they had to replace a transformer, they would bring the line worker from the other community. Say if it's in Baie Verte, they would bring it from Springdale over to Baie Verte. Then the two line workers would install that transformer. If they had to install or replace insulators like we did on my example, what they would most likely do is bring in extra crews from Corner Brook or Grand Falls to do that.

(10:45 a.m.)

MR. BROWNE, Q.C.: Even if you were in the area, they would still bring in crews from Corner Brook and Grand Falls to do that?

MR. REEVES: Yes, that's my understanding. Now what we've done under the MOU is if there's an outage ... what I just talked about is probably routine maintenance ...

MR. BROWNE, Q.C.: Yeah, an emergency situation.

MR. REEVES: In an emergency they would use us, yes.

MR. BROWNE, Q.C.: Under the discussion there, meeting number 33, I guess the point is driven home a little. The one three eight kV, that's the area they're talking about, Springdale/Baie Verte. Is that the area they're talking about there, Mr. Reeves?

MR. REEVES: 138 kV?

MR. BROWNE, Q.C.: Yes.

MR. REEVES: That would not be Baie Verte. Baie Verte you would normally come under distribution report. 138 would be between Grand Falls and Gander.

MR. BROWNE, Q.C.: Okay, Grand Falls and Gander.

MR. REEVES: Yes.

MR. BROWNE, Q.C.: Can you read out those bullets, please?

MR. REEVES: The first one, it's under "(A) 138 kV."

MR. BROWNE, Q.C.: Yes.

MR. REEVES: "Both organizations seem to view capabilities and need differently, needs differently," sorry. "Both made observations and recommendations. No benefit to Newfoundland Power for Newfoundland and Labrador Hydro to do work at contract prices when Newfoundland Power is laying off line personnel required for distribution maintenance."

MR. BROWNE, Q.C.: So what's the problem there? It sounds to me that when you combine both work forces there are too many employees out there chasing too few jobs. Is that ... would that be a fair reflection?

MR. REEVES: That's not the way I would say it. In Hydro and most likely in Newfoundland Power, there is a certain number of core line worker positions that we have to maintain to be able to respond to emergencies on the system, and they have to be strategically located. Where Hydro is, I guess, is that due to our geographic locations of our lines, the low density of population (inaudible) transmission and distribution lines, if you were to look at the ratios between a utility like Newfoundland Power, which is more urbanized, you would see different ratios, but you have to maintain a certain staff to be able to respond to emergency calls, and in a case like this between Grand Falls and Gander, there may have been an opportunity for the two utilities but it didn't materialize, you know, as I explained yesterday, where we had the two lines that go parallel.

MR. BROWNE, Q.C.: So we're still stuck with that today. Consumers are paying costs for both crews out there.

MR. REEVES: Well, whether there's cost savings there or not, it could not be determined.

MR. BROWNE, Q.C.: Could not be determined ...

MR. REEVES: No.

MR. BROWNE, Q.C.: ... or would not be determined?

MR. REEVES: From the information that was provided to the working task group, they were unable to determine that.

MR. BROWNE, Q.C.: Mr. Chair, we want to break at this point. I just have several more questions and it might be, it might facilitate our break right now if I had a few minutes to ...

MR. NOSEWORTHY, CHAIRMAN: Sure, that's fine.

MR. BROWNE, Q.C.: ... look at it.

MR. NOSEWORTHY, CHAIRMAN: We'll reconvene at 11:05.

MR. BROWNE, Q.C.: Thank you, sir.

MR. NOSEWORTHY, CHAIRMAN: Thank you.

(break)

(11:10 a.m.)

MR. NOSEWORTHY, CHAIRMAN: Thank you very much. I'd ask Mr. Browne if you'd proceed with your cross-examination please?

MR. BROWNE, Q.C.: Thank you, Mr. Chairperson. Can you go to meeting number 25 please, and under the heading "overview of progress", No. 2, can you read for that for us, these bullets please?

MR. REEVES: John cited examples of where the ...

MR. BROWNE, Q.C.: The first bullet.

MR. REEVES: Oh, I'm sorry.

MR. BROWNE, Q.C.: Thank you.

MR. REEVES: John vented his frustration regarding the lack of progress by all parties in this endeavour. To significantly reduce costs requires a tough decision by all.

MR. BROWNE, Q.C.: And what else, and John is Mr. John Evans, I gather, Vice-President of Newfoundland Power at the time?

MR. REEVES: That's correct, yes.

MR. BROWNE, Q.C.: Okay, and what else does Mr. Evans have to say?

MR. REEVES: John cited examples of where the cooperation agreed to did not seem to exist and significant philosophical difference between the organizations. An example was in the telecommunications area where despite the agreement, Newfoundland Power learned of Hydro's plan to build a major VHF radio network through an NLH filing with the PUB. Philosophically, Newfoundland Power views the communication companies as the experts in their field while Hydro seems to take the position that they can do the job better than the telecommunications companies.

MR. BROWNE, Q.C.: And on page 2, Mr. Evans goes on to make a number of other submissions here. Can you read those into the record please?

MR. REEVES: Both groups appeared to be having difficulty in getting information in the distribution area. Examples being crew size, activity, and service levels. John expressed concerns with Hydro's position on transmission standards and call centres and IBEW's Local 1615 position on switching. John raised the issue of cost. Under current regulatory treatment, Newfoundland Power picks up the bulk of Hydro's expenses. Given that these expenses are built into Newfoundland Power's rates, John wondered why Newfoundland Power should have to reimburse Hydro for work done on transmission or distribution if, as indicated, it could be done by Hydro with no increase in manpower or

equipment. Examples regarding lack of cooperation were also noted by Newfoundland Power in the areas of transportation, contractor helping, and the inability to borrow a small amount of conductor.

MR. BROWNE, Q.C.: And what does Mr. Evans conclude?

MR. REEVES: While the above and other examples cited by John were one-sided, he felt that there was sufficient blame to go around.

MR. BROWNE, Q.C.: That's a good point to end that with. Can you go to the March 5, 1997, the very first meeting. I'm moving to a new area now, and under the ... this was your first committee meeting, I gather, and you were doing proposals for coordination. The other things you have were suggestions of the Newfoundland and Labrador Federation of Municipalities, resulting from Newfoundland Power's rate hearing of 1996. Can you explain to us what that was and what you undertook in that effort?

MR. REEVES: When I was preparing for these, to release these documents, I looked at that particular one and there was some notes or comments, I guess, by the Federation of Municipalities in Newfoundland Power's rate hearing regarding 1996, which was probably the information that Mr. Evans brought to the committee and was noted in the minutes, but that's all that I remember right now.

MR. BROWNE, Q.C.: Do you remember anything of the committee that was formed to look at that particular aspect of the 1996 hearing?

MR. REEVES: Which committee are you referring to now?

MR. BROWNE, Q.C.: Can you go to **CA-171** please? **CA-171** is a mini hydro potential in island rural isolated systems, a joint utility study by Newfoundland Power and Newfoundland and Labrador Hydro, dated August 1998.

MR. REEVES: I should get that because I think that's on ...

MR. BROWNE, Q.C.: I think it may only be in ... that should be, it may not be in electronic form.

MR. REEVES: Yes, I have it in front of me now.

MR. BROWNE, Q.C.: Okay, item three in the March 5, 1997, coordination steering committee, of which you were a part, makes reference to this study, I do believe, because if you go to page one, the executive summary on page one of that study, the second, the first paragraph reads, "As the two electrical utilities in the province of Newfoundland and Labrador, Newfoundland and Labrador Hydro and Newfoundland Power maintain ongoing efforts to ensure that the cost of supply to customers is kept at a minimum. During the course of the 1996 NP rate hearing, a submission was made on behalf of the Newfoundland and Labrador Federation of Municipalities regarding the potential for cost effective development of alternative energy in rural isolated systems. The report assesses the technical and economic potential of mini hydroelectric development as one such means of reducing the cost of service in NLH's rural isolated systems on the island portion of the province". Are you familiar with this report?

MR. REEVES: I think I may have reviewed it at some point in time, yes, but this would have been developed by our planning section in the generation section.

MR. BROWNE, Q.C.: So who, which witness coming up will be able to address the joint utilities study done by Newfoundland Power and Newfoundland and Labrador Hydro?

MR. REEVES: Mr. Budgell.

MR. BROWNE, Q.C.: That will Mr. Budgell's?

MR. REEVES: That's correct, yes.

MR. BROWNE, Q.C.: That's Mr. Budgell's jurisdiction?

MR. REEVES: That's correct, yes.

MR. BROWNE, Q.C.: Okay, I only have one question for you on it in that case. I'll wait for Mr. Budgell if he's dealing with planning and generation. On page 25 of the report, if you just go to that and there's a question there arising on a question put to you by Newfoundland Power's counsel, Ms. Butler.

MR. REEVES: Page 25?

MR. BROWNE, Q.C.: Page 25.

MR. REEVES: Uh hum.

MR. BROWNE, Q.C.: And you will recall Ms. Butler asked you concerning Harbour Deep.

MR. REEVES: That's correct, yes.

MR. BROWNE, Q.C.: And why you were spending, I think it was in the vicinity of three quarters of a million dollars on Harbour Deep when the government was getting, residents were determining whether or not they should signal the government to relocate. I think that's what's happening there. I think there are 54 people there or something and they've got 53 people agreed and ...

MR. REEVES: There's one person, yes.

MR. BROWNE, Q.C.: That's a hold-out there?

MR. REEVES: That's correct, yes.

MR. BROWNE, Q.C.: And anyway, nevertheless, you have in your budget an item of $758,000, is it? You might recall the exact number at Harbour Deep.

MR. REEVES: I can look it up right now.

MR. BROWNE, Q.C.: But is that the ball park?

MR. REEVES: There is a diesel replacement and also the building itself needs to be, you know, be updated.

MR. BROWNE, Q.C.: Because under Table 1, Summary of Preliminary Screening Results for Harbour Deep, we see a capital cost for hydroelectric development there of $958,804, and have you looked at that before you went to spend three quarters of a million dollars on Harbour Deep? Have you looked at this study and what the possibilities may be in reference to that study from a hydroelectric perspective?

MR. REEVES: Mr. Budgell would be the best one to answer that.

MR. BROWNE, Q.C.: Okay, and we'll defer these questions to Mr. Budgell, and I gather in the entire area of planning and generation, because I do have some questions on that, the better witness is ...

MR. REEVES: For all planning questions they are better referred to Mr. Budgell.

MR. BROWNE, Q.C.: Okay, thank you very much.

MR. REEVES: And Mr. Budgell as generation would be the capital person.

MR. BROWNE, Q.C.: Sure and it would be expeditious if we saved these questions for him. In reference to your particular jurisdiction which is transmission and rural operations, what drives expenditures for a new transmission network facility? What drives the expenditures if you're doing new transmission?

MR. REEVES: This would be for new facilities, like new transmission lines?

MR. BROWNE, Q.C.: Well, just ignore projections, for say replacing transmission facilities, what has happened to these? Can you tell us a little bit about transmission here, how it works?

MR. REEVES: If you're asking like what are the major components in our capital budget, I can probably respond in that way, is that we conduct a maintenance program on our facilities. We also have, I guess, we have storms that go through the province which affect our facilities and as a result of that we would do reviews of our facilities to determine that they are responding in such a fashion that we are providing reliable power to our customers, and where improvements can be made, economically we will bring that forward, bring those forward for approval, and following that we would do the actual capital upgrades. An example of that, probably I can give you two examples. One was the Avalon upgrades which back in, I guess, December of '94, we'll all remember that we had a major ice storm. We conducted a fairly detailed review of that which was presented to the Board in our subsequent capital budgets. What we determined is that the ice loadings that we were observing which was much greater than the original design of the lines, and it was determined that to improve the reliability and to have less outages, we would have to do a significant upgrade on our lines from Sunnyside to St. John's. Another example ...

MR. BROWNE, Q.C.: How would you determine when an upgrade is needed? You have a transmission line to the observer, and people seeing these transmission lines when you're driving or walking into the country ... how do you determine when a transmission line needs replacement?

MR. REEVES: There's a couple of things that we use, and one is that we look at our reliability statistics on the equipment that we have in service. We compare in-house between, like different areas of the province, and we sort of have an average for what we consider to be reasonable. We compare those to ... the Canadian Electricity Association maintains information which we also input into. We would use that as one indicator. Another indicator would be from our preventative maintenance programs, like we are into pole testing. Once a pole gets to a certain age we'll go out and we'll do a certain test on it, and here lately we have typically been contracting that out. From these tests we can determine the life that would be remaining in those poles. In doing the tests you may find a pole that needs to be replaced sooner than later. That would be another determining factor.

MR. BROWNE, Q.C.: When you're talking about poles, what about the lines themselves. When you're talking about poles, do you mean the poles and the lines?

MR. REEVES: Yeah, when I say ... well the transmission line is made up of, obviously, poles which could be steel or it could be wood. It would be made up of insulators, it would be made up of a conductor as well, so when I say that we do a preventative maintenance program and an inspection program, it would be on all of our, you know, the components on the transmission line. I'll just give an example as a pole line, the pole testing.

MR. BROWNE, Q.C.: Now are these all designed to meet the system peak, what a layperson such as myself might refer to as system peak, like six o'clock in the afternoon on a ...

MR. REEVES: Yes, they are, and what I've been explaining to you to date, as I understood your question is how do we determine if we need to do particular upgrades on our lines. The other thing that can drive the requirement for a new transmission line would be a load growth situation, and that would be determined from our forecasting, and again, that would be something that Mr. Budgell would be very

much involved in and his people would determine if there was a requirement for a new transmission line somewhere throughout the island. And then what he would do is to work with my staff to give the estimates for the construction of that line and the best alternative, the most economic alternative to go forward with and then he would bring that forward for approval to meet the new load growth, and once it got approved, then it would be my staff that would be actually constructing it and operating it, and then once ... sorry, constructing it and maintaining it and then once it got put in service, well then Mr. Henderson, it would operate as part of his normal system, as we talked about yesterday.

MR. BROWNE, Q.C.: So the transmission lines that you are building are designed for system peak, for six o'clock in the evening on a winter's day when everyone has their power on at home.

MR. REEVES: Whenever that peak is, it's built to handle the load that's on our system, that's correct.

MR. BROWNE, Q.C.: And is there an alternative way to build them? I gather, would that be, is that the only way to build them, to build them toward system peak?

MR. REEVES: I'm not sure I understand your question. Like do you mean can we purchase power from somebody else? We don't have that option, so Newfoundland Hydro has to meet the peak of our customers, and we have to have transmission facilities in place to do that. Similarly, we have to have generation facilities in place to meet our peak.

MR. BROWNE, Q.C.: So it's all designed toward the peak, and is that the only way to design it? I'm a layperson, I'm just asking you that, just as a curiosity.

MR. REEVES: The only other things that we do, is that, and I think in the presentation I've pointed out to you, is that ... well the prime driver would be the peak, and we try to also design our transmission lines so that, where we can do that, design them in such a way that instead of having one circuit go down a corridor, we would have two, and if we were really lucky we would have them, to be able to take different routes, so that would also be a planning function that Mr. Budgell would do as well, to see if you can get some versatility in order to meet peak and also be able to, you know, be able to maintain the reliability of our service as well and not have, let's say, all of it rely on one transmission line. So at Bay d'Espoir, and Mr. Budgell is much more equipped to explain this than I, but we could have a line coming from Bay d'Espoir to Sunnyside which would be a higher voltage, but it would carry the same amount of power, but what we've designed is two lines with 230 kV voltage, which gives us some reliability and redundancy in our equipment.

MR. BROWNE, Q.C.: Okay, we'll wait for Mr. Budgell on the other part of it. Thank you very much, Mr. Reeves. These are my questions.

MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr. Browne and Mr. Reeves. We'll move along now to cross-examination by counsel for the Board please?

(11:30 a.m.)

MR. KENNEDY: Thank you, Chair, and Commissioners. Mr. Reeves, I wanted to start with the capital budget and I wonder if Mr. O'Rielly could just pull that up for me, and we'll start with Schedule A on page one. I want to see if I understand the process of how Hydro is presenting its capital budget before the Board and if you see there's four columns for each of the major areas of the capital budget, and one is expense to 2001, and I take it that that's what EXP means.

MR. REEVES: That would be my understanding of that, yes.

MR. KENNEDY: Okay, one is 2002, and then there's future years, and then there's total. So the items that are marked "expense to 2001", would they be items that Newfoundland Hydro has already sought and obtained approval for in its previous capital budget for 2001?

MR. REEVES: That's correct, yes.

MR. KENNEDY: Okay.

MR. REEVES: And some expenditures have taken place in 2001.

MR. KENNEDY: And when Hydro applied for approval of the Board for its capital budget for 2001, similar to what we see in some of the projects that you have for the 2002 capital budget, there is an amount for what would be expended in the year for the capital budget application, and then an allotment for future years, is that right?

MR. REEVES: That's correct, yes.

MR. KENNEDY: Okay, so in the case of, let's take transmission, there would have been in the 2001 capital budget an amount in the capital budget showing that for projects that are actually going to be done in 2002, there's $631,000 to be expended in 2001.

MR. REEVES: In the budget as actually presented to the Board you may not see exactly that number for a number of reasons that I explained previously. One is cash flow differences. Another one is carry-overs as well, jobs that were scheduled to be completed last year but may not have been.

MR. KENNEDY: Okay, so this ...

MR. REEVES: But the biggest number here, I would say

the difference is probably, it may have been a multiple year thing where we, some jobs that we have take two or three years to do.

MR. KENNEDY: Okay, let's just ... because that's, in those quick couple of sentences I think you may have put two or three issues into play all at the same time, so I'm just trying to get a feel for what would be in that $631,000 that we see expensed to 2001, and how much of that would be for items that were sought and approved in 2001 as relating to items that would be subsequently, you know, further developed in 2002, and I thought that's what all of it was, but you're saying that some of it is related to other expenses, is it?

MR. REEVES: That's my understanding and I just need to check now to make sure because this is the 2002 capital budget and we are currently in this, what you have in front of you, we are not budgeting as part of this package any carry-overs.

MR. KENNEDY: Yes.

MR. REEVES: Okay, but what would be in here is any multiple year projects that we would have that we would have either started last year or this year and it carried over into 2002.

MR. KENNEDY: Okay, and so if I may, perhaps if we go to Schedule F, I think it's Schedule F.

MR. REEVES: That's correct.

MR. KENNEDY: And if we can go to the first sheet, I believe, Mr. O'Rielly, so you've got noted there, this is the ... you'll see underneath the table, original budget $54,684,000, and that was for the capital budget of 2001.

MR. REEVES: That's correct, yes.

MR. KENNEDY: And so then you have carry-over projects 2000 to 2001, $1,216,000.

MR. REEVES: That's correct, yes.

MR. KENNEDY: So your total capital budget that you expected to spend in 2001 was $55,897,000?

MR. REEVES: That's our current budget, yes, correct, but ...

MR. KENNEDY: Am I gathering correct though that the $1,216,000 would have been already approved?

MR. REEVES: Those expenses would have been approved last year, in 2000.

MR. KENNEDY: Well when you say carry-over projects 2000 to 2001, is that, is that capital budgets that were approved in 1999 for the year 2000 that are then carried over into 2001?

MR. REEVES: I'm not sure that there's any of those there at all. I think most of what you would find, and I'd have to check the list for the ones that were carried from 2000 into 2001.

MR. KENNEDY: Okay, let me try it this way. In 1999 Hydro sought and obtained an order from the Board for its capital budget.

MR. REEVES: For the year 2000.

MR. KENNEDY: For the year 2000.

MR. REEVES: That's correct, yes.

MR. KENNEDY: Okay, and some of that never got expended in the year 2000 as you thought it would.

MR. REEVES: That's exactly right, in the year 2000.

MR. KENNEDY: And so it did get expended in 2001.

MR. REEVES: Which is this year, that's correct, yes.

MR. KENNEDY: Okay, and the amount involved is $1,216,000?

MR. REEVES: That's the amount that we carried over from the budget we had approved from 2000 into 2001, that's correct.

MR. KENNEDY: Right.

MR. REEVES: And work which we have done this year.

MR. KENNEDY: Right, but it's work that was approved in 1999 for you to spend in 2000.

MR. REEVES: For the year 2000, yes, I understand that, yes.

MR. KENNEDY: Okay, so can we just go back up to A-1? So is this column the expense for 2001, that's not a carry-over effect ... am I gathering that correctly, that this expense to 2001 is items that were approved as part of your 2001 budget relating to multi-year projects.

MR. REEVES: That's my understanding, yes.

MR. KENNEDY: Okay, so the $1 million ... presuming there is no carry-over effects in that line then, or in that column, expensed to 2001, your total capital budget for items expensed to 2001 of $1,514,000 are already, from Hydro's perspective, approved by the Board?

MR. REEVES: That's correct, yes.

MR. KENNEDY: Okay, and so in the 2002 column, these are items that would include two things, if I'm gathering correctly. One is the expenditure of future year commitments arising from the 2001 budget as indicated in your 2001 budget application, plus new projects for 2002 that weren't revealed in the 2001 budget?

MR. REEVES: What I call the multi-year projects and I was

just looking for one to give you an example which was planned to be in 2001 and 2002, it's the 2002 portion of that capital project, and also other projects which are a one year project for 2002. It may also be year one of a two year project which spans between 2002 and 2003, so the 2002 budget, you've got three categories.

MR. KENNEDY: Okay.

MR. REEVES: You have projects that started in 2001 which would be complete in 2002.

MR. KENNEDY: Okay.

MR. REEVES: You have other projects which would be only in 2002.

MR. KENNEDY: Start and finish in 2002.

MR. REEVES: And then there's a third category of projects which you start in 2002 and you will finish in 2003 or some future year.

MR. KENNEDY: Okay, and in the case of the last one, the amount of money relating to those projects that are going to be started in 2002 but completed at some point in the future show up in this future years column totalling $12,434,000.

MR. REEVES: That's correct, yes.

MR. KENNEDY: And those future years, that may be more than just 2003?

MR. REEVES: That could be more than 2003, that's my understanding, yes.

MR. KENNEDY: Okay, so the amount that Hydro is applying for approval specifically from the Board here now is $48,037,000.

MR. REEVES: That's my understanding, yes, that's correct.

MR. KENNEDY: And because the Board approves an amount for ... let's say there was some work to be done and the 2002 budget included some provision for engineering work to be done but the actual, you know, main part of the capital cost was going to be expended in 2003, and that shows up in this future years category, that what Hydro is seeking approval for now is the spending of those engineering costs and that you'll come back again in 2003 and seek specific approval for the actual capital cost of implementing whatever it is that you're doing.

MR. REEVES: It will be in our budget for the second year, yes, that's correct.

MR. KENNEDY: Okay.

MR. REEVES: A good example of that, if you don't mind, we could go to A-7.

MR. KENNEDY: Well we can get there now in a minute. I don't want to lose the flow too much.

MR. REEVES: But it explains the process which we were just talking about on two projects, that's all.

MR. KENNEDY: Sure, okay, well let's go to A-2 first, and I'll give you an opportunity to go to A-7 certainly, or your counsel will on redirect.

MR. REEVES: No, I'm just trying to ensure that the multi-year project thing was understood.

MR. KENNEDY: No, I appreciate that. So in the case of transmission, can you just scroll down a little bit, Mr. O'Rielly, thanks. I'm sorry, that first column is marked expensed to 2001, and I think they coincide, it's expensed to 2001 and 2002, and future years and so on, so in the case of transmission, we've got system security and reliability improvements showing up as expensed to 2001, $631,000, and that's the only item that shows up as items expensed in 2001 capital related, so would that all be relating to projects that are to be completed in 2002, or some of that may be carry-overs from 2000?

MR. REEVES: That would relate to projects that would have been started in 2002 and completed in 2003 ... sorry, started in 2001 and completed in 2002, and it's to do with the Avalon upgrades.

MR. KENNEDY: Okay.

MR. REEVES: And again, the details we can see on A-5 if you just want to see it or not.

MR. KENNEDY: Okay, we'll get to there too. So your understanding then is just on the broad brush here, the $631,000 that's showing up in that column, none of it is from 2000 carry-overs to 2001, it's all 2001 expenditures relating to projects that are to be completed in 2002 or beyond.

MR. REEVES: Now my recollection is that it's for two lines which are here on the Avalon Peninsula, and I'm not sure ... we did expend some money last year on one of those projects but it was a separate project and I don't think it's rolled into this particular one, but it would have been part of our, say our plan through the engineering, some material purchasing and construction, so whether there was some expenses in the year 2000 in the budget, I'd have to look at another document to see.

MR. KENNEDY: Okay, maybe we can just go to A-3. I just really want to make sure that I understand the process that Hydro goes through in this carry-over issue because I've been left a bit confused from some of the goings on to date and so looking at rural systems, regional operations, construction projects, $535,000 expensed to 2001, and then $7,112,000 for 2002, a provision for future years, so what

Hydro is actually seeking approval for at this point is the $7,112,000 under that construction projects for regional operations under rural systems.

MR. REEVES: For next year, that's correct.

MR. KENNEDY: And Hydro considers the $535,000 to be already approved, either, whether it's from the 2000 carry-over into 2001 or 2001 expense for a project to be completed in 2002 or beyond.

MR. REEVES: That's correct, yes.

MR. KENNEDY: Okay, and that the $288,000 for future years is something that will be subject to further approval of the Board when you come forward with another capital budget application.

MR. REEVES: When next year's capital budget comes forward, yes.

MR. KENNEDY: Okay, alright, before I turn away from that, you wanted to point to, I think, A-5 or A-7, so ...

MR. REEVES: Well A-7 was a good one for the multi-year project.

MR. KENNEDY: Okay, let's look at A-7.

MR. REEVES: And it's, one that we've talked about is Harbour Deep, and actually there's another power plant in there which is the St. Louis plant for upgrades, and you'll see that expensed in 2001 for Harbour Deep, which is ... okay, on the screen there, you'll see, we've got $35,000 this year, and next year we've got $515,000, and what we're requesting right now is the approval of the $515,000 of which the Board has already seen last year, okay. We're also asking for approval of the $59,000 to commence our engineering work, and we plan to do the St. Louis plant in the future year, the following year.

MR. KENNEDY: So Hydro will, in its budget application for 2003, presumably, unless something changes in the intervening period, seek approval for $769,000 worth of capital budget expenditures for that period.

MR. REEVES: For that period, having expensed some money already in its engineering work during this year.

MR. KENNEDY: Sure, now I'm not sure in the case of St. Louis, but some of that $769,000 in some projects, let's say this is another project, some of that you may only seek approval for say $400,000 for 2003 and then the balance might be 2004 and so on.

MR. REEVES: That's correct, if it's a three year project, that's exactly what you would see.

(11:45 a.m.)

MR. KENNEDY: Okay, I wonder if we could just go to Schedule B. Now this is a repeat virtually of the previous ... except these are for projects over $50,000.

MR. REEVES: The totals will be different.

MR. KENNEDY: Right, so I just did a quick calculation, and I don't know if these numbers sound right to you, but for 2002 your total budget was $48,037,000 and what you were seeking specific approval for in 2002.

MR. REEVES: That's from A-1, that's correct.

MR. KENNEDY: That's from A-1, and so here for projects over $50,000, you've got $33,297,000, so a simple calculation, you're projects under $50,000 are $14,470,000.

MR. REEVES: That's a straight calculation, that's correct.

MR. KENNEDY: Okay, and again, for the purposes of this application, this is the only column that we need concern ourselves with insofar as the capital budget is concerned.

MR. REEVES: That is what we're seeking approval for in front of this Board.

MR. KENNEDY: Okay, in some of your previous testimony, Mr. Reeves, you had indicated that, and if I can paraphrase, and I can bring you to the specific passages in the transcript, and I will now in a second, but first I just want to paraphrase, that if I was gathering incorrectly when you discussed some of the capital expenditures planned for 2002, that there was still some flexibility within Hydro concerning those expenditures. Is that a fair statement?

MR. REEVES: I don't know if I would paraphrase it that way. We have included in here the work that we feel is necessary to carry out ... the dollar values that are put in here are done on primarily engineers' estimates. As we get closer to actually completing that work, things may change and I think one of the examples that I used was the storage of the diesel fuel in Nain a couple of years ago, where we had a requirement to store extra fuel to meet our load through the winter. From the time that we sought approval until we actually, I guess, as part of the initiation of the capital work to do that particular job, we explored the options of whether a supplier in the community could store the fuel for us at a little higher price than we would normally pay instead of us having to build a facility, and in actual case, that's what happened for two years and we were two years getting a long-term arrangement with the supplier, so that's one where the intent was to store fuel. Our fall-back position would be to build storage facilities in that community. We went with an option which was more economical so in actual fact what happened in that case is that that particular capital project got cancelled, and the cost associated with the storage of the fuel was included in our price as we paid it out of our operating budget. So that would be an example.

MR. KENNEDY: Sure, okay, so in the case of the Nain fuel storage, and I don't know much about that, so you're going to have to help me out here, but in the case of the Nain fuel storage project then, Hydro originally sought approval for a capital expenditure relating to the storage of fuel in Nain in a capital budget application.

MR. REEVES: Yes.

MR. KENNEDY: Okay.

MR. REEVES: There would be a requirement for Hydro to have more fuel accessible to us during, say, the winter of 98/99.

MR. KENNEDY: Okay, and so after that application and after presumably the Board approved the capital expenditure for building a fuel storage tank in Nain, Hydro determined that there was another cost-effective way to go about that and so it cancelled the capital expenditure and went in a more cost-effective way. Is that a fair statement?

MR. REEVES: That's a fair statement, yes.

MR. KENNEDY: Okay, just to bring you back, and I'm paraphrasing, because I don't want to mislead anyone. Maybe we can just turn to the transcript from October the 1st, page 31, line 38. So this was, I think this was relating to Harbour Deep, which seems to be a topic that arises often, and it will arise again, I'm sure, and this is where Ms. Butler was questioning you concerning some of the expenditures relating to the Harbour Deep situation, and at line 38, I had ... "Sorry, that's correct, yes, and whether that is going to be the way that we have as presented in our budget, or whether it's going to be a containerization of some of the units that are there, or the new ones, that's an option that we will have to look at but we know that that will cost us money as well." And I guess I took that as meaning that, well you've got in your budget certain upgrades committed to Harbour Deep, but that Hydro was still examining some of its options concerning how you were actually going to implement that when it came time to actually carry out the capital budget.

MR. REEVES: Yes, and why this one is, I guess, a bit fluid, is that as most of us will remember, the Harbour Deep question has been posed on a number of occasions before, and I think they've done referendums and they haven't been successful in being able to relocate that community, and as I indicated before, the plant requires the upgrading, so what we put in there was to go with a, I guess, the job that we planned to come in with, which was a design that we were, you know, for to upgrade the plant, but there are other options to that, and we would look at the other options to be able to do that, at the time that the actual capital work order is raised.

MR. KENNEDY: So is that similar to the Nain situation then where you, you, you know, have something planned for, seek approval, and get approval from the Board about a particular capital expenditure, but then when you go to actually carry out that capital project, you know, you reassess and you still look at the cost considerations and still try to figure out if there is a more cost effective way to go about something, taking all circumstances into account, and then change your mind. That's still a possibility.

MR. REEVES: The difference that I would see is that the Nain storage fuel, we were able to go with an alternative which did not include capital investment. My feeling on the one for Harbour Deep is that whichever option we go with, whether it's containerized or whether it's with what's in the budget for a building, we would still have to expend capital dollars.

MR. KENNEDY: Okay, so in Nain's case, it was a complete cancellation of the capital project. In Harbour Deep you feel like you will still need to have a capital project, but the nature of the capital project may change slightly from what you've got in your capital budget application?

MR. REEVES: It may, depending on the circumstances we find in our detailed engineering investigation, that's correct.

MR. KENNEDY: Okay, maybe the same transcript, page 29, line 36, and again, this is under cross-examination by Ms. Butler, and this was again relating to some questions about your overbudgeting in your test year and I wonder if we could just scroll down a bit there, Mr. O'Rielly, and Ms. Butler says, "Can I close on this point though, Mr. Reeves, and that is, you appreciate the danger to consumers of overbudgeting in a test year", and you state, "I agree with that statement. However, you also have to realize that our budget is based on estimates to the best of our abilities, and some of our projects we overspend, and some we underspend. We would like to believe that the positives and negatives will balance out one another. They don't always do that." So I guess that's why I was trying to paraphrase some of your statements to date, that there is still some flexibility within the Hydro budget that when you go to do a capital project you sometimes reassess the capital project to see if it's still the most cost effective way to do it. In some cases you may cancel the capital project outright and go a completely separate route. In some other cases you may decide that there's a different way to approach the capital project which involves a different nature of infrastructure being put in place and that changes the cost structure of the capital project.

MR. REEVES: The carry-overs that you're highlighting are possibilities, but that would affect, I would say, a small portion of our capital budget, where we have flexibility. In also doing our estimates, our engineers use typical numbers that they are used to for the conditions that they

would find in the field when they actually go out, but like on a line extension, they may say from a quick look at the line that there is 45 percent rock on the line. They may go out and find that it's 85 percent rock, and that would be something that we would have to deal with and in all probability would drive the cost of that job up.

MR. KENNEDY: Just for curiosity, what's rock in the line?

MR. REEVES: Well, sorry, we set our poles in rock, okay, or bog, or gravel ...

MR. KENNEDY: I might be sorry I asked this question.

MR. REEVES: No, no, or gravel, and ask me the questions ... I don't mind that. But when we're constructing a line, we can come across a number of different conditions as to how we have ... what the environment that we actually have to install our equipment in, and I refer to poles, I'll refer to wood poles. We may find sand, very easy to dig. We may find bog, very difficult to dig out and reinforce, and we may find rock. If we go out and estimate that most of our poles will have to be, say, installed in, say, 25 percent rock, but we actually find that it is 75 percent rock, well that would be more costly in actually conducting that piece of work, so this is why it's difficult to do an exact estimate about what that job is actually going to incur.

MR. KENNEDY: And in the rare instance where you strike beautiful sand and clay, then your cost would be lower than you had forecast in the capital budget.

MR. REEVES: And what I was trying to convey here is that some would be overspent, some would be underspent, and my thought is that in a perfect world is that they would balance out. It doesn't always happen that way.

MR. KENNEDY: So the costing out of the capital project is based on your best estimates as you indicated there in the response to Ms. Butler's question, and that in some cases the capital projects come a little over and in some cases they come a little under, and you're hoping that overall your capital budget comes in on numbers.

MR. REEVES: That's correct, yes.

MR. KENNEDY: Okay, I wonder if we can go to the B schedule now of the capital budget, and B-6. Okay, so my understanding, Mr. Reeves, is that this particular schedule, the Schedule B portion of the capital budget is a sort of a page-by-page description of the capital budget projects that exceed in each individual case more than $50,000 in total.

MR. REEVES: That's correct, yes.

(12:00 noon)

MR. KENNEDY: Okay, and they're divided into four groups, generation, transmission, rural systems, and general properties, so I guess first of all, could you confirm that you're prepared there to answer questions concerning the transmissions and rural systems?

MR. REEVES: That's correct.

MR. KENNEDY: Okay.

MR. REEVES: And one item in the general properties, which is vehicles.

MR. KENNEDY: Okay, generation not so much?

MR. REEVES: Generation, Mr. Budgell will be addressing that.

MR. KENNEDY: Okay, so now Hydro notes there in paragraph two, many of the explanations refer to cost benefit studies and it should be recognized that because of the nature of the individual project, not all decisions to proceed are supported by formal cost benefit studies. For example, where the level of safety or reliability of service to customers would be clearly jeopardized if a project did not proceed, a formal cost benefit study would not be required to support the decision to proceed. There is really no alternative but to proceed. So I guess if we could, before we look ... you then go on to state that these projects are required for one or more of the following reasons, and then ... and we'll go through those, but am I gathering correctly from that first paragraph that the general overriding principle of whether to spend money in your capital budget, is where the level of safety or the reliability of service to customers would be clearly, would clearly be jeopardized.

MR. REEVES: That's correct, yes.

MR. KENNEDY: Okay, and so to try to flush out that overriding objective, you've got these further six points that you look to in assessing your capital budget?

MR. REEVES: That's correct.

MR. KENNEDY: Okay, and going through those ... to protect human life, well let's give that as a given, although I was making light of that with the financial officer that I know, a bean counter who, that would be undeterred by the cost of the human life in calculating out what the cost of it, but let's not go there. We'll assume that human life is an overriding principle. The second one, to meet projected customer load demands. Let's say that's a given, that in the case where your forecast is showing a shortfall in load that makes it a sense that you need to build new generation, and again, this is outside your area so we'll leave that, any questions we have for Mister ...

MR. REEVES: Budgell.

MR. KENNEDY: To prevent imminent interruption of customer service. So imminent, I'm assuming, you know, a

lawyer would use the word, sort of, forthwith, that if it looks like they're going to lose power very soon, then you spend the money, you know, regardless of the sort of cost benefit analysis because the reliability of service overrides that.

MR. REEVES: That's right.

MR. KENNEDY: Okay, comply with regulations and standards, well everyone has got to comply with the law, so we'll assume that one's a given, and to protect your assets against loss or damage, so it will be penny wise and pound foolish to do otherwise, so we'll accept that one. So let's look at the last one, to maintain power system reliability and availability. Now you've given us an overview of the network that you have for the island, and how it all ties together, and I guess you'd agree with me, wouldn't you, that it would be taking it from the sublime to the ridiculous if we were to suggest, well let's go for better reliability in our entire network by duplicating the whole thing for the entire province and putting another 230 kV line across from end to end, just in case the ones that are there break down. That would be, that would be foolhardy to suggest something like that?

MR. REEVES: Just on one spectrum.

MR. KENNEDY: Right, and it's on that spectrum of what, how do you make that determination of, well we can't go there, that we're not going to replace, or we're not going to duplicate the entire network with an entirely new 230 kV line?

MR. KENNEDY: Some of the tools that we have available to us and are used are reliability indices that we use and report to the PUB on a regular basis, the frequency of interruptions, and also the duration of those outages.

MR. KENNEDY: So that's the SAIFI and SAIDI statistics?

MR. REEVES: That's correct, yes, and we use those in guiding us to providing an acceptable level of service to our customers. We judge ourselves against, and try to meet the Canadian average, which we think is a reasonable goal. Another thing that would be used is that where those indices may not show a particular problem, but there may be a reason to do it for an impact on a substantial number of customers and that's ... an example of that would be when we replace lightning arresters on our lines from Bay d'Espoir to Sunnyside which came to the Board the year before last for last year and this year, and while that may not ... it will show up in your SAIFI's and SAIDI's, but it may not grossly affect them, but what happens is that when it does happen, it affects such a large customer base that it's really not acceptable in our opinion to do that.

MR. KENNEDY: Okay, let's just back up a little bit first. The, Hydro does follow the SAIDI and SAIFI statistics.

MR. REEVES: We track those and we submit them to, and we review themselves internally, and we also give them to the Canadian Electrical Association for input and we get reports back to see how we compare to other utilities.

MR. KENNEDY: And if I gather correctly, your target is to hit the Canadian national average?

MR. REEVES: That would be ... a general rule of thumb is that we would like, we would plan to be or expect to be as good as the rest of the other utilities on average.

MR. KENNEDY: Okay, excuse me, when you say a general rule of thumb, I'm just trying to get down to that detail. Does Hydro set a specific SAIFI and SAIDI target which it determines is a target that is reasonable to achieve and appropriate and prudent?

MR. REEVES: One of the things that we started, I guess, last year and this is both internally and externally, is that we initiated, I think Ms. Butler asked a question ... I sit on a committee with Newfoundland Power and Mr. Ludlow ... to review our system performance and I do that, and what we did last year is that we set targets for both utilities for a 25 percent reduction in the service that we provided in 1998 to be achieved at the end of 2001, so that's one thing that we ...

MR. KENNEDY: I think you might have missed a word there ... you said you agreed to a 25 percent reduction in service, so ...

MR. REEVES: A 25 percent reduction in the reliability indices that we monitor, which is SAIFI and SAIDI, I'm sorry.

MR. KENNEDY: So ...

MR. REEVES: And we also internally obviously, that was only on one part of it which is the bulk electrical system, okay, which is the main, our main transmission grid. Also in Hydro we would set similar standard for our rural customers as well, so, yes, to answer your questions, we look at our indices and then we look at where we are in relationship from year to year and we set targets for ourselves.

MR. KENNEDY: Okay, and so knowing that a duplication in the entire network will improve reliability is not followed up with actually duplicating the network because that would be not matched to the target of what's an acceptable SAIFI and SAIDI statistic would be for Hydro?

MR. REEVES: Duplication to the network may not be required to achieve the standards that we set for ourselves, that's correct, yes.

MR. KENNEDY: Okay, and so there ...

MR. REEVES: Obviously, if you duplicate the network,

there's a significant cost to that which our customers would have to cover and I'm sure that if we start doubling our network, it would be noted from the electrical bills and you would get some return in reliability but whether it would be cost effective is another question.

MR. KENNEDY: You must be reading my notes because that was the next question that I had, or next line of thought. You were present, weren't you, when Mr. Wells testified here for the first week?

MR. REEVES: I was here for most of it. I don't know if I was here for all of it, but I was here for most of it.

MR. KENNEDY: Okay, well hopefully you were here for the good parts, and I guess what I wanted to, what I wanted to see if I could confirm is that it seems to be an overriding consideration within Hydro's application, if I can suggest that, that it's an attempt to keep rates to customers as low as possible in the circumstances, despite the pressures that Hydro is receiving through the increased price in fuel, for instance, to otherwise increase those rates?

MR. REEVES: That would be a fair statement, that we want to keep our costs as low as possible at all times.

MR. KENNEDY: Okay, and is it fair to say as well that, you know, your customers hold reliability to be a very important thing in the use and service of electricity?

MR. REEVES: Very much so and it's even more so today than it was, say, ten years ago. With the modern age of technology, people are very intolerant of interruption to service, and it doesn't matter if you're on the interconnected system or the isolated system.

MR. KENNEDY: It's a paralysis that sets in the second that the power turns off.

MR. REEVES: That's correct, and to use an analogy or a saying that I say is that we are one of the industries that have building watch people in every household that we service, because everybody has an electric clock. When you lose your electric clock it blinks. You could be out away from the world for a week, come back and you'll know if there was an outage or not. Where a similar utility, like a telephone company, if you lose service for a period of time, if you're not on the phone in that period of time, you don't see it.

MR. KENNEDY: Well let's not drag the phone company into it.

MR. REEVES: Well I'm just using an example, so what I'm saying is that we are very conscious of reliability and the point I'm trying to make is that whether the person was affected by it or not, they know that their service was interrupted.

MR. KENNEDY: And so your customers being very concerned with reliability are also concerned with the rates that they pay for the service that they use.

MR. REEVES: Very much so.

MR. KENNEDY: So that's the push and the shove, isn't it? They want a very reliable network that's up a hundred percent of the time, but then they also want low rates.

MR. REEVES: That's my read for what our customers would like to have, yes.

MR. KENNEDY: This is the rock and hard place that Hydro is always in.

MR. REEVES: Well, not only Hydro but ...

MS. GREENE, Q.C.: It's one of them *(laughter)*. I can think of a few others.

MR. KENNEDY: But this is the, this is the balance that Hydro is always grappling with.

MR. REEVES: We consider both, yes, that's correct.

MR. KENNEDY: Okay, now do you think that if it was explained to customers that well, okay, we can give you a hundred percent reliability but, or almost something that approaches a hundred percent reliability, but your rates are going to double or triple, that that may change the water on the beans for them, that they may say well, I'm willing to put up with an interruption or two if it means that my rates are that much lower. That's sort of how that rock and hard place sifts out for the customer?

MR. REEVES: That's right. If they want improved reliability or maintain the reliability, then in most cases there is a cost associated with that.

MR. KENNEDY: And so because they don't have a direct influence on Hydro's determination of when to spend and when not to spend to improve the reliability of the system, they have to rely on Hydro to do that.

MR. REEVES: They have to rely on Hydro to do that, but I assume that going through a public process like this, that you would seek the input of our customers, as Newfoundland Power is here today to question us on the, the things that are in our operating capital budget, so that we are questioned and we are keeping our costs as low as we can to maintain the service that we provide to them.

MR. KENNEDY: Okay, just maybe before we break for lunch, there was an exhibit that I had passed out to the counsels which was the gas turbine relocation exhibit, and if you could pass that up, copies to the panel. Does the witness have a copy? Yes, I believe the witness already has a copy, and ...

MR. REEVES: This is **Schedule B**, page 15 of 66, gas

turbine relocation project?

MR. KENNEDY: That is correct.

MR. REEVES: Project cost, $1.6 million.

(12:15 p.m.)

MR. KENNEDY: That's correct, and for the purposes of ... this is from Newfoundland Power's 2002 capital budget application, and I guess if counsel is in agreement we should probably label that. It was a filed document by Newfoundland Power, if we can call that a consent document, I believe it would be Consent No. 3.

EXHIBIT CONSENT 3 ENTERED

MR. KENNEDY: Now, Mr. Reeves, maybe I should ask you first, you've had an opportunity to review this document?

MR. REEVES: I've read through it once, reviewed it once.

MR. KENNEDY: Okay.

MR. REEVES: I can't say I gave it a thorough review, but I generally understand what's ...

MR. KENNEDY: No, that's okay, because I'm going to take the 30,000 foot view of it myself, so ...

MR. REEVES: Great.

MR. KENNEDY: Now my understanding of the issue is that, is that here Newfoundland Power in its 2002 capital budget application applied for approval, which they eventually obtained from the Public Utilities Board, to relocate a substation from Salt Pond to Wesleyville.

MR. REEVES: A gas turbine, you mean?

MR. KENNEDY: I'm sorry, a gas turbine.

MR. REEVES: Yes, that's my understanding of this ...

MR. KENNEDY: I said substation, didn't I?

MR. REEVES: Yes.

MR. KENNEDY: Sorry, a gas turbine, and my understanding as well is that this gas turbine would normally be used to provide power in the event of an interruption. Is that what its purpose would be?

MR. REEVES: That would be one of the purposes, as I understand it ... it could also be used for planned outages where lines would be taken out of service feeding the area which is surrounding that particular ... where it's located.

MR. KENNEDY: Okay.

MR. REEVES: So it would, I would see it as being probably two uses.

MR. KENNEDY: Okay, now there was evidence given already about the fact that there is two transmission lines that T off from Goobies and go down the Burin Peninsula and feed power to the Burin Peninsula. I believe they were in your exhibits and there's a map right behind you, it's what I'm looking at there now.

MR. REEVES: In my terminology, from Sunnyside, which is right here, right down to Lynn Lake and Salt Pond.

MR. KENNEDY: Okay, and power is delivered to the Burin Peninsula over both of those lines.

MR. REEVES: We provide power to, electrical power to Newfoundland Power over those two lines.

MR. KENNEDY: Okay, and so is it, from a layperson's perspective, that would appear to be, there's a redundancy in the system for the provision of power to the Burin Peninsula area.

MR. REEVES: Well on the actual configuration of the lines and the capability of the lines and the load that is down there and what is required to service those particular areas, the best one to respond to that would be Mr. Budgell.

MR. KENNEDY: Okay, so maybe you could just give me your un-expert, layman's perspective then that two lines are better than one.

MR. REEVES: Well, as I said before, tried to say before, is that when there is, when you have a load to service you can do it one of several ways, I would assume. You can put local generation down there and not interconnect it. You can have one line down there of a certain voltage which would be sufficient to service that load. You can go with a lower voltage so that both lines would be required to meet the peak, and in this particular case I have not seen the justification, I was not involved in the justification of these two, the construction of these two lines.

MR. KENNEDY: Okay.

MR. REEVES: Whether both lines are required to meet the peak, or whether one line can meet the peak, Mr. Budgell is much more apt to respond to that than I am.

MR. KENNEDY: Okay, now in reply to questions submitted at Newfoundland Power regarding, regarding the relocation of this gas turbine, it was requested that they provide the SAIFI and SAIDI statistics for both the, as per page one of three of **PUB-5**, for the Bonavista area, and then the second set of questions were for the Burin area, and then over on page, page three of three, of **PUB-5**, there was the answer to a question concerning the ... when the Salt Pond unit was used to provide emergency generation in the area and it was once in '92 and two times in 1997, and then presumably nothing after 1997, and I guess, as I understood Newfoundland Power's argument at the time, based on the SAIFI, or SAIFI and SAIDI statistics for these

two areas, based on the fact that it hadn't been used for emergency purposes in quite some time, that it made sense to relocate this gas turbine from Salt Pond to Bonavista.

MR. REEVES: From reading this through once, that seemed to be the, you know, the case that was being made for the relocation.

MR. KENNEDY: Okay, so that's your understanding from having read through this document as well.

MR. REEVES: Once, yes.

MR. KENNEDY: Okay, and then attached to it as well, in response to question, **PUB-5.4**, was to provide a copy of the study undertaken to evaluate the various options for improving the reliability service to the Bonavista area, and then there is a, what I would describe as a fairly comprehensive document regarding a number of areas and approaches and cost considerations relating to the provision of electrical service in the area, and have you had an opportunity to flip through this?

MR. REEVES: I flipped through it, yes.

MR. KENNEDY: Okay, and you can see when you flip through the back of that document that there is detailed cost breakdowns for, for instance, transmission estimates for the relocation of the Salt Pond new stationary diesel estimates for Salt Pond, new mobile diesel estimates for Salt Pond, and the Greenhill relocation and so on.

MR. REEVES: Yes.

MR. KENNEDY: Alright, so you have read this document, and you have seen it, would you have any questions after this regarding the appropriateness of moving the gas turbine from Salt Pond to Bonavista?

MR. REEVES: In regard to the analysis that's done in here, what I would do, because Mr. Budgell is our planning person, I would speak to Mr. Budgell and we would discuss this document. In regard to what location is being picked, I would have to study this document more closely to make a determination of that.

MR. KENNEDY: Okay, fair enough. Chair, Commissioners, that's an appropriate place for a break for lunch, I think, before I move on.

MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr. Kennedy and Mr. Reeves, we'll reconvene at 2:00.

MS. BUTLER, Q.C.: I wonder, Mr. Chairman, might I just ask in terms of the timing because of the next witness coming behind, whether Mr. Kennedy thinks he's going to be the balance of the afternoon?

MR. KENNEDY: I would suspect, yes.

MS. BUTLER, Q.C.: Okay, thank you, Mr. Chairman.

MR. NOSEWORTHY, CHAIRMAN: Thank you.

(break)

(2:00 p.m.)

MR. NOSEWORTHY, CHAIRMAN: Thank you and good afternoon. Before we proceed with the cross-examination, are there any preliminary matters?

MS. GREENE, Q.C.: Thank you, Mr. Chair. I have four preliminary matters. The first relates to the issue of undertakings that would have been given yesterday and as yesterday we have a copy of the undertakings as we have determined them from reviewing in the transcript and we have copies to distribute at this time of that list. Yesterday the list was shorter than the previous day. There were only three identified in the transcript.

The first undertaking related to the load on the Burin Peninsula and that was an undertaking given to Industrial Customers. The second was an undertaking also to counsel for the Industrial Customers relating to the load in the Baie Verte Peninsula area. I provided that information yesterday afternoon, after the, at some time during the afternoon. I think it was after the coffee break. So it is our view that those two undertakings have already been answered.

With respect to the last one which related to the coordination of transportation of PCB waste to construction facilities, Mr. Reeves will respond to that in redirect when I get to redirect him. And as yesterday, if there's other items that we may inadvertently have forgotten, I'm sure it'll be brought to our attention by other counsel.

The second item is the **supplementary evidence of Paul Hamilton** which we have available to file at this time. This supplementary evidence addresses the impact on the rates charged toour various customers arising from the re-allocation of costs that we have talked about before.

MR. NOSEWORTHY, CHAIRMAN: There's no labelling required on this?

MR. KENNEDY: No, Mr. Chair.

MS. GREENE, Q.C.: The third preliminary matter relates to responses to RFIs. At this point in time, on the record there are four outstanding responses to information requests all from the Industrial Customers. This afternoon we are ready to file responses to IC-248, 271 and 278, leaving outstanding the response to 272(A) and (E).

MR. NOSEWORTHY, CHAIRMAN: Sorry? 272. I just didn't catch the last ...

MS. GREENE, Q.C.: The ones that we are filing now are the responses to 248 ...

MR. NOSEWORTHY, CHAIRMAN: Yes.

MS. GREENE, Q.C.: ... 271 and 278.

MR. NOSEWORTHY, CHAIRMAN: Okay.

MS. GREENE, Q.C.: There's still one outstanding and that's 272, two parts, 272(A) and (E). The other parts have already been answered.

MR. NOSEWORTHY, CHAIRMAN: Thank you.

MS. GREENE, Q.C.: The response to 272 we hope to have available tomorrow. And the last outstanding thing for the Industrial Customers is the 2001 forecast cost of service and the 1997 cost of service, which are not available at this point. My latest information is that they will be available next week but I would like the opportunity to have further discussions with the Rates Department before I can give you a more precise date.

MR. NOSEWORTHY, CHAIRMAN: Okay.

MS. GREENE, Q.C.: And the very last preliminary matter, the fourth, is the counsel for Industrial Customers asked us the number of rural customers on the Burin Peninsula. It's a simple matter that she would like it placed on the record, and the response is that there are 159 customers served by Hydro on the Burin Peninsula. That question hasn't been asked, so it wasn't necessary as an undertaking but Ms. Andrews asked me outside of the room and we agreed that I would provide the information on the record.

MR. NOSEWORTHY, CHAIRMAN: Thank you very much.

MS. GREENE, Q.C.: Thank you.

MR. NOSEWORTHY, CHAIRMAN: Are there any other comments from any of the other parties? Okay. Having heard none, if I could ask Mr. Kennedy to proceed with his cross-examination. Are you ready to begin?

MR. REEVES: Ready, Mr. Chair, yes.

MR. NOSEWORTHY, CHAIRMAN: Thank you.

MR. KENNEDY: Thank you, Chair. Mr. Reeves, just before we broke for lunch we left off with a discussion concerning the cost benefit implications of spending money on capital budgets that, whose purpose is to improve the system reliability and availability as opposed to those issues concerning protection of human life, for instance, and I wanted to try to delve a little deeper into that issue, but first I thought I would try to put it in the absolute simplest of terms and I thought that I could use an analogy that perhaps everyone is familiar with and everyone has their own story that's the same, but if you can bear with me for just a minute I'd just like to tell you this one. It's a recent story and it's true and it just involves a friend who recently bought a new car. They had an old car that was about 11 years old. It was paid off completely. It had relatively low mileage but the vehicle was still getting up there in age and they found that they were spending money from time to time repairing it, $400 here, $500 there, each time hoping of course that that would be the last time they would have to repair it for a while but then along would come a new set of repairs, and the normal course of events, exhaust systems and generator, alternators and so on, and they were sort of tire kicking buying a new car but, you know, the price of the old car, well, was free because they weren't paying anything on it so it was only the ongoing maintenance of this vehicle that they were incurring, and then one day they were driving along and the drive shaft fell out of the car, and it fell out because of the U-joint, and it only cost $136 to repair but it was very disconcerting and so then this person of course was faced with the issue of the safety of the vehicle and lost the sense of security that they had riding around in this vehicle, so eventually they bought a new truck, parked in the driveway now, brand new vehicle at a certain monthly price. So I'm wondering if we could keep that sort of story and use that as an analogy when we think of the process, if you will, of looking at Hydro's expenditures under its capital budget program, and I'm wondering, Mr. O'Rielly, whether you could pull up **Schedule B** again on the capital budget? Mr. Reeves, just going back again, you indicated that you would be able to speak to issues in the capital budget dealing with transmission of rural systems and one aspect of general properties and that was relating to vehicles.

MR. REEVES: Vehicles, that's correct, yes.

MR. KENNEDY: Okay. So in the generation section, I noted that there's certain aspects of the generation which aren't in the capital budget which aren't related specifically to building new plant, if you will, you know, increasing the load or the capacity of the system, sorry, but rather the more operationally-oriented aspects of generation. So would you oversee that or would that be still in generation?

MR. REEVES: That would be in generation.

MR. KENNEDY: Okay. And so if I was going to ask you questions, I should stick to questions involving these three items, the transmission and rural systems and vehicles, if I had any questions on vehicles.

MR. REEVES: That's correct.

MR. KENNEDY: Okay. Okay ... yeah?

MR. REEVES: There's one item in generation which is, I think it's related to Eebbeegunae (phonetic) which is the construction of a distribution line to Eebbeegunae (phonetic). It's been justified by generation and if it's approved then my department will actually do the

construction of the distribution line.

MR. KENNEDY: Okay.

MR. REEVES: But other than that, that's the only one that would come to my mind that I would have responsibility for.

MR. KENNEDY: Okay.

MR. NOSEWORTHY, CHAIRMAN: Excuse me, Mr. Reeves, where was that location again?

MR. REEVES: Eebbeegunae (phonetic), which is in Central Newfoundland which is part of our reservoir system that feeds Bay D'Espoir.

MR. KENNEDY: For the purposes of assistance of the person that's going to end up doing the transcript, I wonder if we could just spell that out? I know ... *(laughter)* I know that's in the record somewhere.

MR. REEVES: E-e-b-b-e-e-g-u-n-a-e, I think it is, or something (unintelligible) ... I can give the correct spelling after.

MR. KENNEDY: That's a phonetic anyway. That'll do.

MR. REEVES: Eebbeegunae, it's an old Newfoundland name.

MR. KENNEDY: Yes. Okay. So I believe, Mr. Reeves, and you can correct me if I'm wrong, that we established that in regards to the objectives, stated objectives that Hydro uses in the determination of whether to include something as part of their capital budget program, and then they were the six objectives that we went through beginning with the protection of human life, that ...

MR. REEVES: That's correct.

MR. KENNEDY: ... that we gave away as givens in the first five of those, that if, in other words, if it was clearly identified that a particular project would protect human life, that that would not need to have any further consideration. That would be included in the capital budget, so we're assuming that. And the only one that we're dealing with is the maintaining of the power system reliability and availability. Mind you, if you can point back to a different objective when we look at a specific project, then, you know, please do, right, so I'm not trying to contain you to that but I'm just saying that's what I'm trying to focus my efforts on. So I wonder if we could look to **B-25**? Okay. So **B-25** was paving a parking area in the Bishop's Falls Complex for $69,000, and it says, "This project involves the paving of the gravel parking lot at Bishop's Falls Complex which is used by heavy equipment such as muskegs, line trucks, etc. The surface of the existing parking lot is difficult and costly to maintain, as it is often in poor condition in the spring and during wet conditions. The customer impact, there is no direct customer impact and the cost benefit study, a formal cost benefit study was not required." So I guess what I'm trying to reconcile, and this is what I'm going to ask you to help me on is it's indicated here that the surface of the existing parking lot is difficult and costly to maintain, so presuming that that's the reason that Hydro decided to pave the parking area, did that not necessarily involve some sort of cost benefit analysis in determining how much it was costing to maintain the parking lot in its present state versus paving it?

(2:15 p.m.)

MR. REEVES: That was only one aspect of the recommendations of having this done is that there would be some savings. While you can do the cost benefit, like your person with the vehicle, an old vehicle, you may not be able to show the economics of buying a new vehicle or of paving this lot. There are other benefits associated with this particular job, which would be ease of maintenance of our vehicles and whatnot.

MR. KENNEDY: Okay. But just going back over your objectives, it's not to protect human life, it's not to meet customer load, it's not to prevent the imminent interruption of power, it's not to comply with regulations. I suppose it's arguable that it could be used to protect Hydro's assets in the case of the trucks and I suppose arguably in an indirect manner it could be used to maintain or be done to improve the system reliability in the sense that if your trucks break down, then it's that much harder for you to get to an interruption. But is it a fair statement to say that in a case like this, in a case of paving a parking lot, it doesn't really neatly slide into any of these six requirements, does it?

MR. REEVES: Not in and of itself the one that you mentioned to me.

MR. KENNEDY: So I guess that sort of begs the question then, if it doesn't fit into one of these six particular objectives which Hydro has identified as the ones that it looks to in determining whether to include something in their capital budget, what did you look to when determining whether this should be included in your capital budget?

MR. REEVES: I'm here looking for a list, a page, reference ... there's a list on and I can't ...

MS. GREENE, Q.C.: That's be **B-6** the criteria.

MR. REEVES: **B-6**, okay. Thank you very much. There we go, sorry. Okay, I'm back on the page again now.

MR. KENNEDY: Okay. Do you want me to repeat the question?

MR. REEVES: Yes, please. Yes, please.

MR. KENNEDY: Okay. I guess first we've established that

in this particular case, and obviously I'm using this as an example, the amounts involved in absolute dollar terms are from an overall perspective insignificant. I think you probably agree.

MR. REEVES: Uh hum. In regard to the capital budget that we've got submitted here.

MR. KENNEDY: Right.

MR. REEVES: It's not a big percentage of it, that's right.

MR. KENNEDY: $69,000 on $46 million.

MR. REEVES: Uh hum.

MR. KENNEDY: Okay. But using this as an example of a project in your list of capital projects that I'm stating to you and asking you to agree, does not fit into any of these particular six requirements as identified by Hydro as to when they put something in their capital budget, what, how did this end up in your capital budget?

MR. REEVES: Well I guess what you may do is to take a couple of those and you may use it, like, for instance, to prevent Hydro's assets against damage, and, you know, that may be a pertinent one, like if you have a very soft parking lot and it's very soft and there may be something done to one of the vehicles or something, to maintain system availability again on your vehicles, to have them readily available in the event that they are required. Now it doesn't neatly fit into one of these categories but you could use a couple of these to help support it, to improve your operation.

MR. KENNEDY: Okay. I guess that's sort of, if I may, revisionist capital budget thinking in the sense of putting the budget in, or putting the project in your capital budget and then trying to warrant it being there by then trying to indirectly fit it into one of the objectives. So what I'm asking you is, in this case, paving a parking lot, is there something else that Hydro looks to other than these six objectives or would you still measure this paving of the parking lot, whether it should or shouldn't be included, by still looking at these six objectives?

MR. REEVES: I think we would focus our attention on these six objectives, however, you know, there may be other things that may be considered as well.

MR. KENNEDY: Okay.

MR. REEVES: But these would be the, primarily the six that we would give priority to.

MR. KENNEDY: Okay. So just going back to **B-25**, please, Mr. O'Rielly. So again the case here where it would seem to me that the description of the nature of the project implies that there's some kind of cost element involved because there's, you speak to the fact that the surface of the existing parking lot is difficult and costly to maintain, and so I'm, am I correct in assuming then that the decision to pave it was at least driven in part by the fact that it was becoming costly to maintain the parking lot as it was?

MR. REEVES: There was an ongoing annual maintenance with the parking lot, that's correct.

MR. KENNEDY: Okay. So what I'm asking you then is, was there any kind of formal measurement of what the cost had been on an annualized basis to maintain the parking lot in its current condition versus spending $69,000 to pave it?

MR. REEVES: No, there was not. On this particular one, it's a $69,000 expenditure. To do a formalized cost benefit analysis would obviously expend some dollars to do that and it was not done.

MR. KENNEDY: So the cost of the cost benefit analysis outweighs the reason for doing the cost benefit analysis.

MR. REEVES: In this particular one, you know, that may ...

MR. KENNEDY: Yes, I understand. We're speaking ...

MR. REEVES: That may have been ...

MR. KENNEDY: We're only speaking about this one in particular.

MR. REEVES: That may have been some of the reasons why it was not done, the fact also that the, for the reasons that are stated here. There are other reasons. You know, that's why it was not done. It wasn't just because of the cost but there would have been a cost associated with that, obviously.

MR. KENNEDY: Let's go to **B-32**. Now there's two of these. There's **B-32 and B-34**, actually three. There's also **B-67**. Let's just stay on **B-32** for a second, "Purchase and install remote communication equipment for Buchans and Stoney Brook.

MR. REEVES: **B-32**.

MR. KENNEDY: **B-32**, yeah. "And the project involves the purchase and installation of a number of relays and associated communications equipment which store fault information at Stoney Brook and Buchans Terminal Stations," and then it goes on to explain how "currently personnel must travel to each station in order to retrieve this information and with the purchase and installation of proposed communications equipment, the relays can be remotely accessed, and this will assist in the timely analysis to faults and in the case of permanent faults will provide fast access to the fault type and location." And the customer impact, "The project will decrease the time required to locate permanent faults and therefore decrease the outage time in the faulted equipment line," and again, "A formal cost benefit study was not required." So in this

case it speaks to one of the objectives of maintaining power system reliability and availability.

MR. REEVES: That's correct.

MR. KENNEDY: Agreed?

MR. REEVES: Yes, that's correct.

MR. KENNEDY: It doesn't really fit with any of the other ones. It's not to protect human life, it's not to meet customer load, it's not to prevent an imminent interruption, it's not to comply with regulation and it's not to protect Hydro assets, so it has to fall under the maintain power system reliability and availability, correct?

MR. REEVES: It's primarily that one. There may be ... no, that's where it would basically fit, that's correct.

MR. KENNEDY: Okay.

MR. REEVES: Because this is the remote communication equipment. The information is gathered in the station anyway.

MR. KENNEDY: Yeah. So in this case it's replacing a mode of gaining the information, correct? The information was already being secured. As it says, "Currently personnel must travel to each station in order to retrieve the information."

MR. REEVES: That's correct, yes.

MR. KENNEDY: So again was there any sort of analysis done about the cost of this system to now remotely retrieve this information versus how much it was costing you to send personnel there to retrieve the information?

MR. REEVES: No, there was not and what you'd be comparing against is a future outage and the amount of time that would be taken up, that future outage, is what would be the benefit, and what would you use? You'd have to make an estimation as to what that would be, how often it would happen, and compare it against the cost of actually driving, the person getting in the vehicle and driving out. The benefit of installing this is that there would be a quicker restoration period, so one of the primers on, of the evaluation is, would have to be an estimation of the number of times that it would be utilized, how long a time it would save off the outage, etc.

MR. KENNEDY: Correct. I agree with you 100 percent. So if that's the case though, if that's the purpose of this device, how do you know it's worth $51,000 to you?

MR. REEVES: The way I would view that is that at reasonable cost if we can install equipment which cuts down on our outages, the length of outages and time to our customers, then that's what we should be doing.

MR. KENNEDY: But I guess that's the issue then, isn't it, reasonable cost. As we discussed at the beginning, you could increase the reliability to a point where you're almost approaching 100 percent by just duplicating your entire infrastructure network for the island, but we seem to agree that while that doesn't make any sense, because there's a certain cost benefit analysis that you calculate in your head and intuitively know that it's not correct to do that, but in cases where you're doing it on a project-by-project basis, it involves a more detailed calculation, wouldn't you agree?

MR. REEVES: In some cases it does and in some cases we do that.

MR. KENNEDY: So I guess the question is, how do you know $51,000 for the purchase and installation of a remote communications equipment for Buchans and Stoney Brook is the reasonable sum of money to spend for that? How do you know that, you know, $5,000 was the most that it warranted?

(2:30 p.m.)

MR. REEVES: Intuitively, from my perspective, $51,000 would be a fair investment. I would be prepared to spend much more than that for the increased reliability of our customers in that area. What the soft point is, I don't know, but it would be more than $51,000.

MR. KENNEDY: Okay. So that's the issue. The soft point you don't know but intuitively, from your experience in the field, you feel that $51,000 is a reasonable sum of money to spend on this particular item?

MR. REEVES: That's correct, yes.

MR. KENNEDY: Okay. Could we just go to **B-34**, Mr. O'Rielly? Okay. Now this was the purchase and installation of a digital fault recorder for Stoney Brook, $92,000, and the recorder would record ... it's a 32 channel digital fault recorder. "The recorder would record voltages, currents and other important data before, during and after a fault. Information from this recorder would be used to assist in the analysis of faults in and around the Stoney Brook area and the analysis to be used to verify the correct operation of protection and control relaying breakers and other equipment and whether any additional follow-up action is required." The customer impact is the same as the previous one we just looked at and again there's no formal cost benefit study done.

MR. REEVES: That's correct, yes.

MR. KENNEDY: Okay. And so just cutting to the chase, since there was no formal cost benefit study conducted and the customer impact is the same, so we're still doing what the, dealing with the reliability issue, the fact that you're willing to spend $92,000 on this particular item is, was again done from an intuitive process of what you think

it's worth in this particular instance rather than a detailed analysis of a, from a cost benefit perspective?

MR. REEVES: In actual fact this is another tool, different than the other one. The information from this one would feed into remote, okay.

MR. KENNEDY: Absolutely.

MR. REEVES: And this one not only provides information for the possible quicker location of permanent faults but would also enable our engineers to do an analysis of the way that our system operated under fault conditions, and personally I would be more prepared to pay more for that than I would for the remote ... for the remote access ...

MR. KENNEDY: Okay.

MR. REEVES: This is a very important tool.

MR. KENNEDY: Okay. So the gathering of the data is more important than the process of retrieving the data.

MR. REEVES: First of all you have to gather the information. The second thing that you would do is have it remotely access ... the remote access enables us to be able to respond quicker to outages and to be able to point our people in the right direction, but unless you gather the information, which is this one, then there's nothing to remotely access.

MR. KENNEDY: Okay. **B-67**, "Replace tele protection, Stoney Brook, Grand Falls, frequency converter." Now is this related to the other two projects?

MR. REEVES: This was in the General Properties Section?

MR. KENNEDY: Yes.

MR. REEVES: Which is under "Tele Control."

MR. KENNEDY: Okay.

MR. REEVES: Okay.

MR. KENNEDY: So this isn't related to the other two projects at all?

MR. REEVES: Tele protection, in my opinion, would not be related to the other two, no.

MR. KENNEDY: It says, "Existing tele protection units used for voice data and tele protection at the Stoney Brook Terminal Station."

MR. REEVES: We may ... well, between the Stoney Brook Terminal Station and the Grand Falls frequency converter, so that's between two stations in Grand Falls. The ones that we just previously looked at was Stoney Brook.

MR. KENNEDY: Well, it says, "Replacement of the existing tele protection units used for voice data and tele protection at the Stoney Brook Terminal Station and the Grand Falls frequency converter at the Abitibi Mills in Grand Falls." So I gather from that that it was a unit at the Stoney Brook Terminal Station and it involved voice data ...

MR. REEVES: And another one at the Grand Falls frequency converter, so ...

MR. KENNEDY: I'm sorry?

MR. REEVES: So again this is Mr. Budgell's.

MR. KENNEDY: Okay.

MR. REEVES: And I can only speculate that what this means is there's one in Stoney Brook and one in the Grand Falls frequency converter, which is not a long distance apart but there's a line that goes from one to the other.

MR. KENNEDY: Okay.

MR. REEVES: And they actually ... we use this equipment to, for voice, data from the frequency converter to Stoney Brook, and also the tele protection from, to our frequency converter to Stoney Brook.

MR. KENNEDY: Okay.

MR. REEVES: And in Stoney Brook there would be, that piece of equipment would also talk to the equipment here in St. John's.

MR. KENNEDY: Okay.

MR. REEVES: Now that's my understanding of it. Mr. Budgell can ...

MR. KENNEDY: Okay. So the two units that we looked at previously, they don't relate to this at all then.

MR. REEVES: This is a separate capital work order altogether. This is a separate piece of equipment. The information that we collect on the other ones may be used to go over similar equipment like this but not this particular one, I wouldn't venture to say.

MR. KENNEDY: Okay. And that was the question I had, was you seem to be, you know, between the remote fault (unintelligible) unit is $51,000, a digital fault recorder, $91,000, and then a tele protection unit for Stoney Brook and Grand Falls frequency converter, $58,000, that that's, you know, $170,000, 210, sorry, that ... and some of which is for Grand Falls presumably, but it's $200,000 that you're spending in the Stoney Brook Terminal relating to data collection and data transmission, but there's been no cost benefit analysis conducted and then there's two different projects, one in General Properties and one in Transmission, and I'm trying to reconcile all that. You can see my difficulty.

MR. REEVES: This one here is replacement of existing equipment that our energy control centre uses for

communicating from St. John's to our different terminal (phonetic) stations. This happens to be one of those. It also transfers data, which they also utilize in their, in the operation of the system, and it also provides a very important function of tele protection. This is protection on our transmission equipment which is used to transfer information from one end of the line to the other. If this protection or this tele protection equipment is not there, then the line would not be properly protected. The other two projects are to deal with the other control devices that are in the station, the breakers, our protection devices, our over-protection relays, our over-voltage relays. It collects data on that, on the one piece of equipment and then it's stored and it's stored in such a fashion that we get some history, so you see a normal system of events going along with your voltages and your currents, and then you see a fault and then you see so much information post-fault, so that's the information that our engineers use.

MR. KENNEDY: And I understand, Mr. Reeves, and I'm not trying to suggest that the rationale behind spending the money from the perspective that it's going to increase your reliability of the service. I think we established that that was the purpose of the expenditure.

MR. REEVES: Uh hum.

MR. KENNEDY: There'd be ... I guess the point though is that since there was no cost benefit analysis done in a formal sense, how is it you know that this is warranted to spend in this particular instance?

MR. REEVES: This one here is a straight replacement of equipment that's there.

MR. KENNEDY: Right.

MR. REEVES: If you assume that it was required in the first place, which I would assume, we need it to protect our lines, it was justified when it was built, so it's just that equipment now needs to be replaced, didn't require cost benefit analysis. The other two, I think intuitively from operating the system, you try to take advantage of the tools that are available. If some of the tools that you want to use were quite expensive, at some point in time I think you might, you would probably do an evaluation to see if it was warranted to make that investment to have those tools on your system.

MR. KENNEDY: So why do you split then your projects between ones that are above $50,000 and ones that are below $50,000?

MR. REEVES: My understanding is that was a requirement of the Board, that they wanted explanations on projects that were above $50,000.

MR. KENNEDY: And would that imply to you that projects that are above $50,000 are considered to be material projects and therefore require a more formal analysis, whether, before the Board approves them or disapproves them?

MR. REEVES: They're more material than the ones that are lesser value, yes.

MR. KENNEDY: There had to be some sort of cut-off and the cut-off was $50,000, okay.

MR. REEVES: For reporting, yes.

MR. KENNEDY: Okay. Could you just turn to **B-59**? Now this is yours, this is rural systems.

MR. REEVES: This is mine, yes.

MR. KENNEDY: Okay. And it's $172,000 to purchase meters and equipment. "This project will provide for an adequate inventory level of various types of meters, instrument transformers, meter test switches and other metering equipment. The customer impact is failure to have adequate metering equipment available, could result in customer hook-up delays. A formal cost benefit study was not required." Do you have a formal policy on the level of inventory that Hydro keeps in, for its meters and instrumentation equipment such as what's being described here as being purchased under this item?

MR. REEVES: We would keep a minimum supply on hand, yes.

MR. KENNEDY: And do you do an analysis on an annual basis of what that minimum supply should be?

MR. REEVES: I would suspect that the meter personnel would look at the turn-over ratios. Some time ago, within the last number of years, the way that the Measurements Canada changed the regulations I would suspect enable us to lower our inventory. At one point in time I think we had to test all meters and now we do compliance sampling and as a result of that I would speculate that our level of inventory probably has gone down from what it used to be. I would suspect they would probably look at that to see what the usage is. There's a number of meters that are coming up for renewal and whatnot.

MR. KENNEDY: Okay. When you say look at it, would it again be more of a qualitative process, intuition or an intuitive process based on their experience or would there be a requirement, as far as you're aware, of them doing some type of formal analysis of what type of inventory levels would be the optimum ones to keep?

MR. REEVES: The person in charge of our metering section, the supervisor, would make that decision in my opinion based on his knowledge and understanding of the system. There's no rigid process that he would have to go

through for that.

MR. KENNEDY: Okay. Just before turning to Harbour Deep for a minute, there's a number of items in the budget which show up under General Properties, I believe, and they relate to the installation of communications equipment in your network. Would that not be in your bailiwick?

MR. REEVES: That's correct. That would be Mr. Budgell who would speak to those.

MR. KENNEDY: So the installation of this equipment, and I'm speaking specifically about the VHF system and the UHF system and the microwave system, they don't have anything to do with maintaining the operation of the transmission lines or the rural property?

MR. REEVES: I'm a user of the ... my staff is a user of the VHF system, but I do not provide that service to Hydro. I am a user. My staff uses the VHF systems to do its maintenance.

MR. KENNEDY: But so who is driving the need for that communications system inside of Hydro? Is it someone other than Transmission and Rural Properties *(sic)*?

MR. REEVES: That's correct, yes.

MR. KENNEDY: Is there someone other than yourself that uses this system?

MR. REEVES: There are other people that use the system. There are, there ... Transmission and Distribution Group. There's also the Generation Group that use it. The Tele Control people also use it. That's actually the people that are ... the IS and T, they also use it because they have to maintain sites around the island.

MR. KENNEDY: And they're in General Properties.

MR. REEVES: And their capital projects is in capital, that's correct, yes.

MR. KENNEDY: Okay. So it's used by all the divisions of the Company?

MR. REEVES: The operating divisions of the Company and there may be some administrative as well for just a couple of vehicles around, delivery vehicles or something. That's it.

MR. KENNEDY: So would you as head of TRO have involvement in setting the parameters of this system or systems?

MR. REEVES: We would indicate to the IS and T staff the coverage areas that is required. If there are any trouble coverage areas on summer transmission lines, we would also advise them of that, but that would be basically our responsibility to provide that information to them.

MR. KENNEDY: So do you send up, if you will, or sideways or whatever way the hierarchy works from within Hydro, information concerning cost elements involved in your operating the system as is, in other words, the system as it stood before a new one gets put in place, or is it just again more of a qualitative, these are the coverage areas that aren't being covered or we're having problems over here?

MR. REEVES: In regard to coverage areas, we would just indicate the areas that we would require coverage and of course that would be known for quite a period of time because it would be along our transmission routes and our distribution systems, and unless we change that in one fashion or another, then there would be no requirement for change. As well, as I just indicated, if through the maintaining of our lines that we know that there's a certain area that is causing us a particular problem, in being able to get back our staff, being able to get back to the energy control centre during outages or switching or whatever, we would advise them of that and then they would take that into consideration. I would speculate that when they go to replace a VHF system they would probably come to some of my staff, because technology is always changing, to see if there's other things that might be available and ask us on that, but that's about what I would call the extent of it.

(2:45 p.m.)

MR. KENNEDY: So the feedback loop, if you will, between the, what is it the, IT ...

MR. REEVES: IS and T.

MR. KENNEDY: IS and T Division and then the TRO Division is done on a sort of a level below yourself and it would be an informal one, would it?

MR. REEVES: Probably when they would be going for their ... you say formal or informal?

MR. KENNEDY: Informal.

MR. REEVES: I would venture to say that most of the coverage difficulties that we have would be conveyed to them most like informal, and, you know, or in writing, but the liaison would be initiated in the IS and T Department to our section for the replacement of the systems.

MR. KENNEDY: So the actual final determination of what new system to implement, that would reside with the IS and T Department of the General Properties Division of Hydro.

MR. REEVES: That's where the overall decision would be made, yes.

MR. KENNEDY: Okay. I'd like to talk to you for a minute about the diesel generation in some of the rural areas of the island and some of the aspects of your capital budget

dealing with that, and what I'd like to turn to is the **B-43**. Now, to assist us with all of this, I've made copies of an excerpt which I believe all counsel have now of a diesel chart data of November 2000, and I believe the witness has one. If he doesn't, I can certainly pass another one ...

MR. REEVES: If I could have one, please. I don't have one.

MR. KENNEDY: Okay. Here's four for the panel and one for the witness. Now, we should label this, I guess. As this was previously filed as part of Newfoundland and Labrador Hydro's 2001 capital budget application, I guess in the fall of 2000, with the consent of counsel I was going to call it Consent Document No. 4.

EXHIBIT CONSENT NO. 4 ENTERED

So, Mr. Reeves, as I understand it, this document, this **PUB-43.0**, 2001 NLH Capital, page two of five, was the diesel chart data, it says, "As of November 2000." So this is all of Hydro's diesel units for these particular areas as they stood in November of 2000?

MR. REEVES: That looks to be correct, yes.

MR. KENNEDY: Okay. And this is clearly your, this is your bailiwick.

MR. REEVES: Yes, it is, yes.

MR. KENNEDY: Okay. So in **B-43** it's indicated that you were going to replace 136 kilowatt diesel unit number 278.

MR. REEVES: That's correct.

MR. KENNEDY: Okay.

MS. BUTLER, Q.C.: Mark, are you looking for the one with the markings on it?

MR. KENNEDY: Yeah. Okay. So unit number 278, 136 kilowatts, bought in 1975, with, you project 93,000 operating hours by the end of 2002, is going to be replaced. Now one of the questions I had there was according to your diesel chart data, that same unit had 92,500 engine hours as of the end of November 2000 and you're projecting it'll have approximately 93,000 hours by the end of 2002.

MR. REEVES: Yes.

MR. KENNEDY: So it only put on 500 or less hours in the 12, or 11 months since the filing of this diesel chart data?

MR. REEVES: And what we say here, we are approximating 9,300 hours by the end of 2002, and at the time it had 92,500 and this would have been filed, was it last year as well?

MR. KENNEDY: November of 2000.

MR. REEVES: Yes, yeah, that's correct.

MR. KENNEDY: So ...

MR. REEVES: So this unit here we saw it getting very little use over this period of time.

MR. KENNEDY: So I guess then it never got any use, so why would you replace it?

MR. REEVES: Well, the point about it is is that this unit is not getting a great amount of use but it means that the other two units are, and what we want to do is to have a graduated replacement program of our units and keep the units down to a normal, I guess, overhaul schedule, and this one here, as you can see, got six overhauls on it. We would like to be able to replace all of our units before we get into the sixth overhaul, after the fifth overhaul, and this was one of them.

MR. KENNEDY: Okay.

MR. REEVES: Because the way our planning criteria goes for our diesel plant, is that we can stand the loss of our largest unit and still provide the firm load, so by not using this one very much in a year would mean that we would have to operate the other ones almost continuously.

MR. KENNEDY: Now ... just a second now. Just gathering my thoughts. Okay. Can we go to **B-44**? Okay. Now, on the next item list it shows that, still with McCallum, unit 2027, is also to be replaced, and it was bought in 1989. It's only got 10,000 operating hours on it, and then it says, "The existing 250 kilowatt unit will replace an obsolete unit in Harbour Deep coincident with the plant upgrade in 2002." So you're buying two new units for McCallum and then one unit that you bought 12 years ago, you're moving up into Harbour Deep.

MR. REEVES: That's correct, yes, because there's still attributable life left in that machine.

MR. KENNEDY: Sure.

MR. REEVES: And this year we're upgrading the facilities at McCallum and I think there was, my recollection is that the load profile was looked at and the actual generation was not well suited to the community and the unit that was here, which was, I think, a little larger than it needed to be but it would fit somewhere else, so that's what we did.

MR. KENNEDY: Okay.

MR. REEVES: Try and ...

MR. KENNEDY: And I follow your argument that in the case of unit 2027 with 250 kilowatts, the 250 kilowatt unit, you're suggesting that the load profile indicates that 170 kilowatt diesel generating unit is sufficient, and my understanding, and you can correct me if I'm wrong, is that you try to match your diesel unit to the load because it's more efficient then. Is that correct?

MR. REEVES: That's one of the reasons, yes, yeah.

MR. KENNEDY: Okay. But in giving the reason for why you were replacing unit 278, you said, well, it's because the other units are being used so much. So if you're buying a new unit to replace 2027, why would you also be replacing 278?

MR. REEVES: I missed your point there, use too much ...

MR. KENNEDY: Okay. In the case of unit 278, we saw that as of the end of November 2000 it had 92,500 hours.

MR. REEVES: Yes.

MR. KENNEDY: According to your **B-43** sheet it was projected to only have 93,000 hours.

MR. REEVES: Yes.

MR. KENNEDY: So, and I asked you, well, if it's only being used hardly at all, why replace it, and you said, well, it's because the other units are being used so much.

MR. REEVES: Well it's not ...

MR. KENNEDY: But if one of the units that's being used a lot is now going to be switched out, doesn't that take away the reason for why you would need to replace this unit that's not hardly being used at all?

MR. REEVES: But the one that will go in will be used just as much and, as I also indicated, that this unit has six overhauls on it and the criteria that we consider is the number of overhauls and, as I also indicated, that we try to keep to five. We also use other things like number of hours, the age of it, the availability of parts, etc. So by moving one unit from McCallum to Harbour Deep still means that the new unit going into McCallum will have to be used just as much as the old one. What we try to do ... and you have to have units available in the eventuality of a failure.

MR. KENNEDY: Okay. Let's just talk about that for just a minute before we break. You just indicated that you try to keep it to five major overhauls.

MR. REEVES: That's what we try to do right now, yes.

MR. KENNEDY: Okay. And you said you look at the number of hours?

MR. REEVES: That's another thing that we consider, yes.

MR. KENNEDY: And you look at the date of its, the service date?

MR. REEVES: That's correct, of how old it is because the age of it would determine the availability of parts.

MR. KENNEDY: And what other criteria do you look at?

MR. REEVES: Probably if, well it is filed in **NP-184**, in the document. I can read off that. It's on Table 4-6 (phonetic) and this is our criteria where we went out for a survey of the other utilities, and (inaudible) for Hydro says, "Based on the combination of age, running hours and major overhauls." That's how we replace our units, and what I've outlined to you are the three conditions.

MR. KENNEDY: Okay. Could we go back, Mr. O'Rielly, to **B-44**?

MR. REEVES: This one is ...

MR. KENNEDY: Yeah, I understand. We'll keep excerpts up, Mr. O'Rielly, unless I ask you to move them. So in the case of these units that you replaced, was there a cost benefit analysis completed then, because it's indicated that there wasn't one done in any of these filings regarding the replacing of a diesel engine, a diesel unit for any of these locations, McCallum, Grey River, Harbour Deep, Petit, Williams Harbour, Black Tickle, Rigolet? I counted up ... you may know better than I did but I counted up seven diesel units that are scheduled to be replaced.

MR. REEVES: They were listed in one of the RFIs. I think you're approximately right.

MR. KENNEDY: Okay.

MR. REEVES: I won't ...

MR. KENNEDY: And they have hours on them from anywhere from 86,500 to 108,000. Their in service dates are anywhere from 1974 to 1978, and the overhauls are anywhere from five to eight.

MR. REEVES: That's correct.

MR. KENNEDY: So it leaves me with the impression that there's again a fair amount of latitude that Hydro uses in determining when it's going to revolve out a diesel unit.

MR. REEVES: Well I guess it's probably fair to say that over the last couple of years we have been concerned with the number of failures that we've been getting in service of some of our older diesels and when that happens in the middle of a winter in a community that's on the isolated, you know, coast of Labrador, where we have to fly in parts, if we are able to do that, to fix it, if we're unable to do that we'll have to look at other ways to get generation in there. We adjusted our criteria for replacements and went with what I just mentioned to you a minute ago, and from a survey that was done, I think we're fairly in line with what other utilities are doing.

MR. KENNEDY: Okay, but what I'm asking you, Mr. Reeves, is, was there a cost benefit analysis done in determining whether a particular diesel unit should have been or should be revolved out so that it should be included in the capital budget or is this again a sort of a qualitative intuitive measurement being conducted by you

or someone else within the Hydro organization making that call?

MR. REEVES: There wasn't a cost benefit analysis done on each unit. It was done using information, history that we've had on failure rates. It was done based on survey information that we would have received from other utilities, and now that we've got a criteria set, then we wouldn't see doing a cost benefit analysis on each unit as it came up for replacement.

MR. KENNEDY: But if your criteria is you don't like to see them go above five overhauls, then you're not following that because some of them are up to seven or eight overhauls.

MR. REEVES: But that would have happened before we changed the criteria to five and now what we're trying to do is to get caught up, as I can say, and to replace a number of units each year to do that.

MR. KENNEDY: Okay. So, and so what was ... was there a cost benefit analysis conducted to determine whether you should be switching them out now at five instead of waiting till they're seven or eight?

MR. REEVES: No, there wasn't, and as I indicated a second ago, again it would be a bit difficult. Some of the factors would be easily, easy to determine. It's like your person with the older vehicle. If you're driving around town, if your car fails on the street in St. John's, while it's going to be a real inconvenience, at least you're going to get home that night, but if that konks out halfway between here and Grand Falls in the middle of the winter in a snow storm, it's a little different, and I don't think you or me would want to be driving an old clunker across country in comparison to here in St. John's. What we have to deal with is that we have customers in our isolated communities who rely on us for electricity and what we were finding is that our units were causing us problems at peak times and therefore it would be more costly to fix.

MR. KENNEDY: I'm not disagreeing with you there, Mr. Reeves. I suppose just to add one more point though before we break, the person with the clunker car, they wouldn't be probably as inconvenienced though if they were towing around a second car right behind them that they could jump into in the event that their first car broke down, correct?

MR. REEVES: You're right, but ...

MR. KENNEDY: And isn't it true that in the case of each of these diesel plants that there's built in redundancy in each of these so that if one of the diesel units does drop out, that you have the capacity to be able to carry the load for that community immediately?

MR. REEVES: We have the capacity and that's so that our customers won't be with an outage, but if this happens in November, our unit fails, are we going to wait till next spring till we can ship another one in? I don't think so. That's not, in my opinion, good customer service.

MR. KENNEDY: This is a good time to break, Chair. Thank you.

MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr. Kennedy. Thank you, Mr. Reeves. We'll reconvene at 3:15.

(break)

(3:20 p.m.)

MR. NOSEWORTHY, CHAIRMAN: Thank you. When you're ready, Mr. Kennedy, please? Mr. Reeves.

MR. KENNEDY: Mr. Reeves, I wonder if we can just deal with the Harbour Deep issue again for a minute. I know that's been, I wouldn't suggested flogged to death or I wouldn't be asking the question, but I know it's been raised a number of times. And I guess the best place to start with is maybe **B-44**. No, let's start with **B-57**, sorry. And we've seen this already so we won't go through it line-by-line. It involves the, if I'm understanding correctly, the upgrade of the diesel plant, meaning the building or the facility that houses the units themselves, correct?

MR. REEVES: That's correct.

MR. KENNEDY: Okay. And the cost of doing this is $515,000?

MR. REEVES: That's correct. Well, $35,000 and $515,000.

MR. KENNEDY: Right, sorry. And the $35,000 was, I'm presuming, approved as part of the 2001 capital budget?

MR. REEVES: Which would cover our engineering costs, that's correct.

MR. KENNEDY: Right. And so what's being sought here is for approval to spend a further $515,000 to actually complete the upgrade itself?

MR. REEVES: That's correct.

MR. KENNEDY: Okay. Now, in the cost benefit study section it says, "An evaluation was completed to compare the proposed project with an interconnection of Harbour Deep to the island grid. And the proposed project is significantly more cost effective than the interconnection option which had an estimated capital cost of approximately $4 million." So I'm just going to ask you a series of really stupid questions now about the process that Hydro would have gone through in determining whether to connect Harbour Deep to the island grid so that it became part of the interconnected island electrical

system. And just leaving aside, for a moment, the number of people living in Harbour Deep and whether there will or will not be a community of Harbour Deep in the future. And I suspect someone from Harbour Deep may read the transcript eventually, so you don't want ... the rumours of their demise may be greatly exaggerated. But, from a layman's perspective, layperson's perspective, you know, when you look at the map of Newfoundland and you look at Harbour Deep you see that it seems to be somewhat equidistant between Cat Arm and Roddickton. And I guess, again from a layperson's perspective you'd ask yourself, well, why don't you just string a line from Cat Arm up to Harbour Deep or from Roddickton down to Harbour Deep and do that instead of building this new plant and more diesel units because, of course, they're always subject to the vagaries of interruption and it's just not as good as being connected to the island system for cost reasons. So could you just explain to us, first, what options Hydro looked at, and the process that would be entailed within Hydro in making that determination?

MR. REEVES: Yes. For any major upgrades that we would do in any of our isolated diesel plants, and we'll use Harbour Deep as an example, we determined that there's a requirement from an operational perspective and safety perspective that the upgrades were required. We had spent "X" number of dollars to correct those, as we see in this capital budget. What we would do then is that we would communicate to our planning section, Mr. Budgell's section, and say this is what we require. The plant is in requirement for an upgrade. Are there other options that are available to us in place of doing this upgrade? So what Mr. Budgell and his group would do, they would look at opportunities for interconnecting to the least cost option, may not be the shortest cost. This coast up on the Great Northern Peninsula on the east side is a very rugged coastline, not an easy area to build transmission lines or distribution lines, so what they would look at, along with my engineering staff, is the actual least cost option for interconnection to the interconnected grid. Then that would be compared to the cost of doing the upgrade, and this is in simple terms, and then do that over a length of time for sort of the life of the project, and do an evaluation and then come up with the money which is least cost to the customer.

MR. KENNEDY: Okay. So in this case the one that's referenced there, which had an estimated capital cost of approximately $4 million, do you know what that involved, was that a line going from Cat Arm up to Harbour Deep or from Roddickton down to Harbour Deep or across the peninsula or do you know offhand?

MR. REEVES: That is filed, and I'd have to look in the drawing to find out for sure. I don't know ... my recollection is that it goes across the coast, but I'm not sure. But it would be one of three directions. I'd have to look at the documentation. If you'd like me to do that I would do that.

MR. KENNEDY: No, that's fine. I guess ... we'll let's just leave that aside for just a moment and just look at the overall cost of the projects that you have involved in Harbour Deep itself. You've got the plant for $515,000, plus the 35 that you've already got sunk, I guess, if you've got it spent to date. So, $540,000?

MR. REEVES: 550.

MR. KENNEDY: 550, sorry. And we looked at, just a moment ago, the fact that you're replacing unit 2027 in MacCallum, the 250 kilowatt unit with 170 kilowatt unit and you're moving that one up to Harbour Deep?

MR. REEVES: That's correct.

MR. KENNEDY: So, if we could just go back to, I think it's **B-44**. Yeah, this is the replacement of that unit in MacCallum. And it says "Previously 209 and now 55." So, this unit, that sort of seemed the opposite to me of what we usually see. We usually see the small amount of money upfront and the larger amount of money on the subsequent year. So, could you just explain to me why this is reverse?

MR. REEVES: It's basically a timing thing. What we're trying to do is have the unit available to install in Harbour Deep next year when we do the upgrade, and that unit was taken out of service. But, actually, it's probably a commitment for purchasing ... just a second now. So on page **B-43** we're saying that it's the purchase ...

MR. KENNEDY: If you could go to 43, Mr. O'Rielly.

MR. REEVES: No, that's not the one, I'm sorry. I'm on the wrong page there. We're talking about Harbour Deep now.

MR. KENNEDY: Um hum.

MR. REEVES: Which is **B-55** ... **B-57**, sorry. I'm looking for the unit associated with Harbour Deep, which is **B-46**.

MR. KENNEDY: **B-46**?

MR. REEVES: Yeah.

MR. KENNEDY: Okay. **B-46**, please.

MR. REEVES: And what we're showing in **B-46** is $11,000 to be expensed in 2001, and $282,000 to be expensed in 2002.

MR. KENNEDY: Right. And that's to replace unit 284?

MR. REEVES: That's correct, yes.

MR. KENNEDY: Okay.

MR. REEVES: And **B-57** is to spend $35,000 in 2001 and 515 in 2002, so that's we plan to install the unit and do the

major repairs at the same time. So we're spending money on both projects this year to have them available next year.

MR. KENNEDY: Okay. Just let me follow you. The unit in Harbour Deep No. 284, which we have up there now, **B-46**, is $282,000 for this year?

MR. REEVES: If you got to **A-6**, page **A-6**.

MR. KENNEDY: 86?

MR. REEVES: **A-6**.

MR. KENNEDY: Okay. If we go to **A-6**, please, Mr. O'Rielly?

MR. REEVES: You see there's $11,000. You want to point to Harbour Deep there, please? The second-last one in that group that you're at right now, just come over and see the $11,000. So it's $11,000 this year to do the engineering work.

MR. KENNEDY: Um hum.

MR. REEVES: For the relocation. And $282,000 in 2002.

MR. KENNEDY: Right.

MR. REEVES: And then if we go to **A-7**.

MR. KENNEDY: **A-7**?

MR. REEVES: **A-7**.

MR. KENNEDY: Yeah.

MR. REEVES: Power plant. Keep going down, Terry, please? You see that the Harbour Deep got $35,000 in 2001 and 515 in 2002.

MR. KENNEDY: Right.

MR. REEVES: So what we plan to do is to do the engineering on both projects this year and do the installation next year.

MR. KENNEDY: Sure, okay. Let's just go back to the MacCallum one, if we could, which I think was **B-43**? So, just so I ... first of all, just so I understand this one, this was the reverse. So was it a case of you were looking for ... the previous says 220 so previous meaning 2001. So, approval was sought and obtained to replace unit 278 for 2001?

MR. REEVES: That's correct. And the majority of the dollars are in 2001.

MR. KENNEDY: Okay. The 56,000, which is part of your 2002 capital budget?

MR. REEVES: That's correct.

MR. KENNEDY: Is that for moving this ... is that related just to this unit 278?

MR. REEVES: That's correct, yes.

MR. KENNEDY: Okay.

MR. REEVES: And this year in MacCallum we're doing a plant upgrade, as well.

MR. KENNEDY: Okay. Well, just bear with me because I'm trying to speak to Harbour Deep.

MR. REEVES: Okay.

MR. KENNEDY: I'm not so much interested in MacCallum.

MR. REEVES: No, but I just explained it to MacCallum. So what happened is that we bought the units and had them available for the fall of the year. And we anticipate that we'll be doing a change out during the wintertime, so there would be some cash flow into next year.

(3:30 p.m.)

MR. KENNEDY: Okay. **B-44**, I think that's what we're looking for. Yeah, so again, the same thing, you said you bought a unit in anticipation of moving it in in the winter months, okay. And that's why you've got the money for 2001 to actually buy the unit and then ...

MR. REEVES: Do it in.

MR. KENNEDY: ... do the work to actually move it in?

MR. REEVES: Yes. And that way, when we move one of the units into MacCallum it frees up the one that goes to Harbour Deep for next year.

MR. KENNEDY: Okay. So where's the money for moving it from MacCallum to Harbour Deep?

MR. REEVES: That would be possibly ... well, if you replace one of the units in MacCallum in 2001 and finish that job in 2002, my understanding is that the relocation of the diesel would be next year. So the money for relocation would be in 2002.

MR. KENNEDY: So that would be part of your budget application now?

MR. REEVES: That's correct, yes.

MR. KENNEDY: So what I'm asking you is where in those pages is it identified for the money that it's going to cost to move the unit that you're replacing in MacCallum that you're then going to move up into Harbour Deep?

MR. REEVES: That's an operating expense, as I understand it, moving one diesel unit from one location to another.

MR. KENNEDY: So it wouldn't be in your capital budget?

MR. REEVES: Wouldn't be in the capital budget, that's my understanding.

MR. KENNEDY: Okay. Well ...

MR. REEVES: That's my recollection.

MR. KENNEDY: Okay.

MR. REEVES: It would either ... if it's a capitalized expense it would be in one of these budgets that I just highlighted. It may be involved in actually the plant upgrade, if it's a capitalized expense and ...

MR. KENNEDY: So it may be buried in the 550?

MR. REEVES: It may be included in the 550, yes.

MR. KENNEDY: Okay. You say "tomato." Okay.

MR. REEVES: But I'd have to go through the detail on that particular one.

MR. KENNEDY: Sure.

MR. REEVES: It's been some time since I reviewed it, actually.

MR. KENNEDY: Now, just looking at the Harbour Deep, the diesel chart again. Now, as I understand it, the unit mark No. 248, the 250 kilowatt unit that was, I guess, installed or has a manufacturing date of 1974, which is indicating on this Consent No. 4, with 104,000 hours was replaced in 2000? Is that your understanding, as well?

MR. REEVES: I'd have to check right now. Where can I check that to? Keeping track of the diesel units is a ...

MR. KENNEDY: No, I imagine it's ...

MR. REEVES: ... task in itself. We have 23 plants, three units, 75 units, in excess of that.

MR. KENNEDY: Okay.

MR. REEVES: So keeping track of the units is ...

MR. KENNEDY: I'm told, and I'll ask you to accept, that Hydro applied for, was granted and subsequently implemented a capital project which involved the replacement of that unit in Harbour Deep with a new 250 kilowatt unit.

MR. REEVES: In the 2001 budget, right?

MR. KENNEDY: In the 2000.

MR. REEVES: 2000 budget?

MR. KENNEDY: Yeah. So it wouldn't appear in any of the documents, as far as I'm aware.

MR. REEVES: No, none of the documentation here, okay.

MR. KENNEDY: Okay. And judging by the prices that I'm seeing for 250 kilowatt units, that would have entailed something in the order of $200,000? Does that sound about right for a ...

MR. REEVES: I'd have to ... we brought in quite a number of different size units and I'd have to refer to some of the estimates here, if you'd like me to do that.

MR. KENNEDY: Well, I'm looking at the 170 kilowatt units costing $209,000 plus $55,000.

MR. REEVES: Yes.

MR. KENNEDY: So, I'm just trying to take a safe number and say $200,000.

MR. REEVES: I could accept that.

MR. KENNEDY: So in the year 2000 there was a further, at least, $200,000 expended at Harbour Deep to replace the 250 kilowatt unit. So adding that up, it comes to just about $1 million? $550,000 for the upgrades to the plant ...

MR. REEVES: That's a good approximation, that's correct.

MR. KENNEDY: Okay. $1 million. Now, is it Hydro's intention to maintain four units in Harbour Deep?

MR. REEVES: Some of these locations we have ... now, my recollection on Harbour Deep, and I don't know the details that's here available that I can look at to see if we're going with three units or four units. My memory serves me right, we're going with three units instead of four.

MR. KENNEDY: So one of these ...

MR. REEVES: So what we would have looked at is the actual consolidation of the units in regard to load patterns that would be there.

MR. KENNEDY: So we know that unit 284 at Harbour Deep is being swapped out with unit 2027 from MacCallum, so that's 250 kilowatts?

MR. REEVES: That's right, yes.

MR. KENNEDY: We know that unit 248, or at least I'm asking you to take us back that unit 248 was ...

MR. REEVES: It was replaced, yes.

MR. KENNEDY: ... swapped out with the 250 kilowatt unit?

MR. REEVES: Yes.

MR. KENNEDY: And so I guess the issue is are units 280 and 225 staying in Harbour Deep?

MR. REEVES: Well, my recollection is that one of them is coming out, and right at this point-in-time I can't tell you which one. And that would be done at the time of the overhaul. I'd have to check on the records for that.

MR. KENNEDY: Okay. So ...

MR. REEVES: It would most likely be ... probably be the one with the six overhauls, but ...

MR. KENNEDY: Okay. And would that be an additional cost, as well, would that be an additional cost to remove

one of those units if, in fact, it was going to be removed?

MR. REEVES: Well, that particular one there would be a cost of disposal, primarily, that's it.

MR. KENNEDY: Okay. Would you be able to, for tomorrow, confirm what Hydro's plans are at Harbour Deep regarding the number of units that you intend to keep there?

MR. REEVES: Yes, I will.

MR. KENNEDY: Okay. I won't take that as an undertaking, I'll just ask the witness tomorrow. So, let's just say we have $1 million that is going to be spent on Harbour Deep. Let's go back to the number of people that are there first. There's 50 odd, as I understand, 50 odd people living in the community. Would it ... and again, I'm just sort of trying to ask and get to Hydro's considerations in making determinations of whether it includes something in the capital budget. There's 50 people there and Hydro intends to spend $1 million. That's $20,000 per person in the community, so would that enter into the issue about whether this amount of money is warranted to be spent by Hydro?

MR. REEVES: Where it would come in our conversation is if we knew that there was a possibility of the Harbour Deep community being discontinued, then we would try to avoid capital expenditures as much as we can.

MR. KENNEDY: Let's just say that they were ... that there's every indication that they intend to stay there as 53 people?

MR. REEVES: Then we would look at installing capital expenditures in that community to maintain the service for the residents of that community. Yes, we would do that at the least cost and as reliable as we could do that, and what we found to date is that the diesel option is the preferred option.

MR. KENNEDY: No, I understand that. I guess the question was, it's $1 million for 53 people. So is it at any cost that you provide the power to a community like Harbour Deep? If there's still going to be only 53 people there, from every indication, forever and a day, what if it would have cost $5 million to build a plant in Harbour Deep, would Hydro still do that?

MR. REEVES: It's not at any cost, but there is a cost associated with providing the service in all of our isolated communities. It is a subsidized system, as we all know, unfortunately. But we have to provide a service that is reliable to our customers, and that's not an option that we have. We do that in the least cost method that we can find, and when we do these projects we do it in such a manner that we do it least cost. We've got a lot of experience in this, we've been at it for quite a number of years. And through the experience that we've gathered, we have selected the options which we feel best to serve the people in that community. Unfortunately, it does cost big dollars.

MR. KENNEDY: Okay. I just ask the question again, though, and just so I can understand. And if it's an unfair question let me know, but what I'm asking is, is that at any cost? In other words, is there a number where it becomes unacceptable or is it just a case of you just try to find the lowest possible cost and then whatever that is, well, that's what you have to spend?

MR. REEVES: It's not at any cost because, well, this one right here, I don't know what you would call at no cost, because this is $1 million, it's a significant investment for Hydro, but it's a cost that has to be incurred if we are going to provide service in that community, and we don't dictate whether we provide service to those people in that community. That's not our determination to make. And once the community is there we have to continue to service it, and we have to continue to service it in such a manner that we feel will be the least cost at reasonable reliability.

MR. KENNEDY: So, there's the issue again though, isn't it, about reasonable reliability. And so, what I'm going to ask you is in the determination of whether to ... you know, how much money to spend in Harbour Deep, irrespective, again, of whether the community is going to be there or not in the long-term, in determination of how much money to spend in Harbour Deep, where is the threshold for how much money to spend in Harbour Deep in trying to provide a reliable service?

MR. REEVES: But, the option to not maintain our equipment in there in good reliable condition is, in our opinion, a more costly option. These communities are not easily accessible. If we have outages in the middle of the winter, as I explained earlier on ...

MR. KENNEDY: I understand that, but there ...

MR. REEVES: But that is a cost, as well.

MR. KENNEDY: I understand that, Mr. Reeves, but they're hypotheticals that you're giving me that if there was an outage, and I guess what I'm asking you is, in the case of Harbour Deep, was there an analysis done using the (inaudible) statistics to determine whether the number of outages in Harbour Deep were at an unacceptable level and therefore warranted the improvements in the building? For instance, the transfer of the 250 kilowatt unit from MacCallum to Harbour Deep, the replacement of a 250 kilowatt unit in the year 2000, was there an analysis completed to determine wether these expenditures were warranted in relation to the (inaudible) statistics?

(3:45 p.m.)

MR. REEVES: On this particular plant, no. For this particular upgrade there was more things to consider than that. There was the safety issues in the plant for the maintenance of our workers, there was the ...

MR. KENNEDY: I'll just interrupt you. Instead of saying more, there were other things to consider?

MR. REEVES: Yes, that's correct.

MR. KENNEDY: Okay.

MR. REEVES: Which is the safety issues for our employees. There's the effect of being able to maintain the units. There's also the potential of if the units are not maintained then it would be more costly to maintain them. We will have, as we used the example before, we will have old clunkers in there, equivalent to your car that you ... the example that you used. If you have ... you can manage to have a little older unit in there, provided the other two ones are in good shape, but you can't go on very long like that because what will happen is that one of the main ones will fail and then you'll rely on this older unit and that hasn't got a lot of life left in it, and that may fail. So once you get into the second outage then you're not able to provide service to your customers. You have to curtail your service to your customers, and if this happens in the middle of the winter, which it most often does happen, then you're into a real serious situation in these communities, which we can't tolerate, as a service provider.

MR. KENNEDY: Okay. But in the case of Harbour Deep, you've got two new 250 kilowatt units there, and the peek demand for 2002 is projected to be 274 kilowatts, and that would be a winter peak. So even in the winter if you have even one of your 250s and one of your 136 units running you're going to be more than able to fully satisfy the load in Harbour Deep?

MR. REEVES: But we take two units, but if you lose one you'll need the other one to service it.

MR. KENNEDY: Sure.

MR. REEVES: And that's where it comes in. No matter if it's only for five kilowatts you still need that second unit.

MR. KENNEDY: Okay. So am I gathering correctly, then, again, that in the case of Harbour Deep, in the judgment ... in the decision, sorry, of how much money to spend in Harbour Deep and what to put into Harbour Deep by way of improvement and new units or refurbished units or what have you, that it was again, a more of a qualitative assessment of the decision of the factors and that you use some intuition and experience from the field in determining what was an appropriate thing to do, having regard to all the factors that you just listed, the safety factor and the maintenance factor and so on?

MR. REEVES: I don't think it was all quantitative. We know that if we don't maintain our units we are going to have problems, we are going to have outages. We have experienced it in the past. We now realize that we had to change our criteria to overcome these major failures in the middle of the winter. Before we actually changed our criteria we went out and surveyed the other utilities and in actual fact we are still higher than some utilities in the replacement criteria compared to what they do. We know it's an expensive, it is a very expensive business that we're into in the (inaudible) communities, but we are on the upper level of replacement, so we're not at the lower level of replacement. So we are balancing off our good judgment, our past experience and with consideration to the reliability of the customers that we serve to make these decisions.

MR. KENNEDY: Okay. So, Mr. Reeves, when I went through all of these pages in this Schedule B, I counted up a total of 68 projects that's listed that were above $50,000, and as I think we stated at the beginning, that totals for the year 2002, just disregarding the future expenditures that are going to be required that arise from this of $33,297,000 and a total budget, as we know, of $48 million. Now, I'm presuming that in the case of the projects under $50,000 there wouldn't have been a cost benefit analysis completed?

MR. REEVES: In most cases that's not ... that's true.

MR. KENNEDY: Now, of all the ones in this Schedule B, I only found two which said that there was a cost benefit analysis actually completed. There was **B-10** and there was **B-57**. **B-57** we just looked at, that's the plant and the process of moving a line up to or down from wherever to feed Harbour Deep?

MR. REEVES: And **B-10** is (inaudible).

MR. KENNEDY: There we go. I don't think I'm going to try to say that.

MR. REEVES: And there it's spelled correctly, (inaudible)

MR. KENNEDY: (inaudible). So, of the 68 projects above $50,000 totalling $33 million two have a cost benefit analysis completed and those two projects total just over $2 million. So ...

MR. REEVES: Can I take us to some of my projects, then, to explain why that is the case?

MR. KENNEDY: Well, okay. Let me just conclude by saying that from a layperson's perspective you can appreciate that that would seem to be an awful lot of money that Hydro is going to spend without having conducted a cost benefit analysis for the vast majority of it, like 95 percent of your capital budget is being proceeded with without a formal cost benefit analysis being completed?

MR. REEVES: Well, I don't necessarily agree with that. If you go to page **A-5**.

MR. KENNEDY: Go to **A-5**, Mr. O'Rielly.

MR. REEVES: The middle of the page, "System Security". Keep going up. There you go. In those the first two items under "System Security" which is the upgrade of TL 242, 230 kV Holyrood to Hardwoods, and the second one TL-436, which is 230 kV from Hardwoods to Oxen Pond. I think the first time that we brought these Avalon upgrades to this Board, I think it was 1997 which was the first time, we had a very extensive report. You may or may not have seen it, but that took up most of the hearing at that particular time. And in that there was a feasibility study done, as well as all kinds of other options that were in there in there, so that expenditure of $13.6 million, in my opinion, is covered by a feasibility study. We didn't include it in this capital budget because the Board had already approved the concept before, so that's one I would like to point out.

MR. KENNEDY: Um hum.

MR. REEVES: If you go to the next number of items, "Replacement of Insulators," same page. Replacement of insulators on TL 226 for a half million dollars, 229 for a quarter of a million dollars, 211 for 145, 228 for 570, this is straight replacements. You need insulators on the line. There's no need to do a cost benefit analysis. With the analysis that we do is an engineering evaluation to ensure the product that we buy to replace what's there is the right one to go there.

MR. KENNEDY: These are the insulators that proved to be defective, I think ...

MR. REEVES: Exactly right.

MR. KENNEDY: ... and all the utilities got caught on this one?

MR. REEVES: Exactly. So we didn't see the need of doing a cost benefit analysis. It's required to be done, but it's substantial dollars. I would say all of the items in this $15 million, even on TL-203, there was a study done on that which was presented to this Board before, so the $15.6 million have been covered by studies before.

MR. KENNEDY: Okay.

MR. REEVES: Or the need is not there.

MR. KENNEDY: Okay.

MR. REEVES: And if you go to the rest of our budget a lot of our budget is replacement of what's there. You don't need a feasibility study to determine if you need to replace it, that's what we say. What we do is in the replacement of that we've determined that it's already required. It's there, operating. What we do, as part of our evaluation, when we go through the engineering process in doing the capital job cost we look at the best option to put there, the most economic option to put there to achieve the best results. Again, it's not the type of study that's referenced in these.

MR. KENNEDY: Okay. Let's just, if we could, go back to the gas turbine document, then, if we may, Consent No. 3? And as we indicated, I think, before lunch, this was a document that Newfoundland Power filed and then the subsequent responses that Newfoundland Power provided, including this Salt Pond gas turbine relocation project document that was attached relating to just the relocation of a gas turbine at a project cost of $1.7 million, and I guess what I was going to ask was do you think it's fair to suggest that this is a fairly expensive analysis of the business issues involved in the relocation of a gas turbine, both from a perspective of how that's going to impact on the reliability of the system from where it's being removed, and also to where it's going, as well as the different alternatives that were explored in looking at different alternatives for how this may be resolved or addressed, and that much of this is missing from the projects that Hydro has in its capital budget, irrespective or the system security and reliability improvement, the ones that you just pointed to?

MR. REEVES: You're right.

MS. GREENE, Q.C.: Before ... I would ask the Board counsel to indicate what percentage of the projects in Newfoundland Power's 2002 capital budget, how many projects there were, how many of those were supported by a formal cost benefit analysis? Because the impression he's leaving is that they all were.

MR. REEVES: Like, what I was going to say is that this is to move a gas turbine from one location to the other. We don't have that ... basically either similar project in our capital budget like that.

MR. KENNEDY: Well, except for the diesel engine that's going from MacCallum to Harbour Deep?

MR. REEVES: That's not similar.

MR. KENNEDY: Okay.

MR. REEVES: What we're doing there is that we're optimizing the size of our units for the best locations of where they can be used for the most efficient use of those particular units. We have a service to provide in MacCallum, we have a service to provide in Harbour Deep, and what we're trying to do is take best advantage of the equipment that we have and that we are going to buy to provide the most reliable cost effective equipment. When we brought forward a $55,000 job here back in 1997 we had a much thicker report than this. And I don't want to compare thickness, but we brought forward the issues

which were associated with that. When we had the lightening (inaudible) I think we brought forward a similar one. So, we don't have, in here, a similar project. I would venture to say, and I did a very quick perusal of the Newfoundland Power budget after we received it, I would venture to say that their replacement insulators do not have a cost benefit analysis similar to this one. It's not required.

MR. KENNEDY: Uh hum. Mr. Chair, that sort of concludes that area of questioning and it would probably be an appropriate time to break until tomorrow.

MR. NOSEWORTHY, CHAIRMAN: Thank you, very much, Mr. Kennedy and Mr. Reeves. We will conclude the hearing for this afternoon and reconvene at 9:30 tomorrow morning. Thank you.

(hearing adjourned to October 4, 2001)