

1 (9:30 a.m.)

2 MR. NOSEWORTHY, CHAIRMAN: Thank you, good
3 morning. I just express my appreciation, I guess, for
4 yesterday and your understanding of the situation and
5 welcome our colleague, Ms. Whalen, back, and I
6 understand while she's feeling a lot better certainly than
7 she looked yesterday, she is not 100 percent and I've been
8 put on notice that she's going to do her best and that's the
9 only commitment that I have, so we'll just have to see what
10 happens during the day.

11 I guess at this point in time I'd ask Ms. Greene, she
12 was going to comment yesterday, I think, on, give us some
13 direction perhaps on Mr. Powell's, Commissioner Powell's
14 questions, so I'll ask her to do that at this time.

15 MS. GREENE, Q.C.: Thank you and good morning. I
16 believe there were essentially three information requests
17 from Commissioner Powell yesterday afternoon, and I'll
18 speak to the three of them this morning. I'll deal with the
19 easiest one first probably. With respect to the request on
20 the bad debt category, we will be filing a schedule to show
21 the percentage of the rural revenue that the bad debt is.
22 That isn't ready today but it will be filed next week.

23 The second information request related to the
24 impact of the payment of dividends on Hydro's financial
25 structure, and I would draw attention to **IC-66** revised.
26 Subsection (d) of the question asked Hydro to indicate
27 what the capital structure would have been for 2002 if no
28 dividend had been paid. On page two of two of **IC-66**
29 shows what the capital structure would have been without
30 the payment of any dividend from '96 to 2002, so I think that
31 would answer that question.

32 The third area of inquiry related to isolating the
33 impact of the increase in fuel prices, from the time the base
34 rates were last set in '92 to the proposed 2002 test year, and
35 what we will suggest here is that we will file a schedule
36 showing each of the major categories of expense for 1992 as
37 set in 1992, which is the basis for how the current base
38 rates were established. We will then leave all of those
39 major categories of expenses the same except for fuel, and
40 from that you'll see the impact of the change in fuel at \$20
41 a barrel and at \$28 a barrel. All other items would remain
42 the same. So it isn't ... it wouldn't be appropriate to
43 compare it to what we filed for 2002. All we'll do is take '92
44 data and change fuel to \$20 a barrel from \$12.50 that was
45 used in the base rates then and also reflect for \$28 a barrel.
46 The other thing we will do, because that will only isolate
47 what it would have been back in '92. It will not reflect the
48 other changes we are proposing in the application such as
49 the cost of service methodology changes that are being
50 proposed. So the second schedule we will file will take the
51 percentage increase, what we're looking for overall, and will

52 show the components of that increase by major category,
53 so we can see how much fuel contributes to the increase of
54 6.7 percent for Newfoundland Power. We will see how
55 much the increase in operating and maintenance expenses
56 contributes to the increase. So that I think will give a
57 picture of the relativity of the fuel category of expense and
58 how that has changed over the past ten years. So that we
59 will file next week as well and Mr. Osmond will be the best
60 witness to speak to that in terms of details as opposed to
61 Mr. Wells.

62 So that is what we'll ...

63 COMMISSIONER POWELL: It sounds okay. That's ...
64 looking for the schedule is more anticipation of Mr.
65 Osmond's testimony and I only brought it up because it
66 was an issue during Mr. Wells and I thought if I could have
67 that prior to, we could maybe illuminate some of the issues
68 surrounding the margins of the increase in fuel price.
69 Thank you.

70 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,
71 Ms. Greene. I'd ask now Commissioner Saunders to begin
72 his questioning. Good morning, Mr. Wells.

73 COMMISSIONER SAUNDERS: Thank you, Mr. Chair.
74 Good morning, Mr. Wells.

75 MR. WELLS: Good morning.

76 COMMISSIONER SAUNDERS: How are you?

77 MR. WELLS: Oh, fine, thank you.

78 COMMISSIONER SAUNDERS: You're getting tired by this
79 time, no doubt.

80 MR. WELLS: No. The alternative, I know what that would
81 be too.

82 COMMISSIONER SAUNDERS: Would you agree that one
83 of the most significant events to have taken place since
84 your application was filed were the events of September the
85 11th in the US?

86 MR. WELLS: I would accept that.

87 COMMISSIONER SAUNDERS: And its impact on the
88 economy generally, would you consider that to have been
89 of some major significance?

90 MR. WELLS: It appears it will be a major impact on an
91 economy that was already suspect.

92 COMMISSIONER SAUNDERS: Yes, that was already
93 suspect. I think in a document that's on file you indicate
94 that you deal with an agency in New York with respect to
95 long-term oil price estimations, projections.

96 MR. WELLS: That's correct, yes.

97 COMMISSIONER SAUNDERS: Yes, and I forget the name

1 of that firm.

2 MR. WELLS: Pira, P-i-r-a.

3 COMMISSIONER SAUNDERS: Pira, that's right. Has there
4 been any consultation between Hydro and Pira with
5 respect to long-term energy prices as of September 12th?

6 MR. WELLS: I can't say yes or no to that. Not to my
7 knowledge because I've been involved this week in the ...
8 whether our people back in the office have been consulting
9 with our consultants, I'm not sure. They may well have but
10 I don't know personally.

11 MS. GREENE, Q.C.: Mr. Henderson will be able to speak to
12 that when he comes. He's responsible for ...

13 COMMISSIONER SAUNDERS: I realize that. I'm just
14 wondering because this application, as you have stated, is
15 a very important one for Hydro, and on a couple or three
16 occasions during the course of your cross-examination
17 particularly and during the course of your direct
18 examination, you alluded to the fact that the cost of No. 6
19 fuel was the most significant factor having to bear on the
20 various requests that you've made to the Board with
21 respect to rates. Is that fair?

22 MR. WELLS: Yes, oh definitely.

23 COMMISSIONER SAUNDERS: That being the case then,
24 would you not have explored as the CEO of Hydro what
25 impact the September 11th events are going to have on
26 your long-term forecast? I think that's a pretty fair
27 question.

28 MR. WELLS: It's a fair question of Hydro if, what are we
29 doing since those events. Whether ... what I've been doing
30 is following the commentary, and we know that right after
31 the event there was a spike in prices, and now as the
32 results of the economic impact on top of what I said was an
33 already suspect economy and that oil consumption is
34 going to go down and we've now seen it drop
35 substantially, which was not what was predicted by people
36 immediately following September the 11th ... I mean in the
37 next 48 hours after that people were looking at higher oil
38 prices. Now we're looking at a prospect of lower oil prices.
39 For instance, you read that Air Canada has grounded 70
40 planes. That's one airline putting down 70 planes. That's
41 a huge ... I mean, these are huge factors, plus all the layoffs
42 we're hearing about, the general lack of confidence,
43 especially in North America by consumers, in the economy,
44 and we're getting the banks now making statements about
45 our projected growth.

46 COMMISSIONER SAUNDERS: Bank of Nova Scotia, for
47 example ...

48 MR. WELLS: Yes.

49 COMMISSIONER SAUNDERS: ... said this morning that ...

50 MR. WELLS: That's right.

51 COMMISSIONER SAUNDERS: ... 2002 or the middle of
52 2002, this recession is going to continue until that time.

53 MR. WELLS: Yes. Now I am sure that the people in Hydro,
54 particularly one person, who does our economic forecasts
55 and looks at the issue of prices is tracking these events,
56 and, but we are not in a position any more than anybody
57 else to be able to provide, other than an opinion ... nobody
58 knows, as I said to the Consumer Advocate, I said it was
59 the most honest answer, I didn't mean the veracity of my
60 testimony. What I was trying to say was that everybody
61 would accept that answer without hesitation because
62 anybody who did say that they had any idea where fuel
63 prices was going, we would have identified a fool amongst
64 our midst. Nobody knows and today it is really uncertain.
65 The only other thing I've read is that OPEC is looking at the
66 situation. We had known that OPEC would like to keep the
67 price for crude around \$25 US. They don't control price.
68 The market controls the price. What they control is the
69 supply and demand, which if they think that the price is
70 going too low for their liking, they can short production
71 and try to manipulate the price, and that's what we're
72 seeing. So the issues, I think, for Hydro and for the
73 Commission at this, as this unfolds, is that the good news
74 for all of us would be that the price of oil trends down
75 beyond what had been forecast with respect to the rate
76 application and that would help reduce the balances in the
77 Rate Stabilization Plan and would be very beneficial to
78 everyone, and we can, if you ... we're not in a position yet
79 to make some further statement on fuel prices but we can
80 look at it in the usual way. I'm sure that, as I said, that there
81 are people back in the office in Hydro who are following
82 this now. We have not thought at this point, certainly not
83 in respect of the application, to make another forecast at
84 this time.

85 (9:45 a.m.)

86 COMMISSIONER SAUNDERS: Do you consider what
87 happened on September the 11th and its impact on oil
88 prices to be merely a blip on the screen?

89 MR. WELLS: No, I don't think so.

90 COMMISSIONER SAUNDERS: So you do believe that or
91 you do agree it's got some long-term impact.

92 MR. WELLS: Well, it's just a personal opinion. I think that
93 this is sort of an unprecedented situation. The type of
94 situation we're in, as President Bush refers to as a war, you
95 know, in history when we, other than the Vietnam ... but the
96 Second World War, we knew we were into it for a few years
97 and you could see what was going on, and the type of
98 situation we appear to be in now, nobody can predict.

1 There's no way you can mobilize your forces and confront
2 the enemy and have a victory or defeat. This is a long-term
3 thing and the effect, and we don't know where it's going, so
4 I don't know if my opinion is any more helpful than
5 anybody else's in this situation, but I take it from your
6 remarks, Commissioner, that you would like us to once
7 again review, you know, constantly review the issue with
8 respect to fuel and provide the best information we can as
9 a forecast?

10 COMMISSIONER SAUNDERS: Well, I guess the point I'm
11 making, Mr. Wells, is that when you made this application
12 back in the spring, the economy was more predictable, if
13 you like, in terms of what was going to happen to oil prices,
14 but we've had a major occurrence that has affected oil
15 prices in a week or in a few days to the tune of something
16 like 20 percent.

17 MR. WELLS: Yeah. First up and then down, yes.

18 COMMISSIONER SAUNDERS: Yes. And I think today it's
19 somewhere around \$22. I may be wrong about that but I
20 didn't check it this morning.

21 MR. WELLS: Neither did I, not this morning, no. It was
22 \$25 when I last looked.

23 COMMISSIONER SAUNDERS: Okay. But, in any event,
24 the events that have occurred since the 11th, or on the
25 11th, and since, indicates that oil prices that were predicted
26 in conjunction with this application have taken a serious hit
27 in terms of the difficulty in trying to project it out into 2002
28 and 3 and so on, and I'm wondering, I guess, and I'm going
29 back now to my original question, if any effort has been
30 made by you or anyone in your employ to try and get a
31 revised estimate from Pira, your consultant on oil prices, in
32 light of the events?

33 MR. WELLS: May I suggest, because I'm sure that our, the
34 individual has been reviewing this situation and may well
35 have talked to Pira as well as other, looking at other
36 sources, this is still very close to the event and there seems
37 to be a great deal of uncertainty, perhaps when the dust
38 settles a bit, and we will consult with Pira, if we haven't
39 already I'll make sure that we do, and we can follow through
40 the progress of the hearing. If it should become clearer or
41 more clear in six weeks' time or a month's time that there is
42 a definitive change that one could rely on, then it can be
43 taken into account, but I suggest to you today that it
44 would be really precipitous to try to make any decision with
45 respect to would that amend our application at the moment.
46 I don't think we're in a position today to make any change
47 with respect to what we're proposing before the Board, but
48 circumstances may change over time and if there's a body
49 of opinion out there, the expert opinion, with respect to
50 what they see, where we're going with oil prices that would
51 have some substantial impact where you ... it would

52 provoke us, for argument's sake to say that prices that we're
53 seeking in our rate should be lower. We can all have the
54 benefit of that expert opinion or body of opinion that's
55 formed. What I'm suggesting to you today, that not only
56 within Hydro, and we're a small player in the world oil thing,
57 let's see where the consensus in terms of the expert opinion
58 is going, and in terms of those who most influence world oil
59 prices, the OPEC countries, OPEC has already said that it's
60 their intent to try to work around the \$25 a barrel US range,
61 and if that is the range that they can keep, then there would
62 be no, from my point of view, that would not alter our
63 position before the Board with respect to the rate
64 application, because if we're off the mark on oil prices, and
65 unless we're grossly off the mark, it's of no prejudice to our
66 customers or the consumers at large in Newfoundland. If
67 we took in more on oil prices than the balance, it goes right
68 to the Rate Stabilization Plan and to the benefit of
69 everyone. It would be a huge break for everybody if that
70 were to occur and no profit to Hydro whatsoever.

71 COMMISSIONER SAUNDERS: And do you agree that by
72 the time we get around to doing an order on this matter,
73 which I suppose will be sometime this side of Easter ...

74 MR. WELLS: Consummation devoutly to be wished.

75 COMMISSIONER SAUNDERS: ... that we can take notice
76 of what the situation is in respect of world oil ...

77 MR. WELLS: Yeah. I'm sure all of us in the room would ...
78 you know, if circumstances are radically altered to the point
79 where you have some solid footing to base an opinion, I'm
80 sure everybody would take, be taking these factors into
81 account, and you have up to the time of the final decision,
82 but it's still going to be a very speculative enterprise in my
83 opinion as to trying to get a trend that will tell us, yes, oil
84 prices are down and they're going to stay down whereas
85 the price at the time of the filing and before September the
86 11th the general thought was mid to high 20s and that was
87 the basis of our application. If you could say two months
88 from now with the same certainty that people said mid to
89 high 20s, which obviously will be wrong if it changes, that
90 it's now low 20s to mid 20s, what would that mean, and ...
91 but remember that if the circumstances change it will mean
92 that all our forecasts have been wrong and you could
93 attribute it to September the 11th, but even the events of
94 September the 11th, as dramatic as they are and with
95 respect to the economy, you still have a problem of
96 certainty with respect to oil prices and you have the issue
97 of OPEC and how they can manipulate it.

98 COMMISSIONER SAUNDERS: Let's move away from that.
99 I think I'm satisfied with your answer on that, Mr. Wells,
100 and to use an expression that Mr. Hutchings used the other
101 day, I'm going to throw a short snapper at you now. Were
102 there any notices sent to any class of your customers in

1 respect of what it was that Hydro was contemplating in
2 making this application to the Board, particularly in respect
3 of the impact on that particular class of customers? I'm
4 thinking now of your industrial customers, your isolated
5 customers in Labrador and in the island part of the
6 province, your interconnected customers, all of them.

7 MR. WELLS: We put out information with respect to the
8 nature of our application.

9 COMMISSIONER SAUNDERS: Yes.

10 MR. WELLS: Yes.

11 COMMISSIONER SAUNDERS: To all your customers.

12 MR. WELLS: Yes.

13 COMMISSIONER SAUNDERS: Telling them what
14 precisely?

15 MR. WELLS: Well, the ...

16 COMMISSIONER SAUNDERS: And I'm wanting to get
17 this on the record.

18 MR. WELLS: Yes. In terms of written material, we could
19 file that with the Board if we haven't already.

20 COMMISSIONER SAUNDERS: Okay. It would be helpful,
21 I think, if we had that.

22 MR. WELLS: Yes. And our industrial customers, I'm not
23 sure that, it's not a situation where you put anything out in
24 the bill with the industrial customers, and I think we've
25 already said in the evidence earlier that the industrial
26 customers did not have the specific of the quantum of the
27 rate increase supplied to them prior to the filing of the
28 application. I think with the industrial customers or
29 Newfoundland Power came at the time of the rate
30 application. I am ... I would like to have the opportunity to
31 check as to if we sent, because we sent some notices out to
32 our customers with respect to other things and I'm not
33 certain. I'd like to have the opportunity to check ...

34 COMMISSIONER SAUNDERS: Okay.

35 MR. WELLS: ... and see what we filed or sent in our own
36 bills.

37 COMMISSIONER SAUNDERS: And then you could file a
38 copy with us.

39 MR. WELLS: Yes. If we did send it that way we would file
40 a copy.

41 COMMISSIONER SAUNDERS: Okay, thank you. In
42 preparing for this application was any thought given to
43 making an application to, let's say, for a, well a full-blown
44 application, if you like, as opposed to the application you
45 have made which contemplates phasing in certain
46 increases, in other words, leaving the decision with respect

47 to the phase-in to the Board as opposed to you making it
48 in advance and coming forward and saying that you didn't
49 believe that your customers should be hit with such a large
50 increase at this time so therefore, Board, please allow us to
51 phase this in? Did you consider coming to the Board with
52 a full-blown application and letting the Board decide what
53 the impact should be and over what period of time?

54 MR. WELLS: I think the best way to put it, that when, in
55 the preparation of the application, and taking the cost of
56 service study and the new methodologies to base and
57 running all the various options, that when we looked at
58 what the ramifications would be with respect to rates, that
59 we did two things. There's two things in our head, right or
60 wrong. One, what is the impact on the various customer
61 classes that we have our industrial customers,
62 Newfoundland Power and the end consumer, and the
63 second thing is what can we do reasonably, what is within
64 our power to reduce that impact or help to reduce that
65 impact and can we do it without prejudicing the financial
66 viability or our position of Newfoundland and Labrador
67 Hydro so that, because we wouldn't want negative
68 comment coming back, say, from the rating agencies. So
69 we looked at it from those two aspects and then, and as
70 we've stated and discussed extensively this week, we said
71 a three percent, say, return on equity or the equivalent rate
72 base under the new system as opposed to what I knew
73 would be an argument. We all knew whether it's 11 or 11.5,
74 and there'll be other views expressed to the Board and the
75 Board would finally ... rather than make that the
76 presentation, we did the work to be able to say to the
77 Board, given the fact of the fuel costs, given that \$12.50 is
78 so far removed from anything we can realistically expect, if
79 you re-base fuel at 20 and increase the cap on the Rate
80 Stabilization Plan, things might come relatively right again,
81 and we exercised what you could say are value judgements
82 to that regard but it still leaves a great deal of flexibility with
83 respect to this Board as to how you deal with the matter.
84 We certainly did not foreclose the option of the Board
85 making, you know, whatever decision it would like to make.
86 We tried to be as helpful as we could in outlining the
87 impact on the rates and the fact that the difficulty of the
88 fuel price could be handled in two ways. If, for instance,
89 the Board said no cap increase, then we have to react in a
90 certain way, if the Board increases the cap, we have to react
91 in a certain way, and if the Board dispenses with the Rate
92 Stabilization Plan, as some people have advocated, you
93 know, it will fall out in another way. We just took ... I'll only
94 say it one more time. There's two considerations, the effect
95 on the ratepayers and the customer classes and the effect
96 on Hydro's financial viability.

97 (10:00 a.m.)

98 COMMISSIONER SAUNDERS: Okay. Can we go to the

1 application itself, Mr. O'Reilly, and page one of the
2 application at the very bottom, paragraph two? I just want
3 to run through some of the points that are covered in the
4 application here, Mr. Wells, and I have some questions for
5 clarification purposes. In paragraph two you make
6 reference here to "Last referral by the Applicant to the
7 Board with respect to rates charged Newfoundland Power
8 and their rural customers took place in 1991 under the
9 EPCA and subsequently the Board in its report dated April
10 13th, '92, called the '92 Report, recommended that the rate to
11 be charged by the Applicant to its retail customer,
12 Newfoundland Power, would continue at 45.31 mils," etc.
13 I won't read the rest of that. What I raise it for is that I just
14 want to get it clear that the last time that Hydro was before
15 this Board was in '92 with respect to rates generally.

16 MR. WELLS: Yes, and the subsequent, while I wasn't party
17 ...

18 COMMISSIONER SAUNDERS: I realize that.

19 MR. WELLS: ... you know, personally wasn't involved, you
20 dealt with the cost of service methodology ...

21 COMMISSIONER SAUNDERS: Yes.

22 MR. WELLS: ... and we had the ...

23 COMMISSIONER SAUNDERS: That report is '93.

24 MR. WELLS: ... L'Anse-au-Loup hearing ...

25 COMMISSIONER SAUNDERS: Yes.

26 MR. WELLS: ... and things like that.

27 COMMISSIONER SAUNDERS: And L'Anse-au-Loup,
28 right.

29 MR. WELLS: Yes.

30 COMMISSIONER SAUNDERS: Right, okay. Moving
31 along to page two, item three, or paragraph three, I'm sorry,
32 paragraph four, "On June 26th the Applicant referred to the
33 Board its proposed cost of service methodology and
34 subsequently the Board in its report dated February '93
35 made a number of recommendations concerning the cost of
36 service methodology including that the recommended
37 methodology be used by the Applicant at its next rate
38 application," which is the current application. Now this is
39 1993 and the next rate application ... I guess at that time the
40 Board must have been considering, I don't know, I wasn't
41 a member and I don't think anyone here was, that the next
42 rate application was going to be made in a reasonable or
43 normal period of time. I don't know if you have any
44 thought on that, and I realize you weren't with Hydro at the
45 time.

46 MR. WELLS: No. Well, the order, the recommendation of
47 the Board was quite clear that it would be the next rate

48 application of Hydro and this is that next application, and
49 your questioning the time frame in between.

50 COMMISSIONER SAUNDERS: Yeah. What I'm getting at,
51 without any, so there'll be no question in your mind, is I'm
52 trying to, I'm going to be leading up to trying to find out
53 why it is we're dealing with these matters here in 2001 that
54 the record indicates to me should have been dealt with
55 earlier, and I realize that you didn't come on the scene till
56 January 1 of '96. I think that's correct.

57 MR. WELLS: I think, if I might though, Commissioner ...

58 COMMISSIONER SAUNDERS: Because the predicament
59 we're in, Mr. Wells, if you'll pardon me, is that we're playing
60 catch up here now and what you're saying Hydro wants to
61 do over the next five years is what Hydro I think should
62 have been doing over the last five, for example, the phase
63 out of the preferred rates, if you like, as an example, to
64 governments, churches and so on. That was contemplated
65 to be phased out starting five years ago, as well as other
66 features that you have present in your rate schedule now.
67 What we're dealing with here is five years after the fact, I
68 guess, when the Board originally contemplated it should
69 have been dealt with. Is that fair?

70 MR. WELLS: I take it from your remarks, Commissioner,
71 that you were contemplating or somebody may have been
72 contemplating at the time of the, in 1992, that Hydro would
73 be back in 1995 ...

74 COMMISSIONER SAUNDERS: Or some ...

75 MR. WELLS: ... in the normal course of events.

76 COMMISSIONER SAUNDERS: Yes, yeah.

77 MR. WELLS: I can only comment on your question, if I
78 might, to ...

79 COMMISSIONER SAUNDERS: By all means.

80 MR. WELLS: ... explain, at least from my point of view, why
81 it's now that the rate application is taking place, and you
82 used the word "should," should have taken. In 1992 the
83 amendments that subsequently were put into effect by
84 Government, that we've discussed earlier in this hearing,
85 which affect Hydro, nobody would have known that they
86 were going to come into effect so it might have been
87 precipitous to file in 1995 in hindsight when Government
88 legislation came into effect in 1996 that, for instance,
89 changed the method as to how Hydro's rates were to be
90 treated, for argument's sake. The other thing going back to,
91 the Board had set the parameters for Hydro to operate
92 going forward and Hydro operated within these parameters.
93 It was able to maintain its financial position. It had no
94 particular requirement with respect to fuel. While it was
95 scary at some times as fuel went up, it always came down,
96 or the hydrology, as we've talked about, kept things in

1 perspective. So we were able to go forward through the
2 period and take the rates that the Board had approved for
3 consumers and our customers forward for a fairly
4 significant period of time when there was a fair amount of,
5 you know, economic distress in the province, as we
6 crawled out through '95 and, you know, the period '92 to
7 '96, '97, and we had no requirement for an increase. We
8 were operating under the rates that the Board had
9 approved. We were well within the cap most times on the
10 Rate Stabilization Plan. You know, we edged up but we
11 always managed to get it down again. There was no issue
12 there. So that everything that had been required at the time
13 seemed to be in order and to the benefit of the consumers.
14 Now with respect to the delay in the phase out of the rates,
15 that's true, one could have said that had we come back
16 sooner on a general rate application, that process could
17 have started sooner and you can see now that we're back,
18 we're, where we recommended an approach to the Board in
19 line with what was recommended but not precisely, but the
20 Board will deal with that. So I don't know anything more
21 than that to say that if we, it must have been of benefit to
22 the consumers and ratepayers to have these prices that the
23 Board set in 1992 prevail in the rates, in Hydro's rates to
24 consumers for this period of time, and we thought on our
25 side that we were fulfilling the mandate and that at various
26 times, looking at what was going on in a year, it might have
27 been precipitous to file, and there was no actual need for
28 any increase and the system under which we were
29 operating was working well with ...

30 COMMISSIONER SAUNDERS: How about the mandate
31 that was imposed on you by legislation in respect of the
32 industrial customers and the phase out of that subsidy?

33 MR. WELLS: Yes. On that particular one, and I discussed
34 that earlier, when the new administration came in in 1996,
35 they had advised us or they did advise us at that time,
36 during that year, that they wanted to review that issue, and,
37 as I said earlier, led us ...

38 COMMISSIONER SAUNDERS: Yes. Pardon me for
39 interrupting.

40 MR. WELLS: ... led us to believe, yeah, that ...

41 COMMISSIONER SAUNDERS: I heard your explanation
42 of that.

43 MR. WELLS: Okay.

44 COMMISSIONER SAUNDERS: But in light of what you
45 said prior to that, Hydro made a decision that it was not
46 going to comply with the statutory requirement ...

47 MR. WELLS: No, no, we never made a decision that ...

48 COMMISSIONER SAUNDERS: ... to phase out the
49 subsidy with respect to the industrial customers. Who

50 made the decision?

51 MR. WELLS: We were advised by Government that they
52 wanted to review the issue and it was Government that had
53 ...

54 COMMISSIONER SAUNDERS: Government made the
55 decision ...

56 MR. WELLS: Made the decision ...

57 COMMISSIONER SAUNDERS: ... not to phase it out
58 despite what the legislation required.

59 MR. WELLS: Well they asked us to hold off. They wanted
60 to reconsider the situation and asked us not to ...you know,
61 in light of the Government saying to us that they wanted to
62 reconsider the issue, it would have been precipitous of us
63 to make an application in light of that in our opinion, so we
64 did not file on that particular matter because of that and
65 then as you see in the pre-filed testimony, in the evidence,
66 there was a letter to the effect, from the Government saying
67 go ahead and file, you know, so when we, when the matter
68 was clear at least that we could continue with respect to the
69 legislation as it existed, we filed.

70 COMMISSIONER SAUNDERS: Whose decision, whose
71 decision was it to come forward at this time with this
72 application in the manner in which it's presented, and that
73 is in respect of the ...

74 MR. WELLS: Of this rate application?

75 COMMISSIONER SAUNDERS: Yes.

76 MR. WELLS: It was the Board's decision on the
77 recommendation of the management group. Management,
78 you know, the management of Hydro decided that the
79 situation and the issues were such that we should file and
80 in the meantime with respect to the letter we received on
81 the industrial subsidy, we moved on that portion, and of
82 course when we appeared before the Board on that,
83 received the interim order, the Board then confirmed that
84 we would be filing, certainly ordered us to file a general rate
85 application. I've already said that had you not, we would
86 have been filing this year, in any event, but, so it all came
87 together and we were, you know ...

88 COMMISSIONER SAUNDERS: So were plans in place for
89 you to file this year in terms of, like, was there a cost of
90 service ...

91 MR. WELLS: Yes. We had struck ...

92 COMMISSIONER SAUNDERS: ... study being worked on?

93 MR. WELLS: ... an internal committee last year in 2000 and
94 started the preparatory work for a rate application. We
95 knew within Hydro in 2000 that we would be filing in 2001.
96 Certainly that was my understanding in my discussion with

1 my, with the Management Committee and the people in our
2 rate issues and, you know ... Hydro was mobilizing in 2000
3 and starting to do the foot work necessary for a general rate
4 application to be filed, and we assess the situation each
5 year as to what our ... early in a year we would be looking
6 at the situation with respect to the requirement to file a
7 general rate application. Since I've been in Hydro, after the
8 first month I was there in '96, I was taken through all those
9 issues and each and every year we would consider our
10 situation, our financial position, and rightly or wrongly it
11 wasn't until 2000 that we could see the way things were
12 shaping up that would, it would be most likely that we
13 would be filing in 2001.

14 COMMISSIONER SAUNDERS: Throughout your
15 application, this application, there are references to the next
16 Hydro application.

17 MR. WELLS: Yes.

18 COMMISSIONER SAUNDERS: And that's a very popular
19 term. When I look back at the record on Hydro, that's
20 before this hearing, there are several documents that refer
21 to the next Hydro application. We have it again now in this
22 application and would it be in your opinion in order for the
23 Board to ensure that Hydro comes back to do the things
24 which they say they're going to do for the Board in this
25 order, to state a date or name a date for the return of Hydro
26 to deal with the matters that are going to be left
27 outstanding if the Board approves this application the way
28 you want it?

29 MR. WELLS: That's entirely within the discretion of the
30 Board.

31 COMMISSIONER SAUNDERS: But do you agree that the
32 Board has that jurisdiction?

33 MR. WELLS: You have that jurisdiction, yes. We can only
34 state our intent at this time and the circumstances of this
35 application and the issues that are being considered, you
36 know, pretty well dictate that we should be back in 2003,
37 but again the Board is going to be aware of all the factors
38 at the end of this hearing and has the jurisdiction.

39 COMMISSIONER SAUNDERS: Okay, thank you, Mr.
40 Wells, on that score. Go to page three. Is that what you
41 have up there now, Mr. O'Reilly? And in the middle of the
42 answer, the full answer that appears there in the middle of
43 that page, there's a sentence, "Since then Hydro has been
44 absorbing this cost." Now if you want to familiarize
45 yourself with what preceded, Mr. Wells, I have a question
46 on that.

47 MR. WELLS: What paragraph number are ...

48 COMMISSIONER SAUNDERS: Oh, it's the answer to the
49 first question, the first full question, "Would you please

50 review the issues?"

51 MS. GREENE, Q.C.: Mr. Saunders, you're in the pre-filed
52 evidence ...

53 COMMISSIONER SAUNDERS: I'm sorry. What did I say?

54 MS. GREENE, Q.C.: ... of Mr. Wells, are you?

55 MR. WELLS: Something different on my screen.

56 MS. GREENE, Q.C.: The application ...

57 COMMISSIONER SAUNDERS: I'm in the pre-filed
58 evidence, yes. I'm sorry about that.

59 MR. WELLS: Page three of my evidence?

60 COMMISSIONER SAUNDERS: Page three of your pre-
61 filed.

62 MR. WELLS: Yes.

63 COMMISSIONER SAUNDERS: Okay. Middle of the page,
64 the full answer that you have there contained between 7 ...

65 MR. WELLS: Yes, I'm there.

66 COMMISSIONER SAUNDERS: ... 7 and 23.

67 MR. WELLS: Yes. "Since then Hydro has been absorbing
68 this cost."

69 COMMISSIONER SAUNDERS: Yes.

70 MR. WELLS: Yes.

71 COMMISSIONER SAUNDERS: Can you explain what you
72 mean by absorbing the cost?

73 MR. WELLS: Well, as of December the 31st, 1999, Hydro's
74 industrial customers were no longer required to contribute
75 to the rural deficit and no money then has been collected
76 by Hydro from anyone else, so that portion of the deficit
77 has been falling to Hydro's bottom line in each of the two
78 years, as we've stated.

79 COMMISSIONER SAUNDERS: And what's been the
80 consequence of that?

81 MR. WELLS: Well, it's approximately \$5 million, you know,
82 that we have not recovered in costs in terms of cost of
83 running the system.

84 COMMISSIONER SAUNDERS: So it's not been, let's say,
85 charged off to any other class of customer.

86 MR. WELLS: No, no.

87 COMMISSIONER SAUNDERS: No.

88 MR. WELLS: Only the Board could ...

89 COMMISSIONER SAUNDERS: Yeah.

90 MR. WELLS: ... could order that.

1 (10:15 a.m.)

2 COMMISSIONER SAUNDERS: So what in the end, who in
3 the end will end up paying that?

4 MR. WELLS: Nobody willingly but the, I think the prime
5 suspect is Newfoundland Power, their customers, but, I
6 mean, the other thing is other customers in the system and
7 the Labrador integrated customers would have to pay that
8 if it's going to be recovered from ratepayers. These are the
9 only other classes of ratepayers.

10 COMMISSIONER SAUNDERS: Okay. Where does the
11 shortfall show up on your statement as of the end of your
12 last fiscal year, that \$5 million?

13 MR. WELLS: Again it shows up in terms of the ... it shows
14 up as a, it's a cost there but it shows up that we have made
15 less revenue than we otherwise would. If you look at it in
16 terms of profit or loss, we're down by \$5 million for
17 argument's sake or we're now in a loss position of \$5
18 million, but it's just in our revenues we're short, but we
19 have still maintained the service.

20 COMMISSIONER SAUNDERS: Yes, I understand. If we
21 go to the bottom of page three, the top of page four of your
22 pre-filed evidence, and we get into a discussion on the
23 development of small hydro proposals. I'm wondering why
24 it is that this was taken away, if you like, from Hydro and
25 Newfoundland Power and how that came about.

26 MR. WELLS: I wasn't involved so I can only speak in
27 terms of generalities. What did happen in fact is, it was
28 stated that the *Public Utilities Act* in 1992 was amended by
29 the Government ...

30 COMMISSIONER SAUNDERS: Yes.

31 MR. WELLS: ... exempting small hydro that's up to 15
32 megawatts from the application of the *Public Utilities Act*.
33 What I've done in some ...

34 COMMISSIONER SAUNDERS: So it wasn't taken away.

35 MR. WELLS: ... general reading over the period is ...

36 COMMISSIONER SAUNDERS: It was broadened in terms
37 of ...

38 MR. WELLS: Yeah.

39 COMMISSIONER SAUNDERS: ... who could participate.

40 MR. WELLS: But it seemed that there was a change in
41 public policy in North America generally, I'll just confine
42 my remarks to that, back in the late '80s or early '90s that
43 governments of the day wanted to broaden the provision
44 of electric power beyond that of large monopoly utilities
45 and have what the term came to be used of non-utility
46 generators having the opportunity as private businesses to
47 develop generation or sources of generation and supply it

48 to various grids, and my thought on this is that the
49 Government of Newfoundland and Labrador sort of
50 adopted that same trend and made provision for individual
51 enterprises to come forward with developments that may
52 contribute to the island grid.

53 COMMISSIONER SAUNDERS: Was there a request that
54 went to Government from Hydro to do this or ...

55 MR. WELLS: Not that I'm aware of.

56 COMMISSIONER SAUNDERS: Not in your time.

57 MR. WELLS: And I'm not aware of such a request but that
58 doesn't mean that one wasn't made. I don't think so but
59 maybe somebody else could answer that question.

60 COMMISSIONER SAUNDERS: Would it be practical for
61 Hydro to do these small developments?

62 MR. WELLS: Hydro has the capability to develop a hydro
63 project, you know, small or large. We could do them all. I
64 don't think that was the issue from the perspective of
65 public policy. They wanted to ... this is right across North
66 America. There's a fair, you know, a fair number of
67 examples of this and now it's all going to competition and
68 more private enterprise in the United States in particular
69 and elsewhere in Canada, but we were not a unique
70 jurisdiction in, as everything I've read on it. We were just
71 following a pattern that had developed elsewhere.

72 COMMISSIONER SAUNDERS: Would you agree, Mr.
73 Wells, that in trying to decide on the issues that have been
74 presented to us by Hydro in this particular application that
75 the Board is being placed in the position of having to
76 determine public or social policy, and I'm thinking in
77 respect particularly of the subsidies, if I can use that word,
78 that exist in respect of churches and schools and isolated
79 areas and so on, rural subsidy I guess too in particular, and
80 should the Board be in that position? Is that our job in
81 your opinion?

82 MR. WELLS: I don't know if my opinion counts. Let me,
83 you know ... it's a stray from sort of evidence that I can
84 present, but we ... it's in the course of history and going
85 back over time that certain things developed. As Hydro
86 grew or the Newfoundland Power came together out of,
87 you know, the '70s and '80s, and things that happened over
88 time, and the Board has addressed the issue of the
89 preferential rates and the Board made a conclusion that the
90 preferential rates should be eliminated and Hydro at the
91 time and since has said they concur with that, to have
92 equity amongst ratepayers, and the Board proposed a way
93 to deal with it and Hydro has responded to that proposal
94 and the Board has the authority to do it. Under the current
95 legislation you would be acting well within your
96 jurisdiction, and the Board has already made a statement
97 that these preferential rates should be eliminated. We agree

1 and I think the intervenors agree. The only question by the
2 intervenors is that we have been slow in carrying out the
3 intentions of the Board. That's about ... that's I think a fair
4 summary of the fact situation we're in, but I think that in
5 doing that, the Board is not making a declaration in terms
6 of social policy. You're just looking at the principles of rate
7 equity and applying those principles and I presume the
8 Board that made that earlier decision was acting in that
9 type of, as a utility board would be expected to act in the
10 absence of some legislative direction. I think the Act says
11 that you will apply good utility principles to the issues that
12 confront you.

13 COMMISSIONER SAUNDERS: Yes, I'm aware of that, Mr.
14 Wells. Difficult to apply it to some of the areas here, let me
15 tell you. I want to look at page five, your evidence, pre-
16 filed, and I guess this is probably another way to put what
17 you've just said. Right in the middle of that answer there,
18 "It is important." Can you see that?

19 MR. WELLS: Yes, I ...

20 COMMISSIONER SAUNDERS: Would you read that ...

21 MR. WELLS: Line 11?

22 COMMISSIONER SAUNDERS: Read that down as far as
23 the word "structures." There's a couple or three sentences
24 there.

25 MR. WELLS: "It is important that we adhere to sound and
26 proven regulatory principles and practices. It is necessary
27 to achieve the ultimate objective through a period of
28 adjustment. The fact that there must be a period of
29 adjustment should not preclude doing the right thing over
30 time and ensuring that we have equitable rate structures.
31 There can be no equity amongst ratepayers or among rate
32 classes if issues are to be decided in an ad hoc manner."

33 COMMISSIONER SAUNDERS: Yes. That says it, doesn't
34 it?

35 MR. WELLS: Yeah.

36 COMMISSIONER SAUNDERS: That's pretty well what
37 you were alluding to earlier.

38 MR. WELLS: Yes. Well that's what I wrote and filed and
39 that's what ... and, you know, I think whatever comfort I
40 could offer you in terms of exercising your role under the
41 legislation, is if we all stick to sound utility principles, that,
42 and apply them to the facts, that we should be able to
43 address these issues. The immediate difficulty is, because
44 I'm sure the Board will look at it as will the intervenors, the
45 issue of rate impacts on consumers or customers from their
46 own point of view and we had tried to approach that, as
47 we've already discussed, in a certain way to reduce the
48 impact of the reality of the day.

49 COMMISSIONER SAUNDERS: Next page, page six, Mr.
50 O'Reilly, at the bottom of that page. There's a use of
51 phrases here which I'll refer to in a minute when you get it
52 up there. At line 21, the phrase, "fully-regulated utility," at
53 line 24 and 25, "Instrument of Government policy," and at
54 line 29 we have a repeat of "Instrument of Government
55 policy," and at line 30 and 31, "A fully-regulated utility," all
56 in a matter of 11 lines, 10 lines, whatever. And I really do
57 have problems trying to see Hydro as a fully-regulated
58 utility and at the same time being an instrument of
59 Government policy, and maybe you'd like to comment on
60 that, that you might be able to offer me some advice here as
61 to how I should deal with that in trying to come to a
62 decision on the application you've presented.

63 MR. WELLS: Well this page six is, follows on from an
64 outline of the legislative amendments that took place in '96
65 which have been filed and in one of our responses to a
66 request for information we further amplified on the various
67 pieces of legislation and their effect. What I was saying
68 here generally ... the question is, "What are the implications
69 of these amendments for Hydro?" And my conclusion, and
70 well not just mine, it's people in Hydro, the executive, the
71 Board members and the various interactions over the years,
72 it seems that what the legislature had intended with those
73 amendments, as the overall broad policy, if I could put it
74 that way, was that Hydro would be, now that these
75 amendments have come into being, that the Government
76 was reflecting a public policy that Hydro should operate as
77 a fully-regulated utility more similar to that of an investor-
78 owned utility than had been the case, because up till now,
79 and people refer to this as Hydro's first rate case, we were
80 here, Hydro was here in 1992, 1991 and '92, the Board made
81 recommendations with respect to Hydro's rates which
82 Government would either confirm or amend. Now that part
83 is removed and the Board sets rates subject to whatever
84 legislative requirement that there may be with respect to
85 rates, and that is certainly a change, and the other items
86 that we have gone through show that Hydro seems ... the
87 intent when we're, we're not covered by the *Freedom of*
88 *Information Act*, which other Government departments are,
89 you know, Government departments are. All these things
90 that were identified in the filings and the legislation itself
91 seem to indicate that, as a matter of public policy, the
92 Government had changed its approach with respect to
93 Hydro's operation. Having said that, the next question is,
94 does that preclude Hydro from being an instrument of
95 Government policy, and of course we write the questions
96 and we write the answers in pre-filed testimony. So why
97 did we put that one in? Not to disturb anybody but to
98 recognize the fact that in, from my perspective at least in
99 dealing with Government and in discussions you might ask
100 about the issues of the legislation or anything else, but,
101 you know, my understanding of this is that Government

1 would still see Hydro as an instrument of public policy from
2 time to time, and there are instances of it now, you know, in
3 terms of Hydro in the issues of subsidy, which are matters
4 that came before this legislation, but Hydro operates the
5 isolated rural systems under a set of rules that have
6 previously been decreed and that role was assigned to
7 Hydro as part of its public policy and continues to be the
8 case. The question, and really in your mind is, is that
9 inconsistent with it being a fully-regulated utility?

10 COMMISSIONER SAUNDERS: Well, if you were ...

11 MR. WELLS: And not necessarily depending on what that
12 public policy is, because there is a section in the Act that
13 we discussed the other day where Government can take
14 over the setting of rates, Hydro's return on rate base.
15 Government has reserved to itself in the legislation the
16 right, should they desire to exercise it, to intervene and take
17 away the jurisdiction that rests with the Board until they so
18 act. That's still there. There's a reserve clause on
19 Government's right to act, but in the meantime in this
20 hearing Government has not intervened in any way and I
21 assume that we would carry on in this hearing with the all
22 the powers vested in the Board and Hydro appearing
23 before you as a fully-regulated utility.

24 *(10:30 a.m.)*

25 COMMISSIONER SAUNDERS: Government, I think, has
26 expressed their wish to have Hydro treated as a fully-
27 regulated utility, and I think you alluded to that in previous
28 ...

29 MR. WELLS: Yes.

30 COMMISSIONER SAUNDERS: Yes, testimony.

31 MR. WELLS: From a review of the legislation and the
32 amendments, yes.

33 COMMISSIONER SAUNDERS: Right. And I question the
34 seriousness of that statement when I see you come forward
35 looking for a three percent return on equity. Is that
36 something that, if you were an investor-owned utility, you
37 would be able to put forward here without a smile on your
38 face, really?

39 MR. WELLS: An investor-owned utility, well you'd be
40 subject to the Board of that utility and its investors. An
41 investor-owned utility, you could not come forward with
42 that but not because of Government or otherwise. An
43 investor-owned utility has to maintain its credit position so
44 that if Newfoundland Power were to come forward and say
45 we'll take a three percent return on equity and try to get
46 through the next couple of years, they do not have a
47 Government guarantee on their debt. They would
48 immediately be subject to some alarming statements in
49 expressing alarm in the DBRS reports, or Moody's, or

50 Standard and Poors and put all the financial institutions on
51 the alert out there and investors that this company's credit
52 rating is suddenly suspect and they may lose their
53 standing for, say, a Triple B credit rating and it would cost
54 them more on their next issue. So the situation that we're
55 in, because, and that's why that we are, has come up so
56 many times, certainly in my statements here and in our
57 expert witnesses, that while we're asking for a three percent
58 rate of return so that we are all still treating seriously
59 Hydro's capital structure debt and (phonetic) equity, that
60 the Board indicate, should you decide to accept Hydro's
61 proposal, that you are well sophisticated in the way the
62 financial world works and that a three percent return on
63 equity would normally not cut it, and you understand these
64 principles and you may or may not accept Hydro's position
65 based on fact, because, as you say, you think it may be
66 facetious for us to come and suggest this at three percent.
67 It would be. I would have no way to do it personally.
68 Three percent return on equity, I don't want to be
69 associated with that and then somebody say this fellow
70 has some credible business experience. The reason why
71 we can ask for a three percent return on equity is that we
72 can absorb some deterioration in our debt equity ratio over
73 the next year or so. It will not affect our borrowing in terms
74 of our being subject to any number of bases points more
75 than what we can now get, and it's only in those
76 circumstances that we can propose it, and absent the
77 Government guarantee fee, I would be in here as part of the
78 Hydro group pushing hard for what I'd call the normal
79 return on equity. I would state it to be 11 to 11.5. You
80 know, in the course of things you would make a decision.
81 You may accept that or you may take something less, but
82 we would not be talking in terms of three percent.

83 COMMISSIONER SAUNDERS: Was it only rate shock that
84 prevented you from making that application?

85 MR. WELLS: The effect on the ...

86 COMMISSIONER SAUNDERS: Was that the only reason?

87 MR. WELLS: There was a large consideration with respect
88 to the effect on our industrial customers and consumers in
89 the province, yes.

90 COMMISSIONER SAUNDERS: Can I call it all rate shock?

91 MR. WELLS: Well if you think that those increases are rate
92 shock, yes.

93 COMMISSIONER SAUNDERS: Well, what would you call
94 them?

95 MR. WELLS: I mean, I've heard that term before.

96 COMMISSIONER SAUNDERS: What would you call
97 them?

98 MR. WELLS: Well, I think it would be a shock if somebody

1 told me my power bills were going up 25 percent. You
2 know, that'd be a shock. Some people would say, some are
3 shocked at three percent, which then perplexes me, you
4 know, or six percent or seven percent. You know, in this
5 day and age these things are not shocks, but let's say a 20
6 percent increase, be a bit of a shock.

7 COMMISSIONER SAUNDERS: Mr. Browne mentioned ...

8 MR. WELLS: If you weren't sophisticated enough to know
9 what was happening.

10 COMMISSIONER SAUNDERS: Mr. Browne mentioned the
11 other day, and I don't know if it was here or if it was in the
12 press, that he believed that the consumers should be aware
13 of what impact oil prices have on their electricity rates. I
14 think I'm quoting him close to accurate. Okay. Now, and I
15 can agree with that in large part, that customers should be
16 made aware, and if we carry that on through to the thrust of
17 this application, and notices have been published and this
18 is why I asked you earlier if you could file with us the
19 notices that you have sent to your customers and what
20 you told them, because I think we have to get on the table
21 of this hearing what the impact is to all of the customers of
22 Hydro's plan, not Hydro's application per se, Hydro's plan,
23 which has been referred to here, I think, as a five-year rate
24 plan or a five-year plan. I'm not sure of the exact ...

25 MR. WELLS: Well, may I interject, please, Commissioner?

26 COMMISSIONER SAUNDERS: Yes, certainly.

27 MR. WELLS: That five-year plan is not a rate plan. We
28 have to ...

29 COMMISSIONER SAUNDERS: But it's been referred to as
30 one.

31 MR. WELLS: But that's a big mistake, whoever did it, and
32 we have to stop that kind of talk.

33 COMMISSIONER SAUNDERS: I'm just quoting from what
34 I've read.

35 MR. WELLS: No, no. The five-year financial plan which
36 was filed with the Board at the Board's request is for
37 financial planning purposes, and we took assumptions after
38 the, you know, the 2002 period, that is not a basis for
39 setting rates, and everybody should be clear on that, that
40 this financial plan is not the basis ...

41 COMMISSIONER SAUNDERS: I'll accept that.

42 MR. WELLS: ... on which rates will be set.

43 COMMISSIONER SAUNDERS: I'll accept that. All I'm
44 saying, Mr. Wells, is we should get out on the table of this
45 hearing ...

46 MR. WELLS: Where rates might go.

47 COMMISSIONER SAUNDERS: ... where rates might go.
48 That's it, yes.

49 MR. WELLS: Yes. I think that the, as we proceed through
50 the hearing and the issues most affecting rates will become
51 apparent, you know, to everyone and then the issue of how
52 this will carry through into the future ... we won't have the
53 thing clarified for us in concrete because the big factor here
54 is the price of fuel and our dependence on it, and we're
55 going to have to live with that in this isolated system, you
56 know, on the island interconnected grid, into the future for
57 some time. That factor is, should become, well, certainly be
58 clear to everybody in the room. The other factor is that
59 when we get new sources of generation to meet the new
60 demand requirements of the system for capacity and
61 energy, that the new sources of generation are going to be
62 more expensive than the current sources of generation in
63 terms of Granite Canal is not going to produce the same
64 kilowatt hour cost that the original Bay D'Espoir
65 development did. It's a good project but its costs at the
66 busbar we're projecting to be 5.5 cents a kilowatt hour,
67 which is higher than the wholesale rate that we now have
68 with Newfoundland Power. Because it's only that much of
69 the system, it's not having a big impact, but as we go
70 forward into the future, if every new source of generation
71 from here on in is even more expensive, then eventually it's
72 going to have a real impact on the total costs, because Bay
73 D'Espoir can't hold everything, or earlier the Hydro
74 projects, and we still have to contend with the price of No.
75 6 fuel. So I don't know if you're looking ... the consumers
76 ... I wanted to say this in response to one point you made,
77 that we should be advising our customers. Bear with me on
78 this one for one moment. Our customers are Newfoundland
79 Power. You know, that's a, it's a utility, it's been in
80 existence for some time, it knows the energy situation, it
81 knows the supply on the island, it knows what we do, it is
82 one group that within their group they understand our Rate
83 Stabilization Plan, probably more so than people in our
84 industrial customers group, so for us to inform
85 Newfoundland Power or write letters to them saying about
86 the future of ...

87 COMMISSIONER SAUNDERS: I wasn't thinking about
88 Newfoundland Power.

89 MR. WELLS: Well, but they are our largest customer. 80
90 ...

91 COMMISSIONER SAUNDERS: They're big and ugly
92 enough to look after themselves. They know what's going
93 on.

94 MR. WELLS: I didn't want to say that. *(laughter)* I didn't
95 want to say that but that's precisely my point, they can
96 look after themselves. The other thing as I look at our
97 other four customers affected by this system, and they are

1 much in the same category, they are sophisticated entities,
2 business entities, large business entities. They can look
3 after themselves. So we don't have to keep telling them ...
4 I mean, one large customer is a refinery, for goodness sake,
5 and buys oil on the world market and we're trying to tell
6 them what the price of fuel will be. I mean, that's their
7 business. They understand. It would be inappropriate, I
8 suggest, that we would send notices directly to
9 Newfoundland Power's customers, you know, and ask them
10 to put inserts in their bills that we write. They'll look after
11 that. So then the question becomes, it's our customers at
12 retail on the island portion of the province, because that's
13 what we're talking about now, not Labrador, so one of the
14 things, as I reflect on your earlier questions, did we advise
15 our customers of the actual prices before we filed our
16 application? We did not because we did not advise
17 Newfoundland Power and our customers are a derivative,
18 by the way the procedures work, to get the same rates that
19 Newfoundland Power customers have, subject to some
20 variation, on the island interconnected system and in the
21 isolated systems on the island to a certain extent. So when
22 we talk about Hydro's role to explain generally, I have made
23 various comment about the effect of fuel and the price of
24 fuel with respect to rates over the five years I've been ... we
25 have published annual reports every year for the five years
26 I've been with Hydro. They have been filed in the House
27 of Assembly, they have been distributed to the media. I
28 don't think, other than at one point four or five months after
29 it was filed, that there was ever one question raised or any
30 comment made back to Hydro about its report from any
31 source, period.

32 COMMISSIONER SAUNDERS: Okay. When I used the
33 word "ugly," it wasn't meant to refer to you, Ms. Butler, but
34 Mr. Alteen can come to his own conclusion. *(laughter)*

35 MR. WELLS: I take it that whole subject is open for
36 intervention.

37 COMMISSIONER SAUNDERS: Mr. Wells, we talked
38 yesterday, I think it was during your cross-examination by
39 Mr. Kennedy, I think it was Mr. Kennedy, and I think the
40 others also covered off the subject, and that's Granite
41 Canal, and you spent some time yesterday, I think it was,
42 explaining what happened in respect of, and I'll paraphrase,
43 the hoopla that was in existence at the time over Voisey's
44 Bay and smelters in Argentia and all of these other things
45 that were going on at the time, and as I recall, correct me if
46 I'm wrong, there was an approach made to Government that
47 Granite Canal was required urgently because there might be
48 a very large impact on the system if smelters were going to
49 be built and so on. Am I right so far?

50 MR. WELLS: No.

51 COMMISSIONER SAUNDERS: No? Well you'd better

52 pick it up from there. Let's see where ...

53 MR. WELLS: You said that we had to develop Granite
54 urgent ... no, the issue that came up in late '96 was that the
55 Voisey's Bay Development was thought to be going ahead,
56 that the INCO was going to build a new smelter refinery on
57 the Island of Newfoundland, and the issue was where
58 would the electricity come from to supply that smelter
59 refinery, and we didn't have the capacity in the system to
60 supply a smelter refinery. It was a 200 megawatt, that was
61 the demand there, and 1,400 gigawatt hours, so it was a
62 fairly significant, huge development, one-fifth of what the
63 province had. That was one of the ... that was an issue that
64 came into being and Hydro's role and response to that was
65 to issue a request for proposals to see who had ...

66 COMMISSIONER SAUNDERS: Which you did.

67 MR. WELLS: ... any interest in contributing to that cause,
68 including Hydro's own contribution. We wouldn't have
69 used Granite Canal to satisfy that requirement. The only
70 thing that we could have done would be to add an
71 additional unit to Holyrood.

72 COMMISSIONER SAUNDERS: Okay. So then why did,
73 why was Granite Canal started? What was ...

74 MR. WELLS: No, no. That's another issue entirely.

75 COMMISSIONER SAUNDERS: Okay.

76 MR. WELLS: Yeah. Granite Canal, like any other project,
77 what Systems Planning, absent the smelter issue, Systems
78 Planning had forecast deficiencies for capacity and energy
79 which would start to come into play in the 2003 period.
80 Let's use that, 2003, 2004. And what we had in our arsenal
81 to meet any deficiencies in demand or energy, our best
82 project was Granite Canal, so that ...

83 COMMISSIONER SAUNDERS: To meet ...

84 MR. WELLS: ... was in Hydro's ...

85 COMMISSIONER SAUNDERS: To meet the normal
86 growth?

87 MR. WELLS: Yes, to meet the normal growth in the
88 system.

89 COMMISSIONER SAUNDERS: But there wasn't any
90 reference yesterday to you saying Granite Canal had
91 something to do with the smelter refinery?

92 MR. WELLS: No. It was ... the smelter refinery was looking
93 for 200 megawatts ...

94 COMMISSIONER SAUNDERS: Yes.

95 MR. WELLS: ... and 1,400 gigawatt hours. To put that in
96 perspective, Granite is 42 megawatts ...

97 COMMISSIONER SAUNDERS: Right.

1 MR. WELLS: ... and a little over 200 gigawatt hours.

2 COMMISSIONER SAUNDERS: Right.

3 MR. WELLS: So Granite and all the other small hydros in
4 the province couldn't do anything to help.

5 COMMISSIONER SAUNDERS: So what then was the
6 urgency?

7 MR. WELLS: No, no, no urgency. Oh, the urgency was for
8 Voisey's Bay. They were moving at a very fast pace, and
9 I think what may have confused you, I said that our
10 Systems Planning group issued a request for proposals,
11 handled the entire procedure, did it all within a six-month
12 time frame, which I think I said was a marvellous job, it was.
13 It was a fantastic piece of work by a group of people to
14 meet the requirements. Then of course months went by
15 and everybody didn't know what was going to happen with
16 the smelter refinery and everything went into limbo and
17 then finally it was all cancelled. Now, having said all that,
18 in that period though we didn't know where things were
19 going and we were working on, as we do normally,
20 forecasting every year what the requirements for the island
21 interconnected system would be and our isolated systems.

22 (10:45 a.m.)

23 COMMISSIONER SAUNDERS: I must have dozed
24 yesterday at some point, because my note I know says that
25 the reason for exempting the Granite Canal Project was
26 because the process of bringing it to the Board and going
27 through all of the rigamarole, or whatever you want to call
28 it, was going to take five years or some such time. What
29 was the urgency?

30 MR. WELLS: No. What we were ... why ... because I
31 wasn't specifically asked this question. I don't regard this
32 whole procedure as a trial. We want ... I didn't want
33 personally to, in response to Mr. Kennedy who was asking
34 me about Government policy and the impact on Hydro, to
35 give any idea that Government somehow on a particular
36 issue with respect to Hydro had made some sort of public
37 policy thing and we're all one and the same. What we had
38 said to Government at that time with the Voisey's Bay thing
39 still in doubt, because if you recall it was a long period of
40 time before anybody knew whether the smelter was coming
41 or not coming and what the decision was going to be, so in
42 the normal course of events our Systems Planning in its
43 forecast said if there's, you know, there may be a smelter,
44 there may be not, but we still have to prepare forecasts on
45 the island interconnected system, and they said if we
46 follow the procedure that's outlined in the new, you know,
47 in terms of the new legislation and the role of the Public
48 Utilities Board and request for proposals, that whole thing
49 could occupy a significant amount of time. The other thing
50 is that whole exercise may be pointless if we do have a

51 Voisey's Bay smelter going ahead, because that'll change
52 everything, and then at that time again the Churchill
53 negotiations were very much in the forefront and the
54 possibility that in the future we could have a connection to
55 Gull Island, which again would influence your view of the
56 world going forward as to how power will be supplied to
57 the island grid, so Systems Planning recommended within
58 Hydro, and Hydro to Government, that if we delay making
59 a decision on the next source of generation to satisfy the
60 normal requirement of the island interconnected grid,
61 exclusive of any smelter refinery, we would probably make
62 a better decision and a more informed decision if we let
63 matters unfold, you know, till ... are we going to be certain
64 that the smelter refinery is going ahead or not going ahead?
65 We will have more information with respect to the Churchill
66 Falls situation, and if you delay we will then be able to,
67 whoever makes a final decision, we'd be in better position
68 to do it, and all we said then, this is very important, all we
69 said then is that to meet a short-term requirement in a three-
70 year period, we do have Granite Canal and we do believe
71 that Granite Canal is the best small project, you know, in
72 terms of 40 megawatts at a busbar price that, highly
73 unlikely anybody else can come up with a better one than
74 that, and we can commit to you that from a standing start
75 we can do it in three years and supply power.

76 COMMISSIONER SAUNDERS: So why was it exempted ...

77 MR. WELLS: No.

78 COMMISSIONER SAUNDERS: ... from the PU (inaudible)?

79 MR. WELLS: Because the Government accepted that
80 recommendation we made to let's not move on any
81 decision, let's wait and see what happens for a year or so.
82 Then when, as the time then marches on into the period
83 where we're going to need more generation, the
84 Government said what are the requirements in total. Mr.
85 Budgell will detail this. It's in his evidence and he can ... we
86 needed 80 to 100 megawatts roughly at the ... and we said
87 we still have Granite Canal and we can go forward with that
88 and do it in a three-year time frame if, you know, to meet the
89 requirement, but in that time frame you can't go out and
90 have a RFP from everybody, vet it all, take it to the Public
91 Utilities Board, for argument's sake, in the absence of
92 anyone else, and make a decision and have that decision
93 finalized and the thing built within three years. It's going to
94 take, you know, maybe a couple of years in the process or
95 a year and a half plus the three years to build and we will be
96 gone beyond the time when we need the new source of
97 generation to come on stream. So the Government said,
98 fine. They did a legislative amendment and they,
99 subsequently, and exempted Newfoundland Power (*sic*)
100 from the application of the Public, you know, from ... and
101 we were instructed to build. The other thing the ...

1 COMMISSIONER SAUNDERS: Exempted ...
2 MR. WELLS: Exempted Granite Canal.
3 COMMISSIONER SAUNDERS: Granite Canal.
4 MR. WELLS: Yes.
5 COMMISSIONER SAUNDERS: You said Newfoundland
6 Power. I think Peter ...
7 MR. WELLS: No. I did? Well certainly a Freudian slip.
8 *(laughter)* I meant to say they exempted Hydro on the
9 Granite Canal Project, as we all know. The other thing I
10 mentioned is that Government then asked Hydro to discuss
11 power supply with two industrial operations in
12 Newfoundland because Granite Canal was only 42. The
13 question is, well, if you need more than 42, you know, up to
14 80 to 100 in the next two or three, you know, in the next
15 three to four years, where will that come from. They
16 exercised as a matter of public policy, I guess you could
17 say a direction to us, to discuss the possibilities with these
18 two entities and, as everybody now knows, we discussed
19 it with the two entities, we came up with a proposition or a
20 possibility of the supply, the price, and the Government
21 then approved our going forward to secure contracts with
22 those two entities and they exempted those projects from
23 the application, again to carry on so that all three are
24 scheduled to come on stream 2003, in the early part of 2004.
25 COMMISSIONER SAUNDERS: When the ... maybe you
26 and I are ... we're getting close to break time and we may be
27 both getting tired here, but I'm missing something or you're
28 missing something. Am I to assume then that Granite Canal
29 should have been dealt with two years earlier than it was?
30 MR. WELLS: No, no, and I suggest, Commissioner, that if
31 you ... Mr. Budgell, who's our Director of System Planning,
32 subject to some praise by me, but if, when Mr. Budgell
33 comes on he can tell you the forecast and how they
34 determined ...
35 COMMISSIONER SAUNDERS: So you don't know the
36 details, is ...
37 MR. WELLS: Oh, I know the details but ...
38 COMMISSIONER SAUNDERS: Well all I'm trying to do ...
39 MR. WELLS: ... he's ... well, not to the extent that Mr.
40 Budgell does. That's ... he can tell ... he's the system
41 planner, he heads the team that does the forecasting ...
42 COMMISSIONER SAUNDERS: I understand that.
43 MR. WELLS: ... and he can tell you how he evolved the
44 forecast to the point, you know, what we had to meet, when
45 we had to meet it, because it's not like a precise day. You're
46 looking at a continuum and as we moved forward in time he
47 was getting the forecast, you know, updated as to when we

48 were going to need new demand and new capacity and new
49 energy, and so he can take you through those precise
50 details of the system.
51 COMMISSIONER SAUNDERS: That's fine. Let's go back
52 then to where this started, and that is on page six of your
53 pre-filed evidence you used the terms "fully-regulated
54 utility," "instrument of Government policy," almost in the
55 same breath. I struggle with that when I see the impact of
56 the exemption of Granite Canal on this whole process. We
57 have no control over that part of your capital budget, for
58 example, that has to do with Granite Canal. What impact
59 does it have on all the rest of your customers?
60 MR. WELLS: The cost ...
61 COMMISSIONER SAUNDERS: We don't have anything
62 to do with that. We're sitting here trying to make a decision
63 on this application which has many, many tentacles, if you
64 like, many parts. We're being told by Government policy as
65 expressed in legislation, we're being told by you that you
66 are and want to be a fully-regulated utility, but our job is
67 hampered, if you like, by the fact that we don't have
68 control, we don't have regulatory jurisdiction over all of
69 Hydro, because there are certain aspects of your operation
70 that are exempted and they were exempted at your request,
71 were they not?
72 MR. WELLS: No. The option was ...
73 COMMISSIONER SAUNDERS: At whose request were
74 they exempted?
75 MR. WELLS: We put ... what was put to Government was
76 a scenario with respect to how one could best make the
77 best decision to determine the future generation
78 requirements which would cost everybody, so you have to
79 be very careful about it. Our only suggestion to
80 Government was that, given the circumstances of the day
81 and this uncertainty with respect to this prospect of the
82 smelter refinery, which is a huge impact on the system, that
83 everybody would be better off if we could hold off making
84 a final decision. All we said then was that in the absence
85 of any other alternative we stand as Hydro, we'll be here
86 before this Board on this, we say to the best of our
87 knowledge there is nothing better out there for the first 42
88 megawatts that's required and the first 200 gigawatt hours,
89 there is nothing in Newfoundland ...
90 COMMISSIONER SAUNDERS: I understand that.
91 MR. WELLS: ... can touch Granite Canal. Now, that's not
92 part of our regulation. If I might suggest that that decision
93 on new generation doesn't interfere with your regulating
94 Hydro.
95 COMMISSIONER SAUNDERS: Okay. Would you answer
96 my question though, who asked for that exemption?

1 MR. WELLS: We ... well you could say in effect Hydro ...
2 what we said is if you accept our proposition or theory of
3 what is the best way to proceed from here, then you would
4 have to grant an exemption. I mean, if ... there's the
5 question of timing. A two-year plus three-years
6 construction was five years. If you did away with the two-
7 year phasing and getting all the, everybody to put their
8 deals forward, plus three years, we've gone over the time
9 frame. So when the Government accepted the Hydro
10 outline of the circumstances, when we briefed Government
11 and said here are the options, they said fine, let's delay the
12 decision, and we do so on your assurance that from a
13 three-year standing start you can at least, you, Hydro, can
14 deliver 42 megawatts and, you know, of additional capacity
15 at a most competitive price, and we said yes we can and we
16 will be put to the test if you do that. So Government, you
17 know, accepted the facts that we had outlined to them and
18 instead of our issuing a request for proposals, for
19 argument's sake, at that time, everybody held back to see
20 what was going to happen with the smelter refinery, what
21 was going to happen with Churchill, and as subsequent
22 events turned out, nothing happened with the smelter
23 refinery, nothing happened with Churchill. We said that
24 the Government ... Government said can you do Granite
25 Canal, we said yes we can and we can have it on in three
26 years once you tell us to go. The only other alternative
27 was to come back and get a request for proposals and we
28 would have gone over the time line. Now that's all Hydro
29 had to do. The exercise of Government policy, you know,
30 in terms of directing us to talk to the, to industry as to what
31 they could supply to the grid, that was an exercise of
32 Government policy as a matter of, you know, thought to be
33 in the best interests of the people of Newfoundland and
34 Labrador, you know, by Government, not Hydro.

35 COMMISSIONER SAUNDERS: Mr. Wells, I have just one
36 more question before the break and I have some others that
37 I want to continue with after the break, but the question is
38 this, and see if we can agree on this or settle this, on the
39 one hand you're coming forward and saying you want to be
40 treated like a fully-regulated utility such as Newfoundland
41 Power, and on the other hand you're coming forward and
42 you're saying when we got in a crunch and when we
43 needed something done quickly, we took it away from the
44 Board's jurisdiction and asked the Governor in Council,
45 Lieutenant Governor in Council, to exempt it, i.e. the Granite
46 Canal. How can I in all seriousness accept your statement
47 that you want to be treated like a fully-regulated utility?
48 That's my dilemma.

49 MR. WELLS: The new source of generation or any new
50 source, these costs will be brought into the Board and the
51 Board will decide in the end the impact that these costs will
52 have on the system to be reflected in rates. Now, so the
53 only decision ... let's put it this way, if there were an

54 opportunity for anybody on the interconnected grid to
55 have the benefit of something better than Granite Canal,
56 then they would not have been well served by what
57 happened. I am confident that we can prove to everybody
58 that Granite Canal, which is part of the Hydro system, is a
59 very good source of generation in light of all other options,
60 and when we bring those costs in in the 2004 test year, you
61 will have an opportunity to review that and intervenors will
62 be able to say, was it a good decision or a bad decision or
63 was it, is it a good cost or a bad cost ...

64 COMMISSIONER SAUNDERS: I'm not arguing with the
65 decision.

66 MR. WELLS: Well that ... that gives you the ...

67 COMMISSIONER SAUNDERS: I'm not arguing with the
68 decision.

69 MR. WELLS: That gives you the opportunity then to
70 regulate. It doesn't take away your opportunity to exercise
71 the jurisdiction of this Board in regulating Hydro with
72 respect to rates, you know, and costs on other customers
73 by the fact that Granite Canal will be part of the system.
74 You still have that opportunity. These costs have yet to be
75 presented to you. When they come into the system you
76 will assess them in the same way that Newfoundland Power
77 wants something done or put something ...

78 COMMISSIONER SAUNDERS: Shouldn't we have
79 assessed them before they come into the system?

80 MR. WELLS: Had you in those circumstances, we done it
81 ... the best decision ... well that's the exercise of the
82 judgement. If we had filed back in '97 for something that we
83 didn't need till 2003 ...

84 COMMISSIONER SAUNDERS: Well, you ...

85 MR. WELLS: But we didn't know what we needed in 1997.

86 COMMISSIONER SAUNDERS: You said it would take five
87 years.

88 MR. WELLS: Yeah, but the problem was ...

89 COMMISSIONER SAUNDERS: You had to do it in '97.

90 MR. WELLS: ... in 1997, what would we file for, 200
91 megawatts for Voisey's Bay plus the normal requirement?
92 We didn't know what was going to happen. Nobody in the
93 island knew what was going to happen. Everything was ...
94 it was up ... you know, we had a situation where you could
95 not make a really good decision, nobody could have,
96 because we didn't know what the requirement was going to
97 be. We knew what the normal (unintelligible) requirement
98 was evolving. In each year ... you know, in '97 it said
99 something and then '98 it said something else. This is why
100 I say Mr. Budgell can take you through how these things
101 evolved to the point that we had a definable requirement at

1 a definable time for the, exclusive of any other issue like
2 Voisey's Bay, that the island interconnected grid would
3 need some new sources of capacity and energy, and we
4 had said to Government, no matter what happens here, we
5 know where we can get the best 42 megawatts and we know
6 we can deliver it in three years from whenever a decision is
7 made to have to go, and then the Government said in effect,
8 you know, okay, this all sounds very reasonable, let's wait
9 and see how matters unfold. And let's suppose that the
10 Voisey's Bay smelter had gone ahead at that time. The
11 response to that would have been coming out of that whole
12 exercise of trying to find a source of generation, which our
13 System Planning Department put together as I've
14 described, to meet that new circumstance, but nobody
15 knew what was going to happen.

16 MR. NOSEWORTHY, CHAIRMAN: I take the opportunity
17 here to ... will you be continuing ...

18 COMMISSIONER SAUNDERS: Yes.

19 MR. NOSEWORTHY, CHAIRMAN: ... Commissioner
20 Saunders? Thank you. We'll break for 15 minutes until 20
21 after. Thank you.

22 (break)

23 (11:25)

24 MR. NOSEWORTHY, CHAIRMAN: We'll continue on
25 with Commissioner Saunders' questioning of Mr. Wells,
26 please.

27 COMMISSIONER SAUNDERS: Thank you, Mr. Chair. Mr.
28 Wells, the five-year plan we talked about briefly this
29 morning, earlier, and there is a five-year plan filed with your
30 ... with the information that we have on the record. What
31 is that five-year plan? And there's a reference, as well, to a
32 five-year rate plan on page 8 at line 21, I think it is here, of
33 your pre-file, is that the same plan that we have on file?

34 MR. WELLS: No, no, no. On the Labrador interconnected
35 system what we've filed, what we've stated there is that we
36 would propose an initial rate for the Labrador
37 interconnected system initial set of rates effective January
38 1, 2002. And then following that we would file, at the next
39 hearing, the five-year plan that would complete the phase-
40 in of the Labrador interconnected rates. It's a two step
41 procedure. First re. to have the rates crystallized and a new
42 set of rate classes. There's six, you know, six we're
43 proposing instead of the 24. And then any rate
44 adjustments after that would be filed for a five-year period
45 to bring all the adjustments into effect. So there's a
46 preliminary step. But that reference to five-year rate plan
47 has nothing to do with a financial plan. That's specific to
48 the Labrador interconnected system.

49 COMMISSIONER SAUNDERS: Okay.

50 MR. WELLS: And to bring in uniform rates in Labrador.

51 COMMISSIONER SAUNDERS: Page 9 of your pre-filed,
52 and it's line 11 to line 17. Hydro is proposing that the
53 preferential rates on the isolated rural systems that
54 currently apply to fish plants, churches and community
55 halls be addressed in Hydro's next rate application. I can
56 think of reasons why, but what are the reasons for
57 postponing the inevitable, I guess, or that decision?

58 MR. WELLS: What we looked at was the impact of the
59 general rate increases that we are proposing. We looked at
60 the classes of customers who were the beneficiaries of
61 these preferential rates. The facts are that roughly \$2
62 million of that related to the government, provincial and
63 federal, and 500,000 related to all of the rest. And therefore,
64 as we proposed, we then said that, you know, on the total
65 revenue requirement of some 300 million plus and this issue
66 of the 500,000 and the fact that one would expect that the
67 Board would phase in any adjustments to get the
68 preferential rates eliminated that it would ... and we aren't
69 just suggesting to the Board that that's an approach to do
70 it. Recognizing, I suppose, the situation, as you now know,
71 and it was made known yesterday by the Chair, that I had
72 reason to believe that they were going to come before, that
73 at least one of the churches is contesting any increase in
74 Hydro's rates. The issues with respect to the churches out
75 there, I mean, on a number of occasions I've had
76 discussions with representatives of churches in rural
77 communities about their situation and their concern about
78 electricity rates and their ability to be able to cope with
79 electricity rates. You hear that if you go around the
80 communities from, you know, people who have community
81 halls and all these things. They're very, very much
82 concerned. So when we looked at the effect of the seven
83 percent that they would have to absorb in order to base, at
84 least, between that and the Rate Stabilization Plan we just
85 thought that there would be some merit in making that five-
86 year adjustment starting 2003. That's the only reason,
87 that's the only reason.

88 COMMISSIONER SAUNDERS: What class of customer is
89 picking up the shortfall that you're not getting from the fish
90 plants, the churches and the community halls?

91 MR. WELLS: That would be primarily, at the moment it
92 would fall to Newfoundland Power's customers.

93 COMMISSIONER SAUNDERS: Which are all on the
94 island?

95 MR. WELLS: Yes. And there's a component there for the
96 integrated system in Labrador down the road, yeah.

97 COMMISSIONER SAUNDERS: Do you believe that the
98 leaders, the people in charge of these fish plants, churches
99 and schools, or churches and community halls are aware of

1 that fact? Have you told them that Newfoundland Power's
2 customers are paying the shortfall on their electricity bill?

3 MR. WELLS: Yes. Specifically with the person who
4 represented the United Church publicly yesterday or the
5 day before that particular individual, I have discussed the
6 entire issue of the rate subsidies in the rural interconnected
7 service that we supply in our rural isolated service and
8 explained to him that other consumers have to pay in
9 support of these subsidies and that they have an interest
10 in the amount of the subsidy.

11 COMMISSIONER SAUNDERS: There's also a preferential
12 rate for government which you've alluded to, and that is
13 federal and provincial government, not municipal, I gather?

14 MR. WELLS: No, that's, if I understand, federal and
15 provincial government, yes.

16 COMMISSIONER SAUNDERS: And that shortfall was
17 about \$2 million, I think you said?

18 MR. WELLS: In total.

19 COMMISSIONER SAUNDERS: In total. And who is
20 picking up that shortfall?

21 MR. WELLS: That was going into the rural subsidy and it
22 was being paid up to December 31st, 1999 by
23 Newfoundland Power customers and our industrial
24 customers.

25 COMMISSIONER SAUNDERS: What justification is there
26 for Newfoundland Power and industrial customers up to '99
27 to pay the shortfall that you are not receiving from
28 government, provincial and federal?

29 MR. WELLS: It was part of the direction since 1989, I think,
30 with respect to the rural subsidy and the assignment of
31 those costs. I stand to be corrected but I think the change
32 came in 1989.

33 COMMISSIONER SAUNDERS: You're not proposing to
34 eliminate either one of those subsidies, ie, the community
35 halls, churches and fish plants or government with this
36 application?

37 MR. WELLS: No. We suggested an initial increase to the
38 governments and then a phase-in period for the remainder
39 of the next rate application.

40 COMMISSIONER SAUNDERS: I can understand the
41 phase-in to the earlier group I mentioned, but to
42 governments I have difficulty. Why is there are phase-in
43 plan with respect to municipal and federal governments ...
44 I'm sorry, federal and provincial governments?

45 MR. WELLS: Well, whatever the nature of their operations
46 in these communities we discussed earlier this morning
47 your term rate shock and what would be ... I think you

48 finally got me to say it's something in the order of 20
49 percent might be considered to be a rate shock. And what
50 we're proposing is an initial 20 percent and then, well, our
51 people will outline in 2003, we would outline how the
52 remainder would be eliminated over a five-year period. But
53 you know, you're looking at pretty well, I think the shortfall
54 of some 280 percent. But it can be done, as we propose, at
55 the end of the five-year period that would start in, say, 2004
56 and it would be something in the order of each year of
57 about a 20 percent increase, you know, in that range. It
58 can be eliminated forthwith, but, you know, we had looked
59 at it in terms of not more than 20 percent to that class over
60 a period of time.

61 COMMISSIONER SAUNDERS: Was there any thought
62 given to going for the full increase at this stage?

63 MR. WELLS: Oh, yes. Well, I'm sure, yes, there was.

64 COMMISSIONER SAUNDERS: Was it discussed with
65 government?

66 MR. WELLS: No, no, no, no. The only ...

67 COMMISSIONER SAUNDERS: So you decided, you
68 decided?

69 MR. WELLS: We put forward the application. As I said in
70 earlier testimony here this week, that we briefed
71 government on our rate application.

72 COMMISSIONER SAUNDERS: Yes.

73 MR. WELLS: And these ... putting this together in this
74 way in our application with respect to all the rate issues is
75 the way Hydro, it's all part of our application, how we
76 propose to handle the total situation.

77 COMMISSIONER SAUNDERS: I wouldn't expect you to
78 know the answer to this next question, but one of your
79 people who are going to be following you may and so I
80 guess I'm putting them on notice. What's the breakdown
81 of the \$2 million as between provincial and federal?

82 COMMISSIONER SAUNDERS: I think it's 1.5 provincial
83 and 500,000 federal.

84 COMMISSIONER SAUNDERS: Okay.

85 MR. WELLS: In that range.

86 COMMISSIONER SAUNDERS: In that range?

87 MR. WELLS: It's two thirds, yeah.

88 COMMISSIONER SAUNDERS: How many establishments,
89 how many agencies, departments are we talking about?

90 MR. WELLS: Off the top of my head I don't ... I think that
91 we might have filed that in response to a ...

92 COMMISSIONER SAUNDERS: You may have?

1 MR. WELLS: I'm not sure. Certainly, I don't have that
2 knowledge in my head at the moment.

3 COMMISSIONER SAUNDERS: Okay.

4 MR. WELLS: It wasn't part of our application, I don't think.
5 And I don't know if there's a request came in ...

6 COMMISSIONER SAUNDERS: No, I guess my only point
7 is that you're asking us to take the same, I'll call it attitude,
8 with respect to the shortfall with government departments,
9 federal and provincial, as you are asking us to do with the
10 churches, fish plants ...

11 MR. WELLS: No, no. We're asking ... we're saying that as
12 of January 1, 2002 both governments, their agencies will be
13 subject to a 20 percent increase.

14 COMMISSIONER SAUNDERS: Yes, yes. But ...

15 MR. WELLS: Yeah. The others would ...

16 COMMISSIONER SAUNDERS: ... you're still asking us to
17 consider not implementing the full rates to any of those
18 groups?

19 MR. WELLS: That's true.

20 COMMISSIONER SAUNDERS: Yes, okay. Page 13 at the
21 bottom. And it's an answer to the last question. I wonder
22 if you would read that answer down as far as "Crown
23 owned"?

24 MR. WELLS: The question and the answer or just the
25 answer?

26 COMMISSIONER SAUNDERS: Just the answer, Mr.
27 Wells.

28 MR. WELLS: "I would like to preface my remarks in this
29 area by saying that in the assessment of Hydro's financial
30 position and the determination of its revenue requirement
31 the Corporation should not be viewed differently than any
32 other utility operated as a commercial entity, whether it be
33 investor owned or, as in the case of Hydro, Crown owned."

34 COMMISSIONER SAUNDERS: And you still stand by
35 that?

36 MR. WELLS: Oh, definitely.

37 COMMISSIONER SAUNDERS: Yeah.

38 MR. WELLS: Yes. You appreciate the context of those
39 remarks, if you're looking at what would be a normal rate
40 base rate of return assessment for Hydro and, of course,
41 we've modified our position for the purposes of this
42 application.

43 COMMISSIONER SAUNDERS: If you go to page 14 at line
44 20 to 22 ... 19 to 22. I'll read it quickly. "As a result, the
45 target of an 80/20 debt equity ratio, at least in the short-

46 term, and until there is a change in public policy, should
47 suffice instead of the arguably normal requirement of a
48 60/40 debt equity ratio." What is meant by the phrase
49 "Until there is a change in public policy"?

50 MR. WELLS: I think I would refer you to Mr. Osmond's
51 testimony, who is doing detail on the point of rate of return
52 and debt equity and our position in this area, he's our
53 witness on that from Hydro. And one of the reasons we're
54 saying that is that while we, with the support of our expert
55 witnesses, are saying that Hydro, over time, should have a
56 60/40 debt equity ratio and obtain its ... the corresponding
57 rating, you know, for getting its capital requirements in the
58 market, that it's going to take some time to get there. And
59 that we are not proposing that we move to a 60/40 debt
60 equity ratio immediately, by any stretch of the imagination,
61 that our shorter term objective is consistent with the
62 Board's recommendations back in ... was that the move to
63 an 80/20 debt equity ratio, one of our expert witnesses says
64 it would be preferable, then, to keep the march going to get
65 to 75, you know, and then, ultimately, over a period of time,
66 achieve it. But I think that the intention of my remark and
67 what's in Mr. Osmond's pre-file testimony is that there is an
68 energy policy review announced to be undertaken by
69 government. And given the fact situation we're in now and
70 pending what may come out of any such review, that we're
71 not proposing to suddenly jump to a 60/40 debt equity
72 ratio.

73 COMMISSIONER SAUNDERS: Okay. Page 15 at the
74 bottom, lines 26 and 27. It reads "I should also point out
75 that in 1992 the Board recommended that Hydro move
76 slowly towards the attainment of an 80/20 debt equity
77 target."

78 MR. WELLS: I'm sorry, this is page 15?

79 COMMISSIONER SAUNDERS: I'm sorry, 15 of your pre-
80 filed.

81 MR. WELLS: I'm sorry, at the bottom of page 27.

82 COMMISSIONER SAUNDERS: At the bottom.

83 MR. WELLS: Yes.

84 COMMISSIONER SAUNDERS: The last paragraph.

85 MR. WELLS: Yes.

86 COMMISSIONER SAUNDERS: That first sentence.

87 MR. WELLS: Yes, that the point I just referred to, the
88 Board's position with respect to equity in ...

89 COMMISSIONER SAUNDERS: 1992 is when the Board
90 recommended that?

91 MR. WELLS: Yes.

92 COMMISSIONER SAUNDERS: Yes. And here we are

1 again in 2001 really saying the same thing, aren't we?
2 When I say "we" you are saying the same thing. In coming
3 forward with your application you're saying that you
4 should move towards an 80/20?

5 MR. WELLS: We've been there and below.

6 COMMISSIONER SAUNDERS: Yes.

7 MR. WELLS: What we're proposing now we would drift
8 back up over that 80/20 ratio for a short period which we
9 think, on the basis of our financial advice, that it's not
10 going to be a detriment. And then we would get back to
11 the 80/20 and hope to carry forward from there. So, the
12 debt equity ratio will change from year-to-year but we have
13 been successful in going toward the Board's
14 recommendation and getting down to 80/20 and a little bit
15 below. And now we're going to go up again for the
16 reasons that are stated in our application. But we don't
17 plan, at least in Hydro we don't plan for that to become a
18 systemic thing. It would be for the reasons in our
19 application.

20 COMMISSIONER SAUNDERS: Two questions that I
21 asked earlier but I want to kind of turn them around, I
22 guess. One is, you said, I think you said something to the
23 effect that the Granite Canal decision was a good one and
24 time will prove it to be good?

25 MR. WELLS: Yes. I don't remember. We are confident ...

26 COMMISSIONER SAUNDERS: You have confidence in
27 that decision to go ahead with Granite Canal?

28 MR. WELLS: We have confidence in recommending to the
29 world at large, anyone, that in the context of the
30 Newfoundland system that the Granite Canal, in terms of
31 meeting the energy requirements that were forecast at the
32 time and which will materialize in the next year or so, that
33 Granite is as good as it gets. That's not to say that ... I
34 mean, we know of no other waterway out there where
35 anything that's capable of development could do that and
36 it would be highly unlikely that any other source could
37 match that price. It's just a fact of the system.

38 (11:45)

39 COMMISSIONER SAUNDERS: And you're probably right.
40 But what would happen, what would be Hydro's position
41 if Granite Canal was a bad decision? If the bottom fell out
42 of the economy, if the requirement for additional power
43 wasn't there in five years time?

44 MR. WELLS: Oh, you mean ... well, no, that wouldn't
45 reflect ... I thought you meant if it came in costly or
46 something. But if something happens in the requirements
47 of the system for material reduction in the requirements,
48 then that's nobody's fault. What you have is that the
49 forecast requirement is more than 60, 70, 80 megawatts and

50 Granite is 42 of trying to meet that requirement. And it's to
51 the best of the ability of human capability we're forecasting
52 requirements, and because of the lead time from the
53 requirement to the time the power must be available you
54 make decisions. And we've always done that in the
55 system, somebody has. You know, in every system you
56 have to forecast. And then if we start Granite and, for
57 instance, something untoward happened that we don't
58 need all that ... any part of that excess capacity or energy
59 that would be an unfortunate consequence of what would
60 have been a prudent act to make the decision to go forward
61 with it.

62 COMMISSIONER SAUNDERS: If it was a bad decision
63 who would end up paying the cost?

64 MR. WELLS: I think ... well, I haven't encountered that
65 kind of situation. I think the cost, as it is now going
66 forward, would end up in our rate base. If you make
67 decisions that are bad and you leave it as a stranded cost
68 to Hydro it would go in our rate base. That would be a
69 legitimate ... the requirement was defined to be ... was
70 legitimately there and legitimately defined in terms of the
71 forecast no matter who supplies the energy. So, that's like
72 saying if we made a decision, for argument sake, or
73 somebody went ahead with the development of Gull Island
74 only to find out that the world has totally changed over the
75 ten years before you could bring it into production, you
76 know, is that a ... can you fault somebody for that? Who
77 would pay for it depends on the proponent. In this case,
78 depending who's building it. I don't know if I can add
79 anything more than that in terms of changed circumstances
80 such as that. What would you ... what would be the
81 situation, for argument sake, if the system, because the
82 principal would still apply if, for some reason, we didn't
83 need half of the requirements of the system and we had to
84 shut down Cat Arm and Upper Salmon and on these other
85 projects that have been built and are part of the cost base.

86 COMMISSIONER SAUNDERS: Well, Mr. Wells, no, I was
87 just trying to deal with the question of the Board's
88 jurisdiction here in respect of certain projects that Hydro
89 becomes involved from time-to-time. And it's all well and
90 good, I guess, to say, well, regardless, Granite Canal is a
91 good decision and so therefore it's going to have all kinds
92 of positive impact on Newfoundland and Hydro and
93 Newfoundland Power and everyone else involved. But if
94 it's a bad decision, it's my question, I guess. So, our job as
95 regulators becomes all the more difficult and practically
96 impossible and impractical when we can't deal with the
97 whole pie. You can understand that. In other words, if
98 certain of the operations of Hydro are exempted from our
99 oversight, this Board's oversight, it makes it very difficult
100 to make reasonable and sound decisions in respect of the
101 other matters that you bring towards or bring forward to us.

1 And I think you can understand that?

2 MR. WELLS: I appreciate the nature of your remarks. The
3 only thing I can say, Commissioner, is that you will have
4 the opportunity or the Board of Commissioners will have
5 the opportunity to put Hydro's feet to the fire with respect
6 to the Granite development and its cost on the system, you
7 know, down the road. The other thing is, had we come the
8 route to have the Board decide on the next source and we
9 had to make the move back in '97, '98, to issue a request for
10 proposals, we just done a request for proposals of
11 everybody to meet the smelter thing. No final decision
12 made. What would we have put in our request for
13 proposals to put forward for your consideration when we
14 didn't know if it was going to be a 200 base load for the
15 smelter and another 40 or 50 for the island? Would we ask
16 everybody for, you know, give us a 240 case scenario, give
17 us a 40 megawatt case scenario and put all of these people
18 out there that might respond to the cost and expense for
19 something that we ourselves didn't know what we wanted?
20 That was the dilemma that we were in as Hydro. We were
21 ... we could see the forecast materializing, you know, as we
22 do every year and we were in a situation that we did not
23 know what would be the result of the other impacts, and it
24 was nothing more than that in the background. And the
25 only comfort we could give to anybody in that sense was
26 in terms of delaying a decision which means that
27 government would have to act without ... you know, it
28 wouldn't fit within the Board's situation of giving every
29 applicant an opportunity to say that they had something
30 they could contribute and go through that kind of an
31 exercise. But all we said is that we have a fall back here.
32 We do have Granite, which is a very good project that can
33 help down the road.

34 COMMISSIONER SAUNDERS: Two more areas of
35 questioning that I wanted to explore, and it shouldn't take
36 very long, Mr. Wells. One is in respect of your capital
37 budgeting process. And I wonder if, for the record, you
38 could briefly indicate what that process is?

39 MR. WELLS: Yes. Well, the capital budget starts within
40 the operating divisions down through the system, that put
41 those that are closest to that, put forward the requirements
42 and the rational that backs it and it comes up through each
43 division. And then after that level it comes into the
44 management committee and we review the first go round of
45 the capital budget. That, in the terms of a linear event in
46 the year, normally we would be looking at the first parts of
47 the capital budget in the fifth or sixth month of the year, the
48 work that's been done on it up to that time having occurred
49 within the various operating divisions and departments.
50 And then this is all, was a vetting process there and
51 clearing down and send targets related to our free cash
52 flow, the delineation of those projects which are special

53 and don't fit within the annual cash flow such as major
54 expenditures where you see we are embarked, as you know
55 as a commissioner, on this major upgrade of transmission
56 over the last few years on the Avalon Peninsula. Well, you
57 don't try to conform that to the whole thing. You take that
58 kind of a circumstance or some major expenditure that
59 might occur within a production situation and you assess
60 that against your cash flows and then you start the priority
61 of what is absolutely essential, essential, what can be
62 deferred and what would it look like in the picture going out
63 over time and the impacts of deferrals or cancellations. It's
64 that type of a ... and a fair amount of discussion right up
65 through the departments and right to the highest level in
66 the Corporation. And it's not finalized then until it's
67 presented to the Board. You know, it's later in the year we
68 present the capital, the final capital budget to the Board.
69 So there's a process, it's fairly lengthy, and the opportunity
70 to vet it through at the level, say, of the vice-presidents
71 and myself and the management committee, fit it in with the
72 corporate financial situation. We then take it to our board
73 of directors, that's the final review, and then we submit it to
74 the Public Utilities Board.

75 COMMISSIONER SAUNDERS: But going through that
76 process ... and that process, I assume, has been in place at
77 least for the past ten years?

78 MR. WELLS: Certainly since my coming to Hydro ...

79 COMMISSIONER SAUNDERS: Since your time.

80 MR. WELLS: ... that's the type of thing that we go through
81 ...

82 COMMISSIONER SAUNDERS: Which is the past five
83 years?

84 MR. WELLS: ... yes.

85 COMMISSIONER SAUNDERS: And someone yesterday,
86 in questioning you on this, was pointing out that there's an
87 average, I believe, of 15 percent variance over the past so
88 many years, ten years, I think?

89 MR. WELLS: That was, yeah, the review done by Grant
90 Thornton on behalf of the commissioners.

91 COMMISSIONER SAUNDERS: Yes, Grant Thornton's
92 review indicated that. Now, going back, for a minute, to
93 your first few minutes on the stand when you were giving
94 your background. You indicated that you had spent some
95 time with Fishery Products, you indicated you spent some
96 time with FANL, Canadian Salt Fish Corporation, to name
97 three. Is this kind of variance in capital budget, in the
98 capital budgeting process one that you're used to in those
99 organizations or is it something that you've first come
100 across with Hydro, a 15 percent variance?

101 MR. WELLS: No. Well, the capital budget, depending on

1 the business you're in or the operation that you're in and in
2 Fishery Products, as the ... before the moratorium we were
3 a very large organization with the capital requirements. We
4 would always try to keep the capital budget within, you
5 know, our free cash flow and keep the debt of the fish
6 company in debt, our motto was, didn't really mix. So, you
7 try to hold it down. So, that was one aspect of it that we
8 were, always had a more legitimate greater demand than we
9 could service, because the need was there to spend money
10 but there were restraints that we would put on. But having
11 decided on the capital budget, could we then get it done
12 within the time frame. I can't recollect, you know, whether
13 we had occasions over and under. In no way did we ever
14 come out spot on, no way.

15 COMMISSIONER SAUNDERS: Well, let me ask the
16 question another way, because I'm used to capital budget
17 processes too, in my past experience, and I can't remember
18 working with any organization where it would be tolerated
19 to have a 15 percent variance.

20 MR. WELLS: The question ... you know, and I'm not
21 confirming anywhere ...

22 COMMISSIONER SAUNDERS: And I'm sure ...

23 MR. WELLS: ... that we had a 15. But what we have said
24 in this particular instance, that the variance, when you take
25 out projects which were delayed or cancelled or the
26 projects that were carried over, you have a much lesser
27 variance. The only thing that the figures that Grant
28 Thornton indicates is that the variance is always under, it
29 never is over, you know.

30 COMMISSIONER SAUNDERS: Well, I don't want to get
31 into an argument on what it is that Grant Thornton
32 interprets and what you interpret. All I'm saying is that it
33 appears as if there's an average of a 15 percent variance in
34 your process or in your actual as compared to budget over
35 the past ten years. And that's not indicating or is not
36 indicated in the trends that there's any hope that that's
37 going to improve over the next few years. Because I look
38 at 1998 and that was the worst of all at a 40 percent variance
39 or something like that. So, is the Board, this Board, when
40 asked to approve capital budgets for Hydro, expected to
41 approve that 15 percent cushion or should we take your
42 number and knock 15 percent off it and not have to go
43 through the process of the public hearing?

44 MR. WELLS: No, I think the obligation on us is to present
45 it to the Board and the Board to vet it in a public hearing.
46 What the ... since Hydro has had to submit its capital
47 budget to the Board this matter has certainly been printed
48 on the Hydro people involved, you know, in presenting the
49 budget, the issue of the carry over. The question is what
50 are the circumstances that prevented Hydro from meeting
51 its capital budget targets and carrying it out. And ...

52 COMMISSIONER SAUNDERS: For the last ten years?

53 MR. WELLS: Well, I don't know about ten years. I don't
54 have the ...

55 COMMISSIONER SAUNDERS: Back in '92.

56 MR. WELLS: The Grant Thornton report took the ten
57 years, yeah, well. But, well, before having to apply to the
58 Board for the approval of the budget there would be much
59 less significance whether you were over or under. What
60 does it mean? You know, nobody, as I recollect in Fishery
61 Products International, other than our own Board and our
62 own management comfort, if we were over or under the
63 capital budget expenditures because of circumstances in
64 the run of the year, you know, I don't want to be trite about
65 it, but so what. What would be the significance of it unless
66 we didn't get an item that we really needed for whatever the
67 reason? So the issue, in terms of the capital budget is that
68 we now have it in place, I mentioned it earlier, you know,
69 with new software tools to be able to go through the ...
70 track the projects, planning and scheduling of the process
71 and every part ... and then going through the year we have
72 critical reviews with respect to those projects. But things
73 may come up, like in an essential service, which is, say,
74 different from the other companies that I worked for. You
75 know, you couldn't say it was absolutely an essential
76 service. But if we find, during the course of the year, that
77 something has happened that we have to attend to and
78 make right to keep the service reliable then we will abandon
79 something that may have been in our capital budget and
80 get that done. And then at the end of the year it shows up
81 that we didn't complete that part of our capital budget. If
82 you go back to the period of the ice storm and our first
83 attempts with respect to ... or first moves with respect to
84 implementing the upgrade of the Avalon transmission lines,
85 we had all kinds of difficulties at that point. You know,
86 these are the types of things. The question that is from the
87 Board where this makes a difference, I suppose, because of
88 a regulated utility, is that these expenditures are related to
89 our costs of operation and have some impact on
90 consumers. In private enterprise it wouldn't have any ...
91 you know, the issue of the cost of your product or ... we're
92 not talking about setting rates or anything. The Board, in
93 just taking ...

94 (12:00)

95

96 COMMISSIONER SAUNDERS: Does your shareholder
97 have any impact or anything to say about the approval of
98 the budget?

99 MR. WELLS: No. We submit a copy of the capital budget
100 to the Minister of Mines and Energy. But to my
101 knowledge, the issue of the capital budget, that's a process

1 that we are obliged to do, but we come to the Board here
2 for the capital budget. It's a matter of our Board approving
3 the thing before filing. That's more of an informational
4 thing. Certainly, in my experience, we've never had any
5 question about a capital budget other than internally and
6 going to our own Board.

7 COMMISSIONER SAUNDERS: Okay, Mr. Wells, thank
8 you on that matter. **NP-6**, Mr. O'Reilly, if we might. This is
9 the last question I had, I think. I'll wait until you get it up
10 there. And I think if you go to page 2. Here we are. And
11 continuing on there, you don't have to move it now, Mr.
12 O'Reilly, but pages 3 and 4 is just a continuation of the
13 summary by year, starting in 1992, of your head count, I'll
14 call it, or your body count or number of employees,
15 temporaries. You don't count your temporaries the same
16 way that Newfoundland Power does, the FTE System, I
17 gather?

18 MR. WELLS: No. They count all their employees in terms
19 of the FTE approach.

20 COMMISSIONER SAUNDERS: Right. So how do you ...
21 for instance, let's take management and internal auditors,
22 one temporary showing up on December of '92. Is that a
23 person who worked for 40 hours a week for all the months?

24 MR. WELLS: '92. I'm afraid ...

25 COMMISSIONER SAUNDERS: No, no, no. I'm just asking
26 you about the number, does it mean that one person may
27 have worked for an hour or was it ... how do you
28 understand that number?

29 MR. WELLS: That number would have been the ... there
30 was, as of December the 31st, 1992, I assume, one
31 temporary person working in management in internal audit.
32 Now, how long they would have worked during that year,
33 I couldn't tell this.

34 COMMISSIONER SAUNDERS: You don't know that, of
35 course.

36 MR. WELLS: No, no, but I don't know if you can. You'd
37 have to go back to the record.

38 COMMISSIONER SAUNDERS: But it's not an equivalent
39 of one person full-time?

40 MR. WELLS: Not necessarily, no.

41 COMMISSIONER SAUNDERS: No. It could be a person
42 for an hour?

43 MR. WELLS: Yes. Or it could have been a person for the
44 whole year.

45 COMMISSIONER SAUNDERS: Or for the whole year.

46 MR. WELLS: But you can't tell from that.

47 COMMISSIONER SAUNDERS: It's a temporary person
48 that we can't put a number on in respect of comparing the
49 number of hours work with the permanent staff?

50 MR. WELLS: That is correct. Whereas a full-time
51 equivalency would give you the ...

52 COMMISSIONER SAUNDERS: Right. Now, if you would,
53 Mr. O'Reilly ... well, first of all, Mr. Wells, just note the
54 numbers we have in '92, 10, 12 and 118.

55 MR. WELLS: Yes.

56 COMMISSIONER SAUNDERS: And go to the end of the
57 table, would you, Mr. O'Reilly? And 10, 12 and 118 is 1130
58 from the previous number and 855 and 289 is one ... had
59 some chartered accountants around here.

60 MR. WELLS: Might be 1144.

61 COMMISSIONER SAUNDERS: Okay. It's not a big lot of
62 difference. But, you can't make the assumption that you
63 have the same number of working hours credited to all
64 these people because some of them may have worked for
65 an hour and some of them may have worked for a day and
66 still got counted amongst the 289 temporary people?

67 MR. WELLS: Yes. I think that was the point I was making
68 with counsel for Newfoundland Power.

69 COMMISSIONER SAUNDERS: Yes.

70 MR. WELLS: That ... and others would, you know, what ...
71 because the suggestion was that a reduction in permanent
72 could have been offset by the increase in temporary, for
73 argument sake, or an increase in temporary. And, of
74 course, you have to look at then what the temporary
75 employees were employed for what period and for how
76 long. I was prepared to stick to the final numbers, you
77 know, in terms of looking at the thing. You know, the
78 actual numbers, I don't know, but I know in temporaries we
79 have temporary of part-time meter readers, you know, in the
80 small communities that we service. That's not a full-time
81 job to go out and read the limited number of meters, so you
82 have to assess it. Or if we take on apprentices, for
83 argument sake, to make sure our compliment of journeymen
84 over time is kept in balance, and they would be retreated as
85 temporary positions. So you have to look at the numbers
86 to get the real picture.

87 COMMISSIONER SAUNDERS: Okay. Look at the
88 permanent numbers that you have from the two months
89 that we took as an example.

90 MR. WELLS: Yes.

91 COMMISSIONER SAUNDERS: And you have 150
92 something drop in permanent and 170, approximately,
93 increase in temporary?

1 MR. WELLS: Yes.

2 COMMISSIONER SAUNDERS: So are we saying that
3 Hydro's ... the number of people working at Hydro today
4 and the number of hours that they put in are the same as it
5 was ten years ago or 1992?

6 MR. WELLS: No. I would suggest that there is a drop in
7 the total number of hours that are worked, because the
8 permanent employees would have been working full-time.
9 The temporary employees in 1992, those 118, you know, at
10 the moment we don't know how many hours they put in
11 together. And for the 289 that are temporary in the 2001
12 year you'd still have to look at the total number of hours.
13 It may be helpful in the information that's been filed with
14 the Board when you look at the total dollars for the
15 permanent ...

16 COMMISSIONER SAUNDERS: Yeah, you can look at the
17 dollars and ...

18 MR. WELLS: ... and temporary in, you know, these
19 categories. And you look at over time that in this total area
20 of salaries and wages that in the period between 1992 and
21 even the 2002 forecast, at the bottom line of everything,
22 including group insurance and whatnot, we're up about 1.2
23 percent on the figures that we filed. On just the permanent
24 salaries category we're nine tenths of one percent and on
25 the temporaries and overtime we are in a negative percent
26 increase. You know, but that's just the math. So this is
27 how I would prefer that we were assessed in terms of our
28 costs, are the costs reasonable. The question is what have
29 we done. If you can go ten years and you have less than
30 a one percent increase in your permanent salaries and a
31 decrease, in fact, in your temporary salaries, you know,
32 that's a record that I'm prepared to stand on that.

33 COMMISSIONER SAUNDERS: You're moving towards a
34 full-time equivalent measure, I think, aren't you?

35 MR. WELLS: Yes, we are trying to ... we are moving
36 towards implementing a full-time equivalent, which would
37 make it easier to assess the situation, you know, from your
38 perspective as well as ours.

39 COMMISSIONER SAUNDERS: Right. Okay. That's all I
40 have, Mr. Chair. Thank you, Mr. Wells.

41 MR. NOSEWORTHY, CHAIRMAN: Thank you,
42 Commissioner Saunders, thank you, Mr. Wells. We'll now
43 proceed to Commissioner Whelan and her questions.

44 COMMISSIONER WHELAN: Thank you, Mr. Chair. Good
45 morning, Mr. Wells.

46 MR. WELLS: Good morning.

47 COMMISSIONER WHELAN: Looks like good afternoon
48 now. You'll be pleased to hear, and perhaps Mr. Osmond

49 not so pleased to hear, that I think after listening to your
50 answers most of my questions are for Mr. Osmond, as well.
51 I only have a few questions for you. In terms of the
52 variability in fuel prices and the challenge, I guess, that
53 you, as a utility, have in trying to cope with that variability,
54 do you have any sense of how other utilities in Canada
55 deal with that problem? It's not a problem, obviously, that's
56 unique to Hydro. I'm certain that there are other similar
57 utilities that have a heavy reliance on thermal or more
58 reliance on thermal generation than Hydro does. Are you
59 aware of any other ...

60 MR. WELLS: Only to the extent that I think in the pre-filed
61 testimony or in response to a request for information
62 there's some ... there's information detailed in the
63 documentation filed with respect to the other utilities and
64 whether they have something that is a fuel adjustment or
65 Rate Stabilization Plan. But I'm really not conversant with
66 the other utilities to be able to really, you know, discuss it
67 with you in ... constructively.

68 COMMISSIONER WHELAN: Okay, that's fair enough.
69 I've read the material in your ... in the pre-file but I was just
70 wondering if there was anything sort of on the horizon in
71 terms of some new ways of dealing with this. I know the
72 Consumer Advocate has suggested we scrape the Rate
73 Stabilization Plan, but I don't get a sense that there's much
74 else for us to look at other than going back to a fuel
75 adjustment.

76 MR. WELLS: Fuel adjustment. And I think it's ... yes,
77 there's nothing that I am aware, nor has anybody, you
78 know, in our organization come forward with maybe there's
79 another way. We haven't found anything that would, in
80 our view, be any better, say, than the Rate Stabilization
81 Plan if your objective were to smooth out the variability.

82 COMMISSIONER WHELAN: Okay. Granite Canal is
83 coming on stream in 2003. As I understand it, Granite Canal
84 was ... is being put in place to meet a capacity problem or a
85 capacity shortfall only?

86 MR. WELLS: To meet the deficit in capacity in energy in
87 2003.

88 COMMISSIONER WHELAN: Will Granite Canal ... well, I
89 guess I know the answer to that, then. Granite Canal, then,
90 won't have any impact in terms of deferring Holyrood, firing
91 up Holyrood, for example? You're still going to be having
92 to use Holyrood?

93 MR. WELLS: Well, it may, in terms of the operation. And
94 Mr. Budgell could explain it better and Mr. Henderson. It
95 may be helpful at the time that we would, depending on the
96 management of the system, use the power and energy from
97 Granite in preference to Holyrood if the system will
98 accommodate that at a point in time. These things are very

1 carefully managed.

2 COMMISSIONER WHELAN: Yes.

3 MR. WELLS: So there may be some advantage with
4 respect to the, you know, the operation of Holyrood. But
5 the important thing about Granite and other projects is that
6 they can meet the system firm load in terms of the way the
7 system is designed and operated. Now, that's all in Mr.
8 Budgetell's evidence.

9 COMMISSIONER WHELAN: Okay. Just bear with me, I
10 don't want to have you answer questions that have already
11 been answered. Just in terms of the follow-up from a
12 question that Mr. Saunders, or a line of questioning that
13 Mr. Saunders was pursuing with you. And I think he was
14 dealing with the rate equity issue in terms of who pays for
15 the service if one class of customers don't pay for their full
16 cost. And I note in your opening statement you make the
17 comment that this application or certainly your approach to
18 rate issues is to reduce the impact of rate increases on
19 customers while laying a foundation for rate equity
20 amongst all rate payers. Would you be able to give me
21 some sense as to whether this application, or is it your view
22 that this application does lay that foundation and to what
23 extent it does, because I get a sense that the rural subsidy
24 is still there 100 percent to the Newfoundland Power
25 customers. There doesn't seem to be any, other than the
26 general rate increase but no attempt to address that issue.
27 The preferential rates are still there, the Labrador
28 interconnected will start to pay their share of the rural
29 subsidy if the Board sees that. But I'm not sure as to what
30 kind of foundation is being laid for rate equity, other than
31 the looking out over, certainly what we can see, at least
32 seven years before we might be in a position to actually
33 say that we're some way down that road.

34 MR. WELLS: Well, if we take it by system, the Labrador
35 interconnected system, the first thing is to eliminate all
36 those ... you know, in that integrated system was to
37 eliminate all the rate classes that are there now for such a
38 limited number as a first step. It's not additional revenue to
39 Hydro, but we would have made a great move if we could,
40 as a part of this application, get the existing 24 rate classes
41 and bring them down to six classes and there would be
42 adjustments that individual customers would have to make.
43 But that would greatly assist laying a foundation for the
44 future and then going forward from that as would be
45 outlined in Mr. Hamilton's evidence with respect to their
46 actual rate structures. I think that's one thing of laying a
47 foundation. With respect to the preferential rates, while it
48 certainly slows the process down, it is still fundamentally
49 based on the Board's five-year phase-out and for the ... you
50 know, which we've discussed, the two government
51 services, we're starting with an initial 20 percent increase
52 and then a procedure over the five years starting in 2004 to

53 phase it out. Again, that's laying the foundation. And the
54 other thing we've discussed at length is that we did
55 suggest that we not start the phase-out for that other
56 segment in preferential rates effecting the schools and the
57 community halls and whatnot until 2004 and then go
58 forward. So, it is true, to some extent, that we will not have
59 dealt with the issue in terms of equalizing or eliminating any
60 preference for a period of time, and whether you would
61 accept what we're proposing as being reasonable under the
62 circumstances or not, but I mean, that's well within the
63 jurisdiction of the Board. And the only reason we
64 proposed it that way, quite frankly, was looking at the
65 increases that were to come into the system as we looked
66 at where the price of oil was going. Another factor that in
67 terms of our appearance before this Board since the last
68 rate application, if you look back only two years ago I think
69 it was around this time two years ago the price of fuel had
70 gone way down. And, you know, one could have
71 anticipated if you'd taken that point in time to say what
72 would the rate increases be then we would have not have
73 ballooning balances outstanding in the Rate Stabilization
74 Plan or exceeding the cap on the Rate Stabilization Plan.
75 And if that kind of situation had prevailed, you know,
76 prices down in the 20 or lower range, then I'm sure that our
77 application would have had the rates starting in 2002 with
78 a five-year phase-out there. I think that ... and I think that's
79 the kind of thing you would have seen. It is no doubt this
80 large increase and the fact that everybody was saying, you
81 know, oil prices are never going to go back to where they
82 were, that substantially influenced our thinking, there's no
83 doubt about it.

84 (12:15)

85 COMMISSIONER WHELAN: In terms of the rate equity
86 issue, I guess, it's still in reference to. And the Consumer
87 Advocate made reference in his cross-examination when he
88 made the statement that consumers should be aware of
89 what effect fuel prices have on their bills. I think he was
90 making the point that, you know, consumers should know
91 when they pay their bill that there's still this much
92 outstanding which relates to the impact of the rise of fuel
93 prices over a period of time. And I'm thinking in terms of
94 the rate equity issue, in particular. What would be your
95 sense of how consumers, in particular the consumers of ...
96 customers of Newfoundland Power understand to what
97 extent their bill actually reflects a subsidy of other
98 consumers or electricity in the province or do you think
99 that that's a generally ...

100 MR. WELLS: Well, it's ...

101 COMMISSIONER WHELAN: ... that's generally
102 understood among consumers in the system?

103 MR. WELLS: Well what ... I'm not sure. I don't think that

1 it's not so much as what consumers are told, because I'm
2 sure consumers have been told that there are subsidies and
3 consumers are told about the effect of oil on the Rate
4 Stabilization Plan. The issue, I guess, is the degree of
5 absorption and focus of that issue in the minds of
6 individuals. A lot of times you can put inserts in your
7 power bills, you may do it yourself, you know, unless
8 you're ... if you were other than a Commissioner of the
9 Board of Public Utilities. But an insert in the power bill or
10 telephone bill is, you know, you're looking at the bill, you
11 got to pay it. And surprisingly, people don't focus on that.
12 And it's not for the lack of telling. I can go into an area and
13 make a speech or something somewhere and I talk about
14 the fact that we have to burn oil in Holyrood and it comes
15 up and you state the facts. But I mean, that doesn't seem to
16 have a huge impact on anybody. And the real challenge
17 here, I said earlier, there's a lot of people out there that
18 really doesn't differentiate, or if put to the test can't
19 differentiate, you know, only in a fuzzy way of the role of
20 Newfoundland Power as a distributor, the role of Hydro as
21 a generator and high voltage transmitter and things like
22 that. And the fact that they are affected by oil prices and
23 the rates, which has been in effect for 15 years and was put
24 in at the very insistence of consumer groups. So
25 everybody must have had some fair knowledge of the Rate
26 Stabilization Plan during that high period of public scrutiny
27 and those press reports and that were filed here. And
28 Newfoundland, we put in adjustments with respect to every
29 time that the Newfoundland Power's customers in July 1
30 have a Rate Stabilization Plan adjustment I'm pretty
31 confident they always put a note in their bills to that effect
32 and explain it to them and, you know, the amount of the
33 adjustment and where it's coming from. But to say that
34 their customers go to sleep at night and the last thing on
35 their mind is that darned Rate Stabilization Plan adjustment,
36 I don't think so.

37 COMMISSIONER WHELAN: I think I was coming at it
38 more from the perspective of this suggestion that the
39 reason this application only goes so far is because of the
40 magnitude of the rate increases that will flow through to
41 customers, and I think that's a fair statement.

42 MR. WELLS: Yes.

43 COMMISSIONER WHELAN: And that I wonder if those
44 customers that are going to be absorbing that increase
45 might be more accepting of the increase if they also
46 understood that this is also working towards addressing
47 some of the other inequities that are inherent in the rates
48 that they're paying. And, for example, Mr. Browne's
49 widower would also understand that she's no longer
50 paying for the ... a widower on the coast of Labrador who
51 may be in the very same situation that she is but who
52 doesn't pay the full cost of her service. You know, it's just

53 sort of that equity issue. I'm just wondering if a little bit
54 more education on that side might help with the rate impact
55 of the application. And perhaps the application could have
56 went further if it focused more on that aspect of it. I'm just
57 ...

58 MR. WELLS: Yeah. But one of the real difficulties,
59 certainly in my view, is how you effectively, and then
60 there's another issue of cost, cost effectively put the
61 issues, even as the Consumer Advocate requested of me to
62 get out there and tell everybody about fuel prices or things
63 like ... this is a very ... this is not easily done. And you
64 have to be ... it's going to take some thought as to how you
65 go about that kind of thing, what would you spend on it,
66 what is the method you would use and would it be
67 anywhere near effective. I mean, when we filed our rate
68 application the general response of our customers were
69 they were not happy. Now, our customers, like
70 Newfoundland Power and industrial customers, you'd have
71 to mark down in the sophisticated category. But none of
72 them thought that this was an appropriate rate increase in
73 these times and expressed it publicly. And then, of course,
74 if you asked a consumer on the street, they don't want a
75 rate increase, they don't want an increase in their telephone
76 rates or electricity rates or anything else. And
77 organizations don't want increases and churches don't
78 want increases. So if you go out and ask the average
79 consumer do you want an increase they say no. Do you
80 understand the basis of the increase? I mean, I thought
81 naively, that we would get some credit at least with our
82 industrial customers and Newfoundland Power that this is
83 the first increase, ten years. And you know, what's the
84 problem here? Ten years, not bad for this. And we're
85 trying to help you out, as you can see, by deferring some
86 of it if the Board accepted it. That didn't cut it the day we
87 made the ... filed the application. We took it on the chin.

88 COMMISSIONER WHELAN: This may be something that
89 might get explored later, in any event. I just have another
90 question just in terms of clarification. I'm not sure if I
91 understood that there was a difference. Is there a
92 difference in a dividend requested by government in a
93 budget speech, a dividend declared and dividend actually
94 paid out? Because I heard the word "dividend" used in
95 three different contexts.

96 MR. WELLS: You mean in terms of amount or the word
97 "dividend" being used?

98 COMMISSIONER WHELAN: Both, I guess, because I
99 don't know if I can separate them.

100 MR. WELLS: Well, the amount could change. If
101 somebody said something was projected to be a dividend
102 before it's declared and what is actually declared there
103 could be a difference in the amount depending on the

1 circumstances. The word "dividend" would be a return to
2 a shareholder ...

3 COMMISSIONER WHELAN: I understand the definition
4 of dividend.

5 MR. WELLS: Yeah.

6 COMMISSIONER WHELAN: But when you were saying
7 a dividend declared by the Board of Directors of Hydro ...

8 MR. WELLS: That crystallizes, that is the dividend, that is
9 the only ...

10 COMMISSIONER WHELAN: That is the actual dividend
11 paid out?

12 MR. WELLS: Only when the Board of Directors, you know,
13 on motion, accepted at the Board of Directors meeting, that
14 can produce a dividend, the dividend of that year or that
15 time. And it's only the Board of Directors of Hydro can do
16 that on behalf of Hydro.

17 COMMISSIONER WHELAN: And that was the
18 clarification that you were making to Ms. Greene yesterday
19 on the redirect, to clarify a question, that it is the Board of
20 Directors that approves a declared dividend?

21 MR. WELLS: Yes.

22 COMMISSIONER WHELAN: And the \$70 million that's
23 being requested by government as a dividend is not, as of
24 yet, a declared dividend and won't be until ...

25 MR. WELLS: No. It has not been decided by the Board of
26 Directors. And the issue with respect to government who
27 have put Hydro on notice, you know, that they may require
28 that dividend, the position of government, as well, may
29 change between now and the end of their fiscal year.

30 COMMISSIONER WHELAN: I think that's all my
31 questions. I'm going to save all my other questions for Mr.
32 Osmond. Thank you.

33 MR. NOSEWORTHY, CHAIRMAN: Thank you,
34 Commissioner Whelan. Thank you, Mr. Wells. While my
35 questions aren't extensive they will take more than four
36 minutes. So I think we'll break for lunch now and we'll
37 reconvene at 2:00.

38 (break)

39 (2:00 p.m.)

40 MR. NOSEWORTHY, CHAIRMAN: Good afternoon.
41 Good afternoon, Mr. Wells. I guess it's my turn. I don't
42 think I'll be long with my questioning. This is my first time
43 through this sort of process and I realize at the end of it
44 that most of the good questions have been taken and the
45 remainder, perhaps, aren't worth asking, but in any event,
46 I do have a few questions and probably there'll be a little bit

47 of a different tack, perhaps, that has been taken by some of
48 my colleagues, in any event.

49 I do have some empathy and sympathy and
50 understanding, I guess, to a degree. In one of my former
51 lives, I was Chairman and CEO of Newfoundland and
52 Labrador Housing Corporation for ten years so I know a
53 little bit about operating a Crown corporation, if you will.
54 Certainly, I believe the Housing Corporation though is
55 perhaps the second largest Crown corporation in the
56 province. It doesn't compare to Hydro but we did have 600
57 or 700 staff, a couple of hundred million dollar budget, and
58 indeed, I think the assets would have been close to a billion
59 dollars. The other thing, I guess, we were neighbours,
60 Hydro and the Housing Corporation, on the corner of
61 Canada Drive and the Crosstown Arterial, and I think the
62 facade of both buildings actually were designed to be fairly
63 compatible and I know I've heard on more than one
64 occasion, the Housing Corporation called the outhouse of
65 Hydro and ... (laughter). I certainly won't hold that against
66 you.

67 My questions really are not in any way cost
68 oriented. I think to some degree I've heard most of your
69 explanations around that I understand again as a CEO that
70 there's only so far you can get in an organization certainly,
71 and I look forward to Mr. Osmond and others with regard
72 to that. I guess to some degree my interests focus around,
73 we have a responsibility as the Public Utilities Board, I
74 guess, to set a regulatory regime for Hydro and its
75 customers and I think I indicated in my opening remarks
76 that indeed that should be fair and just and not
77 discriminatory in any way, and I think we have some
78 common interests in this whole area, certainly with a view
79 to providing least cost power and any impacts that the
80 Public Utilities Board may have on that, and I've heard a
81 number of references over the past week or so to this
82 hearing, I guess, the extensive nature of it, certainly
83 ultimately the costs that will be accumulated at the end of
84 the day, and I think we all have an interest in streamlining,
85 if you will, the process, and reducing the costs and its
86 impact certainly on the utilities and its impact on
87 customers, and as a new Chair and CEO of the Public
88 Utilities Board, I am committed, I guess, to looking at sort
89 of new ways and new means, and how we might improve
90 and enhance this process and came a little bit late in the
91 day for this application. I think I was swamped to a degree
92 after being here for a couple of months, but certainly I'd like
93 to work through a process and look at what's in place now
94 and if there are any improvements that can be made, and
95 look forward to working with you on that basis, and hence
96 that's where some of my questions, I guess, are really
97 coming from here today.

98 I want to focus on sort of the nature of the

1 application and our responsibility as regulators in respect
2 of that, and some of the expectations that are clearly out
3 there and are going to be there at the end, quite frankly, of
4 this process, and I want to focus a little bit, perhaps, on
5 that.

6 I have sat here over the past week or so and
7 listened carefully and intently and some of my colleagues
8 indeed, I think Fred Saunders has touched upon some of
9 the areas that I'm going to be touching on here today, but
10 hopefully I'll get into a little bit more detail. We've all heard
11 references to, I guess, investor-owned, similar to investor-
12 owned. We've heard in your direct testimony, instrument
13 of public policy with respect to Hydro. There's a variety,
14 and these aren't mutually exclusive in any sense of the
15 word ... commercial entity, operated as a business, and a
16 fully regulated utility. Now I think to some degree, as I see
17 it, these perhaps have, at least in a couple of areas, some
18 conflicting objectives and indeed, I guess, for your
19 perspective as CEO of Hydro, presents quite a sort of a
20 challenge in terms of your wearing different hats in some of
21 these areas. Could you, and you know I guess, whether a
22 hybrid organization is a correct term or not, I get the sense
23 that that to some degree is what it is, certainly in the areas
24 of public policy and investor-owned operation. Could you
25 comment, do you see a distinction, and I'm asking you to
26 put yourself in my shoes to a degree, in the regulation of
27 Hydro versus a totally investor-owned utility, and I'll use
28 Newfoundland Power, perhaps, as an example. Do you see
29 any distinction that we should apply in that regard in
30 considering this application?

31 MR. WELLS: Not in a holistic sense, in the sense that we
32 think that the regulation, or the amendments in the
33 legislation as opposed to where we were the last time, or
34 the last hearing before the Board, obviously government in
35 enacting that legislation intended something and when you
36 review it all, and the things that were done as a result, from
37 the point of view that Hydro shall be assessed on a rate
38 base, you know, rather than interest coverage, we're away
39 from some other acts that would apply to a Crown agency,
40 and things like that that some change was intended. And
41 it seems that in the first instance the, we're fully regulated
42 under the Public Utilities Board, mindful of the fact that the
43 government has reserved the right in legislation, yet to be
44 exercised in certain things, like rates and what not that they
45 can intervene. But the fact that they have not intervened,
46 and until they intervene, I think that we all go forward, in
47 my view, under the legislation as it stands. That's one
48 aspect of it.

49 In terms of ... so we're no different at this point, no
50 different than, say, Newfoundland Power, as an investor-
51 owned utility at first blush. There are things that, that you
52 have to take into account. When we made the statement

53 that Hydro could still be an instrument of public policy, and
54 still be a fully regulated corporation, how would that apply
55 and to what extent, and where would it start to make a
56 change. Well, I think that the government meant nothing
57 more, I ... you know, like all citizens, one application of that
58 is when the government directed Hydro to negotiate with
59 other entities to see if there would be something
60 appropriate there in terms of the supply of power to the
61 grid. Then, in doing that Hydro used, or government used
62 Hydro as the instrument. They didn't ask Newfoundland
63 Power, they asked Hydro. Hydro did the negotiations on
64 government's behalf, or the investigations, and reported
65 back to government and then government exercised public
66 policy judgement and directed us to conclude contracts.
67 That is one example, for argument's sake, of Hydro being
68 used by government as an instrument to effectuate a
69 government policy.

70 Now, in terms of the real critical issues in this
71 application, we are here dealing with the impact of the costs
72 of the systems, and Hydro's revenue requirements as stated
73 by Hydro on our customers and ultimately the end
74 consumers in Newfoundland, and the guardian of the
75 interests of our customers and end consumers in this
76 instance when we make the application, is the Public
77 Utilities Board, so I think that we, having filed our
78 application and put in all the information that has been
79 requested of us, and I think this is a bit unusual. We may
80 not see such a volume again. It has to do with the, I guess,
81 the ten years, in part, and we did not want to restrict or
82 have any of our intervenors feel that we weren't, or the
83 Board, that we weren't prepared to supply everything
84 whether it was really relevant or not. We just answered
85 every question. A lot of this material behind you, when
86 push comes to shove, at the end of the day, is not going to
87 matter a row of beans in the final decisions. I think we all
88 know that.

89 So the issue then is in terms of Hydro before you
90 now in this application, to those things that we do control
91 and for which we are accountable for our actions, we
92 should be subject to scrutiny, because we don't have any
93 competition in that sense, and that's why I mentioned the
94 three pillars Hydro works on. You've got your hundred
95 million dollar item roughly of costs attributable to fuel, and
96 that side of the equation. You have another big item over
97 there of interest. We don't control our fuel prices. We
98 can't control the consumption of fuel from year to year
99 because that relates on the system. We can't control our
100 depreciation or our interest rates, so you don't, it's no point
101 in beating us over the head about these things. Those
102 items that we can control, all that's subject to scrutiny and
103 we will have to stand on our record and prove to you that
104 we're really not employing any more than we should, or that
105 our costs are reasonable in those items over which we have

1 control. We are responsible for our capital budget. We do
2 have an issue there that we've already discussed. We, over
3 a period, have tried to demonstrate getting a handle on this,
4 but it's a legitimate item of comment and part of the
5 regulatory process at this proceedings that people can
6 comment on that, and the Board and its own investigations
7 through Grant Thornton, you know, have issues there.
8 Now are we any different in these latter aspects I've
9 described than Newfoundland Power? I don't think so. I
10 think the Board, to the extent that we are a fully regulated
11 utility and that aspect of it, has total control of the
12 situation, can review the aspects for which we can be held
13 accountable, and can make their decision based on the
14 facts as presented and your final, you know, conclusion
15 with respect to those facts and your opinion and decision.

16 The other aspect of the application that does
17 affect the issue of the Board regulating Hydro would stem
18 from the fact that there are consumer or rate issues here, the
19 per se rate issues of the industrial, the subsidy and the fact
20 that industrial customers of Hydro are no longer
21 contributing to it, what should happen to that cost that
22 Hydro is incurring in providing the service, what other
23 ratepayers should be responsible for it, and to what degree,
24 and the Board is already, in the history of this issue, written
25 reports on it and discussed issues with respect to the
26 quantum of those subsidies and how they're handled. I
27 don't think at this moment in time you're fettered in any way
28 in making decisions as the Public Utilities Board with
29 respect to those costs and the allocation of those costs,
30 and you will have the benefit of the information supplied
31 by Hydro, the argument's presented by Hydro at the end of
32 the day and the intervenors will also have their positions
33 with respect to that, and it's a large part of the issue.
34 Preferential rates, the facts will be before you. You are
35 seized of the issue, you can make the order.

36 The question of Hydro's capital structure, which
37 is, we have to go from interest coverage to a new method
38 of assessment ...

39 *(2:15 p.m.)*

40 MR. NOSEWORTHY, CHAIRMAN: Could I just, excuse
41 me, could I just stop you there, because ...

42 MR. WELLS: Yeah, is that helpful to you?

43 MR. NOSEWORTHY, CHAIRMAN: Yeah, it is, but those
44 are specific questions that I'd like to get into in a minute in
45 terms of the capital structure and others.

46 MR. WELLS: Yes, please stop me when I get going, if I'm
47 getting off track from what you want.

48 MR. NOSEWORTHY, CHAIRMAN: Just from the point of
49 view, I guess, of the ... and this has been mentioned a
50 couple of times as well. Clearly I think we would agree that

51 this is sort of an application which is sort of a transition
52 application or one that is really, again, reading from your
53 direct testimony, it talks about the fact that it is important
54 that we adhere to sound and prudent regulatory principles
55 and practices and it is necessary to achieve the ultimate
56 objective through a period of adjustment, and I think
57 you've clearly indicated throughout your testimony as well
58 that really the focus of this application to some degree is
59 on the price of oil, and really the application has been
60 formulated, if you will, with a view to sort of softening the
61 impact ultimately on consumers of that aspect in particular,
62 so would you acknowledge, I guess, at this stage, and I
63 think it's clear that it's there, that this is really an application
64 from a regulatory standpoint that we're really not going to
65 be in a position to finalize, if you will, a regulatory regime
66 and this is put forward as an interim application with a view
67 to a more complete application coming forward which
68 would contain some of the other elements in 2003?

69 MR. WELLS: No, until you suggest it, I certainly wasn't
70 looking at it ... I think the application is complete. The
71 issues with respect to rates can be definitive in terms of
72 where we are at this stage, and then some rate adjustments
73 that we have outlined a methodology for later on, but
74 essentially the totality of the application is complete. The
75 only thing that ... I think this would come up in the context
76 of, like our proposal of a three percent rate of return and
77 what would normally apply, and I think it is extremely
78 important that the, for the benefit of the bond rating
79 agencies and the financial community, that the Board
80 express a view that you're not acting upon it in this
81 particular ... if you accept our proposal of the three percent.
82 But you, I think it would be helpful to everyone if the Board
83 were to express a view, even if it were in a range of what
84 one would normally expect this Crown corporation to
85 experience if, if you were looking at what is the appropriate
86 rate of return. In the same sense that the Board in the past
87 here has made decisions with respect to interest coverage
88 that would be applicable to the corporation. I think you will
89 have the benefit of, you know, the evidence that's already
90 pre-filed and the pre-filed testimony, the benefit of the
91 examination and cross-examination of the witnesses on this
92 issue and I think there will be adequate information in the
93 base for the Board to say, as a Crown owned utility or as a
94 utility before us, this is what is a range that one would look
95 at to be within the range of reason for a return on rate base,
96 and the corresponding return on equity, and you make that
97 not as something that is binding with respect to this
98 particular application, because you may accept our
99 proposition or something else that in this instance you
100 would approve a three percent or whatever you decide, but
101 I think that that could go all the way up to the range where
102 you say notwithstanding the Applicant's position, we are
103 going to set at this time the range or the rate of return that

1 we think is most appropriate for this utility and we're
2 making it now and that's it, and it will apply as of the date
3 of this application. You can do that. We didn't want to, in
4 any way, compromise the position of the Board or box it in.
5 We just said that if we say now that three percent is
6 acceptable, Hydro can't afford to send a position or a signal
7 out to the bond rating agencies that this Crown
8 corporation, that we think that three percent is appropriate
9 for us in all circumstances. We have to make it crystal
10 clear, and that's why we stress it, and I'm stressing it, and
11 our witnesses will stress it, and anybody who calls us from
12 the financial community or the bond rating agencies, we
13 make it crystal clear that the only reason we're proposing
14 three percent now is because of the nature of the facts that
15 are coming through in this application with respect to oil
16 prices and the impact on rates. For no other reason,
17 mindful of the fact, and I stress this again, that we are
18 doing so having received the opinion again of our financial
19 advisors that while we're taking a fairly unusual action here,
20 it will not be prejudicial to the financial viability of Hydro.
21 But implicit in that response of our financial advisors is the
22 fact that you can't keep this up. You know, you can't go
23 forward on a three percent return on equity. As
24 Commission Saunders said, you know, really this is not the
25 real world, and we recognize that. The financial community
26 recognizes what the real world is and the Board should pay
27 some acknowledgement to what the real world is in making
28 its decision here in this particular application.

29 MR. NOSEWORTHY, CHAIRMAN: And what form would
30 that acknowledgement take? I mean do you see that as
31 being a figure? Do you see that as being some notion that
32 there will be, there should be movement clearly away from
33 that to a range of figures? I mean how does one, how do
34 you conclude that notion?

35 MR. WELLS: Well, if you look at the Board's order of,
36 arising from the 1991/92 event, the Board noted the
37 situation of Hydro's debt equity at the time and the Board
38 recommended to Hydro, even though the Board put a fairly
39 heavy crimp on the interest coverage, but it said,
40 recommended that Hydro should move towards an 80/20
41 debt equity ratio. Now the Board didn't instruct Hydro to
42 meet that immediately, nor did it give it the means to
43 achieve that immediately. It just made that as a
44 recommendation presumably having weighed in the
45 circumstance that for a Crown owned utility that at least as
46 a debt equity ratio was sort of a desirable range in which to
47 be. As a consequence, I think that if the Board at the end
48 of this hearing, again, whether you accept our proposal or
49 not, would say, having heard the evidence and the
50 argument and the expert witnesses, that you have reviewed
51 that, in your view, what an appropriate return on rate base,
52 or return on equity would be for a Crown corporation in the
53 absence of some compelling intervening factor. Now our

54 compelling intervening factor we're suggesting to you this
55 year in this application is the effect on rates. And I think
56 that that signal, and before you have to make any such
57 decision, you'll have the benefit of having heard, like from
58 Ms. McShane's, who is the principal part of our case on
59 this, and our expert witness, Mr. Hall, and there are others
60 who will comment on the issue. I think that one thing we
61 could all agree on, again, in sort of a reasonable fashion,
62 going forward, it can't be three percent. It can't be three
63 percent. The question is what should it be, and even
64 though we are a Crown corporation, where ... are there any
65 such impacts from government that would lead you to
66 conclude that it should be different from the norm, say to
67 separate us from where you started from Newfoundland
68 Power. I'm sorry, that's the kind of concept that we took.

69 (2:30 p.m.)

70 MR. NOSEWORTHY, CHAIRMAN: And hence, I guess,
71 my comment in terms of the notion of the transition or an
72 interim application to a degree that, I mean, you know, I'm
73 not certain that the information, and we'll certainly hear the
74 witnesses and maybe it is, would be contained in this
75 application, and I don't know to what degree you're looking
76 for specific numbers that would be contained in this
77 application to look at, for example, a finite, you know, long-
78 term return on equity, you know. It seems to me that the
79 best ... and maybe ... could you just clarify for me, the only
80 reference that I can see in the information and this is really,
81 I'm referring to your **financial plan, 2001-2005**, page four
82 of that plan. I'm sorry, it's numeric four, general
83 assumptions. Yes, that's it. Could you just enlarge the
84 table please? I'm looking at a return on equity here of three
85 percent, which is in your test year of 2002, and then there's
86 a dash there, and then 11.25 and 11.25. What does that
87 specifically mean, that dash for 2003?

88 MR. WELLS: Well, the 2003 period would mirror 2002
89 because the Board's order would still be in effect.

90 MR. NOSEWORTHY, CHAIRMAN: Three percent in that
91 test year, that's what that would indicate, is it?

92 MR. WELLS: Yeah.

93 MR. NOSEWORTHY, CHAIRMAN: I see.

94 MR. WELLS: And then the 11.25, well we just picked a
95 figure we hoped you might entertain as a reasonable range,
96 but at that time, we just put in a figure consistent with our
97 evidence and pre-filed testimony for this application, but
98 the 2003 would be just a reflection of your decision in 2002.

99 MR. NOSEWORTHY, CHAIRMAN: One of the, again, I
100 guess, just following up a little bit on adhering to the
101 references that have been made several times, adhering to
102 sound and proven regulatory principles, and certainly
103 that's what we would be striving to do, and making every

1 effort to do in respect of this application, I don't feel as a
2 Board we cannot and should not in this sort of exercise is
3 act as either certainly managers of Hydro in any way, shape
4 or form, to be entering that sort of fray, or indeed be
5 creating public policy. I think our role very much, if I read
6 the, you know, our legislation correctly is really to verify
7 and validate and question the evidence and make decisions
8 on what we have before us, and I guess those decisions
9 will reflect, to some degree, the quality of the evidence and
10 the completeness of the information, if indeed, we're doing
11 our job, and I guess, you know, what would concern me to
12 a large degree is that we wouldn't want to be making
13 decisions here that, for example, would be heaping any
14 more risk on the company, or indeed make projects in the
15 absence of sound financial targets. So I'm coming back to
16 the conclusion because to decide on anything other than
17 a three percent return on equity, indeed, is making, in my
18 judgement, to some degree that quantum leap. I mean if we
19 have the information, I'm not sure if we had the information
20 in front of us to do anything other than three percent, and
21 if you decide to do that, are you not, are you not doing
22 something in the absence of knowing what the impact
23 would be down the road on Hydro, and hence the risk
24 aspect?

25 MR. WELLS: Yes, the actual result if you should ... well
26 two things. First of all, you will have the benefit of the
27 expert opinion and the argument related thereto with
28 respect to what the appropriate return should be for the
29 regulated utility such as Hydro. If you, if you decide to
30 accept ...

31 MR. NOSEWORTHY, CHAIRMAN: Only for this, only for
32 the next two years, that's correct.

33 MR. WELLS: No, no, no, that could apply in terms of the
34 concept for an extended period of time. I mean the point
35 would be that the only thing that would actually be an
36 effect dictating our return would be what you approve for
37 this application and let's say it's three percent. And so
38 that's fine, so we've dealt with this application and we've
39 sent Hydro off for two years with its rates and everything
40 else. What we're cautioning you, is don't leave a two year
41 vacuum where the financial community and the bond rating
42 agencies have no other indication but that this Board may
43 intend to always hold Hydro to three percent.

44 MR. NOSEWORTHY, CHAIRMAN: I understand that, I
45 understand that.

46 MR. WELLS: That's all, but ...

47 MR. NOSEWORTHY, CHAIRMAN: But I'm looking
48 beyond that, and I mean I think that that, that that
49 judgement can be made to some degree in respect of this
50 application because the information is there.

51 MR. WELLS: Yes.

52 MR. NOSEWORTHY, CHAIRMAN: Beyond that, and
53 what one could indicate in the longer term because you've
54 reflected in your own pre-filed testimony that we should be
55 offering and providing some notion in the longer term of
56 what that return on equity would be, and that would, and
57 that would be, I guess, true to an appropriate regulatory
58 regime, because three percent, I think you, I believe, in
59 respect of Mr. Kennedy's testimony yesterday, you
60 indicated that this application is a retreat from the norm.

61 MR. WELLS: Yes.

62 MR. NOSEWORTHY, CHAIRMAN: And I guess that's the
63 point to some degree that I'm making, is that this is very
64 much an interim application to some degree, it is a retreat
65 from the norm. Three percent is certainly not the norm.
66 The preferential rates, the rate equity which would include
67 to some degree the rural subsidy. I think there's a
68 suggestion here that on both those counts that you'd be
69 really dealing with the implementation plan associated with
70 that in subsequent applications, that's correct, is it?

71 MR. WELLS: In your latter remarks, I appreciate the
72 context that you're putting this application in that sense,
73 although there is a lot of definitive things that would result
74 from this application.

75 MR. NOSEWORTHY, CHAIRMAN: No, no, I'm not
76 suggesting that, I'm not suggesting that there's not a lot of
77 substance in the application, and we'll have to deal with
78 that on the basis of its merits. I'm very much at this point
79 in time, I guess, and we will do that. I'm very much at this
80 point in time, and this is leading somewhere ... looking at an
81 interim application and in terms of establishing, I guess, a
82 thorough and complete regulatory regime. This is the first
83 application that we've had, and indeed, I am looking at, you
84 know, the rate equity. I'm looking at the return on equity,
85 the Rate Stabilization Program to some degree, outside the
86 Consumer Advocate, if you will, I think there has been at
87 least discussed some support for that. But even the
88 refinements of that, I guess, I believe I saw somewhere
89 there a deference to a later application in terms of refining
90 the Rate Stabilization Program. The capital budget, Mr.
91 Hutchings, I think, referred to yesterday, the Board needs
92 to come to its best possible forecast of what's going to be
93 in the rate base for 2002 and certainly I believe that you had
94 described in response to Mr. Saunders' questioning, some
95 improvements that really need to be made there to
96 determine exactly what goes in the rate base. Again, there's
97 a debt equity ratio which I think you've indicated is really
98 almost interim. You would like to move away from that into
99 an improved debt equity ratio, and indeed that's what the
100 capital markets would expect. So I think I've heard you say
101 in the five year forecast, that really this is a rolling average

1 to a degree and not a basis on which to set rates. If I'm ...
2 you know ...

3 MR. WELLS: Oh very definitely, yes.

4 MR. NOSEWORTHY, CHAIRMAN: So I suppose I'm
5 looking at it from the point of view of being, having
6 responsibility as the regulator here, being presented with
7 the application that we indeed have, and again, concluding
8 that this is an interim application, there are a fair number of,
9 of unknowns or uncertainties or gaps, if you will, and I
10 don't mean, I don't mean that in respect of the application
11 itself, I'm talking about fashioning again a sound ... because
12 we talked about that here, sound set of regulatory
13 principles, and that's my mandate and my responsibility, I
14 guess, and with a view to the expectation at the end of the
15 day that, that indeed what we might be approving is a
16 complete package here. I think I would advocate that there
17 is more work that needs to be done in that regard.

18 MR. WELLS: This would be the foundation for the future,
19 going forward, and we ourselves contemplate that what we
20 are proposing now, and in the very nature of the way we've
21 phased in some of these things, like the Labrador
22 Interconnected rates, that we would be back within, within
23 2003 with an application again to the Board, so this is to
24 finalize those issues and also to see where we are, because
25 we can't predict at this moment, like the three percent return
26 on equity, what sort of position that could get us into. You
27 know, we wouldn't want to go much longer than the two
28 years without having a chance to review that again.

29 MR. NOSEWORTHY, CHAIRMAN: And you can
30 appreciate if you can't do it, you know, there's no way in
31 the longer term that we ...

32 MR. WELLS: But that's all we're asking you to do is
33 approve for two years and the issue of not set in concrete
34 the longer thing for the future but to indicate to somebody
35 that this three percent is not where normally one would be
36 considering it, and I just leave it at that, and you can ask
37 these questions of some of the experts as to what you
38 might, the Board should do with respect to making sure
39 that everybody understands that the Board can deal with
40 issues in normal circumstances.

41 MR. NOSEWORTHY, CHAIRMAN: I guess I'm just trying
42 to set up the context and the expectations associated with
43 this application so that there is a real understanding, even
44 at this point in time and you're the CEO of Hydro, as to
45 ultimately what we can achieve at the end of the day as
46 regulators here.

47 MR. WELLS: Yes.

48 MR. NOSEWORTHY, CHAIRMAN: There's a real
49 understanding, even at this point in time, and you're the
50 CEO of Hydro, as to ultimately what we can achieve at the

51 end of the day as regulators here.

52 MR. WELLS: Yes.

53 MR. NOSEWORTHY, CHAIRMAN: Now I guess having
54 sort of established that to a degree, and I think to your
55 benefit, and certainly to our benefit, we would like to
56 position ourselves so that essentially in the next
57 application, if you will, that we will enable, we will be in a
58 position to finalize that because the tools we use are clearly
59 rate base revenue requirements, those types of things that
60 are all affected by, by some of these things that perhaps
61 aren't finalized at this point in time. Do you have any
62 comments, I guess, on how you may position Hydro, or
63 what we might do in respect of getting to the point where
64 we have a complete and full application that would address
65 full REI, rate equity, and appropriate debt equity ratio,
66 capital budget and firm financial forecasts, so we would be
67 able to consider that knowing full well that government is
68 there at any point in time, that could make decisions that
69 would have an impact on this admittedly, I don't deny that.

70 MR. WELLS: Uh hum, well I think that the, dependent on
71 circumstances, by the 2003 application, we should be in a
72 position to deal with the, with other than, you know, if you
73 compare, say that the three percent, as you have, is not the
74 norm, and it isn't, as we've said as well, that the full
75 discussion of whether the norm should apply to Hydro as
76 you will determine, could take place in that 2003
77 application. All we're saying this time, if you do approve
78 the three percent, don't leave it without some caveat.

79 MR. NOSEWORTHY, CHAIRMAN: No, no, I understand
80 that. I fully understand that. I guess what I'm ...

81 MR. WELLS: Yeah, so well hopefully that 2003 we will
82 have a basis to set and maybe some mechanism with
83 respect to how we could ease the burden on consumers of
84 the cost of these proceedings by, you know, what would
85 be most appropriate, or could you have a range or
86 something like Newfoundland Power has now which is
87 intended to reduce the level of the inquiry that goes into
88 the determination of their rates.

89 MR. NOSEWORTHY, CHAIRMAN: Uh hum.

90 MR. WELLS: Something like that may be appropriate in as
91 little time as two years from now. I don't think we're in that
92 situation right now.

93 MR. NOSEWORTHY, CHAIRMAN: I guess the question
94 I'm asking, and I think we can do all that ... the question
95 that I'm asking is what you can do internally within Hydro
96 to ensure that in two years time that we have a full and
97 complete application and clearly that's going to require
98 some dealings with the government, I would think.

99 MR. WELLS: Well, I think we will, in terms of our own cost

1 structures. I think we're into a continuous improvement.
2 We're working on our process, as I indicated earlier. I think
3 that we will have had another period of time in which to
4 hone the business even further than it has been in that
5 aspect in terms of our internal operations. Externally I
6 don't, you know, anything more than in the actual day-to-
7 day running of our business and doing it better and just ...
8 is there anything that you're looking at beyond that
9 internally that we might ...

10 MR. NOSEWORTHY, CHAIRMAN: Yeah, no, you know,
11 the context of the question, you know, is really to see if
12 you had any thoughts on how we might move forward, or
13 how you might move forward. Clearly in terms of us
14 addressing this particular application and addressing an
15 order as a result of that, we will make whatever decisions
16 we will make in terms of the application itself and we, you
17 know, quite clearly have to address return on equity and
18 rate base, but again, I see it as being an interim, and I guess
19 I want to ensure in some way, shape or form, that ... and
20 we'll ultimately have to wrestle with this in terms of what
21 recommendations we will put forward to ensure that we get
22 a complete and full application and we reach that point in
23 two years time. I was merely coming at it from the point of
24 view if you had any thoughts that you might wish to share.
25 I think this is the only time we're going to have this
26 opportunity and I'm sure you'll breathe a sigh of relief and
27 say, thank God for that, but I'm ... you know ...

28 MR. WELLS: I don't want all my people telling me after the
29 Chair was asking you this and you didn't pick it up, so am
30 I missing something here at the end of the week that I
31 should ...

32 (2:45 p.m.)

33 MR. NOSEWORTHY, CHAIRMAN: No, well, you know,
34 again, maybe, you know, where I'm looking at going here is
35 to try and, and get some feedback on what you as CEO of
36 Hydro would plan to do over the next two years to get us
37 in a situation where we have a complete and full application
38 that the Public Utilities Board can deal with in two years
39 time in respect of the range of considerations that I talked
40 about.

41 MR. WELLS: Well, we would be back with, as we have
42 indicated, we will definitely be back with a structure of rates
43 that would go into effect if approved by the Board, that rate
44 structure would be dispensed with, and that would be ...
45 you know, the Labrador Interconnected rates or preferential
46 rates, these factors would be dispensed with completely.
47 We would have a situation then, dependent on the facts, of
48 where we are with respect to the Rate Stabilization Plan
49 and, you know, the consumption of fuel, pretty much of
50 that we've got to take our chances on as to where we are,
51 and hopefully the Board in this decision will have dealt

52 with the issues of the costs and their allocation, so the
53 other thing is that we had, in the course of our reviews of
54 the company, at the senior level and we're taking out to all
55 employees, one of the issues that we had identified that we
56 have to put thought into which really hasn't been
57 addressed in detail yet, is the process of how we could be
58 able to put to the Board and to others maybe some better
59 way to enable that the objectives of the *Public Utilities Act*
60 and the EPCA in terms of the regulation of Hydro, how
61 could that work better, and we have that as one of our
62 objectives to consider and hopefully be able to make some
63 positive recommendation so that if we go forward and we're
64 getting into ... it may not be gaps of ten years, but certainly
65 you wouldn't want to go through the cost and expense of
66 this proceeding every two years. There has to be a better
67 way and I think everybody agrees. We would be able, we
68 hope to be able to contribute with concrete suggestions at
69 the time of the next filing and we may have had earlier
70 discussions with the Board and with other interested
71 parties with respect to that because we all have an
72 obligation to work towards making this proceeding, or
73 procedure effective in keeping Hydro accountable but at a
74 lesser cost, and we'll be working on that as part of our next
75 application.

76 MR. NOSEWORTHY, CHAIRMAN: You know, I can
77 commit from the Public Utilities Board perspective, we will
78 be working on it too, and, you know, we may like to sit
79 down at some point in time, once we get beyond this,
80 clearly this application, and discuss some of those things.

81 MR. WELLS: We didn't think that this time was a time to
82 come with any formulas for the future, or different
83 suggestions. As you've said it's very much a number of
84 things have to be dealt with first before we get to that.

85 MR. NOSEWORTHY, CHAIRMAN: What's your vision as
86 CEO, Mr. Wells, of Hydro?

87 MR. WELLS: Hydro, we would like to be, to see Hydro
88 recognized, because it's not very well recognized within the
89 Province of Newfoundland and Labrador today or ... we
90 would like Hydro to be recognized as a quality provider of
91 energy services, you know, so that if somebody speaks of
92 Hydro generally five years from today that that would come
93 automatically to their mind that that's an ... we're in the
94 energy services business and we would want to be
95 recognized as a, as a quality provider of energy services
96 and they were consistent with our mandate. You can work
97 down from that as to the issues with respect to least cost.
98 I mean it's a mantra inside the organization, you're always
99 trying to achieve that. You never really do. I mean there's
100 always something that you can improve but we are working
101 within the organization and throughout the organization to
102 change the approach and the focus on the Company is
103 much more strategically oriented with all employees

1 involved in some measure of understanding the overall
2 strategy and their role in it, and that's a change of, really of
3 culture in the organization. It takes time. We're working on
4 it and I think that we have to be able to demonstrate to, not
5 only to the Public Utilities Board, but to our customers, but
6 beyond that, to the people of the province that really own
7 us, that this is an entity that is doing the job for them, and
8 recognized as such. I think there's a role there for Hydro.
9 I think in many respects it's done it well in getting ... if you
10 look at the 40 year history of the company which was
11 published recently in getting the electrification of
12 Newfoundland and Labrador off the ground, and it was
13 normally a building company and latterly, it's been in the
14 sort of operational and maintenance mode and that has had
15 an effect on the employees. The other thing within Hydro,
16 the average age is a little around 46 years. A lot of people,
17 you know, their careers have been with Hydro, and Hydro
18 is changing, and we're going to change out more than 25
19 percent of the employees of Hydro within a five year time
20 frame. That could be seen as a critical issue, hurtful in a
21 sense, a lot of corporate knowledge going out the door. It
22 is also a great opportunity to bring in, you know, different,
23 new people, new ideas, new capabilities, new approach, to
24 going forward from here, and hopefully, you know, within
25 the defined policy for the province, we will find our niche.

26 MR. NOSEWORTHY, CHAIRMAN: Thank you. Just one
27 other question and it probably more relates to the previous
28 item that I asked, but I did skip over it. You had referred, I
29 know a couple of times in your, in your testimony to this
30 notion of a model and sort of looking at a perfect financial
31 model, if you will, that would be required for a similar entity
32 to Hydro and you would start from that premise
33 presumably and then hive off, and that may be my words,
34 not yours ... hive off some of these other things that I
35 referred to earlier at the present time, but it would put the
36 structure of Hydro at least on a comparative basis similar to
37 a, what I understood you to be saying, an investor-owned
38 entity. Does that model exist in any information that would
39 be coming forward to us, do you know?

40 MR. WELLS: Could I, could you ... is this in my pre-filed
41 testimony?

42 MR. NOSEWORTHY, CHAIRMAN: I don't know if it was
43 pre-filed ... I think you probably would have ...

44 MR. WELLS: This is in relation to the debt equity ratio?

45 MR. NOSEWORTHY, CHAIRMAN: You probably would
46 have referred to it over the questioning of the past couple
47 of days. It had primarily to do with the return on equity, I
48 think, yeah.

49 MR. WELLS: Yes, yes, well that's ... and you remember
50 shortly, a little while ago you said to me, or asked me to
51 comment on whether we're different than, let's say an

investor-owned utility.

52 MR. NOSEWORTHY, CHAIRMAN: Right.

53 MR. WELLS: And what we're proposing here again, and all
54 of this comment that you're now referring to, in terms of my
55 putting anything to the Board at this application is that
56 with respect to the debt equity and rate of return, that the
57 model would be you're indifferent to the ownership, and
58 then you and the other experts, everybody debates what
59 would the appropriate return to be and be indifferent to the
60 ownership. Then stick ownership on your screen, and say
61 this is a Crown corporation in these circumstances, is there
62 anything now impacting the situation where we would say
63 it should be some different treatment, and that gives you
64 the opportunity then to reflect on those facts and say well
65 it's fine, you know, in a certain circumstance, and
66 organization should have an 11.5 percent rate of return on
67 equity but we think for whatever reasons may attract your
68 attention, that it should be adjusted by this fact, and
69 whatever it is you're talking about, you would have had the
70 benefit of the opinion and debate and argument, you know,
71 in the hearing before you and you would make a decision
72 based on that because in the end the decision is yours, but
73 what we're suggesting with the advice of our financial
74 experts is that we should have a debate in front of this
75 Board as to what an appropriate return on equity and the
76 equivalent rate base should be for an entity, if you're
77 indifferent to the ownership. Find out what would normally
78 ... you know, what is the right thing. Our ... and Ms.
79 McShane is very strong on this, and Mr. Hall, as to what
80 they think it should be, and if you take that as a starting
81 point, I think it's a very helpful approach then that you
82 would say, well there are factors that in your opinion may
83 affect that. You might say the government guarantee
84 changes the water here. What effect should you give to
85 that? Well we would argue certain things about that, what
86 the government guarantee is for and how it benefits and
87 where it doesn't benefit and should it affect the debt equity
88 ratio or not. Obviously, our argument is on that point that
89 it does not, but it is a realm of argument, a topic of
90 argument.

91 MR. NOSEWORTHY, CHAIRMAN: I understand that
92 process and that methodology, I guess, the question I'm
93 asking is is that model going to be brought forward with
94 the application of that methodology at this hearing for
95 debate and consideration?
96

97 MR. WELLS: That is in, spelled out in detail in Ms.
98 McShane's evidence.

99 MR. NOSEWORTHY, CHAIRMAN: Okay.

100 MR. WELLS: Pre-filed testimony. That is the model that
101 I'm talking about.

1 MR. NOSEWORTHY, CHAIRMAN: I know what's there,
2 that's the model that you're talking about, okay.

3 MR. WELLS: I just wasted five minutes of your time and
4 everybody else's but the ... no, the only model I'm talking
5 about is the model that is outlined in the context of the ROE
6 and Ms. McShane and Ms. Hall are expert witnesses on
7 that.

8 MR. NOSEWORTHY, CHAIRMAN: And that's the model
9 that you referred to previously?

10 MR. WELLS: Yes.

11 MR. NOSEWORTHY, CHAIRMAN: That's fine, Mr. Wells,
12 thank you very much. That's all I have. It's now five to
13 three, perhaps what we could do is we'll break for 15
14 minutes now and return and I think once we do that we
15 have questions on matters arising, beginning with Hydro,
16 okay? Thank you very much.

17 (break)

18 (3:15 p.m)

19 MR. NOSEWORTHY, CHAIRMAN: Thank you very much.
20 Ms. Greene, I'll defer to you. The procedure is ... questions
21 on matters arising, Hydro go first?

22 MS. GREENE, Q.C.: Mr. Chair, during the break there has
23 been discussion among counsel, and the suggestion is that
24 Hydro would go last after all of the parties, and that's
25 agreeable to Hydro.

26 MR. NOSEWORTHY, CHAIRMAN: Okay.

27 MS. GREENE, Q.C.: And I think that's agreeable to the
28 other parties.

29 MR. NOSEWORTHY, CHAIRMAN: Okay, that's fine,
30 thank you very much. So Newfoundland Power is first on
31 matters arising please?

32 MS. BUTLER, Q.C.: Thank you, Mr. Chairman. Mr. Wells,
33 I'll be brief. Yesterday in the transcript at page 30, line 64,
34 Commissioner Powell asked you a question which ended
35 up with an undertaking and it related to the effect of the
36 dividend if not paid on the debt equity ratio. Maybe we
37 can just have a look at that and make sure that I caught it
38 correctly. Yeah, page 30, line 64. I think this is a problem
39 with the formatting, but I think I can find it there if you can
40 just bear with me a second, Mr. Wells. There you go, you'll
41 see it at line 74. He said what I'd like, it would be an
42 interesting exercise, etcetera, to know the cost to the
43 ratepayers assuming the government hadn't taken any
44 dividend, and in response to that this morning your
45 counsel made an undertaking but also referred to **IC-66**. I
46 just want to ask if Mr. O'Rielly can give us **IC-66** so you
47 can see whether in fact it does, in fact, give an answer to
48 the question that was posed, and I believe ... see the

49 question that was posed, Mr. Wells, in **IC-66** was what
50 would be the utility's 2002 test year capital structure if no
51 dividends had been declared to date and none were
52 declared for 2002 and maybe we can just look at the
53 schedule, so it seems to me that **IC-66** will tell you the
54 effect on the debt equity ratio assuming no dividends
55 declared in any of the years '95 to 2002 as opposed to the
56 question that the Commissioner was asking which was the
57 effect on the debt equity ratio if the dividend proposed for
58 2002 wasn't paid.

59 MR. WELLS: You mean we haven't ... when counsel for
60 Hydro responded this morning we thought we were
61 addressing the issue in that question, and you say we have
62 not?

63 MS. BUTLER, Q.C.: I wonder, and maybe Commissioner
64 Powell might have to address this, but I thought the
65 question had been asked, the effect on the debt equity ratio
66 if the dividend proposed for 2002 were not paid, but this
67 answer clearly addresses the effect on the debt equity ratio
68 if none of the dividends were paid.

69 MS. GREENE, Q.C.: And I must say, that is how we had
70 interpreted the line of questioning.

71 COMMISSIONER POWELL: What I suggested, I didn't go
72 in and look at **IC-66**. I was going to review it and take that
73 up when we got into the cost of capital. The only reason
74 I asked the question, not to get the response from Mr.
75 Wells, but to make sure the information was available so
76 when we got into the cost of capital I was going to explore
77 that in more detail if none of the intervenors was going to
78 bring it up.

79 MS. BUTLER, Q.C.: That's grand. I'll just point out,
80 Commissioner Powell, for your benefit, that my reading of
81 Ms. McShane's testimony though, and I had referred to
82 this in my cross-examination of Mr. Wells on the first day
83 ... we don't need to look at it now but pages 24 to 25 did talk
84 about the payment of the dividend, that is the \$70 million
85 dividend, as being a key factor in changing the debt equity
86 ratio to 85/15, and I think we had established that on day
87 one.

88 MR. WELLS: Yes, and that would, actually that fact was
89 part of our, in effect, pre-filed testimony, yes.

90 MS. BUTLER, Q.C.: Alright, the second issue I want to
91 follow up with, Mr. Wells, relates to a question from
92 Commissioner Saunders in answer to which you said, and
93 I'm unfortunately trying to go by my handwriting because
94 this is not in the transcript yet for today. If we're seriously
95 off the mark with the price of oil, there will be a
96 considerable benefit to all consumers and no profit to
97 Hydro from being off the mark on the price. You're talking
98 about, of course, is that if you've overestimated the price of

1 oil as opposed to underestimated the price of oil.

2 MR. WELLS: Yes, well if the projections ... and the first
3 part of that, just quickly, was that we would all be cheering
4 if the price of oil goes down, because we all win,
5 everybody, and with respect to how far it would go down
6 and say our \$20.00 proposal in rates, well the first thing that
7 would happen is that the deficits or the outstanding
8 balances in the Rate Stabilization Plan would be taken
9 down substantially.

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

11 MR. WELLS: And we would all benefit so in a declining
12 market we can't earn, nobody would really gain, there
13 would have to be a significant huge drop before it would be
14 termed a profitable thing for Hydro.

15 MS. BUTLER, Q.C.: But following up from that can I just
16 suggest to you that it may mean if the projections are
17 seriously off the mark and I guess we'll have to see how the
18 price of Number 6 fuel goes, fluctuates between now and
19 the end of the hearing, but it may mean that there may not
20 be a necessity for a doubling of the retail cap on the RSP.

21 MR. WELLS: That could be a result, depending on where
22 it goes, yes. It's a bit unlikely, but I mean certainly, who
23 knows today.

24 MS. BUTLER, Q.C.: Following up from Commissioner
25 Whalen's question on the dividend, dividend declared by
26 the board of directors, dividend paid, or dividend requested
27 by the shareholders. The dividend policy is clear at, or up
28 to 75 percent of net operating income, and that was
29 established by the board of directors.

30 MR. WELLS: Yes.

31 MS. BUTLER, Q.C.: And the shareholder in your particular
32 case has requested more.

33 MR. WELLS: Given notice that they intend to request
34 more.

35 MS. BUTLER, Q.C.: And your board of directors will, or
36 may approve it as requested, despite the policy?

37 MR. WELLS: Well they would have to, if required in the
38 wording of the policy, amend it for that special dividend or
39 extraordinary dividend.

40 MS. BUTLER, Q.C.: But this Board does not have to
41 approve the dividend which Hydro's board of directors
42 ultimately pays.

43 MR. WELLS: This ...

44 MS. BUTLER, Q.C.: This Board, the Public Utilities Board
45 ...

46 MR. WELLS: Yes.

47 MS. BUTLER, Q.C.: Does not have to approve it for rate
48 setting purposes.

49 MR. WELLS: No.

50 MS. BUTLER, Q.C.: No, okay, and the final question arises
51 from, I believe, a series of questions all put to you by the
52 Board and it stems from the evidence of Hydro as an IOU
53 and Hydro as a fully regulated activity (sic), I'm sorry,
54 utility, and I have to say in some cases I think the question
55 that was put to you is Hydro as a fully regulated activity
56 when perhaps it meant Hydro as an IOU. But in any event,
57 can I just suggest to you that Hydro cannot really be a
58 fully regulated utility because of the operations of CF(L)Co.
59 You have non-regulated operations.

60 MR. WELLS: Yes, but we have, for the purposes of this
61 proceeding, we are only talking about our regulated
62 activity.

63 MS. BUTLER, Q.C.: That's correct, yeah.

64 MR. WELLS: Yes.

65 MS. BUTLER, Q.C.: Thank you, Mr. Chairman, those are
66 my questions.

67 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,
68 Ms. Butler. Following would be the Industrial Customers,
69 Mr. Hutchings, please?

70 MR. HUTCHINGS: Thank you, Mr. Chairman. I just have
71 two points. Mr. Wells, earlier in answer to a question from
72 Commissioner Saunders you were talking about the
73 problem with the overestimating of the capital budget and
74 at some point in the course of your answer it seemed to me
75 that you were suggesting that there was no significance in
76 overestimating the capital budget, and I may follow along
77 with you on that to a certain point, but would you agree
78 with me that there is a significance in overestimating the
79 capital budget for the test year?

80 MR. WELLS: Oh yes, definitely. If I left that impression, it
81 wouldn't be correct. It does impact on the test year, the
82 amount of the budget.

83 MR. HUTCHINGS: And that the projected amount to be
84 spent in the test year will impact the rate base and hence
85 the revenue requirement and hence the rates.

86 MR. WELLS: Yes, that's true.

87 MR. HUTCHINGS: Yes, okay, on the other point, in terms
88 of your answers to Commissioner Saunders on the reasons
89 why you were so long in getting back to the Board between
90 1992 and this year, and you mentioned on a number of
91 occasions that there was no requirement for an increase
92 and you said that that was all to the benefit of the
93 consumer. Given the projected impact that the adoption of
94 the new cost methodology would have on the industrial

1 customers, would you say that the delay in implementing
2 that methodology was of benefit to this particular class of
3 consumer?

4 (3:30 p.m.)

5 MR. WELLS: That would be weighed in the balance in
6 terms of what the outcome is. I think that, the only way I
7 can respond to that is that had we applied earlier in terms
8 of a rate application, then it would have impacted the rates
9 of the industrial customers as well as Newfoundland Power,
10 and all consumers. Is that ... am I addressing your point?

11 MR. HUTCHINGS: Yes, and I think if we are in agreement
12 that the projection at the time of the cost methodology
13 hearing was that the implementation of that hearing would
14 in fact reduce industrial rates, that that would be the effect
15 on the consumers, the industrial consumers.

16 MR. WELLS: Yes, I think there's still a bit of controversy
17 between Hydro and the industrial customers as to the
18 application of the cost of service methodology.

19 MR. HUTCHINGS: There is.

20 MR. WELLS: Yes.

21 MR. HUTCHINGS: But I think you and I agreed earlier on
22 that the, your projection at the time of the cost
23 methodology hearing was that there'd be a million and a
24 half dollars in savings to the industrial customers from the
25 implementation of that methodology, Hydro's projections,
26 that's correct, isn't it?

27 MR. WELLS: Yes.

28 MR. HUTCHINGS: Okay, so the delay in implementing that
29 would not be of benefit to the industrial customers.

30 MR. WELLS: From that perspective, in the total scheme of
31 things, I'm not sure at this stage of the week, from a
32 mathematical construct I can't get into it, but I understand
33 what you're saying.

34 MR. HUTCHINGS: I think probably everyone does, Mr.
35 Wells. Those are my only points. Thank you, Mr. Chair.

36 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
37 Hutchings. Mr. Browne?

38 MR. BROWNE, Q.C.: Yes, just three areas. Commissioner
39 Whalen asked you concerning the Rate Stabilization Plan
40 and I think you had a discussion with her of the only
41 options for the Rate Stabilization Plan are the monthly fuel
42 adjustment charge. I just want you to go for a minute, and
43 I think you're going to need your hard copy because I don't
44 believe this has been scanned, CA-179. That has all these
45 newspapers excerpts, and gives us a little history.

46 MR. WELLS: Okay.

47 MR. BROWNE, Q.C.: Okay, if you go to CA-179, there are
48 a number of excerpts there from the newspapers of the day
49 and there's one excerpt there, page 11 of 23, and it's headed,
50 "Hydro cautions scheme could haunt consumers", and it's
51 dated March 13, 1985, and you're commenting, I guess, on
52 someone's newspaper article but apparently it makes
53 reference to the provincial government's scheme to average
54 out the fuel escalation cost to consumers during the winter
55 months could come back to haunt consumers, and then it
56 goes on with the article, but the last part of the article refers
57 to an averaging system to be used, I guess, in the winter
58 months, from February to August. You would agree with
59 me that that is not the Rate Stabilization Plan they're talking
60 about there.

61 MR. WELLS: It doesn't appear to be, no.

62 MR. BROWNE, Q.C.: So there might be a third option
63 there, at least that the government was looking to at the
64 time would you agree with me?

65 MR. WELLS: Yes.

66 MR. BROWNE, Q.C.: Okay, I guess in reference to a lot of
67 these articles, I note that I had the thought, I think there
68 was a provincial election around that time, and I think that's
69 why we see a lot of these things, so I guess everything in
70 its context. I want to ask you as well concerning a question
71 put to you by Commissioner Saunders. Commissioner
72 Saunders made reference to your ability, or inability, I
73 guess, to alert consumers to the rising cost of fuel or put
74 some kind of notice or alert or warning, I guess, for lack of
75 a better word, out there in the public, and you made
76 reference to the fact, well, you know, probably that's
77 Newfoundland Power's business. I just want you to make
78 a reference to October 10, 1995, and I think our friend, Mr.
79 O'Rielly, has this, has scanned this document, the **Report**
80 **of the Board of Commissioners of Public Utilities**. This
81 was the first reference in October 10, 1995, and if go to page
82 12 of that report. Okay, it's Table 1-1, Customers and
83 Population by Hydro Service Area. This may, if you go to
84 the beginning of that chart, I think you've got it divided
85 there the way that it's probably, the way it was presented,
86 but in any case, it makes reference to the total Hydro
87 customers and population base, and if you look at ... it
88 might be on the next page, yes, okay, right there, Mr.
89 O'Rielly, I think we have it, and it says, "total Hydro
90 customers and population base", and it shows the
91 percentage of province population that you serve, and at
92 that time, 1995, it was 15.8 percent. Is that around what it
93 is today or is it more or is it less?

94 MR. WELLS: I don't know precisely. I would think it is not
95 much of a change, I suppose, in the whole ... although the
96 ...

97 MR. BROWNE, Q.C.: I guess my question is, there's

1 nothing to prevent you from alerting your own customers
2 or taking the lead in reference to this, that it's not all
3 Newfoundland Power's responsibility.

4 MR. WELLS: No, no, I take it ... I just, I don't want to
5 endorse your first comment that I was shuffling things off
6 to Newfoundland Power. The context was that at least
7 Newfoundland Power's customers, that it ... I was
8 questioning whether we could go to them directly, or would
9 you go through Newfoundland Power to Newfoundland
10 Power's customers, you know. You wouldn't want to see,
11 or they wouldn't want to see the Hydro blue leaflet in their
12 customer bills, I think, you know, totally, so we would have
13 to liaise with them and otherwise we would be speaking to
14 the population generally as consumers or we are, yes, we
15 are free to put into our own bills, information to our
16 customers.

17 MR. BROWNE, Q.C.: And I guess that was my question.
18 Okay.

19 MR. WELLS: Oh definitely, yes.

20 MR. BROWNE, Q.C.: Thank you. The other question
21 comes from a discussion you were having with the
22 Chairperson as to whether or not this is an interim
23 application of some sort. Do you view this application as
24 an interim application, and you're sort of like John the
25 Baptist. We're going to see the real thing in 2003? Do you
26 see this, you're just preparing the way?

27 MR. WELLS: You realize what happened to John the
28 Baptist.

29 MR. BROWNE, Q.C.: You might want to keep that in mind.
30 *(laughter)*

31 MR. WELLS: I don't want to see any plates around here.
32 No, when the chair asked that remark and the conversation
33 went on, my reaction ... no, I don't think that this is an
34 interim application as such. This is a full and complete
35 application that. To the extent that things are requested or
36 issues must be decided, in that context it holds together the
37 complete application, and I think, you know, on reflection,
38 with the Chairman's, you know, questioning of me in our
39 back and forth, that it does lay the basis though for the
40 future and the nature of the application is such that, for
41 instance, the Board, and I think this was what the Chair was
42 alluding to, was that they wouldn't make a definitive
43 statement going forward which would have impact as to
44 what, for instance, our return on equity would be in this
45 application, and in terms of the standing order. The other
46 aspects of this application that we won't, under our
47 proposal, clue up the issue with respect to the Labrador
48 Interconnected rates, in terms of defining the rates until the
49 next hearing ... the same would be with the outstanding
50 preferential rates, so the difference between this hearing

51 which I would regard as a complete application, because I
52 was a bit concerned when the Chair suggested it was not,
53 but I think in ... what I think the context to be now is that
54 there are things that when we close this hearing, while we
55 may have an approach to the Labrador Interconnected
56 System, we will have not defined the rate classes and the
57 basis of how we are going to, what the actual rates will be
58 for the five years, whereas in 2003, on that particular point,
59 in the 2004 test year, the rate will be confirmed for 2004 and
60 2005, 2006, you know, the base rate would be set at that
61 point when we file those rate structures. Is that helpful?

62 MR. BROWNE, Q.C.: Yes, I think I understand. The fact
63 you're coming back so soon in 2003 after what will be a
64 very expensive process here, bearing in mind, I think all of
65 this with the possible exception of the industrials and
66 they're trying for it too, will be paid for by the consumers,
67 and I think someone mentioned a figure of \$3 million, which
68 may be conservative, I find it hard to fathom that we would
69 be in this process again in 2003 and we have
70 Newfoundland Power in the process of bringing an
71 application around that same time. Given those facts, is
72 there anything that would preclude the Board in your
73 judgement from applying the automatic adjustment formula
74 to whatever rate of return that they may give you? Is there
75 anything there?

76 MR. WELLS: Well, I think the Board could take that
77 approach as a result of everything that's brought to it in
78 this hearing. They could make an adjustment based on
79 what our proposal is for the couple of years. They could
80 make a final decision with respect to where they saw the
81 rate of return should be and suggest parameters and
82 ranges. The Board could consider saying that the Rate
83 Stabilization Plan, if that were to stay in effect, that the rate,
84 the price in Hydro's rates, if it were to deviate a certain
85 percentage from the actual rate, that there could be an
86 automatic adjustment to allow the pendulum to swing, but
87 we haven't advanced for this hearing those types of
88 concepts, but so my first ...

89 MR. BROWNE, Q.C.: But you would agree to me, it would
90 be within the Board's jurisdiction.

91 MR. WELLS: Yes.

92 MR. BROWNE, Q.C.: To deal with that.

93 MR. WELLS: In the Board's ... you know, the Board is
94 unfettered, I think, for the matters before it in this particular
95 application, the Board's jurisdiction is unfettered.

96 MR. BROWNE, Q.C.: And my final question, in response
97 to a question from Commissioner Saunders, as a matter of
98 record, can you confirm that Hydro is indeed subsidizing
99 the Federal Government to the tune of \$500,000? Is that
100 the, was that what was mentioned?

1 MR. WELLS: No, no, God forbid. What the question was,
2 of the \$2 million attributable to both governments in the
3 preferential rates, what was the proportion, and the
4 proportion is roughly \$1.5 million for the Provincial
5 Government agencies and \$500,000 for the Federal
6 Government agencies.

7 MR. BROWNE, Q.C.: And is that \$500,000 more the Feds
8 should be paying but they're not if they weren't on the
9 preferential system?

10 MR. WELLS: That's correct.

11 MR. BROWNE, Q.C.: So that's a form of subsidy, is it not?

12 MR. WELLS: Yeah, but it's not ... don't say it's a Hydro
13 subsidy.

14 MR. BROWNE, Q.C.: You don't like that terminology.

15 MR. WELLS: Well, no, it's part of the preferential rate
16 structure, yes.

17 MR. BROWNE, Q.C.: Okay, so it's \$1.5 million for the
18 Provincial, but \$500,000 for the Federal Government?

19 MR. WELLS: Yes.

20 MR. BROWNE, Q.C.: And the Federal Government ...

21 MR. WELLS: Crown agencies.

22 MR. BROWNE, Q.C.: ... has ... up to a few days ago
23 anyway, we were told has still got a pretty good, got a
24 pretty good surplus in its budget, does it not?

25 MR. WELLS: Well to that end we said we would increase
26 their rates by 20 percent, and you know ... I'll leave it at that
27 ... we propose 20 percent.

28 MR. BROWNE, Q.C.: Leave it at that, okay. Thank you
29 very much, those are my questions as well.

30 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
31 Browne. Ms. Greene?

32 MS. GREENE, Q.C.: Mr. Kennedy.

33 MR. KENNEDY: That's fine. I don't feel slighted. I don't
34 have any questions, nothing arising, Chair.

35 MR. NOSEWORTHY, CHAIRMAN: I apologize, Counsel.
36 Ms. Greene?

37 (3:45 p.m.)

38 MS. GREENE, Q.C.: Thank you, Mr. Chair. I have five
39 questions arising as a result of some questions from my
40 colleagues just then, however the first question I have
41 relates to questions put by Commissioner Saunders to you,
42 Mr. Wells, and I believe they related to communications
43 that Hydro made at the time the application was filed and
44 the question, one of the specific questions, for example,

45 was whether we had done a direct mailing to our customers,
46 and I'd like you, for the record, to indicate to the Board
47 what were the communication efforts Hydro made at the
48 time it filed its application with all of its customers.

49 MR. WELLS: Yes, on the morning of the filing, the first
50 thing that happened was the application was delivered to
51 the Board here. Shortly after that I held a press conference
52 at Hydro Place and issued a press release and we had
53 backgrounders prepared on various facets of the
54 application and the workings of the Rate Stabilization Plan,
55 and the price of fuel, a complete package. We had asked
56 the Telegram for an editorial board meeting that these
57 papers have. They declined on the basis of the subject
58 matter that at that time they had other things on their mind.
59 We held an editorial board meeting with the Robinson
60 Blackmore Group which publish all the rural papers. I
61 contacted personally the industrial customers, like the
62 managers of ... I didn't get them all that particular day but
63 subsequently I did talk to all, and we had arranged for
64 Hydro staff to meet with our industrial customers to brief
65 them with all, in all aspects of the application and that was
66 carried out within the following week, and we had also,
67 (inaudible) requests and consultations back and forth, we
68 arranged for Hydro staff to travel to both Labrador East
69 and Labrador West and in Labrador West they met with the
70 Town Council representatives of Wabush and Labrador
71 City and the Labrador West Chamber of Commerce, and the
72 same type of meeting was held in Happy Valley-Goose Bay,
73 either the day preceding, or the day after that. We also
74 issued an information package to our employees, that's all
75 Hydro employees, then we posted our information, like our
76 press release and that type of thing, and all the information
77 and the backgrounders was posted on the Hydro website
78 and it's still there, so you can drill down through the site
79 and, you know, if you want to talk about the Rate
80 Stabilization Plan or some other aspect of the application,
81 so that was the communications plan immediately on the
82 filing of the application with the Board.

83 MS. GREENE, Q.C.: So there was no direct mailouts to our
84 rural customers but as you mentioned ...

85 MR. WELLS: No, there was nothing in the mail in our
86 billings to our rural customers in an envelope with respect
87 to the application.

88 MS. GREENE, Q.C.: And the website you mentioned is an
89 external one available to the public, not an internal one?

90 MR. WELLS: Oh yes, yes, it's available to ...

91 MS. GREENE, Q.C.: The next question that I wanted to
92 refer to again arises from a question by Commissioner
93 Saunders, and it relates to the permanent and temporary
94 staffing shown in NP-6, and I wonder if we could bring up
95 NP-6 please? Mr. Saunders, in his questions, asked you to

1 add the numbers for permanent and temporary, December
2 '92, and then compare them with the numbers for May. If
3 you could please go to May, Mr. O'Rielly? I wonder if you
4 could explain the significance of the May numbers in
5 relation to the numbers for December that are there for all
6 previous years except 2001?

7 MR. WELLS: Yes, I didn't pick up that this morning when
8 we were talking about it and Mr. Saunders had asked me to
9 add in the 2001 year the 855 to the 289 to compare with the
10 1012 and 118 in 1992. The figures Commissioner Saunders,
11 you will note, the figures for 2001 are the end of May
12 figures and the 289 in May would reflect the fact that
13 starting into the summer portion we are hiring temporaries,
14 we're coming into the peak of the temporary hires, and all
15 the other numbers refer to the numbers of temporaries at
16 the end of the year, and that's why you see this balloon,
17 because if you go back through those numbers, back to
18 1992, they all are December numbers and only in 2001 did
19 it stop at May, and I didn't notice that this morning when
20 talking to you, I just added 855 to 289, and then compared
21 it to the 1130 of your previous number, 1992 numbers, so
22 this 289, we take on people through the summer and then
23 it goes down through the year to the fall. That's the
24 summer work program and TRO and others.

25 MS. GREENE, Q.C.: I'd like now to refer to **NP-268** which
26 shows the year end complement for 2001 of temporaries for
27 148.

28 MR. WELLS: Yes, that would ...

29 MS. GREENE, Q.C.: So that is the number that should have
30 been added to the permanent complement instead of the
31 289 showed ...

32 MR. WELLS: Yes, well we're not at the end of ... but that's
33 what we expect, and it would be consistent with the other
34 numbers.

35 MS. GREENE, Q.C.: The next question I have for you, Mr.
36 Wells, arises from a question just then by Mr. Hutchings
37 related to the cost of service methodology, and it is late
38 and I'll try to help you out with the question. Mr.
39 Hutchings was assuming that if we had applied earlier we
40 would have implemented the '93 cost of service
41 methodology exactly as is without the changes we are
42 proposing in this application. That was the basis of his
43 question.

44 MR. WELLS: That is not likely to have happened that way
45 and as I said to him, we have some differences.

46 MS. GREENE, Q.C.: The next question that I have arises
47 from a question just then by Mr. Browne relating to the
48 automatic adjustment formula, and again, I don't have the
49 benefit of the transcript but the suggestion may have been
50 that that could help avoid a rate hearing in 2003 if the Board

51 were to impose one now, and I want to discuss with you
52 the, what is the driver for the 2003 rate application as you
53 see it at this time?

54 MR. WELLS: The driver right now is the, is the coping
55 with the immediate situation with respect to the impact of
56 the higher oil prices and the fact that there's a cap ...

57 MS. GREENE, Q.C.: No, I'm sorry, you misunderstood the
58 question. The question is, Hydro in the five year plan in its
59 evidence has indicated that it anticipates being here before
60 the Board again by filing in 2003 for 2004 test year.

61 MR. WELLS: Yes.

62 MS. GREENE, Q.C.: What are the drivers that are driving
63 that anticipation of a hearing on ...

64 MR. WELLS: You mean 2004.

65 MS. GREENE, Q.C.: Around the test year 2004, yes.

66 MR. WELLS: Well we will have to come back with the
67 definitive outline of the rates for the Labrador
68 Interconnected ... or I'm missing the question.

69 MS. GREENE, Q.C.: When does Granite Canal and the two
70 nugs come in service? *(laughter)*

71 MR. WELLS: Oh my ... sometimes a plate is preferable.
72 The major driver at the end of the week which the CEO has
73 forgotten all about is that we will be coming back with new
74 sources of generation expansion and which would have to
75 be incorporated. There's that, and the others I mentioned
76 were ... you know, but we have to come back. 2003 would
77 have its own requirements.

78 MS. GREENE, Q.C.: So we have new sources of generation
79 coming on, the two nugs you've already outlined and
80 Granite Canal. Would an automatic adjustment formula and
81 the ROE be able to address the expenditures that would be
82 required to go in rate base as a result of these three items I
83 just mentioned?

84 MR. WELLS: No.

85 MS. GREENE, Q.C.: Well now looking at the issue of
86 whether an automatic adjustment formula makes sense in
87 the context of a three percent ROE, do you have any
88 comment to make on that at this time?

89 MR. WELLS: No, you couldn't do it in that context. I think
90 my answer to the Consumer Advocate was that the Board
91 could explore these things but we haven't put forward
92 anything that would enable them to do it at this stage.

93 MS. GREENE, Q.C.: And I appreciate that answer and I'm
94 going the next step to see if you think they make any
95 sense?

96 MR. WELLS: Oh now I have to comment on the Consumer

- 1 Advocate's suggestions. No.
- 2 MS. GREENE, Q.C.: You already did on the first one. Now
3 we're talking about the automatic ...
- 4 MR. WELLS: No, I don't think that when you examine the
5 issues in this hearing and the way we've phrased the
6 application, that you really ... while your jurisdiction is
7 totally unfettered, but it would extend this hearing to
8 pursue those types of issues, and try to get it fitted in the
9 context of the application as now presented.
- 10 MS. GREENE, Q.C.: And perhaps Ms. McShane would be
11 the best one as well to deal with that. The last one is with
12 respect to the preferential rates for Federal Government and
13 I think there may be some confusion and I just want to clear
14 it up for the record. Mr. Wells, is there a special rate called
15 preferential government rate for our rural customers?
- 16 MR. WELLS: No, they are in the general service rate and
17 in that sense they are paying a stipulated rate which is in
18 the, falls in the class of the rural subsidized rates.
- 19 MS. GREENE, Q.C.: So they would pay the same rate as
20 another customer in the isolated areas having the same
21 load patterns?
- 22 MR. WELLS: That's right, yes.
- 23 MS. GREENE, Q.C.: And that concludes the questions that
24 I had for Mr. Wells.
- 25 MR. NOSEWORTHY, CHAIRMAN: Thank you very much,
26 Ms. Greene. Thank you, Mr. Wells, it's been, I guess, a
27 long week for you. I want to thank you for your candid and
28 expansive testimony and while it might have been to the
29 chagrin of your staff, it's been most helpful to us.
30 *(laughter)* Thank you very much.
- 31 MR. WELLS: Thank you.
- 32 MR. NOSEWORTHY, CHAIRMAN: I'd like to ... are there
33 any items, Counsel?
- 34 MR. KENNEDY: Just one item, Mr. Chair, just to put on the
35 record that the Board has received notice from the Town of
36 Rigolet that they intend to make an oral presentation at the
37 public hearings in Goose Bay on October the 18th or
38 October the 19th, and the letter I believe a copy of which
39 has been given to all counsel, will be tendered in the official
40 record of the Board.
- 41 MS. GREENE, Q.C.: Actually that raises a question. Is the
42 deadline for the members of the public advising the Board
43 whether they wish to attend. Is that the only one that has
44 been received to date, is the Town of Rigolet? I have not
45 received the ...
- 46 MS. BLUNDON: There was a telephone request but they
47 will be calling back, I believe it's the ... a union (phonetic) in
- 48 Wabush. I'd have to get the address, but that's the only ...
- 49 MR. BROWNE, Q.C.: I might be helpful here. I should tell
50 the Board that I've been in communication with the MHA's
51 from that area but ... and I've given them initial notice that
52 the hearings will take place and they do intend to bring
53 people to present, but as in all things I think we will find
54 out who they are at the last minute, so I'm working on it and
55 I might be able to give you an update as soon as they
56 update me. Thank you.
- 57 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
58 Browne. Just as a general ... how have people found the
59 technology generally speaking this week? Good? Yeah.
- 60 MS. GREENE, Q.C.: Speaking on behalf of the Applicant
61 we have found it very useful and it has worked much better
62 even than I had anticipated.
- 63 MR. NOSEWORTHY, CHAIRMAN: Yeah, I think it has
64 worked quite well. I'm getting nods of heads in any event
65 and I thank you, Mr. O'Rielly, and we look forward to more
66 of the same. I guess we'll conclude for this evening and I
67 understand, Ms. Greene, that you'll be calling Mr. Reeves
68 as the next witness on Monday morning, I guess, is that
69 correct?
- 70 MS. GREENE, Q.C.: Yes, that's correct, Mr. Chair, and just
71 for information, I believe all counsel are aware of this but
72 when Mr. Reeves begins his testimony we plan to have a
73 very brief presentation done by Mr. Reeves to explain the
74 system. Mr. Reeves is responsible for the transmission
75 system on the island as well as in Labrador and for all of
76 our rural systems both on the island and Labrador so we
77 thought it would be helpful for the Board and for the
78 parties if first after he adopts his pre-filed evidence there
79 was a very brief overview of what the systems are that we
80 have to provide service to our customers in the rural areas
81 as well as the transmission system, so there would be that
82 brief presentation as well on Monday.
- 83 MR. NOSEWORTHY, CHAIRMAN: Sounds like it would
84 be helpful. Okay, thank you very much, Mr. Wells, once
85 again for the week and we'll adjourn until 9:30 on Monday
86 morning, and have a good weekend.
- 87 *(hearing adjourned to October 1, 2001)*