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<p>1 (9:03 a.m.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. Good morning, Ms. Newman. Any preliminary</p> <p>4 matters before we get started?</p> <p>5 MS. NEWMAN:</p> <p>6 Q. No, Chair.</p> <p>7 CHAIRMAN:</p> <p>8 Q. Thank you. Good morning, Mr. Kennedy. Would</p> <p>9 you like to present your witness?</p> <p>10 MR. KENNEDY:</p> <p>11 Q. Thank you, Chair. This is Bill Brushett,</p> <p>12 Chartered Accountant with the firm Grant</p> <p>13 Thornton, the Board's financial advisors, and</p> <p>14 he's prepared to be sworn to give evidence.</p> <p>15 CHAIRMAN:</p> <p>16 Q. Thank you. Good morning, Mr. Brushett.</p> <p>17 A. Good morning.</p> <p>18 Q. Not that any introduction is necessary, I'm</p> <p>19 sure.</p> <p>20 MR. WILLIAM BRUSHETT (SWORN)</p> <p>21 CHAIRMAN:</p> <p>22 Q. Thank you, sir. When you're ready, Mr.</p> <p>23 Kennedy.</p> <p>24 MR. KENNEDY:</p> <p>25 Q. Thank you, Chair. Mr. Brushett, Grant</p>	<p>1 Thornton authored a report to the Board of</p> <p>2 Commissioners of Public Utility on the</p> <p>3 Newfoundland and Labrador Hydro 2000 General</p> <p>4 Rate Application filed September the 2nd of</p> <p>5 this year. Is that correct?</p> <p>6 A. The 2003 General Rate Application, yes, that's</p> <p>7 correct.</p> <p>8 Q. And you also filed simultaneously a report on</p> <p>9 key performance measures for Newfoundland and</p> <p>10 Labrador Hydro and a report on the rate</p> <p>11 stabilization plan?</p> <p>12 A. Yes.</p> <p>13 Q. Have you made any changes to those reports</p> <p>14 since their original filing?</p> <p>15 A. No, I have not.</p> <p>16 Q. And did Grant Thornton also file a</p> <p>17 supplementary report with the Board on</p> <p>18 December 5th?</p> <p>19 A. Yes.</p> <p>20 Q. And do you, as representative of Grant</p> <p>21 Thornton, adopt all those reports as filed?</p> <p>22 A. Yes, I do.</p> <p>23 Q. And the witness is turned over to the wolves,</p> <p>24 Mr. Chair.</p> <p>25 CHAIRMAN:</p>
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<p>1 Q. Thank you, Mr. Kennedy. Good morning, Ms.</p> <p>2 Greene, when you're ready, please.</p> <p>3 GREENE, Q.C.:</p> <p>4 Q. Good morning, Chair, Commissioners. I've been</p> <p>5 called many things. I think that's the first</p> <p>6 time I've been called a wolf. You shouldn't</p> <p>7 give the Hydro employees at the back of the</p> <p>8 room any ideas. Good morning, Mr. Brushett.</p> <p>9 A. Good morning.</p> <p>10 Q. I'd like to begin by looking at your 2003</p> <p>11 report, which is Information No. 9, and I'd</p> <p>12 like to look at page one first of that report</p> <p>13 with you.</p> <p>14 A. Yes.</p> <p>15 Q. I believe, is it correct to say that items 1</p> <p>16 through 10 on the following page set out the</p> <p>17 scope of your inquiry and the issues that you</p> <p>18 were asked to review?</p> <p>19 A. That's correct.</p> <p>20 Q. And that there are then separate sections on</p> <p>21 each of these ten issues or subject matters?</p> <p>22 Is that correct?</p> <p>23 A. Yes.</p> <p>24 Q. The first issue or item that you were asked to</p> <p>25 look at was the methodology used by Hydro for</p>	<p>1 estimating revenues, expenses and net</p> <p>2 earnings, and I won't go through each one with</p> <p>3 you, but with respect to that one, I</p> <p>4 understand from reading your report that you</p> <p>5 agreed with the methodology that had been used</p> <p>6 and did not make any recommendations for any</p> <p>7 change? Is that correct?</p> <p>8 A. We have reviewed the methodology and the</p> <p>9 process use to generate the forecast, you're</p> <p>10 correct, and the process, as I think we've</p> <p>11 stated, is comprehensive and provides</p> <p>12 sufficient approach to forecasting revenues</p> <p>13 and expenses for the test year, yes.</p> <p>14 Q. So if we look to the next section, which</p> <p>15 commences on page three, where you set out the</p> <p>16 methodology used by Hydro to determine the</p> <p>17 revenues and expenses, following your review</p> <p>18 of that methodology, including how interest is</p> <p>19 determined, you did find that the methodology</p> <p>20 was appropriate, and here I'd like to take you</p> <p>21 to page four and ask you to read line 14.</p> <p>22 A. "As a result of our review, we have determined</p> <p>23 that the overall methodology used by Hydro for</p> <p>24 forecasting revenue, expenses and net income</p> <p>25 is reasonable and appropriate."</p>

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<p>1 GREENE, Q.C.:</p> <p>2 Q. And as we've already determined, you made no</p> <p>3 recommendations with respect to any changes in</p> <p>4 the current methodology?</p> <p>5 A. We have no recommendations as to changes in</p> <p>6 the methodology of forecasting, no.</p> <p>7 Q. I'd like now to go back to page one again and</p> <p>8 to look at another area that you reviewed, and</p> <p>9 this one is number eight, and I wonder if you</p> <p>10 could read what the scope of your inquiry was</p> <p>11 with respect to this particular issue?</p> <p>12 A. At line 41?</p> <p>13 Q. Yes.</p> <p>14 A. "Conduct a review of forecast interest and</p> <p>15 other costs to assess their reasonableness and</p> <p>16 prudence in relation to sales of power and</p> <p>17 energy and assess compliance with Board orders</p> <p>18 where applicable."</p> <p>19 Q. And in this regard, Mr. Brushett, there's a</p> <p>20 significant section of your report that deals</p> <p>21 with the review of expenses, beginning on page</p> <p>22 23 where we talk about the revenue</p> <p>23 requirement. Actually it goes for several</p> <p>24 pages, and I just wanted to review with you</p> <p>25 again your conclusion with respect to that.</p>	<p>1 First, following your review of the interest</p> <p>2 and other costs, did you determine that any</p> <p>3 expenditure included by Hydro was unreasonable</p> <p>4 or imprudent with respect to the sales of</p> <p>5 power and energy and Hydro's regulated</p> <p>6 operations?</p> <p>7 A. Ms. Greene, I guess we have not made an</p> <p>8 overall conclusion in this report. The</p> <p>9 approach used in reviewing the revenue</p> <p>10 requirement is to look at individual cost</p> <p>11 categories one at a time, sort of on an</p> <p>12 individual basis, and to the extent we had</p> <p>13 some concerns, they would be documented in our</p> <p>14 findings throughout that section of the</p> <p>15 report. Overall, you know, we leave it to the</p> <p>16 Board to make a determination having seen that</p> <p>17 evidence and other evidence coming before it,</p> <p>18 to draw its own conclusions as to the</p> <p>19 reasonableness and prudence of the expenses.</p> <p>20 But if I go back to your question, did we</p> <p>21 conclude at any point that something was</p> <p>22 unreasonable or imprudent? The answer is</p> <p>23 that's correct, we did not conclude that.</p> <p>24 Q. And that would be different than in the last</p> <p>25 general rate application where you did</p>
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<p>1 recommend that certain expenditures not be</p> <p>2 included, such as spousal travel and the Bay</p> <p>3 D'Espoir street lights. Is that correct?</p> <p>4 A. That would be correct with respect to items</p> <p>5 like that, and part of our review at this time</p> <p>6 would have been to look at those particular</p> <p>7 items to make sure they were being treated as</p> <p>8 non-regulated.</p> <p>9 Q. So again, in your report and your review on</p> <p>10 the 2004 proposed revenue requirement, Grant</p> <p>11 Thornton is not recommending--Grant Thornton</p> <p>12 has not recommended or determined that any of</p> <p>13 the expenditures included in there are</p> <p>14 unreasonable or imprudent, while you may have</p> <p>15 comments in some of the categories in your</p> <p>16 section in the report dealing with the revenue</p> <p>17 requirement? Is that correct?</p> <p>18 A. In this particular report, I just would point</p> <p>19 out in the supplementary evidence, we did make</p> <p>20 reference to an issue around the unusual loss</p> <p>21 on disposal related to Davis Inlet, which I</p> <p>22 think our comments are that it wouldn't be</p> <p>23 appropriate to include the full amount of that</p> <p>24 in the revenue requirement for 2004, because</p> <p>25 it was unusual.</p>	<p>1 Q. Yes, and we'll come to that, but with the</p> <p>2 exception of the Davis Inlet abandonment or</p> <p>3 the cost associated with the decommissioning</p> <p>4 of the Davis Inlet plant, there was nothing</p> <p>5 else that you would bring to the attention of</p> <p>6 the Board, in the same light as before, such</p> <p>7 as spousal travel?</p> <p>8 A. Nothing that we have specifically recommended</p> <p>9 be excluded, but we're not, I guess, drawing</p> <p>10 overall conclusions that everything is</p> <p>11 reasonable and imprudent. It may be a subtle</p> <p>12 difference to some, but really, I think, the</p> <p>13 conclusions are that nothing is clearly</p> <p>14 imprudent or inappropriate. The overall</p> <p>15 reasonableness of the expenses, having seen</p> <p>16 all the evidence in our findings in the</p> <p>17 different categories is something the Board,</p> <p>18 that we leave to the Board to make an overall</p> <p>19 conclusion on.</p> <p>20 Q. I'd like to turn to page 17 of this same</p> <p>21 report, and here you discuss capital</p> <p>22 expenditures, which was the fourth item you</p> <p>23 were asked to review in the scope of your</p> <p>24 inquiry, as outlined in page one of this</p> <p>25 report. We would point out there Hydro's</p>

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<p>1 GREENE, Q.C.:</p> <p>2 experience from '98 to 2002 with respect to</p> <p>3 the variance between the capital budget and</p> <p>4 the actual expenditures. The average for the</p> <p>5 period is shown as 14.4 percent. Would you</p> <p>6 agree that the experience since 2000 has been</p> <p>7 better than the experience prior to 2000?</p> <p>8 A. The trend certainly appears to be improving or</p> <p>9 the variance reducing over that time frame,</p> <p>10 yes.</p> <p>11 Q. Do you recall the evidence from the last</p> <p>12 hearing that Hydro was paying more focus with</p> <p>13 respect to the time table for the capital</p> <p>14 budget and expenditures?</p> <p>15 A. Yes, I recall discussion around that.</p> <p>16 Q. And I'm not sure if you were present when Mr.</p> <p>17 Roberts gave evidence in this particular</p> <p>18 hearing, on October 14th?</p> <p>19 A. I'm not sure I was here when he gave specific</p> <p>20 evidence. I may have been, but I read the</p> <p>21 transcripts, certainly.</p> <p>22 Q. And again, I don't think it's necessary to go</p> <p>23 to it now, unless you would like to, but</p> <p>24 again, the evidence was to the point that</p> <p>25 Hydro anticipates an improvement in this area</p>	<p>1 with the greater focus that's being placed on</p> <p>2 the capital budget process, when it became</p> <p>3 aware of the Board's concerns in this area?</p> <p>4 Is that correct?</p> <p>5 A. Yes. Maybe I should clarify one point though,</p> <p>6 Ms. Greene, that the Board's concerns, and I</p> <p>7 shouldn't speak to all the Board's concerns,</p> <p>8 our concern and the way it's described in here</p> <p>9 is very specific and narrow in terms of the</p> <p>10 issue really. It's not a question of whether</p> <p>11 Hydro is managing its capital program properly</p> <p>12 and we're not really challenging that</p> <p>13 whatsoever. It's really for purposes of</p> <p>14 determining a revenue requirement in a test</p> <p>15 year. Having knowing the history, is it</p> <p>16 really an issue of whether you're managing the</p> <p>17 program and going to spend every dollar you</p> <p>18 had budgeted to spend or should we look at the</p> <p>19 history and say because of factors beyond your</p> <p>20 control, don't necessarily spend the entire</p> <p>21 budget in a given year or those assets are</p> <p>22 delayed coming into service, which affects the</p> <p>23 timing of when you depreciate them, when</p> <p>24 interest hits the revenue requirement and so</p> <p>25 on. So recognizing that that has historically</p>
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<p>1 happened, and I haven't seen, other than</p> <p>2 saying you're managing your program a little</p> <p>3 better and maybe that variance is declining,</p> <p>4 nothing to say that that's going to be</p> <p>5 eliminated in the test year, everything,</p> <p>6 you'll match dollar for dollar the budget and</p> <p>7 the actual expenditures and the depreciation</p> <p>8 and the cost of capital right on target.</p> <p>9 Q. And I think we would all -</p> <p>10 A. That's the focus of our comments.</p> <p>11 Q. We would all agree, while that would be the</p> <p>12 goal, it's probably impossible to obtain</p> <p>13 matching expenditure exactly to the budget.</p> <p>14 A. Things outside of your control. You order</p> <p>15 materials and the supplier is two weeks</p> <p>16 delayed. It's rarely that they deliver</p> <p>17 everything ahead of schedule.</p> <p>18 Q. But I gather from your answer you agree that</p> <p>19 Hydro's performance or experience in this</p> <p>20 regard has been improving?</p> <p>21 A. If we look at the table on page 17, it does</p> <p>22 show a variance of 18.73 percent in 1998.</p> <p>23 While it does dip down in 2000 and up again in</p> <p>24 2001, the trend is for declining, certainly</p> <p>25 down just below 10 percent in 2002. I would</p>	<p>1 agree with that.</p> <p>2 Q. If we go back to the last hearing, do you</p> <p>3 recall that this issue was also raised, and at</p> <p>4 that time, the variance was 15 percent?</p> <p>5 A. I believe it was a higher number, yes.</p> <p>6 Q. And do you recall what the Board's decision</p> <p>7 was in regard to that? What was the allowance</p> <p>8 or the disallowance?</p> <p>9 A. Maybe you -</p> <p>10 Q. It was seven and a half percent from P.U. 7.</p> <p>11 A. Yes, okay. Thank you.</p> <p>12 Q. With respect to Newfoundland Power, are you</p> <p>13 aware of what the allowance is for</p> <p>14 Newfoundland Power that reduce the</p> <p>15 expenditures, capital budget expenditures by</p> <p>16 for the purposes of rate base for revenue</p> <p>17 requirement?</p> <p>18 A. At the risk of being incorrect, maybe you can</p> <p>19 tell me. I know there is an allowance in the</p> <p>20 revenue requirement calculation, maybe four</p> <p>21 percent.</p> <p>22 Q. Yes, it is four percent. And do you recall</p> <p>23 what the variance was at the time the Board</p> <p>24 set four percent? It was in the 1996 hearing</p> <p>25 and, subject to check, would you agree that</p>

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<p>1 GREENE, Q.C.:</p> <p>2 the variance was almost 12 percent? It was</p> <p>3 11. -</p> <p>4 A. Subject to check, I will accept that.</p> <p>5 Q. - it was 11.6 something percent at the time.</p> <p>6 A. Yes.</p> <p>7 Q. Again, at the time that the Board set it for</p> <p>8 Newfoundland Power in 1998, are you aware of</p> <p>9 what the variance was at that particular point</p> <p>10 in time?</p> <p>11 A. I don't have those figures on the top of my</p> <p>12 head, Ms. Greene.</p> <p>13 Q. But again, it would have been around ten</p> <p>14 percent? Subject to check, would you agree</p> <p>15 with that?</p> <p>16 A. Subject to check, I would accept that. I know</p> <p>17 that there were variances.</p> <p>18 Q. And are you aware what the allowance was that</p> <p>19 Newfoundland Power used in their most recent</p> <p>20 hearing, again subject to check, again it's</p> <p>21 the four percent that was first -</p> <p>22 A. Four percent, I believe that's correct, yes.</p> <p>23 Q. And I gather from your supplementary evidence,</p> <p>24 you believe that regulatory consistency is</p> <p>25 important? Is that -</p>	<p>1 A. I believe it is important, but not as the</p> <p>2 primary goal. There are differences between</p> <p>3 utilities, not just in this issue of capital</p> <p>4 expenditures, and certainly you have to look</p> <p>5 at the facts in the situation and the Board</p> <p>6 has to look at the factual evidence, but in</p> <p>7 the absence of there being compelling reasons</p> <p>8 not to, regulatory consistency should be a</p> <p>9 goal.</p> <p>10 Q. And I guess that's the key, isn't it, in the</p> <p>11 absence of compelling reasons why there should</p> <p>12 be a difference?</p> <p>13 A. Right.</p> <p>14 Q. In this section as well, you deal with the</p> <p>15 issue of retirement, and I'd like to take you</p> <p>16 to just the next page here, which is page 18,</p> <p>17 and beginning there on line 10, you raise the</p> <p>18 issue that the retirement Hydro has included</p> <p>19 in the test year is below the average for the</p> <p>20 previous period, and you rely on the table</p> <p>21 that's there in the--commencing at--well, just</p> <p>22 under line 12, and I just want to--the value</p> <p>23 of the retirements that's indicated there for</p> <p>24 capital retirements, isn't it correct that the</p> <p>25 values there are at the original cost of that</p>
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<p>1 capital?</p> <p>2 A. Yes, I believe they are.</p> <p>3 Q. And rate base, the calculation for rate base</p> <p>4 is at net book value, not the original cost?</p> <p>5 Isn't that correct?</p> <p>6 A. That would be correct, yes.</p> <p>7 Q. And what you have shown here is the impact</p> <p>8 based on the original capital cost, as opposed</p> <p>9 to the net book value. Have you done the</p> <p>10 calculation on what the net book value of the</p> <p>11 retirements would be in order to forecast what</p> <p>12 the actual impact would be that you refer to</p> <p>13 on the bottom of the page?</p> <p>14 (9:20 a.m.)</p> <p>15 A. Maybe we should go back to break that down a</p> <p>16 little, Ms. Greene. At the beginning, you're</p> <p>17 saying the capital retirements are at original</p> <p>18 cost, and yes, I agree with that, and -</p> <p>19 Q. And you're suggesting that because we haven't</p> <p>20 included a higher amount of capital</p> <p>21 retirements, we're overstating the rate base</p> <p>22 in the test year?</p> <p>23 A. That is correct, yes. Starting on line 31, is</p> <p>24 that what you're referring to?</p> <p>25 Q. Yes, and you're talking--and I just wanted to</p>	<p>1 ensure that the value wouldn't be related to</p> <p>2 the capital cost that you've used. It would</p> <p>3 be actually the net book value of the</p> <p>4 retirements and what that impact would have on</p> <p>5 rate base, as opposed to the original capital</p> <p>6 cost?</p> <p>7 A. That is correct and we've more or less alluded</p> <p>8 to that, starting at line 37 where we say</p> <p>9 "such an increase in retirements may also</p> <p>10 impact forecast loss on disposal. We</p> <p>11 recognize that, but didn't have information to</p> <p>12 calculate that. And in addition, an increase</p> <p>13 in capital retirements would impact the</p> <p>14 forecast rate base, but we haven't referenced</p> <p>15 it back to the 7,590,000 or 7,680,000</p> <p>16 specifically.</p> <p>17 Q. So you haven't, and you do agree that the</p> <p>18 impact would be for the net book value, not</p> <p>19 for what you have shown here?</p> <p>20 A. Impact on rate base would be, yes.</p> <p>21 Q. Now Mr. Roberts gave evidence with respect to</p> <p>22 this point, and I would like to go to the</p> <p>23 transcript here. It's the transcript of</p> <p>24 October 14th at page 12, commencing at line</p> <p>25 18, and I don't know if you would like to take</p>

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<p>1 GREENE, Q.C.:</p> <p>2 a moment to read that first, Mr. Brushett,</p> <p>3 before I continue with my questions. I asked</p> <p>4 a question there, beginning at line 18, and</p> <p>5 then you'll see the answer which goes over to</p> <p>6 the next page.</p> <p>7 A. Yes.</p> <p>8 Q. So first, you do agree that if the retirements</p> <p>9 are increased, the loss on disposals would</p> <p>10 also increase?</p> <p>11 A. I would expect there would be an impact on</p> <p>12 loss on disposal, yes.</p> <p>13 Q. Okay. And Mr. Roberts explains that there in</p> <p>14 his answer, and he goes, at line 2 on page 13,</p> <p>15 to say, "the losses on disposals will be</p> <p>16 included in the revenue requirement and would</p> <p>17 exceed any reduction in depreciation expense</p> <p>18 in return on rate base that would arise," and</p> <p>19 he means that would arise if we increase the</p> <p>20 retirement allowance for the assets. Do you</p> <p>21 agree with that statement?</p> <p>22 A. I can't agree with that because I haven't done</p> <p>23 an analysis. I can agree or accept the fact</p> <p>24 that the loss on disposal would likely</p> <p>25 increase as those assets were retired, but I</p>	<p>1 haven't reviewed any calculations or done any</p> <p>2 separate analysis on my own with respect to</p> <p>3 the magnitude of the change in the loss on</p> <p>4 disposal relative to the change in the</p> <p>5 depreciation and the return on rate base. But</p> <p>6 I know that information has been put into</p> <p>7 evidence in the form of an information request</p> <p>8 as well.</p> <p>9 Q. Yes, and I was going to come to that. And you</p> <p>10 have nothing at this time to disagree with the</p> <p>11 statement of Mr. Roberts?</p> <p>12 A. I have nothing to disagree with it, no, but I</p> <p>13 haven't done a separate analysis to confirm</p> <p>14 that that's the case.</p> <p>15 Q. And the next line there, would you agree with</p> <p>16 that statement, that "Hydro's approach to</p> <p>17 forecasting retirement tends to favour the</p> <p>18 rate payer, because by not increasing the</p> <p>19 retirements and not increasing the loss on</p> <p>20 disposal, the revenue requirement therefore is</p> <p>21 less."</p> <p>22 A. I would expect--I'm not sure if I agree with</p> <p>23 that, because we can't look at that in</p> <p>24 isolation. Forecasting a retirement should be</p> <p>25 an estimate of what would traditionally be</p>
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<p>1 taken, or not traditionally, what would be</p> <p>2 expected to be taken out of service based on</p> <p>3 historical information. Presumably Hydro is</p> <p>4 not forecasting retirements to accelerate</p> <p>5 taking assets out of service, before their</p> <p>6 useful life is up and all those things, so I</p> <p>7 would assume it's really just a function of</p> <p>8 trying to estimate the retirements which would</p> <p>9 impact the rate base and the return on rate</p> <p>10 base and the loss on disposal using the best</p> <p>11 available information of what's likely to</p> <p>12 occur in the test year. So to just draw an</p> <p>13 overall conclusion that it favours the rate</p> <p>14 payer, I'm not sure I can get there without</p> <p>15 having done significant more analysis than</p> <p>16 we've done.</p> <p>17 Q. You haven't done that analysis?</p> <p>18 A. No.</p> <p>19 Q. Okay. And if we go back to the previous page,</p> <p>20 at the bottom of the page, would you agree</p> <p>21 with Mr. Roberts' statement beginning on line</p> <p>22 22, that "it is difficult to anticipate in any</p> <p>23 given year the magnitude of assets that will</p> <p>24 be taken out of service prior to the end of</p> <p>25 their known service life."</p>	<p>1 A. I would certainly agree with that statement,</p> <p>2 if he's speaking in terms of assets taken out</p> <p>3 of service prior to the end of their known</p> <p>4 service life, which would imply prematurely</p> <p>5 removed from service for failure -</p> <p>6 Q. Such as the fire in Rencontre East that nobody</p> <p>7 knew about.</p> <p>8 A. Right, absolutely. That would be very hard to</p> <p>9 estimate or predict. Really what the estimate</p> <p>10 or forecasting should be looking at is the</p> <p>11 trend or the historical record to see what</p> <p>12 normal retirements would be in a given year,</p> <p>13 given the age of the assets and so on.</p> <p>14 Q. I'd like now to look at NP-232, which I think</p> <p>15 is the request for information that you were</p> <p>16 just speaking about, Mr. Brushett. Now if you</p> <p>17 look at the question, actually we were asked</p> <p>18 by Newfoundland Power to provide what the</p> <p>19 impact would be, and of course, they picked</p> <p>20 the high number, the 14 percent adjustment on</p> <p>21 the capital budget program and the 39 percent</p> <p>22 or .39 percent retirement rate?</p> <p>23 A. Yes.</p> <p>24 Q. And you'll see what the increase in the loss</p> <p>25 on disposals would be there in line 6.</p>

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<p>1 GREENE, Q.C.:</p> <p>2 Unfortunately, because there's two items here,</p> <p>3 you just don't see the retirement alone, but</p> <p>4 you would agree that that is the extent or</p> <p>5 shows and it demonstrates what the increase in</p> <p>6 the loss on disposals would be that would go</p> <p>7 into the revenue requirement?</p> <p>8 A. It does, yes. This is your response to the</p> <p>9 information request, and as I stated earlier,</p> <p>10 we haven't reviewed that number specifically,</p> <p>11 but I -</p> <p>12 Q. And you have no reason to doubt its accuracy</p> <p>13 or that it's correct or Mr. Roberts' evidence?</p> <p>14 A. I haven't done an analysis, no, I don't have</p> <p>15 it. It does appear high relative to the</p> <p>16 amount of forecast retirements, but again, I</p> <p>17 have no reason to doubt it specifically, no.</p> <p>18 Q. Dealing with the issue of the loss on</p> <p>19 disposals that you've mentioned this morning</p> <p>20 and that we find in your supplementary</p> <p>21 evidence of December 5th at page seven, and</p> <p>22 you've already mentioned this morning your</p> <p>23 recommendation that the loss, the increase in</p> <p>24 the loss on disposal related to the</p> <p>25 discontinuation of service in Davis Inlet is</p>	<p>1 unusual and therefore, you're suggesting that</p> <p>2 it be amortized over a period of several</p> <p>3 years. Is that correct? That's what's</p> <p>4 reflected here on page seven?</p> <p>5 A. That is our recommendation, yes.</p> <p>6 Q. And I understand the basis for the</p> <p>7 recommendation is you believe that it's an</p> <p>8 unusual type of loss on disposal? Is that</p> <p>9 correct?</p> <p>10 A. I guess it speaks to some of the things we've</p> <p>11 been just talking about, about trying to</p> <p>12 forecast or estimate normal retirements in a</p> <p>13 year and whether--and all the implications to</p> <p>14 that, whether it's loss on disposal and so on.</p> <p>15 This particular loss is unusual. It's, I</p> <p>16 would suggest, somewhat of a non-recurring in</p> <p>17 nature, isolated to the fact that there is a</p> <p>18 discontinuation of service in this community,</p> <p>19 and it really became more of a focal point</p> <p>20 because of the revision where it showed up as</p> <p>21 a significant increase in what was considered</p> <p>22 to be normal retirements for 2003 and 2004 and</p> <p>23 then this additional item comes in as a one-</p> <p>24 time write off in the test year, a year which</p> <p>25 we're using the revenue requirement to set</p>
Page 23	Page 24
<p>1 rates for the next number of years. So that</p> <p>2 would be the rationale for amortizing it over</p> <p>3 three to five years, which is recovered over</p> <p>4 the period for which you're setting rates, as</p> <p>5 opposed to all in the revenue requirement in</p> <p>6 one year.</p> <p>7 Q. The basis of your recommendation, you just</p> <p>8 said again, it's unusual; it's a one-time</p> <p>9 event?</p> <p>10 A. Correct.</p> <p>11 Q. Are you aware, from your reviews of Hydro,</p> <p>12 that Harbour Deep was abandoned in 2002 and</p> <p>13 that there was a cost associated with that?</p> <p>14 A. Yes.</p> <p>15 Q. And Petites in 2003 of this year?</p> <p>16 A. Correct.</p> <p>17 Q. And Petit Forte in 1993?</p> <p>18 A. That's right.</p> <p>19 Q. Roddickton in 1996?</p> <p>20 A. I'll take your word on all this. I'm not sure</p> <p>21 I can recall all those dates.</p> <p>22 Q. West Port in 1996?</p> <p>23 A. Um-hm.</p> <p>24 Q. Southeast Bight in 1998. Mud Lake in 1998,</p> <p>25 and LaPoile in 1999. Would you agree that</p>	<p>1 those were a number of diesel plants that have</p> <p>2 been decommissioned by Hydro?</p> <p>3 A. Those are a number of diesel plants, yes,</p> <p>4 decommissioned over those years.</p> <p>5 Q. And that from Hydro's perspective, the</p> <p>6 decommissioning of Davis Inlet may not be an</p> <p>7 unusual event? And I actually would like to</p> <p>8 go -</p> <p>9 A. I don't know the analysis with respect to all</p> <p>10 the other decommissionings and the costs that</p> <p>11 were incurred. Hydro certainly would have the</p> <p>12 opportunity, if it felt those costs were</p> <p>13 significant and they were entitled to recover</p> <p>14 those costs and it was impacting their returns</p> <p>15 and so on, would have had the opportunity to</p> <p>16 come to the Board to seek relief in the forms</p> <p>17 of deferral and recovery in future rates and</p> <p>18 so on. But I don't have an analysis to look</p> <p>19 at the overall impact of those, relative to</p> <p>20 this particular one.</p> <p>21 Q. Okay. Well, can we look at Schedule 2C to</p> <p>22 your 2002 review, which is Information Item</p> <p>23 No. 3? Schedule 2C at the back. No, this--</p> <p>24 it's from the 2002 review information--there</p> <p>25 we go. And maybe we can make it a little</p>

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<p>1 GREENE, Q.C.:</p> <p>2 bigger, can you, Mr. O'Reilly? Okay. No, I</p> <p>3 need the--all right. This sets out in a</p> <p>4 convenience place for us what the loss on</p> <p>5 disposals have been for Hydro since 1998 from</p> <p>6 your own reviews.</p> <p>7 A. Yes.</p> <p>8 Q. And I'd like to take you through those. In</p> <p>9 1998, you would agree, from the table you have</p> <p>10 from your own 2002 report, that the loss on</p> <p>11 disposals for 1998 was 1,137,000? Is that</p> <p>12 correct?</p> <p>13 A. Yes.</p> <p>14 Q. And we come over to 1999, it was 923,000?</p> <p>15 A. Yes.</p> <p>16 Q. If we come over to 2000, it was 2,186,000?</p> <p>17 A. Yes.</p> <p>18 Q. 2001, it was 1,839,000?</p> <p>19 A. Yes.</p> <p>20 Q. In 2002, it was 2,769,000?</p> <p>21 A. Correct.</p> <p>22 Q. Subject to checking my math, would you agree</p> <p>23 that the average of the loss on disposal from</p> <p>24 1998 to 2002 for Hydro has been 1.8 million?</p> <p>25 A. Subject to check, I would -</p>	<p>1 Q. Is the average of the number -</p> <p>2 A. - it seems reasonable. I would accept that,</p> <p>3 yes.</p> <p>4 Q. - the average of the numbers we've just</p> <p>5 reviewed is 1.8 million, has been Hydro's</p> <p>6 average loss on disposals. Can we go now to</p> <p>7 Schedule 2 to Mr. Roberts' October 31st where</p> <p>8 we can see what the loss on disposals for 2003</p> <p>9 and '04 are? And in 2003, from line 25, we</p> <p>10 see 731,000 and then in the test year,</p> <p>11 including the Davis Inlet decommissioning, we</p> <p>12 see it's 1,266,000. Would you agree that</p> <p>13 that's below Hydro's five-year average of 1.8</p> <p>14 million that we've just reviewed?</p> <p>15 A. It is below the average we just reviewed, yes.</p> <p>16 Those particular years you reviewed did</p> <p>17 include other unusual items, which I guess is</p> <p>18 your point, but it did include items that were</p> <p>19 considered exceptional and on an individual</p> <p>20 basis, unusual. But showing a pattern of, I</p> <p>21 guess, a number of them over a period of</p> <p>22 years, yes, I would agree with that.</p> <p>23 Q. I guess the question is what is unusual when</p> <p>24 you look at the fact that Hydro has had a</p> <p>25 number of other diesel plants decommissioned</p>
Page 27	Page 28
<p>1 and we just reviewed several of those plus the</p> <p>2 fact that the average loss on disposal over</p> <p>3 that period we just reviewed was much lower</p> <p>4 than what is included in the test year?</p> <p>5 A. I think your statement should be that the</p> <p>6 average loss on disposal was higher than what</p> <p>7 we just reviewed in the test year, and I would</p> <p>8 agree with that.</p> <p>9 Q. Yes, I'm sorry. Thank you. So I guess the</p> <p>10 question of whether it's unusual or not, you</p> <p>11 will have to agree, is certainly one that you</p> <p>12 and I may have to disagree on or agree to</p> <p>13 disagree on.</p> <p>14 A. Yes, I guess my point was that there was a</p> <p>15 forecast of expected retirements and this one</p> <p>16 unusual item is increasing the revenue</p> <p>17 requirement in the year of 2004 when we're</p> <p>18 setting rates and for that reason, it may</p> <p>19 minimize the impact of the rate change, if we</p> <p>20 were to spread it over a number of years.</p> <p>21 (9:35 a.m.)</p> <p>22 Q. But you also agree that based on past</p> <p>23 experience, Hydro's experience with respect to</p> <p>24 the lost on disposals has been, on average,</p> <p>25 even higher than what -</p>	<p>1 A. On average, and those years include other</p> <p>2 unusual items. I would agree with that.</p> <p>3 Q. I'd like to turn to page 50 of your 2003</p> <p>4 report. In here, if you wanted to look at the</p> <p>5 previous page, Mr. Brushett, you were talking</p> <p>6 about the amount of the capitalized expense</p> <p>7 forecast for the test year.</p> <p>8 A. Yes.</p> <p>9 Q. And I just wanted to review with you your</p> <p>10 conclusion there on page 50, beginning at line</p> <p>11 18 where your conclusion is that the amount</p> <p>12 forecast for capitalized expense in the test</p> <p>13 year is reasonable compared to prior years.</p> <p>14 Is that correct?</p> <p>15 A. Which line are you reading from? I'm sorry.</p> <p>16 Q. Well, page 50, it begins really at, I guess,</p> <p>17 line 19.</p> <p>18 A. Yes. The forecast capitalized expenses?</p> <p>19 Q. Yes.</p> <p>20 A. "For 2003 and 2004 are 18 percent and 16</p> <p>21 percent of capital expenditures respectively.</p> <p>22 This appears reasonable compared to prior</p> <p>23 years, which have ranged from 7 percent to 19</p> <p>24 percent since 1998."</p> <p>25 Q. That was before the October 31st revision?</p>

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<p>1 MR. BRUSHETT:</p> <p>2 A. Yes, it was.</p> <p>3 GREENE, Q.C.:</p> <p>4 Q. You haven't updated your report with respect</p> <p>5 to that?</p> <p>6 A. No.</p> <p>7 Q. But there was nothing in the October 31st</p> <p>8 revision that caused you to review this</p> <p>9 particular conclusion, I assume?</p> <p>10 A. We have not gone back and reviewed this, no.</p> <p>11 Q. So your conclusion or your statement is that</p> <p>12 what Hydro has forecast for the test year, and</p> <p>13 just for reference, for 2004, the capitalized</p> <p>14 expenditures, we won't go back to--capitalized</p> <p>15 expense in Schedule 2 of Mr. Roberts' October</p> <p>16 31st revision is 5.2 million?</p> <p>17 A. Yes.</p> <p>18 Q. And that, subject to check, would you agree</p> <p>19 that that's about 19 percent of the approved</p> <p>20 capital budget for 2004?</p> <p>21 A. Subject to check, yes.</p> <p>22 Q. So it's within the range you have mentioned</p> <p>23 there as well? It's a bit higher. It was 16</p> <p>24 percent and now it's 19 percent?</p> <p>25 A. It is in the range and yes, it is, subject to</p>	<p>1 checking your math, it would be in the higher</p> <p>2 end of that range.</p> <p>3 Q. Actually, I should point out it probably--yes,</p> <p>4 this one was my math. I was going to say it</p> <p>5 was the controller department's math, but that</p> <p>6 one was my own, and yes, you should definitely</p> <p>7 check it. I'd like now to go to your</p> <p>8 supplementary evidence of December 5th, and</p> <p>9 here I wanted to talk first about key</p> <p>10 performance indicators which you have at page</p> <p>11 one of your report.</p> <p>12 A. Yes.</p> <p>13 Q. And you are recommending to the Board that</p> <p>14 Hydro use the key performance indicators and</p> <p>15 really these are the key performance</p> <p>16 indicators that you outlined in your original</p> <p>17 report, which was filed as Information No. 4?</p> <p>18 Is that correct?</p> <p>19 A. Yes, that is correct.</p> <p>20 Q. I think it might be helpful here if we just</p> <p>21 looked at the 12 that you recommended in</p> <p>22 Information No. 4, at page 11. And as you</p> <p>23 know, Hydro has agreed to these key</p> <p>24 performance indicators and to use them going</p> <p>25 forward. There was one that I wanted to talk</p>
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<p>1 to you about, and that is the generation</p> <p>2 operating maintenance and administrative costs</p> <p>3 per megawatt hour.</p> <p>4 A. Yes.</p> <p>5 Q. When Hydro filed its first response to the</p> <p>6 undertaking, which was U Hydro No. 3, we</p> <p>7 explained at that time, on October 31st, that</p> <p>8 we were proposing a change to that key</p> <p>9 performance indicator to be not per megawatt</p> <p>10 hour but per megawatt per installed capacity.</p> <p>11 Now Mr. O'Reilly, if you could bring up U</p> <p>12 Hydro No. 3 where that is also stated? If we</p> <p>13 go to Note 1, which does related to the</p> <p>14 generation controllable costs, you will see it</p> <p>15 states that "subsequent to meetings with Grant</p> <p>16 Thornton, Hydro has determined a more</p> <p>17 appropriate cost driver of generation OM&A</p> <p>18 costs is megawatt of installed capacity." And</p> <p>19 as you had not referred to that change in your</p> <p>20 supplementary evidence, I wanted to ask you</p> <p>21 whether you agree with Hydro's suggested</p> <p>22 change or not, with respect to that one</p> <p>23 measure?</p> <p>24 A. We had not referred to it and hadn't because,</p> <p>25 I guess, we would have wanted to continue</p>	<p>1 discussions as to the change. I have reviewed</p> <p>2 some of the discussion throughout the hearing</p> <p>3 on the transcript on this issue, and I don't</p> <p>4 have a major concern with this change, and I</p> <p>5 understand the rationale. I think it is</p> <p>6 appropriate that we at least select a KPI and</p> <p>7 start measuring and targeting it is more of my</p> <p>8 concern than it is whether it's per megawatt</p> <p>9 or megawatt hour, and I have--you know, I do</p> <p>10 understand the issue around the volatility</p> <p>11 that may occur, simply because of the changes</p> <p>12 in the generation from year to year. One</p> <p>13 small concern I guess I would have is that I</p> <p>14 believe in the--and we had used this COPE</p> <p>15 database from the CEA with respect to some of</p> <p>16 the performance measures and I'm not sure if</p> <p>17 there is a megawatt, OM&A per megawatt of</p> <p>18 installed capacity measure that you could do</p> <p>19 comparisons with, but I believe there is one</p> <p>20 for megawatt hour. That would be a small</p> <p>21 concern I would have, that it would limit</p> <p>22 probably inter-utility comparisons somewhat.</p> <p>23 But you know, overall, I don't have a</p> <p>24 significant concern with this change.</p> <p>25 Q. And on page two of your supplementary</p>

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<p>1 GREENE, Q.C.: 2 evidence, talking about this issue, you 3 mentioned about the targets, what you would 4 expect them to be linked to. You mentioned 5 benchmarking analysis, there beginning on line 6 9. 7 A. Yes. 8 Q. One thing, you mentioned there business 9 process improvement initiatives, benchmarking 10 analysis, or inter-utility comparisons? 11 A. Yes. 12 Q. Now one thing you hadn't mentioned here in 13 your supplementary evidence that you had in 14 your report on key performance measures, and 15 one thing that Hydro finds or looks to as an 16 important measure is with respect to prior 17 performance, whether we are improving our own 18 performance. Would you agree, as you did in 19 your report, in Information No. 4, that 20 references to your own experience is also one 21 of the measures that can be looked at and 22 evaluated to determine whether performance is 23 improving or not? 24 A. Internal historical, I would agree. I guess 25 it wasn't in--we weren't excluding it. When I</p>	<p>1 refer to benchmarking analysis, that can be 2 internal or external. I guess benchmarking 3 against past performance, whether you're 4 trying to achieve certain percentage 5 improvements or it can be internal and it can 6 be external. 7 Q. Okay. It's just that you hadn't referenced it 8 there. 9 A. We hadn't referenced it specifically, but I 10 guess the comment was benchmarking analysis 11 can be--you know, it can be a combination of 12 internal and external, look at your historical 13 record and look at a CEA average and if you're 14 five percent over, what I mean by targeting is 15 saying we want to--in the next two years, we 16 want to achieve CEA average in this category 17 and setting targets on the basis of that type 18 of analysis, which can include some internal 19 and external. 20 Q. In the next paragraph, you discuss the issue 21 of what you've also just referred to, the 22 external benchmarking. 23 A. Yes. 24 Q. And here I would like to look at the original 25 report on this, because you gave more</p>
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<p>1 commentary in that particular report, and to 2 explore with you your views as to the ease and 3 the difficulty there would be in doing inter- 4 utility comparisons in isolation. And I 5 wonder here if we could go back, Mr. O'Reilly, 6 to Information No. 4, which is the report on 7 key performance indicators? 8 A. That's on the screen, I think. 9 Q. Page 10, at the bottom of the page where we 10 get into the discussion of bench marking. And 11 beginning there just over halfway down where 12 you mention, "We believe that some bench 13 marking of KPI Industry data or specific 14 inter-utility comparisons would be appropriate 15 and could provide value to the Board from a 16 regulatory perspective", which I guess is what 17 you've just said again--you've said in your 18 supplementary evidence - 19 A. Yes. 20 Q. - as well as this morning. And I wanted to 21 explore with you some of the issues that Hydro 22 identified with you that may arise in that 23 inter-utility comparison. And I wonder if you 24 could go on to read in the next sentence, 25 begins "We have discussed"?</p>	<p>1 A. Yes. "We have discussed this issue with Hydro 2 staff, who have indicated that they are not 3 opposed to bench marking but caution that such 4 comparisons can be misleading due to 5 significant variances and operating 6 constraints between utilities, coupled with 7 differences in cost driver components 8 comprising the actual measurement base." 9 Q. And can you go on to the last - 10 A. "Hydro suggests that any proposed comparisons 11 would require a careful analysis to ensure 12 such anomalies have been properly accounted 13 for." 14 Q. And in the next paragraph you go on to agree 15 with those comments, is that correct? 16 A. Yes. 17 Q. Okay. So then there is difficulties in making 18 these comparisons unless one understands the 19 context in which the comparisons are made and 20 what the differences are between utilities? 21 (9:45 a.m.) 22 A. I would agree wholeheartedly, Ms. Greene, that 23 you would have to look at the context and the 24 background in terms of making that comparison. 25 But it is better to do that and do the</p>

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<p>1 MR. BRUSHETT:</p> <p>2 comparisons and use the bench marking to help</p> <p>3 you as opposed to, you know, ignoring it and</p> <p>4 just looking internally and missing issues</p> <p>5 maybe in the industry that maybe you should be</p> <p>6 looking at from an efficiency point of view.</p> <p>7 GREENE, Q.C.:</p> <p>8 Q. But you agree it must be done with caution and</p> <p>9 in that context?</p> <p>10 A. Absolutely.</p> <p>11 Q. Now, you've also recommended in your</p> <p>12 supplementary evidence, if you go back to page</p> <p>13 2 of that, Mr. O'Reilly. Page 2 in the--no.</p> <p>14 Page 2 in line 5. Okay. Thank you. You</p> <p>15 recommend that Hydro be asked to submit annual</p> <p>16 targets to the Board?</p> <p>17 A. Yes.</p> <p>18 Q. I just wanted to review with you where we are</p> <p>19 with this issue with respect to Newfoundland</p> <p>20 Power. Do you know the status of this with</p> <p>21 respect to key performance indicators with</p> <p>22 Newfoundland Power?</p> <p>23 A. I believe they've been directed to identify</p> <p>24 and recommend certain utilities that can be</p> <p>25 used for comparative purposes, yes. But I</p>	<p>1 have not seen the recommended KPIs to be used</p> <p>2 for Newfoundland Power at this point.</p> <p>3 Q. No, they haven't filed the report yet, which</p> <p>4 is due March, 2004. Is that correct?</p> <p>5 A. Subject to check I can't confirm the dates.</p> <p>6 Q. In P.U. 19 it was part of the -</p> <p>7 A. I accept your--I know that it is due and I</p> <p>8 just wasn't sure of the date.</p> <p>9 Q. And the direction of the Board to Newfoundland</p> <p>10 Power was to provide the peer group of</p> <p>11 utilities that they might use for external</p> <p>12 bench marking. Is that correct?</p> <p>13 A. Yes.</p> <p>14 Q. So Newfoundland Power have not yet been given</p> <p>15 any direction with respect to reporting on</p> <p>16 targets or even what the targets are. Is that</p> <p>17 correct?</p> <p>18 A. That would be correct, yes.</p> <p>19 Q. And in the interest of regulatory consistency</p> <p>20 do you think that where there are comparable</p> <p>21 areas that, again from a consistency point of</p> <p>22 view, both utilities should be given similar</p> <p>23 direction?</p> <p>24 A. Yes, should be given similar direction in</p> <p>25 terms of how to use this data and how to</p>
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<p>1 report it and how--from a regulatory</p> <p>2 perspective, yes.</p> <p>3 Q. Okay. The next issue raised in your</p> <p>4 supplementary evidence was the Rate</p> <p>5 Stabilization Plan?</p> <p>6 A. Yes.</p> <p>7 Q. And here you reviewed the proposed changes</p> <p>8 that have been agreed to by the parties with</p> <p>9 respect to the Rate Stabilization Plan. And I</p> <p>10 just wanted to review with you what your</p> <p>11 conclusion was. And it is found on page 3 of</p> <p>12 your evidence, page 3 of your evidence</p> <p>13 beginning at line 7. So Grant Thornton have</p> <p>14 reviewed the proposed changes as filed with</p> <p>15 the Board. And could you just read into the</p> <p>16 record there your sentence with respect to</p> <p>17 your summary of your conclusion there</p> <p>18 beginning on line 7?</p> <p>19 A. "We have reviewed the changes as detailed in</p> <p>20 both consent documents and advise that we have</p> <p>21 not identified any concerns with the approach</p> <p>22 and methodology proposed."</p> <p>23 Q. If you go further down the page beginning at</p> <p>24 line 16? And this is for clarification. I</p> <p>25 think it was the way it was worded, it may be</p>	<p>1 subject to misinterpretation because it has--</p> <p>2 it was interpreted different ways by different</p> <p>3 people at Hydro so I just wanted to be sure</p> <p>4 that the record was correct with respect to</p> <p>5 line 16. There you're talking about the</p> <p>6 hydraulic variation?</p> <p>7 A. Yes.</p> <p>8 Q. And you state that 25 percent of the hydraulic</p> <p>9 component will be recovered each year--sorry.</p> <p>10 Will be covered as opposed to the 100 percent</p> <p>11 recovery of two years under the existing plan,</p> <p>12 excluding financing charges?</p> <p>13 A. Yes.</p> <p>14 Q. Now, the proposal is that while 25 percent of</p> <p>15 the hydraulic component be recovered each</p> <p>16 year, that also the financing associated with</p> <p>17 that will be recovered annually. Is that</p> <p>18 correct?</p> <p>19 A. Yes.</p> <p>20 Q. So the phrase you had in black is excluding</p> <p>21 financing charges, was intended to relate to</p> <p>22 how the 25 percent of the plan was determined</p> <p>23 or -</p> <p>24 A. Yes, yes. Yeah, I understand now why there</p> <p>25 might have been some confusion. I smiled when</p>

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<p>1 MR. BRUSHETT:</p> <p>2 you mentioned this, because I actually rewrote</p> <p>3 this, I thought it was going to make it clear.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. No, we have some debate as to what you meant</p> <p>6 by that.</p> <p>7 A. Yes, it's meant to say the hydraulic</p> <p>8 variation, excluding any reference to</p> <p>9 financing costs, and the financing costs are</p> <p>10 recovered 100 percent, yes.</p> <p>11 Q. On an annual basis?</p> <p>12 A. Yes.</p> <p>13 Q. The next topic I wanted to talk to you about</p> <p>14 is the fuel conversion factor for Holyrood.</p> <p>15 And here we have to go back to your 2003</p> <p>16 report. Beginning at page 32.</p> <p>17 A. Yes.</p> <p>18 Q. Beginning there at line 10, Mr. Brushett,</p> <p>19 you've set out the actual experience of '96 to</p> <p>20 2002. Is that correct?</p> <p>21 A. Yes.</p> <p>22 Q. Okay. And that the conversion factor shown</p> <p>23 there at the bottom for that period of time,</p> <p>24 the average is 623.7 which form the basis for</p> <p>25 Hydro's recommendation to the Board. Is that</p>	<p>1 correct?</p> <p>2 A. Yes.</p> <p>3 Q. If you look to page 33 at the very top, line 1</p> <p>4 and 2 of your report?</p> <p>5 A. Yes.</p> <p>6 Q. There you stated you took the actual results</p> <p>7 that we just looked at from '96 and added on</p> <p>8 the period of time for June, 2003?</p> <p>9 A. Yes.</p> <p>10 Q. And a forecast of 624 for the last six months</p> <p>11 of the year, and that would result in a factor</p> <p>12 of 633. Is that correct, that's what was in</p> <p>13 your original report?</p> <p>14 A. That's what's in the original report.</p> <p>15 Q. And that was an error, wasn't it?</p> <p>16 A. That was corrected in a subsequent Response</p> <p>17 for Information. The date references were</p> <p>18 incorrect as to what the record was that was</p> <p>19 being averaged in.</p> <p>20 Q. So if we could look to NLH-151? And this was</p> <p>21 the question with what the conversion factor</p> <p>22 would be if you used the period of time from</p> <p>23 '96 to 2002, added on the actuals at this time</p> <p>24 to the end of June, and use 624 for the</p> <p>25 balance of the year. Is that correct, that's</p>
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<p>1 what the question was?</p> <p>2 A. That's what the question was. And the</p> <p>3 response is that the average over that full</p> <p>4 time period, which is what the reference on</p> <p>5 page 33 of the original report, it would be</p> <p>6 625 as opposed to 633. The 633 is the January</p> <p>7 to June of 2003 with the 624 averaged in.</p> <p>8 Q. So I just wanted to ensure that we all</p> <p>9 understood that back on page 33 the 633 should</p> <p>10 be 625?</p> <p>11 A. In that context of 1996 to 2003, yes.</p> <p>12 Q. Hydro filed a response to an RFI this week. I</p> <p>13 guess there will be no more RFIs if tomorrow</p> <p>14 is the last day of the hearing. But we did</p> <p>15 file another response this week. NP-310,</p> <p>16 which was an update, the conversion factor</p> <p>17 showing actuals to the end of November?</p> <p>18 A. Yes.</p> <p>19 Q. And here again I guess you'll have to</p> <p>20 undertake to check my math. And I didn't do</p> <p>21 this one, so this one should be definitely</p> <p>22 correct. That indicates in the very line 6</p> <p>23 there that the year-to-date conversion factor</p> <p>24 for Holyrood is 636.2 kilowatt hours per</p> <p>25 barrel. Okay. And that would be an update to</p>	<p>1 what you had stated on page 32 of your 2003</p> <p>2 report which was for 2003?</p> <p>3 A. Yes.</p> <p>4 Q. Okay. The previous page, Mr. O'Reilly, at the</p> <p>5 bottom, the very bottom. Okay. So the year-</p> <p>6 to-date factor for 2003 to the end of November</p> <p>7 is what we just saw on NP-310 of 636.2, not</p> <p>8 the 639 that you have there on the bottom--</p> <p>9 line 35?</p> <p>10 A. Correct.</p> <p>11 Q. Okay. And if we could go back, Mr. O'Reilly,</p> <p>12 now to 310? And coming up with the same</p> <p>13 approach, which is to use the actuals from '96</p> <p>14 to 2002, which is shown on page 32 of your</p> <p>15 report, adding on our actual experience from</p> <p>16 January to the end of November that's shown in</p> <p>17 NP-310, and what we did we assumed the same</p> <p>18 conversion factor in December as November,</p> <p>19 which would be the 636.9?</p> <p>20 A. Yes.</p> <p>21 Q. Subject to check, that the weighted average</p> <p>22 conversion factor for that period of time,</p> <p>23 from '96 to the end of 2003, will be 625.6</p> <p>24 kilowatt hours per barrel, a slight increase?</p> <p>25 A. Subject to check, but it does sound reasonable</p>

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<p>1 MR. BRUSHETT: 2 based on previous calculations. 3 GREENE, Q.C.: 4 Q. Thank you, Mr. Brushett. Those are all the 5 questions I have for Mr. Brushett. 6 CHAIRMAN: 7 Q. Thank you, Ms. Greene. Good morning, Mr. 8 Fitzgerald. 9 MR. FITZGERALD: 10 Q. Good morning, Mr. Chairman. 11 CHAIRMAN: 12 Q. Mr. Fitzgerald, if we can try and--I don't 13 know how long you'll be, but we'll try and 14 break at 11 for a half - 15 MR. FITZGERALD: 16 Q. Actually, myself and Mr. Browne will be asking 17 some questions, but I think we'll probably 18 finish before 11. 19 CHAIRMAN: 20 Q. Thank you. Good morning, Mr. Brushett. 21 A. Good morning. 22 MR. FITZGERALD: 23 Q. Mr. Brushett, if I could first turn to page 18 24 of your report? And you answered a series of 25 questions put to you by Ms. Greene this</p>	<p>1 morning regarding this. And your evidence is 2 filed at page 18. Firstly, at line 1 you say, 3 "In the context of the 2004 forecast revenue 4 requirement the historical trend of 5 understanding whether it be actual savings or 6 due to delays in carry overs means that 7 certain costs in the forecast year may be 8 overstated." And further on the same page at 9 line 31 you say, "Hydro's forecast retirements 10 for 2003 and 2004 appear under budgeted." And 11 this is the loss of disposal issue that you 12 went through? 13 A. Yes. 14 Q. On this page you've included two figures for 15 2003 and 2004. Firstly, going back to the top 16 of the page, using a 14 percent downward 17 adjustment for 2003 and 2004 capital 18 expenditures would result in reduction 19 depreciation expense of approximately 85,000 20 in 2003 and 169 in 2004? 21 A. Yes. 22 Q. In light of the questions that were put to you 23 by Ms. Greene this morning would you change 24 that evidence? 25 A. No. I guess what would be different is--I</p>
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<p>1 wouldn't change the evidence. As a matter of 2 fact, I do believe the information Hydro 3 submitted in the Response for an Information 4 request supports the impact on depreciation 5 and the impact on Return on Rate Base as we've 6 described and presumably provides their 7 calculations based on rerunning that whereas 8 mine are estimates here. The additional piece 9 of information really speaks to the point we 10 made that such an increase--beginning at line 11 37. Such an increase in returns may also 12 impact the forecast loss on disposal, which 13 was numbers that we merely felt we didn't have 14 enough information to be able to calculate. 15 But we recognize that it could potentially 16 impact the forecast loss. 17 (10:00 a.m.) 18 Q. Okay. You're referring now to the figures 19 that you're referring to at line 35? 20 A. Well, those would be the depreciation impacts. 21 And then with--because there's reduced net 22 assets to depreciate in that year. But by--in 23 retiring those assets, you would look at what 24 the remaining book value was. And there may 25 very well be a loss on disposal once you</p>	<p>1 actually retired the assets in that--in the 2 year of the retirement. So, that's an 3 additional, I guess, piece of information over 4 and above what we have--the figures we've put 5 forward. 6 Q. Okay. So do I take it then that the figures 7 that you've provided to us at line 5 regarding 8 the historical trend of under spending, you're 9 not altering those figures? 10 A. No. No. Those were our estimates when we did 11 the review. And I haven't, you know, compared 12 them directly to the depreciation estimates 13 that Hydro have put forward, but they would--I 14 mean, to my mind it supports the fact that 15 there is, yes, would be a reduction in 16 depreciation. 17 Q. However, the figures that you refer to in line 18 35, and this is a reduction of a depreciation 19 expense of approximately \$80,000 in 2003 and 20 168,000 in 2004, you are altering those? 21 A. No. Those would also still be appropriate. 22 What's-it's just that there's an additional 23 piece of information which is--maybe I can 24 help clarify this? 25 Q. Yes.</p>

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<p>1 MR. BRUSHETT:</p> <p>2 A. Go to NP-232. So in the table that Hydro</p> <p>3 provided in this response, the first line,</p> <p>4 decrease in depreciation expenses combined</p> <p>5 impact, they've calculated the two references</p> <p>6 you've just made to the decrease in</p> <p>7 depreciation because of the 14 percent</p> <p>8 downward adjustment and the decrease in the</p> <p>9 depreciation because of retirement. So they</p> <p>10 are confirming that there is a decrease in</p> <p>11 depreciation and those are the numbers they've</p> <p>12 put forward. There is also a decrease in</p> <p>13 Return on Rate Base. And what we hadn't</p> <p>14 estimated in our report was this loss on</p> <p>15 disposal, which they are putting forward as</p> <p>16 being a fairly significant number, which</p> <p>17 offsets the other two. So I hope that</p> <p>18 clarifies it.</p> <p>19 MR. FITZGERALD:</p> <p>20 Q. Yes.</p> <p>21 A. But we have not, as I said to Ms. Greene,</p> <p>22 recalculated or tried to substantiate in any</p> <p>23 way that estimate of loss on disposal that</p> <p>24 would go with the increased retirement. But I</p> <p>25 do recognize that it would be some loss on</p>	<p>1 disposal.</p> <p>2 Q. If I could turn now to page 22 of your</p> <p>3 evidence? At line 20 you state, "In PU-21 the</p> <p>4 Board ordered a Return on Rate Base of 7081</p> <p>5 percent for the 2000 test year--2002 test</p> <p>6 year. However, no range of allowed return was</p> <p>7 established at that time. The Board may wish</p> <p>8 to consider establishing a range in upper</p> <p>9 limit of allowed return on rate base for 2004</p> <p>10 in future years." I'm not sure if you were</p> <p>11 here present when Mr. Roberts testified, might</p> <p>12 have been Mr. Wells as well, regarding their</p> <p>13 request for a return on equity as opposed to</p> <p>14 rate base, and they've indicated that a 9. 75</p> <p>15 percent figure was acceptable to them. Do you</p> <p>16 recall that?</p> <p>17 A. Yes.</p> <p>18 Q. They've also indicated that they don't require</p> <p>19 a range such as Newfoundland Power has. As we</p> <p>20 know, Newfoundland Power was given a range of</p> <p>21 Rate of Return on Equity 9.75 to 10.25 percent</p> <p>22 pursuant to the recent order of the Board.</p> <p>23 I'd just like to get your comments regarding</p> <p>24 Hydro's approach to this issue of return on</p> <p>25 equity where they're indicating that they want</p>
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<p>1 9.75 percent. Is it appropriate, in your</p> <p>2 opinion, for them to express it that way or do</p> <p>3 we take that to mean that they're also looking</p> <p>4 for a range? You know what I mean?</p> <p>5 A. I've reviewed, and without specifically</p> <p>6 referencing some of the transcripts, my</p> <p>7 understanding is that they weren't taking a</p> <p>8 position on it at the point in time, I guess,</p> <p>9 that they were on the stand. I don't know</p> <p>10 where they'll be at the end of the hearing,</p> <p>11 but they weren't taking a position because</p> <p>12 there were a number of issues, the whole issue</p> <p>13 of should it be an investor-owned utility</p> <p>14 basis for determining Rate of Return on</p> <p>15 Equity. We have evidence from other experts</p> <p>16 saying it should be something lower. So I</p> <p>17 think with those issues out there, my</p> <p>18 understanding is Hydro wasn't taking a</p> <p>19 position as to whether it should be a range at</p> <p>20 that time. I don't believe they were, and you</p> <p>21 know, maybe I shouldn't be saying this, but I</p> <p>22 don't believe they were opposed to that issue</p> <p>23 and felt that it was up to the Board to make</p> <p>24 that decision as to whether it was appropriate</p> <p>25 to use a range of Rate of Return as opposed to</p>	<p>1 just setting the allowed range of return which</p> <p>2 is used to set rates in the test year.</p> <p>3 Q. Just on that issue, I guess, of Hydro as an</p> <p>4 investor-owned utility, if we can go to page</p> <p>5 28 of your evidence, please? Here you provide</p> <p>6 your analysis of the cost, I guess, of the new</p> <p>7 Power Purchase Agreements. And you go through</p> <p>8 between lines 13 and 21, the annual average</p> <p>9 energy from the new NUGS. And at line 21 in</p> <p>10 particular you indicate here your estimated</p> <p>11 No. 6 fuel costs avoided. It appears to be</p> <p>12 about \$11 million. Now, at line 23 you say,</p> <p>13 "Based on the above information, the</p> <p>14 incremental cost for the new Power Purchase</p> <p>15 Agreements is \$7.2 million." That's 18.4</p> <p>16 minus 11.2. And I take it from a layman's</p> <p>17 perspective that that means that Hydro is</p> <p>18 paying \$18 million for \$11 million worth of</p> <p>19 power. Is that -</p> <p>20 A. I don't know if I characterize it that way.</p> <p>21 But it is somewhat of a simplified analysis; I</p> <p>22 think we state that. What it is suggesting is</p> <p>23 that they have entered into contracts for</p> <p>24 supply of power and capacity that is based on</p> <p>25 the contract rates would cost 18.4 million,</p>

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<p>1 MR. BRUSHETT:</p> <p>2 and comparing that to avoided fuel costs only,</p> <p>3 there is an incremental cost of 7.2. But if</p> <p>4 Hydro were to build the capacity to be able to</p> <p>5 service that sort of a load on its own, you</p> <p>6 probably would--you know, we'd be talking</p> <p>7 about more than the avoided fuel costs at</p> <p>8 Holyrood. So we can't look at it as being</p> <p>9 paying 18.4 million to buy \$11.2 million worth</p> <p>10 of power. I don't think that would be the</p> <p>11 right way to characterize it. It's really</p> <p>12 just a comparison to the avoided fuel cost, so</p> <p>13 for purposes of revenue requirement we can see</p> <p>14 what the incremental cost in the revenue</p> <p>15 requirements are.</p> <p>16 MR. FITZGERALD:</p> <p>17 Q. Okay. Do you know if it was a decision of</p> <p>18 Hydro's to purchase the power at this price</p> <p>19 from the NUGS or was it government?</p> <p>20 A. I haven't done that, I guess, analysis, and</p> <p>21 I'm not sure who directed who, to be honest</p> <p>22 with you, Mr. Fitzgerald.</p> <p>23 Q. Okay. But with the information that we have,</p> <p>24 you know, leaving aside for a second the</p> <p>25 choice regarding capacity, does it appear to</p>	<p>1 you on the face of it that this Power</p> <p>2 Purchase, or these Power Purchase Agreements</p> <p>3 are uneconomical?</p> <p>4 A. I'm not sure I could make that conclusion.</p> <p>5 You'd have to look at the long-term planning</p> <p>6 issues that Hydro would address and in terms</p> <p>7 of its required capacity and so on. I think</p> <p>8 it's a bit more complex than just looking at</p> <p>9 what's avoided in fuel at Holyrood at a point</p> <p>10 in time in 2004. There's a lot of issues that</p> <p>11 need to be addressed before you conclude that</p> <p>12 it's uneconomical, and I haven't done that,</p> <p>13 you know, complete analysis.</p> <p>14 Q. Okay. Fair enough. Turning then to page 31</p> <p>15 of your report. And you've gone through this</p> <p>16 in some detail with Ms. Greene this morning.</p> <p>17 I just have a couple of questions on this.</p> <p>18 This regards the No. 6 fuel conversion factor,</p> <p>19 as we know. And just reading from line 5</p> <p>20 there it says, "In its current application</p> <p>21 Hydro is proposing to increase the conversion</p> <p>22 factor", that 624 kilowatt hours a barrel.</p> <p>23 And you've given your analysis regarding--and</p> <p>24 indeed, we have NP-310 which indicates the</p> <p>25 year-to-date amounts. As a basic question, do</p>
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<p>1 you believe it is still reasonable for Hydro</p> <p>2 to maintain that the conversion factor remain</p> <p>3 at 624 kilowatt hours a barrel?</p> <p>4 A. I believe my position is probably similar to</p> <p>5 what it was in 2001. And Ms. Greene pointed</p> <p>6 out this morning that we didn't speak to this</p> <p>7 in our supplementary evidence. And I believe</p> <p>8 there's already been quite a bit of</p> <p>9 information on the record and through</p> <p>10 examination of witnesses and so on, on this</p> <p>11 issue. But, the position would be similar to</p> <p>12 2001 where we stated that we believe the</p> <p>13 conversion factor should reflect the best</p> <p>14 estimate of what the operating conditions will</p> <p>15 be in 2004. And I think we stated back then</p> <p>16 it may not be appropriate to look at a</p> <p>17 complete historical record to average in if</p> <p>18 you know that your operating conditions have</p> <p>19 changed because of improvements you've made in</p> <p>20 the plant and so on, that you should take all</p> <p>21 of that information together to make the best</p> <p>22 estimate of what the expected and most likely</p> <p>23 scenario is for your conversion factor in</p> <p>24 2004.</p> <p>25 Q. So do you believe the 624 should--is a</p>	<p>1 reasonable estimate?</p> <p>2 A. I think the Board--I should leave it to the</p> <p>3 Board to draw that conclusion. But what I've</p> <p>4 just said, I guess, is that the most recent</p> <p>5 experience is probably more reflective of what</p> <p>6 we could expect in 2004, but we need to take</p> <p>7 into consideration things like the hydrology</p> <p>8 in the mix and the generation and what is the</p> <p>9 most likely operating conditions. But, in</p> <p>10 2001 we said the most recent experience may be</p> <p>11 more reflective of what can be expected in the</p> <p>12 test year. And I would state the same, make</p> <p>13 the same comment today.</p> <p>14 Q. And to quantify what you regard as the most</p> <p>15 recent experience, would you put a number on</p> <p>16 that?</p> <p>17 A. No, I wouldn't at this time. But the record</p> <p>18 shows that it's been much higher than 624 in</p> <p>19 the past couple of years.</p> <p>20 Q. If we can go briefly to IC-207? And this may</p> <p>21 assist me at least in understanding the</p> <p>22 significance of this. This was a question to</p> <p>23 Hydro. It says, "Please indicate the</p> <p>24 additional costs that would have been incurred</p> <p>25 by Hydro for fuel in 2002 if Holyrood station</p>

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<p>1 MR. FITZGERALD:</p> <p>2 had achieved the 615 kilowatt hours per barrel</p> <p>3 efficiency level that was approved by the</p> <p>4 Board in the 2001 GRA as compared to the</p> <p>5 actual achieved efficiency of 648 kilowatt</p> <p>6 hours per barrel. Please set out all</p> <p>7 calculations." And the answer or a portion of</p> <p>8 the answer at paragraph 3 of the answer, line</p> <p>9 18, says, "The analysis indicates that in 2002</p> <p>10 if Holyrood conversion factor was 615 kilowatt</p> <p>11 hours a barrel, there would have been a total</p> <p>12 increase in fuel expense of \$6.1 million,</p> <p>13 Hydro would have experienced an addition cost</p> <p>14 of 3.6 and the RSP would have incurred an</p> <p>15 additional charge of 2.4." So just to</p> <p>16 understand this, then, I guess it's obvious,</p> <p>17 the higher the conversion factor, the more oil</p> <p>18 saved, less expense incurred and the obvious</p> <p>19 impact on the revenue requirement. If, in</p> <p>20 fact, the conversion factor was set by the</p> <p>21 Board in this case higher than the 624, let's</p> <p>22 say it was set at 636, would you be able to</p> <p>23 give us an estimate, a ball park, as to what</p> <p>24 fuel costs would be deferred or saved or come</p> <p>25 out of the revenue requirement as a result of</p>	<p>1 that?</p> <p>2 A. Yes, we could do that calculation.</p> <p>3 Q. Could you do that off the top of your head?</p> <p>4 A. No, I probably couldn't. I would want to--no,</p> <p>5 I probably shouldn't.</p> <p>6 Q. Perhaps I could ask for an undertaking, then,</p> <p>7 if it's not too--okay. Thank you.</p> <p>8 MR. KENNEDY:</p> <p>9 Q. And, counsel, just to be clear, the</p> <p>10 undertaking is the impact of--on Hydro's</p> <p>11 revenue requirement if the Board was to order</p> <p>12 a conversion factor of 636 kilowatt hours per</p> <p>13 barrel?</p> <p>14 MR. FITZGERALD:</p> <p>15 Q. As opposed to the 624 supplied for.</p> <p>16 A. There is an RFI. I'm not sure if it speaks</p> <p>17 directly to 636, but.</p> <p>18 Q. Perhaps in the undertaking if, in fact, while</p> <p>19 you're doing that, you come across that RFI, I</p> <p>20 don't recall -</p> <p>21 A. Actually, I have it. It's NP-269. And this</p> <p>22 is where we got into a discussion with Ms.</p> <p>23 Greene about what the average was at the top</p> <p>24 of page 32 and so on. But, with the numbers</p> <p>25 that are in this table we did--starting at</p>
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<p>1 line 15 in NP-269, the comment is, "Using the</p> <p>2 No. 6 fuel conversion factor of 636 as</p> <p>3 referenced in NP-267, the impact on the 2004</p> <p>4 forecast on fuel expense and revenue</p> <p>5 requirement, excluding any secondary impact</p> <p>6 such as interest that may flow from that would</p> <p>7 be as follows." And the top of the next page</p> <p>8 provides our calculation of what the impact</p> <p>9 would be of 636 compared to 624.</p> <p>10 Q. In light of that information, I'll withdraw</p> <p>11 the request for an undertaking.</p> <p>12 A. This, the consumption price per barrel I</p> <p>13 believe has changed slightly in the revised</p> <p>14 filing. So this wouldn't be 100 percent</p> <p>15 accurate, but it would give you the ball park</p> <p>16 of what the impact would be. And -</p> <p>17 Q. Moving on, Mr. Brushett, to page 33 of your</p> <p>18 report. At line 5 regarding depreciation.</p> <p>19 "Our procedures with respect to depreciation</p> <p>20 were focused on reviewing depreciation amounts</p> <p>21 and rates incorporated in the 2003, 2004</p> <p>22 forecast to ensure compliance with the 1998</p> <p>23 KPMG Depreciation Policy Study." I seem to</p> <p>24 recall that in the case of Newfoundland Power</p> <p>25 they are required to update their depreciation</p>	<p>1 studies every five years. Is that -</p> <p>2 A. Yes, that's been the practice -</p> <p>3 Q. The practice, yes.</p> <p>4 A. - over the past number of years to update that</p> <p>5 every five years.</p> <p>6 (10:15 a.m.)</p> <p>7 Q. In your estimation, having regard to the age</p> <p>8 of the KPMG study, is it perhaps time that</p> <p>9 Hydro undertook a new depreciation study?</p> <p>10 GREENE, Q.C.:</p> <p>11 Q. I would say that the Board ordered Hydro to do</p> <p>12 a depreciation study in 2005, and that is the</p> <p>13 current plan. It comes from PU-7.</p> <p>14 MR. FITZGERALD:</p> <p>15 Q. Okay. Page 43, Mr. Brushett. This is just a</p> <p>16 confirmation, really, of a number. In your</p> <p>17 table here you have a breakdown of</p> <p>18 miscellaneous expense categories. And one of</p> <p>19 the figures here is the municipal and payroll</p> <p>20 tax?</p> <p>21 A. Yes.</p> <p>22 Q. Now, do you know what portion of the payroll</p> <p>23 tax of this figure actually goes to the</p> <p>24 Provincial Government? A portion of it is</p> <p>25 municipal but a portion is provincial. Do you</p>

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1 MR. FITZGERALD:
 2 know?
 3 A. I'm sure I have--or I shouldn't say I'm sure.
 4 I may have that information, but I don't have
 5 it here, Mr. Fitzgerald. And I can't really--
 6 searching my memory now, I don't think I can
 7 give you an accurate breakdown of those two
 8 numbers.
 9 Q. Would it be more than half of that?
 10 A. I really can't say. No, I shouldn't hazard a
 11 guess because I'd be -
 12 Q. I guess I ask the question, I'm just trying to
 13 tally up the amount of cash, I guess, that the
 14 Provincial Government extracts from Hydro. We
 15 do know that in 2004 the Provincial
 16 Government's guarantee fee will be in the rage
 17 of \$14 million? Does that sound about right?
 18 A. Yes, it does.
 19 Q. And if Hydro were to get its--granted its
 20 request for the application of 9.75 percent on
 21 its Return on Equity, that would provide the
 22 Provincial Government another \$19 million. I
 23 believe that's the rough estimate?
 24 A. I believe that's correct, yeah. It's in
 25 Schedule 2 of Mr. Roberts -

1 Q. And then we have another amount here, the
 2 payroll tax. We haven't quantified it, but
 3 it's some portion of the \$2 million. The
 4 question, I guess, is do you think the Board
 5 should keep matters like this in mind when
 6 it's determining what Hydro should get as a
 7 just and reasonable return on its rate base,
 8 particularly on its Return on Equity? Is this
 9 the type of thing that the Board should be
 10 cognisant of?
 11 A. I believe the issue of the just and reasonable
 12 return is fairly complex. It's been explored
 13 by the Cost of Capital experts, Mr.
 14 Fitzgerald. Certainly I have heard in the
 15 past and read, I guess, areas where people
 16 have tried to review it in the context of the
 17 overall contributions to government through
 18 not only payroll taxes, there can income taxes
 19 and all sorts of things that you could factor
 20 into that calculation. When it comes to these
 21 types of issues, I'm not sure whether there's
 22 a lot to be gained by looking at the
 23 imposition of a payroll tax as a return to
 24 government. It's comparable to what other
 25 employers would pay. And whether you'd treat

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1 that as something unique in terms of a return
 2 and recover to ratepayers, I'm not sure that
 3 would be appropriate.
 4 Q. So you're saying we'd leave that to the Board?
 5 A. I would leave that to the Board, yes.
 6 Q. Okay. Another question I have arises from
 7 page 47 of your evidence. And line 35.
 8 Another loss on disposal here. "The loss on
 9 disposal account has decreased by 2.2 million.
 10 The loss in 2002 of 2.8 million was primarily
 11 due to the write-off of diesel plants
 12 destroyed at the fire at Recontre East." The
 13 question that arises there is that are you
 14 aware if there was any insurance in place for
 15 this fire that Hydro could recover at some
 16 future point?
 17 A. No, no. We should direct that to Hydro. I'm
 18 not aware of whether there was insurance
 19 specifically on that plant.
 20 Q. Okay. I believe if we go to Mr. Roberts'
 21 Schedule 2, we'll see the level of insurance,
 22 or the cost in 2004. Insurance is projected
 23 to be about \$2 million? Correct?
 24 A. Yes.
 25 Q. And that strikes me as a relatively modest

1 amount of insurance having regard to the size
 2 of Hydro's rate base. In your review of the
 3 financial health, if I can put it that way, of
 4 Hydro, have you had occasion to look at
 5 Hydro's risk management policies?
 6 A. Mr. Fitzgerald, no, we have not looked at risk
 7 management specifically as it relates to
 8 insurance coverage and the adequacy of
 9 coverages, protection against loss; we haven't
 10 undertaken a specific review of that.
 11 Q. So you have no information regarding that?
 12 A. No.
 13 Q. Okay. Thank you, Mr. Brushett. Those are the
 14 questions that I have. I believe Mr. Browne
 15 has some, as well.
 16 CHAIRMAN:
 17 Q. Thank you, Mr. Fitzgerald. Good morning, Mr.
 18 Browne.
 19 BROWNE, Q.C.:
 20 Q. Good morning, Mr. Chairman. Good morning, Mr.
 21 Brushett.
 22 A. Good morning, Mr. Browne.
 23 Q. Mr. Brushett, you're recommending an
 24 establishment of an excess earnings account
 25 for Hydro, is that correct?

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1 MR. BRUSHETT:

2 A. You're referring to the supplementary
3 evidence, Mr. Browne? Yes, we are suggesting
4 that it would be appropriate to have an excess
5 earnings account.

6 BROWNE, Q.C.:

7 Q. Now, the excess earnings account will be set
8 up in compliance Section 75 of the Act, is
9 that correct?

10 A. Yes.

11 Q. Now, when excess earnings are achieved, how
12 does the Board first become cognizant of that?

13 A. The Board would become cognizant of it when
14 financial reports are submitted to the Board
15 on an annual basis.

16 Q. And the financial reports are submitted when?
17 Do you recall that?

18 A. They're usually submitted around, I believe,
19 it's March 31 is the deadline for submitting
20 financial reports to the Board, annual
21 reports.

22 Q. Now, with the submission, if there are excess
23 earnings, there is no recommendation made in
24 reference to those excess earnings as part of
25 that submission, is that the norm?

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1 there's something of magnitude, a rebate to
2 customers.

3 Q. Because you're also suggesting the
4 implementation of an Automatic Adjustment
5 Formula. And given the situation, if the
6 Board chose to take your advice in reference
7 to that and we had an automatic adjustment
8 formula and there were excess earnings placed
9 in the account pursuant to Section 75 of the
10 Act, say, in 2005/2006, by March 31, 2006,
11 isn't it conceivable, those excess earnings
12 could sit in that account until the next
13 hearing?

14 A. That would be a possibility because there is
15 no requirement or time frames as to who the
16 disposition of those earnings are determined,
17 but I would expect that they would be dealt
18 with on a more timely basis than that, Mr.
19 Browne. Certainly, if there's no hearing
20 scheduled in the, you know, in the near
21 future, I think that it would be only
22 reasonable to expect that the Board would deal
23 with it on a much more timely basis in the
24 year which it arose and request proposal from
25 the utility as to how it should be dealt with.

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1 A. It may or may not be, I guess, Mr. Browne. I
2 would think it would depend on the magnitude
3 of those at the time, but there are no
4 specific requirements to submit a proposal as
5 to disposition of the excess earnings at the
6 time that they're reported, no. There's no
7 requirement to do that. As to whether the
8 utility will come forward with a
9 recommendation, I'm not sure what their
10 position would be.

11 Q. Because the Act suggests that the Board may
12 order the excess earnings to be refunded to
13 the consumer or placed in a reserve fund for
14 the purpose that may be approved by the Board.
15 How does the Board deal with these
16 alternatives?

17 A. Well, the Board would need information, I
18 suspect, from the utility as to details about
19 the excess earnings, maybe some information
20 and investigate on its own, if necessary, what
21 gave rise to those excess earnings and take
22 all that information together and make a
23 decision as to how is most appropriate way to
24 dispose of those earnings. And that can and,
25 I guess, historically has involved, when

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1 Q. Yes, but whose responsibility is it to note
2 that these monies are sitting there in an
3 excess earnings account and whose
4 responsibility is it to bring it to the
5 attention of the Board to deal with that? Is
6 that part of your responsibility in the report
7 that you do?

8 A. Well, I think it's primarily the
9 responsibility of the utility. They are
10 directed to account for excess earnings in a
11 particular manner by establishment of an
12 excess earnings account. And they would be
13 the first, would have first responsibility for
14 disclosing that directly. As part of our
15 reviews, we would review that, review the
16 calculations and the determination of the
17 excess earnings amount, but the Board would be
18 aware of it at the point where the utility
19 finalized it's accounts for a given fiscal
20 year and submitted its report. So, it would
21 originally come from the utility. They would
22 have the responsibility for determining that,
23 based on finalization of their financials for
24 any given fiscal year.

25 Q. And indeed, we've seen in the past where the

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<p>1 BROWNE, Q.C.:</p> <p>2 utility has come forward and made application</p> <p>3 to have the excess earnings refunded to</p> <p>4 consumers, but we've also seen in the past</p> <p>5 where the money has been sat on for, if I can</p> <p>6 use that term, for an amount of time and the</p> <p>7 utility has requested it as, to be taken into</p> <p>8 account in looking for their rate of return,</p> <p>9 pursuant to a hearing. We've seen it both</p> <p>10 ways. Why should it be the option of the</p> <p>11 utility to decide which way this is going?</p> <p>12 Shouldn't the Board be proactive to note that</p> <p>13 this money is sitting there and it belongs to,</p> <p>14 ostensibly, the consumers of the province;</p> <p>15 that's where it came from.</p> <p>16 Q. I believe you're correct and I believe the</p> <p>17 Board would do that and has done that in the</p> <p>18 past, been certainly cognizant of that, but</p> <p>19 there are often other issues that need to be</p> <p>20 taken into consideration and other factors and</p> <p>21 I think I mentioned just a short while ago,</p> <p>22 when is the next hearing? How prudent is it</p> <p>23 to try and deal with it, you know, in that</p> <p>24 context, as opposed to in isolation, the</p> <p>25 magnitude of it, all sorts of things would</p>	<p>1 factor into the Board's consideration of how</p> <p>2 and when to deal with it. So, to suggest that</p> <p>3 it has to be, you know, should be dealt with</p> <p>4 right away, I think is reasonable in the sense</p> <p>5 that, yes, it should be addressed on an as</p> <p>6 timely a basis as possible, taking into</p> <p>7 consideration all of the facts of the day.</p> <p>8 Q. And isn't it possible that the Board, pursuant</p> <p>9 to its preliminary authority, could make a</p> <p>10 regulation under the Act to deal with that</p> <p>11 very issue, that if excess earnings are noted</p> <p>12 in the annual report filed by the utility,</p> <p>13 that the Board would make a regulation stating</p> <p>14 that the Board is required to deal with these</p> <p>15 excess earnings within 60 days of the filing</p> <p>16 of the return or something similar to that?</p> <p>17 Wouldn't that take care of the issue? And</p> <p>18 we'd all feel a bit more comfortable about it?</p> <p>19 A. I will give you a layman's response to that.</p> <p>20 And the first one will be, I would go and ask</p> <p>21 legal counsel about what regulations they can</p> <p>22 establish, but I would suspect they could,</p> <p>23 yes, put forward changes to the regulations to</p> <p>24 deal with that, but that would be more of a</p> <p>25 legal matter.</p>
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<p>1 (10:30 a.m.)</p> <p>2 Q. You're also recommending, in your</p> <p>3 supplementary report, the establishment of an</p> <p>4 Automatic Adjustment Formula. And the</p> <p>5 Automatic Adjustment Formula, of course, is</p> <p>6 new in this jurisdiction and we've had three</p> <p>7 years of Automatic Adjustment Formula where</p> <p>8 rates were set in 1999, 2000 and 2001 for</p> <p>9 2000, 2001 and 2002. And in the 2003, I</p> <p>10 believe the rates have been set by the Board</p> <p>11 as 2004. And then for the other utility,</p> <p>12 2005, 2006 and 2007, we're seeing the</p> <p>13 Automatic Adjustment Formula. Are you</p> <p>14 suggesting a three year period for Hydro for</p> <p>15 the Automatic Adjustment Formula?</p> <p>16 A. I haven't formulated any specific suggestions</p> <p>17 or recommendations for the Board as to how it</p> <p>18 would be implemented. I would suggest that,</p> <p>19 as a starting point, yes, you would look to a</p> <p>20 three-year time frame, particularly where it's</p> <p>21 new for this utility, look at what the</p> <p>22 practice has been in this jurisdiction in the</p> <p>23 past and use those issues to guide you. But I</p> <p>24 think our recommendation is that it would be</p> <p>25 appropriate, but a proposal detailing the</p>	<p>1 implementation should be put forward, should</p> <p>2 be requested from Hydro because there would be</p> <p>3 specific issues relative to Hydro that may</p> <p>4 differ from the existing formula that's in</p> <p>5 place for Newfoundland Power.</p> <p>6 Q. Because when the Automatic Adjustment Formula,</p> <p>7 the history we've had of this so far, dealing</p> <p>8 with the other utility, is that we saw for</p> <p>9 some of the years in which the Automatic</p> <p>10 Formula was adopted that there was a spread</p> <p>11 between the actual rate of return on rate base</p> <p>12 and the actual rate of return on regulated</p> <p>13 equity. You will remember that?</p> <p>14 A. Yes.</p> <p>15 Q. And I think in that particular instance, you</p> <p>16 found reasons as to why that spread probably</p> <p>17 occurred, is that correct?</p> <p>18 A. Yes, there was an analysis completed where</p> <p>19 there were some analysis of the causes and the</p> <p>20 reasons, yes.</p> <p>21 Q. And have you done any further monitoring in</p> <p>22 reference to that particular issue to see if</p> <p>23 that is still a factor, if we're still in the</p> <p>24 situation where we have a spread between the</p> <p>25 rate of return on rate base and the rate of</p>

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<p>1 BROWNE, Q.C.: 2 return on equity? 3 A. Not--I guess, that's in reference to the 4 Board's regulatory supervision of Newfoundland 5 Power and that is ongoing, I guess, Mr. 6 Browne. Those changes were put in place in 7 2003, so we're not even through 2003 yet, so - 8 Q. So, we won't know if that has actually 9 happened until the utility files its report 10 with the Board in March of next year, is that 11 correct? 12 A. Well. I suspect that will be the first 13 reporting of returns since the last Order, 14 yes. 15 Q. And what if that continues to be the case, if 16 there was actually a spread between the return 17 on rate base and the actual rate of return on 18 regulated equity? What would you suggest? 19 A. Well, I think the Board did make some changes 20 in the last Order that are specific to 21 Newfoundland Power so that it could monitor 22 that issue and set, I'll use the word, 23 triggering mechanism in place to initiate a 24 review, should that occur in the future. And 25 in terms of implementation of Automatic</p>	<p>1 Adjustment Formula for Hydro, similar 2 mechanisms and approaches can be used so that, 3 again, the use of the Automatic Adjustment 4 Formula can be as effective as possible. 5 Q. But in reference to this particular issue, 6 even if there is a spread and the utility, be 7 it Newfoundland Power or Newfoundland Hydro, 8 over earns on its equity, the Board has 9 stated, it has no jurisdiction in reference to 10 that particular issue, is that correct? 11 A. I'm not sure, Mr. Browne, that you can--maybe 12 you can point me to something? Are we talking 13 about legal argument or are we talking about - 14 Q. No, I can point you to their decision in P.U. 15 19 (2003), I think the Board acknowledged that 16 it has not jurisdiction to regulate the 17 utility on rate of return on equity and 18 therefore, has no ability to claw back on the 19 equity. 20 A. I understand that's the case, yes. 21 Q. Sure. 22 A. Reading the Board's Order. 23 Q. So, even if the utility, if the Board sets, in 24 this instance, the rate of return as 25 Newfoundland Hydro is requesting and then we</p>
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<p>1 go into an Automatic Adjustment situation and 2 the utility continues to over earn in its 3 equity, the Board is without recourse, can you 4 state that? 5 A. No, I believe that the Board could implement 6 certain mechanisms as its done in the last 7 Order for Newfoundland Power, the Automatic 8 Adjustment Formula and the operation of it 9 could be monitored such that it would trigger 10 certain reviews to deal with situations that 11 were considered, I guess, unusual or out of 12 line with what the expectations were. 13 Q. But they would all come after the fact, 14 wouldn't they? That would prospective to try 15 to deal with the situation for the future. 16 A. That would be, yes, it would, correct, on a 17 prospective basis, yes. 18 Q. By that time they got the cash, don't they? 19 From a consumer's perspective, you see where 20 I'm coming from? 21 A. That is a scenario, I guess, yes, that could 22 occur. 23 Q. And in reference to what you're stating, the 24 way the Board has dealt with this and I assume 25 you're stating the same thing for Hydro as you</p>	<p>1 did with Newfoundland Power, in its decision, 2 its most recent decision in reference to 3 Newfoundland Power, the Board states this, "NP 4 shall prepare and file with the Board, with 5 its annual return until otherwise directed by 6 the Board, a modified schedule calculating the 7 embedded cost of debt for the reporting year 8 to identify specifically the causes of 9 variations in the actual embedded cost of debt 10 from the cost forecast for the test period". 11 And then they say, "and (ii) with its annual 12 return, where in a year the actual rate of 13 return on regulated equity is greater than 50 14 basis points above the cost of equity as 15 determined by the formula, a report explaining 16 the circumstances and facts contributing to 17 the difference". Well, that's all well and 18 good, but what happens then? They give the 19 explanation, what happens? 20 A. Well, I believe then the Board has the 21 information that it needs to assess the 22 situation and can make decisions including 23 requesting the Applicant or the utility to 24 come forward for a hearing to address that 25 issue. And those are, I think the Board in</p>

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<p>1 MR. BRUSHETT:</p> <p>2 that particular Order laid out certain rules</p> <p>3 and implementation issues with respect to an</p> <p>4 Automatic Adjustment Formula which it could</p> <p>5 also incorporate into any, adoption of any</p> <p>6 Automatic Adjustment Formula for Hydro. And I</p> <p>7 guess that's my point, that there are</p> <p>8 implementation issues you have to look at all</p> <p>9 of those factors and apply them to Hydro's</p> <p>10 situation and that's the basis of our</p> <p>11 recommendation, we need to look at the details</p> <p>12 and the implications.</p> <p>13 BROWNE, Q.C.:</p> <p>14 Q. But as you state, that would be on a</p> <p>15 prospective basis, but if a--say, they'd</p> <p>16 gotten 15 percent where they're only due 10.</p> <p>17 That money is theirs and the Board can't haul</p> <p>18 that back.</p> <p>19 A. To the extent there is a range of allowed</p> <p>20 return on equity. If it exceeds--rate base,</p> <p>21 sorry--to the extent it exceeds the allowed</p> <p>22 range of return on rate base, then it goes</p> <p>23 into the excess earnings account.</p> <p>24 Q. So, we have, in fact, a Board that has little</p> <p>25 authority to deal with the excess that as long</p>	<p>1 as the utility doesn't go over on rate base,</p> <p>2 as long as the formula is correct, as long as</p> <p>3 you're correct in telling us that the reasons</p> <p>4 for the spread in the last hearing were case</p> <p>5 specific, but I see in here, a danger for the</p> <p>6 consumers of the province of paying a lot more</p> <p>7 than what the utility is entitled or intended.</p> <p>8 Wouldn't it be far better if the Board put an</p> <p>9 end to this scenario and requested the</p> <p>10 legislature to make the amendment under</p> <p>11 Section 83 of the Act to state that the rate</p> <p>12 of return will be expressed in equity as</p> <p>13 opposed to rate base and that will end the</p> <p>14 game. Wouldn't it be far better if the Board</p> <p>15 undertook its duties and responsibilities</p> <p>16 under Section 83 of the Act to make that</p> <p>17 recommendation to the legislature? Wouldn't</p> <p>18 that be a cleaner process?</p> <p>19 A. Mr. Browne, I understand the questioning and</p> <p>20 so on and I guess, at this point, it may be</p> <p>21 very valid, some of the comments you're</p> <p>22 making. I don't know if it's really my</p> <p>23 position to be suggesting we make</p> <p>24 recommendations to the legislature in terms of</p> <p>25 some of the legalities of the Act and the</p>
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<p>1 Board's jurisdiction and so on. That's</p> <p>2 probably better left to discussion among legal</p> <p>3 counsel.</p> <p>4 Q. In reference to the formula that the Board has</p> <p>5 now put in place, the Board uses this</p> <p>6 expression in page 66 of its decision, most</p> <p>7 recently, "the Board will continue to use the</p> <p>8 existing methodology in the formula for</p> <p>9 calculating the risk free rate. However, the</p> <p>10 risk free rate will now be calculated based on</p> <p>11 the actual yields of the three most recent</p> <p>12 series of long-term Canada government of</p> <p>13 Canada bonds during the ten trading days being</p> <p>14 monitored as reported in the Globe and Mail</p> <p>15 under the heading 'Ask Yields'". Where did</p> <p>16 that come from, "Ask Yields"?</p> <p>17 A. I'm not sure, Mr. Browne.</p> <p>18 Q. Do you have any idea? I don't recall seeing</p> <p>19 that or hearing of that in evidence. So, you</p> <p>20 have no idea where it came from?</p> <p>21 A. You're referring back to an Order in a hearing</p> <p>22 for Newfoundland Power and I'm not, first of</p> <p>23 all, I don't recall exactly where that came</p> <p>24 from. I guess all of those issues you're</p> <p>25 discussing or questions you're putting forward</p>	<p>1 relate to some of the specifics as to how an</p> <p>2 Automatic Adjustment Formula is implemented</p> <p>3 for Newfoundland Power. And I recognize all</p> <p>4 your comments and my only response would be</p> <p>5 that we recognize there are implementation</p> <p>6 issues that would need to be considered and</p> <p>7 addressed in significant detail before it was</p> <p>8 implemented. That's why we are recommending</p> <p>9 that a proposal, be it detailing how</p> <p>10 implementation could be achieved is what Hydro</p> <p>11 should be putting forward. But in principle,</p> <p>12 the use of an Automatic Adjustment Formula, in</p> <p>13 our view, would also be appropriate for Hydro.</p> <p>14 Q. And would the same formula that's in place in</p> <p>15 the same ten trading days, that's been</p> <p>16 suggested for Power, is that what you're</p> <p>17 suggesting be put in place for Hydro?</p> <p>18 A. I would not be prepared to put forward</p> <p>19 specific suggestions and would like to see, I</p> <p>20 guess, some information and detail as to what</p> <p>21 Hydro feels is appropriate and assess it on,</p> <p>22 you know, having received that information.</p> <p>23 Q. At what point do you file your report to the</p> <p>24 Board annually in reference to the utility for</p> <p>25 the previous year? When is your annual report</p>

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<p>1 BROWNE, Q.C.: 2 filed? 3 A. There's no set time frame. I believe that's 4 been discussed in the past, Mr. Browne, and 5 it's usually undertaken following receipt of 6 the annual returns and so on. Typically, it's 7 been late in the year. 8 Q. Would consumers of the province be better 9 served if that was filed earlier following the 10 filing of the annual report by the utility in 11 March month? 12 A. If it could be determined that there were 13 specific issues that needed to be dealt with 14 right away and the filing of our report was 15 holding up addressing those issues, you may 16 have a valid point. But I think, and have 17 probably discussed this in the past that the 18 Board's regulatory supervision is ongoing and 19 the fact that our report is in progress or 20 some issues are being addressed and 21 investigated and reviewed doesn't mean that 22 there isn't supervision and ongoing monitoring 23 and where issues are considered significant, 24 they are being dealt with. So, the timing of 25 the report, earlier, is probably a reasonable</p>	<p>1 suggestion, Mr. Browne, but in and of itself, 2 I don't know if it means that there is, you 3 know, you timeliness is holding up or impeding 4 the regulatory supervision of either of the 5 utilities. I would suggest not, but the 6 suggestion about filing the report on an 7 earlier basis is certainly a reasonable 8 suggestion. 9 Q. Thank you, those are my questions. 10 CHAIRMAN: 11 Q. Thank you, Mr. Browne, Mr. Brushett. We move 12 now to Newfoundland Power. Good morning, Mr. 13 Kelly. 14 KELLY, Q.C.: 15 Q. Thank you, Chair. Mr. Brushett, good morning. 16 A. Good morning. 17 Q. There's been a lot of discussion both in the 18 past hearing and this hearing about the status 19 of Newfoundland Hydro as to whether it's an 20 investor owned utility and how it should be 21 treated. And a number of factors had been 22 discussed in that connection, things like the 23 debt equity ratio, the dividend policy, 24 whether government is making any changes to 25 the dividend policy, the guarantee and the</p>
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<p>1 guarantee fee, questions about government 2 giving directions to Hydro and whether Hydro 3 pays the corporate income taxes and those 4 items were primarily identified in the last 5 hearing. And first of all, would you agree 6 with me that the debt equity, the debt 7 component, in fact, has deteriorated since the 8 last Hydro hearing? 9 A. Yes, I believe there is certainly information 10 included in our report that calculates the 11 debt equity ratios for the past number of 12 years and it has declined since the last 13 hearing. 14 (10:45 a.m.) 15 Q. And that is substantially because of the 16 dividends that were paid out especially in 17 '02? 18 A. Yes. 19 Q. And the government has not yet responded to 20 requests from Hydro with respect to changing 21 the existing dividend policy? 22 A. I believe that's the case, there was some 23 examination of that issue earlier and that's 24 my understanding, Mr. Kelly. 25 Q. Right. Now, I was interested in your</p>	<p>1 recommendations when I read your first report 2 or, sorry, your supplementary report dealing 3 with the range of rate of return, the 4 Automatic Adjustment Formula and the excess 5 earnings account. And Hydro, in this hearing, 6 has not brought forward any proposal for any 7 of those particular items, correct? 8 A. That's correct. 9 Q. Would you agree with me that that--what I now 10 understand from your answer to Mr. Browne is 11 that in your supplementary report you're not 12 proposing that the Board should now determine 13 these items. What you're proposing is that 14 Hydro should be instructed to bring forward 15 proposals for these three items, is that how I 16 understand it? 17 A. That's probably not accurate, Mr. Kelly. 18 Q. Okay. Could you help me with that then? 19 A. With respect to the range of rate of return on 20 rate base, we are recommending that the Board 21 establish an allowed range with an upper limit 22 and the excess earnings account in this 23 proceeding. And in that regard, we are not 24 suggesting that a proposal be put forward at a 25 later date by Hydro as to the appropriateness</p>

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<p>1 MR. BRUSHETT:</p> <p>2 of the range. I'm sure Hydro would have its</p> <p>3 opinion and would probably address this in</p> <p>4 argument and so on anyway. But we are</p> <p>5 recommending that, not recommending that they</p> <p>6 ask Hydro to submit a proposal. We are</p> <p>7 recommending that they establish a range.</p> <p>8 With respect to the Automatic Adjustment</p> <p>9 Formula which has very specific implementation</p> <p>10 issues, we are recommending that they seek</p> <p>11 proposals and additional information before</p> <p>12 they make any decision on that particular -</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. So, is it only on the Automatic Adjustment</p> <p>15 Formula that you are proposing that Hydro put</p> <p>16 forward a proposal?</p> <p>17 A. Yes.</p> <p>18 Q. The note I made in your answer to Mr. Browne,</p> <p>19 I may not have got it correctly, was the</p> <p>20 proposal for implementation should be put</p> <p>21 forward by Hydro.</p> <p>22 A. Yes.</p> <p>23 Q. Do I take it that answer relates only to the</p> <p>24 Automatic Adjustment Formula then?</p> <p>25 A. That is correct.</p>	<p>1 Q. Okay. Then would you agree with me that those</p> <p>2 three issues, both the excess earnings</p> <p>3 account, the range issue and the Automatic</p> <p>4 Adjustment Formula, all tie into the rate of</p> <p>5 return on equity issue? In other words, they</p> <p>6 address that issue?</p> <p>7 A. Could you repeat that again?</p> <p>8 Q. The rate of return on equity issue and the</p> <p>9 range that goes around rate base because</p> <p>10 return on equity is one of the components that</p> <p>11 go in to determine the return on rate base -</p> <p>12 A. Yes, yes.</p> <p>13 Q. That the issues of range, excess earnings and</p> <p>14 Automatic Adjustment Account are tied in with</p> <p>15 that question of the rate of return on equity</p> <p>16 and hence, rate base.</p> <p>17 A. Certainly the range of return is tied into and</p> <p>18 the rate of return on equity, as you</p> <p>19 suggested, simply because rate base is</p> <p>20 functioning on the weighted average cost of</p> <p>21 capital. And so the capital structure, as</p> <p>22 well as the reasonable return on equity and so</p> <p>23 on are all factors that would have to go into</p> <p>24 and be considered in that, in setting a range.</p> <p>25 The Automatic Adjustment Formula, yes, does</p>
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<p>1 look back to the weighted average cost of</p> <p>2 capital in terms of establishing a, on an</p> <p>3 automatic basis, the rate of return on rate</p> <p>4 base for a year. So, return on equity is tied</p> <p>5 in to those.</p> <p>6 Q. Now, one of the possibilities for the Board</p> <p>7 here is that the Board could determine that</p> <p>8 since Hydro has not, as a matter of argument</p> <p>9 and determination as to whether Hydro has</p> <p>10 brought forward a plan to move forward to</p> <p>11 investor-owned utility status, that it should</p> <p>12 not change the rate of return on equity from</p> <p>13 that which was set the last time. Would it be</p> <p>14 your recommendation that questions of range</p> <p>15 and the excess earnings account should be--</p> <p>16 that that should be determined regardless of</p> <p>17 what the Board does in terms of whether they</p> <p>18 change the return on equity?</p> <p>19 A. No, I think it has to be done in the context</p> <p>20 of the Board's findings. And we've stated it</p> <p>21 at line 27, really, on page 5 of our</p> <p>22 supplementary that it has to be done in the</p> <p>23 context of it's findings and other related</p> <p>24 financial matters, be established under the</p> <p>25 range in the excess earnings account. So,</p>	<p>1 you're right, there is a broad range of</p> <p>2 possible scenarios here in terms of what the</p> <p>3 Board may decide with respect to those</p> <p>4 financial matters and it must be made in that</p> <p>5 context.</p> <p>6 Q. And that's what I'm trying to understand, the</p> <p>7 process, as to how you would see that take</p> <p>8 place because there's been very little</p> <p>9 discussion in this hearing because there's no</p> <p>10 proposal put forward by Hydro as to how that</p> <p>11 range should work in the context of any</p> <p>12 particular rate of return.</p> <p>13 A. I'm not sure what you mean by how the range</p> <p>14 should work. I don't think it's, you know--</p> <p>15 regulatory practice in this jurisdiction is</p> <p>16 clear on how it normally works.</p> <p>17 Q. Let me put the question this way. Would you</p> <p>18 have the same range in parameters if the</p> <p>19 return on equity was set at 3 percent versus</p> <p>20 set at 9.75 percent?</p> <p>21 A. Now, that you're asked that question which is</p> <p>22 clearer to me -</p> <p>23 Q. Sorry, if I wasn't clear the first time.</p> <p>24 A. The Board would have different parameters and</p> <p>25 would probably draw different conclusions</p>

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<p>1 MR. BRUSHETT:</p> <p>2 depending on their decision on those financial</p> <p>3 matters as to what appropriate rate of return</p> <p>4 on equity is, whether it accepts capital</p> <p>5 structure issues and so on. So, it must be</p> <p>6 made in that context and yes, it probably</p> <p>7 would be different depending on their decision</p> <p>8 as to what the appropriate overall return on</p> <p>9 rate base is.</p> <p>10 KELLY, Q.C.:</p> <p>11 Q. And that took me to my question then of</p> <p>12 process. Well, how would you see the process</p> <p>13 taking place where Hydro hasn't put forward a,</p> <p>14 what I would call an integrated proposal. In</p> <p>15 other words, it's nine seventy five and here's</p> <p>16 what we want to put around it versus some</p> <p>17 other rate.</p> <p>18 A. But that clearly is the Board's decision to</p> <p>19 make, whether they have sufficient information</p> <p>20 to make those decisions. They are coupled, as</p> <p>21 you led me through, I guess, right at the</p> <p>22 beginning there, they are linked together.</p> <p>23 And I'm not sure that the Board doesn't have</p> <p>24 all the information it needs to be able to</p> <p>25 make an assessment as to a range of return, no</p>	<p>1 matter what it's decision is in terms of the</p> <p>2 allowed rate of return. There's nothing that</p> <p>3 comes to mind where they need additional</p> <p>4 information from Hydro in order to be able to</p> <p>5 reach that conclusion. Now, there is a lot of</p> <p>6 information on the record from cost of capital</p> <p>7 experts and from the Applicant itself in terms</p> <p>8 of these financial matters and I think the</p> <p>9 Board will go through due process and</p> <p>10 determine whether it has appropriate</p> <p>11 information, but my assessment is that there's</p> <p>12 nothing that comes to mind that would suggest</p> <p>13 they don't have sufficient information to be</p> <p>14 able to make those conclusions.</p> <p>15 Q. You indicated earlier that you thought the</p> <p>16 Automatic Adjustment Formula was a bit</p> <p>17 different, bit of a different issues.</p> <p>18 A. The Automatic Adjustment Formula, yes.</p> <p>19 Q. Is there additional information that the Board</p> <p>20 needs for that item in your view and could you</p> <p>21 just briefly tell us, if so, what those items</p> <p>22 of information would be?</p> <p>23 A. Specific to an Automatic Adjustment Formula, I</p> <p>24 believe there are issues as to what Hydro</p> <p>25 believes are appropriate mechanisms, what</p>
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<p>1 trigger points there should be in terms of, if</p> <p>2 you recall, the Automatic Adjustment Formula</p> <p>3 kicks in if the recalculation return falls</p> <p>4 outside a certain range. Issues such as that</p> <p>5 which are probably more specific to the</p> <p>6 utility than issues about the overall range of</p> <p>7 return that would be appropriate, given the</p> <p>8 Board's decision on a specific allowed return.</p> <p>9 Q. Thank you. I'm going to move into another</p> <p>10 area, Chair. This would be a good place to</p> <p>11 break.</p> <p>12 CHAIRMAN:</p> <p>13 Q. Okay, thank you, Mr. Kelly, Mr. Brushett.</p> <p>14 We'll reconvene at 11:25 a.m.</p> <p>15 (RECESS - 10:55 a.m.)</p> <p>16 (RESUME - 11:26 A.M.)</p> <p>17 CHAIRMAN:</p> <p>18 Q. Thank you. Quick on the uptake, Mr. O'Reilly.</p> <p>19 They're not paying you enough. Want to put</p> <p>20 that in the Order?</p> <p>21 GREENE, Q.C.:</p> <p>22 Q. Oh, we appreciate Mr. O'Reilly.</p> <p>23 CHAIRMAN:</p> <p>24 Q. Thank you. Mr. Kelly, when you're ready,</p> <p>25 please.</p>	<p>1 KELLY, Q.C.:</p> <p>2 Q. Thank you, Chair. Mr. Brushett, I'd like to</p> <p>3 turn next and discuss with you the business</p> <p>4 process improvement issues and how that ties</p> <p>5 in with some salaries and related issues.</p> <p>6 A. Yes.</p> <p>7 Q. I'll start with page one of your supplementary</p> <p>8 report, at line 25, well starting with 23, you</p> <p>9 reference the discussion of the business</p> <p>10 process improvement projects and you say "it</p> <p>11 may not be clear in the evidence how these all</p> <p>12 tie together and what they mean in terms of</p> <p>13 improvements in operational efficiency." I</p> <p>14 start with the observation, I must say I'm</p> <p>15 glad to hear that somebody else has not</p> <p>16 figured out how they all tie together. Could</p> <p>17 you just explain first of all what you meant</p> <p>18 by the statement?</p> <p>19 A. I think if you review some of the evidence,</p> <p>20 the prefiled, as well as some of the</p> <p>21 examination of Hydro witnesses, there has been</p> <p>22 discussion about specific projects and how</p> <p>23 they translate into savings on a go-forward</p> <p>24 basis. However, there's also evidence</p> <p>25 suggesting how does this all tie together?</p>

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<p>1 MR. BRUSHETT:</p> <p>2 What are you targeting for efficiency</p> <p>3 improvements? And where is that information</p> <p>4 in terms of your targets or your expected</p> <p>5 improvements factored into this whole</p> <p>6 application and forecast? So that's really</p> <p>7 the gist of the background for that statement.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. And can I take you then to Mr. Roberts' pre-</p> <p>10 filed evidence, first of all, at page 23 and</p> <p>11 24? And I'll take you over to page 24 for the</p> <p>12 various items. There we go. No, if we could</p> <p>13 scroll up a bit, Mr. O'Reilly. That's 23.</p> <p>14 Could we just go to page 24? Right. The</p> <p>15 first, at line 5 and 6, there's the discussion</p> <p>16 of the \$600,000 set of items, which we</p> <p>17 understand from Mr. Roberts' testimony</p> <p>18 reflected in the 2004 numbers, as he explains</p> <p>19 at lines 5 and 6?</p> <p>20 A. Yes.</p> <p>21 Q. And then there's, in the next paragraph down,</p> <p>22 there's a discussion of the 128,000 which we</p> <p>23 understand are now those steps have</p> <p>24 substantially been completed, about \$100,000</p> <p>25 of that Mr. Roberts told us was salary</p>	<p>1 related. And then if you come down to the</p> <p>2 next paragraph, beginning at 16, there are</p> <p>3 three other processes being reviewed,</p> <p>4 acquisition of goods and services, work</p> <p>5 management and asset management. In the</p> <p>6 course of your review, have you been able to</p> <p>7 determine the order of magnitude of the</p> <p>8 projected savings with respect to these items?</p> <p>9 A. No, we haven't been able to ascertain that and</p> <p>10 I'm not sure if Hydro has specific numbers at</p> <p>11 the time they initiated these projects. I</p> <p>12 guess the point is, tying back to our comment</p> <p>13 in our supplementary evidence, is that we know</p> <p>14 this is ongoing. We know that Hydro has been</p> <p>15 initiated this process improvement review.</p> <p>16 I'll say it's not a project. It's really an</p> <p>17 ongoing activity now since it's been started.</p> <p>18 It's clearly, Mr. Wells would say, part of the</p> <p>19 overall corporate strategy on a go-forward</p> <p>20 basis, yet reports as to what areas are being</p> <p>21 targeted, why, what the expected improvements</p> <p>22 may be and how that translates into the cost</p> <p>23 of electricity is where we don't see a linkage</p> <p>24 and haven't been able to tie it all together.</p> <p>25 Q. Okay. Have you determined if there's any</p>
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<p>1 system to determine what steps should be taken</p> <p>2 by looking at the organization and then to</p> <p>3 determine the cost effectiveness of them?</p> <p>4 A. You're talking now about an overall program or</p> <p>5 a project basis?</p> <p>6 Q. On both, could we address it at both levels?</p> <p>7 First of all on an overall reorganization</p> <p>8 basis, did you find any indication that that</p> <p>9 was being considered?</p> <p>10 A. An overall reorganization of Hydro to address</p> <p>11 efficiency?</p> <p>12 Q. Yes.</p> <p>13 A. No, I haven't--I'm certainly not aware of any</p> <p>14 significant overall reorganization initiative.</p> <p>15 I think Hydro has presented evidence saying</p> <p>16 these are some of the projects we are looking</p> <p>17 at and there may be others ongoing, you know,</p> <p>18 that have been initiated since. But I'm not</p> <p>19 aware of an overall reorganization strategy or</p> <p>20 process.</p> <p>21 Q. What about on a project-by-project basis then</p> <p>22 in terms of determining what projects to</p> <p>23 undertake and whether it would be cost</p> <p>24 effective to do it? Have you -</p> <p>25 A. No, we have not seen a list or a summary or</p>	<p>1 report that outlines areas where they have</p> <p>2 targeted to review to try and see if there are</p> <p>3 efficiencies and so on, other than what's</p> <p>4 presented here in terms of some specific</p> <p>5 examples of projects.</p> <p>6 Q. Okay. Can I take you to CA-46 for a moment?</p> <p>7 And this deals with the costs of this program</p> <p>8 in 2002. There was approximately a million</p> <p>9 spent for consultants and then approximately</p> <p>10 800,000 internal. We've had some information</p> <p>11 from Mr. Roberts that the 2003 number internal</p> <p>12 is in the order of about a million dollars.</p> <p>13 Have you been able to determine a kind--were</p> <p>14 you able to find anything in terms of cost</p> <p>15 benefit analysis of the expenditures versus</p> <p>16 anticipated results, long term?</p> <p>17 A. No, I have not seen that information. Whether</p> <p>18 Hydro has that internally in some reports that</p> <p>19 we have not seen or have not been provided to,</p> <p>20 I'm not sure, but we have not seen that and</p> <p>21 I'm not sure if an overall plan such as that</p> <p>22 is in some form of a report.</p> <p>23 Q. Okay. Do you think it would be desirable to</p> <p>24 have some kind of overall plan? Can you</p> <p>25 comment on that one?</p>

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<p>1 MR. BRUSHETT:</p> <p>2 A. Yes, I would, and I think that is another way,</p> <p>3 Mr. Kelly, of stating what our recommendation</p> <p>4 is, in terms of key performance indicators,</p> <p>5 that these should all be linked and certainly</p> <p>6 conceptually, they are, if you read Mr. Wells'</p> <p>7 evidence, and I suspect senior management at</p> <p>8 Hydro do look at it in this fashion. But from</p> <p>9 a regulatory point of view, which is what I'm</p> <p>10 trying to address, it's not transparent, I</p> <p>11 guess, to someone on the outside looking in</p> <p>12 that this would be the activity and that there</p> <p>13 should be an overall plan and when I</p> <p>14 specifically recommend that it should be--</p> <p>15 Hydro should be submitting targets, which</p> <p>16 presumably would fall out of an overall plan</p> <p>17 that says "we've looked at our"--and I'll use</p> <p>18 an example without--it's not meant to be</p> <p>19 looking at anything specific, but let's take a</p> <p>20 transmission OM&A, for example. If Hydro were</p> <p>21 to look at that, compare historical results,</p> <p>22 look at some inter-utility comparisons and</p> <p>23 normalize that, if necessary, then they may</p> <p>24 decide or say maybe we're ten percent, five</p> <p>25 percent over average and we should be</p>	<p>1 targeting improvement in this area, and come</p> <p>2 up with a plan as to what processes within</p> <p>3 that department they need to look at. When</p> <p>4 you look at the way they've been approaching</p> <p>5 some of these projects, I get a sense that</p> <p>6 this is sort of the thing that's going on</p> <p>7 internally in Hydro, in terms of managing</p> <p>8 their operations. But we haven't seen any</p> <p>9 overall plan.</p> <p>10 KELLY, Q.C.:</p> <p>11 Q. Okay. Can I just take you to page 38 of your</p> <p>12 report for a moment, this is your first</p> <p>13 report, to line 16? And there, begins at line</p> <p>14 17, "the company has indicated that there will</p> <p>15 be annual savings of 2.6 million in salaries</p> <p>16 due to the elimination of 46 positions during</p> <p>17 '02. However, the company has also forecast</p> <p>18 increases in union and non-union wages for '03</p> <p>19 and '04 which offsets the savings obtained</p> <p>20 from the reduced workforce." One of the</p> <p>21 things we tried to get a handle on was trying</p> <p>22 to reconcile the '02 salary and benefits</p> <p>23 numbers to the '04 numbers.</p> <p>24 A. Yes.</p> <p>25 Q. Particularly the salaries. And our first shot</p>
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<p>1 at it was in Information Item 11, and let me</p> <p>2 just take you there first.</p> <p>3 A. Yes.</p> <p>4 Q. And this is a document that we prepared</p> <p>5 attempting to capture that discussion that I</p> <p>6 just looked at in your text and there's some</p> <p>7 similar passage in Mr. Roberts' evidence.</p> <p>8 A. Yes.</p> <p>9 Q. And then if I take you next to Mr. Roberts'</p> <p>10 evidence of October the 15th, at page 49, and</p> <p>11 actually, just to kind of set the stage, if we</p> <p>12 just go back to page 48, at the bottom of the</p> <p>13 page, the question begins, and if you come</p> <p>14 over then to the top of page 49, there's the</p> <p>15 reference to the 46 positions offset by the</p> <p>16 general scaling increase. And then if I take</p> <p>17 you down to about line 25 in Mr. Roberts'</p> <p>18 explanation, "we actually base it on full</p> <p>19 complement because at all times somewhere</p> <p>20 through the piece, there would definitely be</p> <p>21 vacancies. In your Information Request that</p> <p>22 you had provided to us yesterday, there is one</p> <p>23 particular item that's not on this listing,</p> <p>24 and if I may, I'll just try and work you</p> <p>25 through it. At the end of 2002, there were</p>	<p>1 approximately 32 vacant positions and if you</p> <p>2 use an average salary of approximately</p> <p>3 \$50,000, that's an additional 1.6 million that</p> <p>4 you would have to add to the particular</p> <p>5 number, and severance payments, they are noted</p> <p>6 elsewhere as well, you got the 1.4 that was</p> <p>7 shown on our Information 11 and savings of</p> <p>8 2.6. So by just adding in the 1.6 million</p> <p>9 instead of forty-six two fifty-eight, which</p> <p>10 was our number, you'd end up with forty-seven</p> <p>11 eight seventy-one. The eight percent is a</p> <p>12 reasonable good number. It would be 3.8 that</p> <p>13 we had 3.7 based on the revised number. So</p> <p>14 you would actually end up with a figure of</p> <p>15 51,700,000 for all," I think that's supposed</p> <p>16 to be intents and purposes.</p> <p>17 And then if I just skip down to the</p> <p>18 beginning at line 3 on the next page, and "if</p> <p>19 you look in 2004, we actually have recorded</p> <p>20 forty-nine nine twenty-five. So as you can</p> <p>21 see, there is a difference of seventeen</p> <p>22 seventy-five and that's a reflection of</p> <p>23 additional temporary help that has been</p> <p>24 removed from the system." So Mr. Roberts</p> <p>25 explained to us, well, we have to add back the</p>

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<p>1 KELLY, Q.C.:</p> <p>2 vacancy that we had in 2002 of 1.6 million,</p> <p>3 but then there was temporary help taken out of</p> <p>4 this in the amount of seventeen seventy-five</p> <p>5 to get to the '04 numbers. Okay. Are you</p> <p>6 with me so far?</p> <p>7 A. I am with you, and that very last comment</p> <p>8 though, I'm not sure we're on the same</p> <p>9 wavelength on that one.</p> <p>10 Q. Well, my question -</p> <p>11 A. His comment is that there's a difference of</p> <p>12 seventeen seventy-five and that's a reflection</p> <p>13 of additional temporary help that has been</p> <p>14 removed from the system.</p> <p>15 Q. Yes.</p> <p>16 A. I'm not sure if that's an adjustment as much</p> <p>17 as reflecting the difference between his</p> <p>18 calculation of fifty-one seven and the forty-</p> <p>19 nine nine two five.</p> <p>20 Q. And he calls it temporary help and my question</p> <p>21 to you, were you able to, in any sense,</p> <p>22 determine or reconcile where the 600,000</p> <p>23 number that we looked at earlier and the</p> <p>24 \$100,000 for the meter reading changes, those</p> <p>25 business improvement numbers, fit into this</p>	<p>1 change from '02 to '04?</p> <p>2 A. I'll answer your question then I'll provide a</p> <p>3 little bit of an explanation, I guess.</p> <p>4 Q. Sure.</p> <p>5 A. Specifically as to that 600,000 that's been</p> <p>6 referenced, no, I haven't traced it directly</p> <p>7 into any calculation of numbers going from</p> <p>8 2002 to 2004 or the 100,000 for that matter.</p> <p>9 And I would also start out by saying the</p> <p>10 discussion around this and the whole analysis</p> <p>11 itself can be quite confusing. But, in the</p> <p>12 answer that Mr. Roberts provided, he took an</p> <p>13 approach of adding back what would have been</p> <p>14 unfilled positions in order to do a</p> <p>15 comparison. I think I would look at it in a</p> <p>16 somewhat different way, and if you--you</p> <p>17 referenced Information No. 11 and if you</p> <p>18 looked at that again, maybe if we could pull</p> <p>19 that up on the screen, Mr. O'Reilly? We start</p> <p>20 out with 2002 actuals which, yes, in very--you</p> <p>21 know, making certain assumptions that that</p> <p>22 includes certain severance payments which</p> <p>23 information has been provided on, and there is</p> <p>24 an expected savings relating to the 46</p> <p>25 positions. Those salaries were in 2002 and</p>
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<p>1 should be removed on a go-forward basis. Your</p> <p>2 calculation or the calculation in Information</p> <p>3 No. 11 does come down to comparing expected</p> <p>4 salary levels for 2002 of forty-nine nine</p> <p>5 fifty-eight to 2004 forecast of forty-nine</p> <p>6 nine two five. But that's the salary forecast</p> <p>7 for 2004, but there's also you haven't</p> <p>8 factored in the two and a half million dollars</p> <p>9 vacancy credit in the overall 2004 forecast.</p> <p>10 Q. No, because that's because it gets taken off</p> <p>11 as an additional item down on the sheet.</p> <p>12 A. It does, but where you're comparing actuals to</p> <p>13 forecast, the forecast for 2004 is forty-nine</p> <p>14 nine two five minus 2.5, which you should</p> <p>15 compare to an actual. You can also do a</p> <p>16 similar analysis to what you've done here,</p> <p>17 comparing the 2002 forecast net of vacancy to</p> <p>18 the 2004 forecast net of vacancy and you'll</p> <p>19 come up with the same sort of conclusion, that</p> <p>20 there is an additional 2.5 vacancy credit</p> <p>21 factored in. Now I want to go right back to</p> <p>22 your original question and make sure I</p> <p>23 answered it, is that have I looked at the</p> <p>24 600,000 that's been put forward as being,</p> <p>25 although not entirely clear, I think my</p>	<p>1 understanding is that it is in addition to the</p> <p>2 2.6. Then you might want to work that through</p> <p>3 your numbers so that, in fact, your expected</p> <p>4 salary level in 2004 would, instead of being</p> <p>5 forty-nine nine fifty-eight would be forty-</p> <p>6 nine three fifty-eight. That's the way I do</p> <p>7 the analysis in this regard and then compare</p> <p>8 that to the 2004 forecast net of vacancy,</p> <p>9 which is -</p> <p>10 Q. But if--sorry, if I did it the way you just</p> <p>11 did it and looked at Information 11 and then</p> <p>12 factored in the 2.5 million at the end of the</p> <p>13 discussion as the vacancy allowance -</p> <p>14 A. Yes.</p> <p>15 Q. - does that mean then that in the vacancy</p> <p>16 allowance of 2.5 million dollars is</p> <p>17 effectively this \$600,000 and the \$100,000?</p> <p>18 A. You could look at it that way, yes.</p> <p>19 Q. Okay. Then let me take you next to CA-43, and</p> <p>20 this is a question about the vacancy</p> <p>21 allowance, and at line 5, it says "each year,</p> <p>22 Hydro budgets its salaries on the basis of the</p> <p>23 forecast FTE requirements. On an actual</p> <p>24 basis, there is always a number of positions</p> <p>25 that become vacant during a particular year</p>

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1 KELLY, Q.C.:
 2 due to retirements, terminations, long-term
 3 disability, et cetera, which results in salary
 4 savings because of the period of time which
 5 elapses between the date of vacancy and the
 6 date of hiring the replacement." So if I stop
 7 there, would you agree with me, Mr. Brushett,
 8 that this 2.5 million dollars, as we
 9 understand it from Hydro, has a vacancy
 10 factor, as Hydro has put it forward, of about
 11 one million dollars and what I'd call a
 12 productivity gain of 1.5 million dollars
 13 somehow as the split which was put forward for
 14 it?
 15 A. That's my understanding of what's been put
 16 forward by Hydro, yes.
 17 Q. Okay. Now what we would--would you agree with
 18 me that what we need to do first is to
 19 determine what the true vacancy factor is,
 20 what Hydro reasonably would have as a true
 21 vacancy factor for the year?
 22 A. Certainly that is one of the areas, yes, that
 23 you can and probably should address, in terms
 24 of the overall analysis, and my findings is
 25 that that's not as easily done because of this

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1 as we understand them, for the 600 and the -
 2 A. For the 600, yes.
 3 Q. - the 100.
 4 A. Yes.
 5 Q. But that, as we just had the discussion, may
 6 be in the 2.5?
 7 A. Yes.
 8 Q. Okay. Now what you say here is you got 922
 9 and down at line 6, you say "we have
 10 recalculated the average salary per FTE for
 11 '03 and '04 and determined that the average
 12 salary per FTE has increased on a percentage
 13 basis comparable with salary increases
 14 forecast by Hydro for '03 and '04." So can
 15 you tell us the number you got for that? And
 16 just to help you here, if you want, we could
 17 go to NP-304, which is the salary line. And
 18 the salaries for '04 are forecast at forty-
 19 nine nine twenty-five?
 20 A. Yes.
 21 Q. And for 922 FTEs, I make the average salary
 22 54,148 or \$54,000?
 23 A. You're basing that on -
 24 Q. Forty-nine nine twenty-five.
 25 A. And the 922?

1 issue around FTEs versus complement and how
 2 that actually works.
 3 (11:45 a.m.)
 4 Q. I appreciate that. Let me just take you
 5 through a couple of steps on it. We looked at
 6 2002 and Mr. Roberts' statement that in 2002,
 7 it was approximately 1.6 million. This was on
 8 page 50 that we looked at earlier. And if I
 9 take you to your page 39, and this is your
 10 statement about FTEs, for 2004, I understand
 11 the FTEs are 922?
 12 A. Which line are you at again? I'm sorry?
 13 Q. I'm sorry, line 2.
 14 A. And that's referring to the response to NP- 10
 15 which indicates that the number of FTEs are
 16 932 in 2003 and 922 in 2004.
 17 Q. Right, and in fact that was updated in NP- 301
 18 to the same numbers, as of October 31st, so we
 19 have the same 791 for permanent and 131 FTEs
 20 for temporary for the 922 number.
 21 A. Yes. Now my understanding also, Mr. Kelly, is
 22 that the forecast FTEs have not been adjusted
 23 for the impacts of what's potentially in the
 24 2.5 million that they're referring to.
 25 Q. Have not--well, they've been adjusted as near

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1 Q. And the 922.
 2 A. Sure, I'll accept your math.
 3 Q. And if I just go back to your statement for a
 4 second, you say "we have recalculated the
 5 average salary for '04 and determined the
 6 average salary per FTE has increased on a
 7 percentage basis comparable with salary
 8 increases." And we looked at this from Mr.
 9 Roberts that it had been--he used a 50,000
 10 number in 2002 and if we had the eight percent
 11 to that, I also get the 54,000 number.
 12 A. Sure.
 13 Q. So is that the number that we would use as an
 14 average number for '04?
 15 A. Well, I think in order to be able to do an
 16 overall assessment of that, you also need to
 17 assess what the vacancy credit they've
 18 forecast translates into in terms of expected
 19 reduction in average FTEs.
 20 Q. And have you done that? That would be a -
 21 A. As our report states, we have done some
 22 calculations which I guess are part of our
 23 overall analysis and assessment as to what
 24 those numbers would be expected to come in at
 25 and whether that is then consistent with the

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<p>1 MR. BRUSHETT:</p> <p>2 evidence that says here's what the average</p> <p>3 salaries are going to increase by because of</p> <p>4 scale increases and so on. And we were</p> <p>5 satisfied that those numbers were within</p> <p>6 reason, as a part of that analysis.'</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. Well, if we look at the current number of</p> <p>9 FTEs, current number of vacancies at Hydro,</p> <p>10 Mr. Roberts told us on November 12th, we can</p> <p>11 go to page 67, lines 10 to 20, "as of</p> <p>12 October"--this is down at line 12, "as of</p> <p>13 October, the end of October, there were</p> <p>14 presently 29 positions vacant of which ten of</p> <p>15 those are backfilled." And if there are 29</p> <p>16 vacant at \$54,000 on average per vacancy, that</p> <p>17 gets you to again a million five sixty-six or</p> <p>18 again, about a 1.6 number for vacancies?</p> <p>19 A. I have trouble with some of these numbers, Mr.</p> <p>20 Kelly, because there's reference to 791 being</p> <p>21 the complement and that there's 29 positions</p> <p>22 vacant, but 791 is the FTE number. So I think</p> <p>23 where we use some of these terms</p> <p>24 interchangeably, there may be some confusion.</p> <p>25 Q. 791 is the permanent number. I just put up on</p>	<p>1 the screen for you NP -</p> <p>2 A. 791 and 131 is the 922.</p> <p>3 Q. Yes. If I put up NP-301, so we just see the</p> <p>4 numbers, scroll up to the bottom, we've got</p> <p>5 791 and 131 for permanent and temporary.</p> <p>6 A. Yes.</p> <p>7 Q. And those are FTE numbers?</p> <p>8 A. Yes.</p> <p>9 Q. So if there are 29 of those vacant, some of</p> <p>10 them may be backfilled, but that -</p> <p>11 A. That's the point, I guess where I'm not sure</p> <p>12 what the analysis would be, would lead us</p> <p>13 there. Of those 922, suggesting some of them</p> <p>14 are vacant sort of goes against the definition</p> <p>15 of an FTE. I think maybe what that--I</p> <p>16 shouldn't be trying to interpret maybe Mr.</p> <p>17 Roberts' testimony, but the way I understood</p> <p>18 that was to suggest that there are 922 plus 29</p> <p>19 positions total complement, if you wanted to</p> <p>20 go back to that sort of terminology. So I'm</p> <p>21 not sure if the analysis would lead you to say</p> <p>22 of the 922 FTE, there's 29 that are already</p> <p>23 vacant. I didn't necessarily understand that</p> <p>24 to be the analysis.</p> <p>25 Q. So the way you understood it is the total</p>
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<p>1 complement is 791 plus 29, because that's not</p> <p>2 the way I understood it. I understood the</p> <p>3 complement was 791 plus 131 FTEs, out of which</p> <p>4 29 are vacant.</p> <p>5 A. I'm not sure that I would--I guess what I'm</p> <p>6 saying is that there is sufficient confusion</p> <p>7 around it to suggest that I'm not sure your</p> <p>8 analysis is correct. I think it would be up</p> <p>9 to Hydro to clarify whether it's 922 plus 29,</p> <p>10 but clearly, if we look at it from an FTE, and</p> <p>11 as I understand FTEs to say that the</p> <p>12 projected, the FTEs in 2003 and '04 are 922,</p> <p>13 then if I use that as the basis for doing our</p> <p>14 analysis, when we looked at the average</p> <p>15 increases and so on, we felt that the numbers</p> <p>16 were reasonable. But if you do try to go back</p> <p>17 and assume that 29 of those are already</p> <p>18 vacant, yes, it might lead you down a</p> <p>19 different path, Mr. Kelly.</p> <p>20 Q. Exactly. So that one of the problems the</p> <p>21 Board will have to grapple with, may I suggest</p> <p>22 to you, is what the appropriate real vacancy</p> <p>23 factor is first before they then determine how</p> <p>24 much of that 2.5 million dollars is available</p> <p>25 for what I'd call potential productivity</p>	<p>1 gains. Would you agree that that is an</p> <p>2 appropriate approach for the Board to follow?</p> <p>3 A. I think the Board would need to assess overall</p> <p>4 whether they are comfortable that the</p> <p>5 operating expenses, and in particular salaries</p> <p>6 and benefits, reflect a reasonable level of</p> <p>7 efficiency, taking all the evidence into</p> <p>8 consideration. I would agree with you there</p> <p>9 in that whether that allowance vacancy credit</p> <p>10 is sufficient reflection of expected</p> <p>11 improvements in efficiency and targeted</p> <p>12 improvements in efficiency, that is the</p> <p>13 decision that the Board needs to make and I</p> <p>14 agree with that, and the point I would add to</p> <p>15 that is this discussion around FTEs, if we</p> <p>16 could get it right, is a useful way to do an</p> <p>17 analysis and get a good handle on what that</p> <p>18 really means, in terms of workforce and so on.</p> <p>19 But the budgets and the forecasts themselves,</p> <p>20 I don't think, don't turn on those numbers, in</p> <p>21 terms of, you don't start with an FTE and</p> <p>22 build up your budget. Hydro, I don't think,</p> <p>23 and the Board shouldn't look to FTEs as being</p> <p>24 the primary source of information as to</p> <p>25 whether the salary budget is appropriate.</p>

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<p>1 MR. BRUSHETT:</p> <p>2 They should look at it on an overall basis,</p> <p>3 taking into consideration the vacancy credit</p> <p>4 and so on.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. If, just to kind of take this one step further</p> <p>7 along, if the Board determined that it should</p> <p>8 use a true vacancy factor of about 1.6 million</p> <p>9 dollars and if it then still wanted to have a</p> <p>10 2 million dollar productivity allowance on top</p> <p>11 of that, the total vacancy factor, as Hydro</p> <p>12 has put it forward as simply one unit, would</p> <p>13 have to be increased accordingly?</p> <p>14 A. If that were the conclusion, based on the</p> <p>15 evidence, and the Board having reviewed all of</p> <p>16 that, then your statement at the end is</p> <p>17 correct. That if 1.6 is a normal expected</p> <p>18 vacancy because of the reasons in the</p> <p>19 information request we looked at, and they</p> <p>20 wanted to look at further efficiency gains,</p> <p>21 yes, they would have to add those two numbers</p> <p>22 together and compare it to what's there.</p> <p>23 Q. Right. And keeping in mind your existing</p> <p>24 comments that in your view the 600,000 and the</p> <p>25 100,000 are not--they are already reflected in</p>	<p>1 that 2.5 number?</p> <p>2 A. I think that would be a reasonable conclusion,</p> <p>3 based on the way we did the analysis earlier.</p> <p>4 Q. Okay. Let me turn next to a discussion of</p> <p>5 capitalized salary expenses.</p> <p>6 A. Yes.</p> <p>7 Q. And for this, Mr. Brushett, I provided a</p> <p>8 handout to you to simplify the discussion, and</p> <p>9 I think that's been circulated, Chair.</p> <p>10 MS. NEWMAN:</p> <p>11 Q. Chair, yes, I can confirm it's been</p> <p>12 circulated. It's headed up Newfoundland Hydro</p> <p>13 capitalized salary expense and we could</p> <p>14 identify that as Information No. 25.</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. 25, thank you. And Mr. Brushett, this ties in</p> <p>17 with your report at pages 49 to 50 and Ms.</p> <p>18 Greene took you there briefly this morning.</p> <p>19 If I just take you to page 50 and the</p> <p>20 discussion at lines 19 through 21, you, I</p> <p>21 understand, looked at capitalized expenses as</p> <p>22 a percentage of the total?</p> <p>23 A. It's a total capital program, yes.</p> <p>24 Q. Total capital program, right. Well, what we</p> <p>25 attempted to try to do in these two pages is</p>
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<p>1 to look at the amounts included in the budget</p> <p>2 every year and then the actual numbers, and we</p> <p>3 took out the entire capitalized overtime line</p> <p>4 that we had from the Information, because if</p> <p>5 there was overtime added in that that was an</p> <p>6 extra expense anyway, if there was any in the</p> <p>7 budget, this may overstate it a little bit.</p> <p>8 In other words, it would be in Hydro's favour.</p> <p>9 And then we got a budget variance down at the</p> <p>10 bottom. Now this translates, does it not, to</p> <p>11 a credit on the bottom line. In other words,</p> <p>12 it's a subtraction from expenses, so therefore</p> <p>13 is a benefit to Hydro?</p> <p>14 A. It's a--capitalized salaries are capitalized</p> <p>15 for accounting purposes. They are removed</p> <p>16 from operating costs.</p> <p>17 Q. Exactly.</p> <p>18 A. And yes, to the extent that that number would</p> <p>19 be increased, it would represent a reduction</p> <p>20 in operating expenses and a reduction in</p> <p>21 revenue requirement.</p> <p>22 Q. Right. And so we looked at that historical</p> <p>23 information from 1998 to 2002 and attempted to</p> <p>24 capture that in that budget variance line.</p> <p>25 Have you had a chance to look at that?</p>	<p>1 A. I have reviewed the summary that you've done</p> <p>2 from '98 to 2002, yes.</p> <p>3 Q. And is that, first of all, reasonably</p> <p>4 accurate? Do you have any comment on it?</p> <p>5 A. Well, when I say reviewed, I've looked at this</p> <p>6 information but I have not, and subject to</p> <p>7 check, I would take that your references and</p> <p>8 your numbers are pulled from the evidence and</p> <p>9 are correctly reflected in the schedule.</p> <p>10 Q. The first page averages out to approximately</p> <p>11 2.2 million dollars extra, 2.2 million dollar</p> <p>12 credit per year, and we put the '03</p> <p>13 information from the refile on the second page</p> <p>14 of this, so far for the '03 forecast, that</p> <p>15 credit is \$955,000. Would you agree that it</p> <p>16 is appropriate for the Board to look at this</p> <p>17 past experience in determining the revenue</p> <p>18 requirement for Hydro with respect to</p> <p>19 capitalized expenses?</p> <p>20 A. Certainly I believe the Board, it is</p> <p>21 appropriate and I'm sure the Board will look</p> <p>22 at all of the evidence, Mr. Kelly, on this</p> <p>23 particular issue, and this certainly takes the</p> <p>24 analysis from a different perspective than we</p> <p>25 had done and reported in our report, and there</p>

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<p>1 MR. BRUSHETT:</p> <p>2 is also other evidence to suggest, and I can't</p> <p>3 recall now so I can't refer you to it, but</p> <p>4 Hydro's position is that it would forecast its</p> <p>5 capitalized expenses based on the nature of</p> <p>6 the projects that they are coming forward in</p> <p>7 2004 and presumably internally with knowledge</p> <p>8 of all of that, that is the basis of how they</p> <p>9 did that. So we have the information, I</p> <p>10 guess, to summarize, is we have this</p> <p>11 information which suggests that they have been</p> <p>12 historically under budgeting the amount of</p> <p>13 capitalized expenses. We've looked at it in</p> <p>14 terms of capitalized expenses as a percentage</p> <p>15 of the capital programs over the years and are</p> <p>16 they still within that range, and then Hydro</p> <p>17 suggesting that in formulating their forecast,</p> <p>18 they looked at it based on the projects in</p> <p>19 their budget. So all of that evidence, yes,</p> <p>20 should be considered by the Board.</p> <p>21 (12:00 p.m.)</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. But if Hydro looks at it every year on a</p> <p>24 project basis, and then historically when we</p> <p>25 look back at that and see what's happened, do</p>	<p>1 we not have to factor in that actual</p> <p>2 experience with that -</p> <p>3 A. That actual experience -</p> <p>4 Q. - forecasting to determine the appropriateness</p> <p>5 of it?</p> <p>6 A. I would agree, the actual experience is</p> <p>7 definitely relevant and it clearly shows that</p> <p>8 there's been some under budgeting in</p> <p>9 capitalized expenses.</p> <p>10 Q. Okay. The next area I want to turn to, Mr.</p> <p>11 Brushett, is a question of interest. And</p> <p>12 there are a couple of components of this. And</p> <p>13 just by way of background, what prompted this</p> <p>14 line of inquiry was with the refiled when the</p> <p>15 reduction in interest rates did not result in</p> <p>16 the extent of the improvement in interest</p> <p>17 expense that we would have--that we</p> <p>18 calculated. And I'll try to go through this</p> <p>19 fairly quickly with you. Could I take you</p> <p>20 first to Mr. Roberts' Schedule 8? And down in</p> <p>21 the liabilities section we see that the--first</p> <p>22 of all, the promissory note line in 2004, from</p> <p>23 the August filing to the October filing has</p> <p>24 increased from 153 million to 175 million?</p> <p>25 Correct?</p>
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<p>1 A. Yes.</p> <p>2 Q. And the accounts payable and accrued</p> <p>3 liabilities line is down from 35 million to 22</p> <p>4 million?</p> <p>5 A. Yes.</p> <p>6 Q. Correct?</p> <p>7 A. That's correct.</p> <p>8 Q. And that is one of the factors that affects</p> <p>9 the amount of additional borrowing. There are</p> <p>10 other factors which we understand, but this</p> <p>11 change here, which is approximately 13 million</p> <p>12 out of the 22 million, is one of the</p> <p>13 significant drivers in terms of the change.</p> <p>14 First of all, do you agree with that?</p> <p>15 A. Well, in terms of the change from August to</p> <p>16 October, yes, those two changes appear to be</p> <p>17 related.</p> <p>18 Q. Okay. Can I take you next then to NP-308?</p> <p>19 And because we asked for the explanation. And</p> <p>20 the answer is, "The accounts payable and</p> <p>21 accrued liabilities is the balancing account</p> <p>22 after all other required changes to balance</p> <p>23 sheet accounts have been processed." And I'm</p> <p>24 not an accountant, but let me just try the</p> <p>25 question this way: I would have thought that</p>	<p>1 you determine your payables first and then how</p> <p>2 much you need to borrow is a function of that</p> <p>3 and all the other components as opposed to</p> <p>4 somehow you determine the borrowing and your</p> <p>5 payables is a function of--that falls out of</p> <p>6 that. In other words, this seems backwards to</p> <p>7 us. Can you, first of all, help us with this?</p> <p>8 A. Your comments are certainly very valid. And I</p> <p>9 would agree with your position that it would</p> <p>10 almost seem backwards to the way you would do</p> <p>11 a cash flow, which is based on cash</p> <p>12 requirements. Now, I'm not sure what this</p> <p>13 response is really focusing on, whether it's</p> <p>14 specific to just the balance sheet and there's</p> <p>15 something really driving the way that is</p> <p>16 compiled. I do know that in our review of the</p> <p>17 methodology and approach used by Hydro we</p> <p>18 haven't gone and tested and rerun their</p> <p>19 interest model, but they do run a detailed and</p> <p>20 comprehensive model to forecast cash flow</p> <p>21 requirements. So, it seems to contradict, to</p> <p>22 be honest with you NP-308 contradicts in some</p> <p>23 manner my understanding of the processes that</p> <p>24 they follow, which is to run a cash flow model</p> <p>25 to determine the cash requirements and then</p>

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<p>1 MR. BRUSHETT:</p> <p>2 promissory note borrow requirement on a</p> <p>3 monthly basis through the forecast period.</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. We did explore this with Mr. Roberts and he</p> <p>6 tended -</p> <p>7 A. I read the transcript.</p> <p>8 Q. - if understood it correctly -</p> <p>9 A. I read it.</p> <p>10 Q. - agreed with what he had said in 308.</p> <p>11 A. Yes. I read the transcript too and I can't</p> <p>12 shed any more light on that, Mr. Kelly. But -</p> <p>13 Q. Well, can I -</p> <p>14 A. - it's my understanding, based on our review,</p> <p>15 was that--is that the process for determining</p> <p>16 cash flow requirements is based on running the</p> <p>17 cash flow model which, as I said, we haven't</p> <p>18 tested that model to make sure it's, you know,</p> <p>19 line by line, picking up all the right</p> <p>20 numbers, but the approach seems to be correct</p> <p>21 when we review that.</p> <p>22 Q. But you agree that this appears to be</p> <p>23 backwards, that -</p> <p>24 A. Yes.</p> <p>25 Q. Right?</p>	<p>1 A. I agree that the response to NP-308 does</p> <p>2 appear that way.</p> <p>3 Q. But can I take you then to NP-227? Because we</p> <p>4 asked for the cash flow model so we could try</p> <p>5 to get behind this, and we were told that the</p> <p>6 information requested is not required for a</p> <p>7 full understanding of the issues to be</p> <p>8 considered by the Board in the hearing. And</p> <p>9 later on down in line 10, "Hydro's calculation</p> <p>10 of forecast interest expense for 2004 is being</p> <p>11 reviewed by Grant Thornton, who have affirmed</p> <p>12 that the methodology automatically adjusts for</p> <p>13 timing differences," etcetera. But do I take</p> <p>14 it from your previous answer that you actually</p> <p>15 haven't analyzed this cash flow model that</p> <p>16 Hydro is using?</p> <p>17 A. We've inquired and I think have a good</p> <p>18 understanding on how it works, Mr. Kelly, but</p> <p>19 we haven't--what I was saying, I guess, is we</p> <p>20 haven't reviewed line by line all the</p> <p>21 calculations in the cash flow model to make</p> <p>22 sure that we're comfortable that it is</p> <p>23 accurately calculating the cash flow month by</p> <p>24 month and the required interest month by</p> <p>25 month.</p>
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<p>1 Q. Would you agree that in view of at least what</p> <p>2 appears to us to be the anomalous results from</p> <p>3 Schedule 8 of Mr. Haynes that we just looked</p> <p>4 at and the answer to NP-308 that this should</p> <p>5 be looked at by the Board or the Board</p> <p>6 directing you to look at it?</p> <p>7 A. It would certainly be helpful to clarify that</p> <p>8 issue, given the NP-308 response and so on,</p> <p>9 yes.</p> <p>10 Q. Okay. Can I take you next on this interest</p> <p>11 question to a related question dealing with</p> <p>12 these promissory notes? And let me take you</p> <p>13 first to NP-300?</p> <p>14 A. Yes.</p> <p>15 Q. And to, we need to go to page 3 of 5. And if</p> <p>16 we blow up the very top line as best you can</p> <p>17 there, Mr. O'Reilly, where it says "Promissory</p> <p>18 Notes." Okay. And the opening balances. And</p> <p>19 if we come across, the September number, as we</p> <p>20 make it, the columns are not headed, but if</p> <p>21 you count across, is 142,327,000?</p> <p>22 A. Is the closing balance, presumably, for</p> <p>23 September, you're right.</p> <p>24 Q. Okay. And then we've delivered or had</p> <p>25 circulated as well the Hydro's report for the</p>	<p>1 third quarter?</p> <p>2 A. Yes.</p> <p>3 MS. NEWMAN:</p> <p>4 Q. Yes, Chair, that's been circulated. And we'll</p> <p>5 call that Information No. 26.</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. Twenty-eight?</p> <p>8 MS. NEWMAN:</p> <p>9 Q. Twenty-six.</p> <p>10 KELLY, Q.C.:</p> <p>11 Q. Sorry, 26. Thank you. And, Mr. Brushett, if</p> <p>12 I take you to Tab 2, page 2 of that document?</p> <p>13 I think everybody has the hard copy, so we'll</p> <p>14 just go to it. For the end of September the</p> <p>15 number shown in the report is \$78 million as</p> <p>16 opposed to 142 million, which is a difference</p> <p>17 of some \$70 million from the NP-300 answer?</p> <p>18 A. Yes.</p> <p>19 Q. Have you been able to determine any reason for</p> <p>20 that variance?</p> <p>21 A. I have not and haven't--again, I think we</p> <p>22 would need to go back to Hydro to get</p> <p>23 reconciliation or clarification on that</p> <p>24 difference. But I haven't been able to and</p> <p>25 haven't really conducted a detailed analysis.</p>

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<p>1 MR. BRUSHETT:</p> <p>2 I think we need to go to Hydro to get the</p> <p>3 information.</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. Okay. And anticipating that NP-300 is in part</p> <p>6 a projection, although there's only a month,</p> <p>7 we actually did the exercise of going back and</p> <p>8 looking at the March and June numbers, and</p> <p>9 they don't match either. They're not off by</p> <p>10 as much, but they don't match. And would</p> <p>11 that--would there be something in this cash</p> <p>12 flow model that would somehow generate these</p> <p>13 anomalous results?</p> <p>14 A. I think it goes back to your earlier question</p> <p>15 about would it be helpful to review that to</p> <p>16 ascertain what actually is the workings of</p> <p>17 that model and try and reconcile these numbers</p> <p>18 would be helpful at this stage, because I</p> <p>19 can't clarify those based on the information I</p> <p>20 have at this point, Mr. Kelly.</p> <p>21 Q. Okay. And the last point related to interest</p> <p>22 is a question related to the operation of the</p> <p>23 sinking fund. And if we go back to--we have</p> <p>24 NP-300 there. And if we go to page 3 of 5?</p> <p>25 Yes, we have page 3 of 5. The little bit down</p>	<p>1 the bottom.</p> <p>2 A. Yes.</p> <p>3 Q. And you'll see in that that in--that the--bear</p> <p>4 with me for one second. The total on interest</p> <p>5 on this page, if we just take the top bond</p> <p>6 line, is 4 million, 491?</p> <p>7 A. Yes.</p> <p>8 Q. You see that? Okay. And if we go over to</p> <p>9 page 5, which is the 2004 year, we find that--</p> <p>10 same number. The number you get should be 4</p> <p>11 million, 426, which is a lower number?</p> <p>12 A. Yes.</p> <p>13 Q. And which again strikes us as anomalous that</p> <p>14 in the sinking fund we should have less</p> <p>15 interest on a higher balance. And have you--</p> <p>16 and first of all, this interest, as I</p> <p>17 understand it, then becomes effectively a</p> <p>18 credit?</p> <p>19 A. Yes, a credit against gross interest costs of</p> <p>20 Hydro, yes.</p> <p>21 Q. Right. And have you looked at all at the</p> <p>22 sinking fund interest operations?</p> <p>23 A. Maybe this'll help explain this, Mr. Kelly,</p> <p>24 although not, maybe not conclusively for you.</p> <p>25 But, if you go to Mr. Roberts' refilled</p>
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<p>1 evidence, Schedule 2, and some of the</p> <p>2 explanations of what's potentially happening</p> <p>3 with interest in 2003, it's note 15 on page 4</p> <p>4 of 8, which says, "The decrease is primarily</p> <p>5 due to a decline in projected short-term</p> <p>6 interest rates and unanticipated capital gains</p> <p>7 in sinking funds." And I think maybe those</p> <p>8 capital gains are reflected in the 2003</p> <p>9 forecast now that may not necessarily carry</p> <p>10 over in 2004. And that's the sort of</p> <p>11 assessment I made of it when I looked at this</p> <p>12 information.</p> <p>13 Q. I see, okay.</p> <p>14 A. And so, you may be seeing higher overall</p> <p>15 yields in the sinking funds in that year</p> <p>16 because of maybe certain unanticipated capital</p> <p>17 gains. And presumably in 2004 it reflects the</p> <p>18 earnings on the investments in those sinking</p> <p>19 funds which at 7.285 percent yield on those</p> <p>20 investments is--you know, I guess the approach</p> <p>21 we would take it that that appears reasonable</p> <p>22 based on the types of investment you would</p> <p>23 expect to see overall in a sinking fund.</p> <p>24 Q. That's a helpful explanation. If the Board</p> <p>25 instructs you to look at the question of</p>	<p>1 interest, would it be appropriate to look at</p> <p>2 the sinking fund as well?</p> <p>3 A. Sure, we could go into more detail reviewing</p> <p>4 some of the investments in the sinking fund.</p> <p>5 Q. Okay. The next area I want to turn to is the</p> <p>6 question of the capital expenditure issue that</p> <p>7 Ms. Greene and Mr. Fitzgerald touched on with</p> <p>8 you this morning, which is page 17 and 18 in</p> <p>9 your report. I won't take you to it. This is</p> <p>10 the below budget issue of the 14 percent and</p> <p>11 the .39 percent for forecast retirements.</p> <p>12 A. Yes.</p> <p>13 (12:15 p.m.)</p> <p>14 Q. And if I take you then to NP-232, you</p> <p>15 expressed to Ms. Greene the comment that the</p> <p>16 increase as projected by Hydro in loss on</p> <p>17 disposal appears high. And can you explain</p> <p>18 that because -</p> <p>19 A. That's really a very--I would suggest to you,</p> <p>20 Mr. Kelly, that was a reaction without having</p> <p>21 done a detailed analysis of what, you know,</p> <p>22 historical losses have been and so on. So it</p> <p>23 is a comment that just looking at the numbers,</p> <p>24 an increase of 1.4 million in 2003 and 1.3--</p> <p>25 well, close to 1.4 in 2004 based on what was</p>

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<p>1 MR. BRUSHETT: 2 being calculated as the potential increase in 3 retirements given the historical retirement 4 rate of .39 percent did appear maybe on the 5 high side, but I haven't done any analysis to 6 confirm that. 7 KELLY, Q.C.: 8 Q. Okay. Well, with that comment let me take you 9 to Mr. Roberts' evidence of November 12, 03 at 10 page 51? I'll ask you to comment on these 11 comments. That begins at line 14 on page 51. 12 Sorry, this is in the transcript, Mr. 13 O'Reilly. My apologies. November 12. Page 14 51. Line 14. It actually probably starts on 15 page 50. If I could get you perhaps to scroll 16 back, Mr. O'Reilly, a little bit? You might 17 want to read at line 8, Mr. Brushett, through 18 probably line 14 or so on page 50 first. And 19 when you've had a chance to read that, I'd ask 20 you to read lines 14 through 23 on page 51. 21 A. Yes, I've read that. 22 Q. Okay. Have you a chance to read on page 51? 23 A. Yes. 24 Q. Okay. He talks about applying a similar 25 percentage. And if I understand correctly,</p>	<p>1 and perhaps I don't have it correct, but if I 2 understand it correctly, he's talking about 3 looking at the historical data? 4 A. On page 50 he does make reference to the 5 average loss as a percentage of capital assets 6 as being 26 percent. And I would assume he's 7 referring to a historical average there. 8 Q. Right. Now, you had the discussion with Ms. 9 Greene this morning about Davis Inlet and a 10 number of other historical items and you made 11 the observation, well, some of those are 12 unusual situations. Would you not have to 13 adjust for those being unusual situations, 14 does that factor into this? 15 A. If I were doing this type of analysis, I 16 would, and I'm not sure if Mr. Roberts has 17 done that or not. I haven't checked his 18 calculation of 26 percent. 19 Q. If that did occur and you took out those 20 unusual situations, would that then reduce 21 that offsetting entry? 22 A. Yes. 23 Q. Yes. Would you agree that this is an area 24 that should be looked at further? 25 A. I believe the Board should look at this in--</p>
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<p>1 this evidence as well as the other evidence 2 around this matter when its reaching its 3 decision. I'm not sure, are you suggesting 4 further review is required, more evidence is 5 required? 6 Q. Well, I guess my question is, in terms of, for 7 example, we had a discussion about it being 8 useful for the Board to ask you to look at the 9 issue of interest. Is this area of capital 10 retirement an issue that would be appropriate 11 for you to look at for future, for the future? 12 A. Yes, that's something we could certainly look 13 at in more detail in the future, Mr. Kelly. I 14 don't have a concern with that. And, you 15 know, what the outcome of that might be, I'm 16 not sure how significant a variation we might 17 find, but we could certainly look at it - 18 Q. In terms of having - 19 A. - if the Board felt it needed some additional 20 information in the future, yes, we could look 21 at that. 22 Q. Okay. The next area I wanted to have a quick 23 look at again comes to this capitalization 24 issue and relates to system equipment 25 maintenance. Page 42 of your original report.</p>	<p>1 And down at lines 24 through 31 you talk about 2 various programs or various maintenance costs 3 which will be dealt with in 2004. And while 4 you point out there are no major overhauls, 5 first of all, there was a major overhaul in 6 03? 7 A. Yes. 8 Q. And then there are several projects in 04, 9 including Heat Tracing Refurbishment, Asbestos 10 Abatement Program, a Roof Replacement, 11 etcetera. The question of major upgrades and 12 replacements and matters of that nature, have 13 you undertaken any review as to the process or 14 the--as to what Hydro capitalizes versus 15 expenses? 16 A. The answer to your question is no, there's 17 been no separate project to look at Hydro's 18 capitalization policies. As part of this 19 review, when Hydro comes forward for a capital 20 budget and so on, you know, these sorts of 21 projects are brought forward, the explanation 22 as to why they're necessary is there. So 23 there is information on it, you know, that's 24 brought before the Board at various times. 25 So, there is an opportunity to review that, I</p>

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<p>1 MR. BRUSHETT:</p> <p>2 guess. But we haven't--in answering your</p> <p>3 question, we have not been asked and we have</p> <p>4 not undertaken a specific review of Hydro's</p> <p>5 capitalization policy when it comes to major</p> <p>6 repairs.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. Could I just ask you at a high level, if we</p> <p>9 looked at something like the Holyrood turbine</p> <p>10 overhaul, I appreciate that's not in 04, but</p> <p>11 would you anticipate that that is something</p> <p>12 which should be capitalized and amortized over</p> <p>13 an appropriate period of time?</p> <p>14 A. I would suggest that an overhaul, when we're</p> <p>15 talking about units like this, it's similar to</p> <p>16 in accounting, we look at jet engine overhauls</p> <p>17 and things like that that are typically</p> <p>18 treated as repair items. It does not</p> <p>19 necessarily--you got a unit such as that, and</p> <p>20 when it's got a 30 year useful life, it</p> <p>21 certainly wouldn't be expected that you would</p> <p>22 run that unit and not have to overhaul it in</p> <p>23 that time frame, so there are periodic</p> <p>24 overhauls. What some people do, and I don't</p> <p>25 want to throw this out to suggest--to confuse</p>	<p>1 the matter. But when you're talking about</p> <p>2 major overhauls that may involve significant</p> <p>3 dollars, while they are operating in nature,</p> <p>4 you might spread them over the period for the</p> <p>5 next overhaul just to smooth the impact.</p> <p>6 However, in Hydro's case, with the three units</p> <p>7 and the scheduling that they do in terms of</p> <p>8 the overhauls, it generally balances out and</p> <p>9 gives a reasonable--my assessment is, gives a</p> <p>10 reasonable, you know, overall system equipment</p> <p>11 maintenance expense on an annual basis year</p> <p>12 over year.</p> <p>13 Q. One of the other items that is in the refiled</p> <p>14 deals with this Wabush terminal expense which</p> <p>15 Hydro says is not their assets, but it's</p> <p>16 essentially of a capital nature?</p> <p>17 A. Yes.</p> <p>18 Q. And that's something which drives, for</p> <p>19 example, the Labrador increase on a percentage</p> <p>20 basis significantly. Do you have any views as</p> <p>21 to how that should be treated as amortized or</p> <p>22 expensed?</p> <p>23 A. No, I haven't a specific--I haven't actually</p> <p>24 addressed that one specifically, Mr. Kelly,</p> <p>25 and wouldn't really put forward a position</p>
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<p>1 without probably looking at it in more detail,</p> <p>2 you know, just all the background related to</p> <p>3 it.</p> <p>4 Q. Okay. Davis Inlet, I take it your position is</p> <p>5 that should be amortized over a period of</p> <p>6 years?</p> <p>7 A. Because of the impact on revenue requirement</p> <p>8 in its test year.</p> <p>9 Q. Okay. And Mr. Fitzgerald asked you about the</p> <p>10 next depreciation study. The capitalization</p> <p>11 policy, is that something that would be</p> <p>12 appropriate for review as part of that</p> <p>13 process?</p> <p>14 A. Sure. I believe that that should be addressed</p> <p>15 at that time. That is an appropriate time to</p> <p>16 deal with it if you wanted to review and make</p> <p>17 an assessment as to how Hydro's policies are</p> <p>18 today relative to, you know, what's happening</p> <p>19 in the industry and so on.</p> <p>20 Q. Okay. Got a couple of questions on</p> <p>21 transportation. In the course of your review,</p> <p>22 did you look at, in any sense, the question of</p> <p>23 vehicle reduction? And I pose the question</p> <p>24 with kind of two aspects. Number one, in</p> <p>25 terms of the fact that we're having certain</p>	<p>1 reductions in staff levels and number two, now</p> <p>2 that Granite Canal, major capital project is</p> <p>3 finished. Did you look at -</p> <p>4 A. We did not look at whether that should</p> <p>5 translate into vehicle reductions or how that</p> <p>6 impacted Hydro's forecast of the number of</p> <p>7 vehicles and vehicle expenses required in</p> <p>8 2004. But it is something that I would expect</p> <p>9 Hydro would be looking at internally and</p> <p>10 probably are, Mr. Kelly. But we did not</p> <p>11 address it specifically as to how it impacts.</p> <p>12 Q. Okay. And you haven't seen any analysis</p> <p>13 internally -</p> <p>14 A. No.</p> <p>15 Q. - from Hydro as to what, if any, consideration</p> <p>16 they're giving to that issue?</p> <p>17 A. No, I have not.</p> <p>18 Q. Okay. The next area just touch on quickly,</p> <p>19 because it's been canvassed to some extent by</p> <p>20 Mr. Fitzgerald is the fuel conversion factor.</p> <p>21 A. Yes.</p> <p>22 Q. And if I take you to your report, first of</p> <p>23 all, at page 31, at lines 20 through 29.</p> <p>24 A. Yes.</p> <p>25 Q. You reference the various improvements to</p>

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<p>1 KELLY, Q.C.:</p> <p>2 efficiency that have taken place since some of</p> <p>3 the earlier data was generated at 2 kilowatt</p> <p>4 hours per barrel for water lance and reheater</p> <p>5 tubing in the first paragraph and 3 kilowatt</p> <p>6 hours per barrel for the continuous emissions</p> <p>7 monitoring in line 29?</p> <p>8 A. Yes.</p> <p>9 Q. And is it--first of all, is it your view that</p> <p>10 the data should be modified to reflect those</p> <p>11 improvements in efficiency since the data was</p> <p>12 originally generated or adjusted?</p> <p>13 A. What I guess the response would be that those</p> <p>14 improvements which are--should be reflected on</p> <p>15 a go forward basis so to the extent we're</p> <p>16 using some sort of a historical record that</p> <p>17 doesn't incorporate the impact of those</p> <p>18 changes, then, yes, it should be reflected in</p> <p>19 any assessment of what the appropriate</p> <p>20 conversion factor is on a go forward basis.</p> <p>21 Q. And the other factor, if I understood</p> <p>22 correctly from your discussion with Mr.</p> <p>23 Fitzgerald, is that you would give more weight</p> <p>24 to the more recent experience that Hydro has</p> <p>25 had in terms of the fuel conversion?</p>	<p>1 A. Yes, I would. And I think the explanation was</p> <p>2 that the objective here is to reflect what the</p> <p>3 expected operating conditions are. And</p> <p>4 presumably the more recent experience reflects</p> <p>5 all the things that Hydro has done. Obviously</p> <p>6 the record is clear, you know, they've been</p> <p>7 very effective and have a lot of success in</p> <p>8 improving the operation of the Holyrood plant</p> <p>9 and it's reflected in conversion factors, and</p> <p>10 that's the information that's most relevant,</p> <p>11 in my view.</p> <p>12 (12:30 p.m.)</p> <p>13 Q. Okay. The last area that I wanted to ask you</p> <p>14 a couple of questions about is the rural</p> <p>15 deficit issue. And with a number of Hydro's</p> <p>16 witnesses we've looked at a couple of projects</p> <p>17 by way of example. And you've probably read</p> <p>18 the record on these. Charlottetown and Little</p> <p>19 Bay Islands with the addition of generating</p> <p>20 plant facilities in order to meet the load of</p> <p>21 a particular fish plant, and L'Anse au Loop,</p> <p>22 the potential for having to add to the system</p> <p>23 because of load growth now that it is</p> <p>24 interconnected. Do you think it would be</p> <p>25 helpful for the Board if when Hydro is</p>
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<p>1 applying for capital projects or other types</p> <p>2 of applications that would impact the rural</p> <p>3 deficit, if there was an analysis provided to</p> <p>4 the Board to indicate the extent of that</p> <p>5 potential impact to the degree that that's</p> <p>6 possible to provide?</p> <p>7 A. To the extent that it's possible and it's</p> <p>8 practical and we look at it, you know,</p> <p>9 depending on the size of the projects and so</p> <p>10 on, yes, I think that that--it would be</p> <p>11 helpful to have information as to what the</p> <p>12 impact is, not just, you know, in an isolated</p> <p>13 project by project basis but the impact that</p> <p>14 it would have in reference to say, a rural</p> <p>15 deficit, yeah, that would be useful</p> <p>16 information, if it was significant.</p> <p>17 Q. Thank you. And do you think it would be</p> <p>18 helpful to the Board for Hydro to report</p> <p>19 annually to the Board on the changes in the</p> <p>20 rural deficit and what the factors have been</p> <p>21 that have influenced that change year over</p> <p>22 year?</p> <p>23 A. Yes, I think that would be useful and I think</p> <p>24 the Board has already requested that sort of a</p> <p>25 record be generated and maintained, so I</p>	<p>1 believe yes, it would be useful.</p> <p>2 Q. And the Consumer Advocate has put forward a</p> <p>3 proposal with respect to having somebody</p> <p>4 specifically appointed within Hydro or as a</p> <p>5 separate department to manage the rural</p> <p>6 deficit. Do you have a view on that one?</p> <p>7 A. I think Hydro has, you know, I've not seen any</p> <p>8 problems with Hydro's organizational structure</p> <p>9 and the way it manages its various business</p> <p>10 activities at this point to suggest that we'd</p> <p>11 need to isolate that. There is a TRO division</p> <p>12 which has responsibility and I'm sure there</p> <p>13 are people with various responsibilities</p> <p>14 within that division that can certainly be--</p> <p>15 already are probably being held accountable</p> <p>16 for expenditures in those areas, so it's just</p> <p>17 a matter of reporting.</p> <p>18 Q. Okay, thank you, Mr. Brushett. Those are my</p> <p>19 questions, Chair, thank you.</p> <p>20 CHAIRMAN:</p> <p>21 Q. Thank you Mr. Kelly, thank you Mr. Brushett.</p> <p>22 Good morning Mr. Hutchings.</p> <p>23 HUTCHINGS, Q.C.:</p> <p>24 Q. Good morning, Mr. Chair. I have one are to</p> <p>25 cover with Mr. Brushett and then Mr. Seviour</p>

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<p>1 HUTCHINGS, Q.C.:</p> <p>2 will carry on. Good afternoon, Mr. Brushett.</p> <p>3 A. Good afternoon.</p> <p>4 Q. I'd like to refer you to page 15 of your</p> <p>5 report for this hearing. And I'm specifically</p> <p>6 interested in a discussion there concerning</p> <p>7 non-regulated costs. You note at line 8 that</p> <p>8 in 2002, Hydro started to accumulated the non-</p> <p>9 regulated costs to be added back to determine</p> <p>10 regulated equity.</p> <p>11 A. Yes.</p> <p>12 Q. Are you aware if there is any specific Board</p> <p>13 Order that authorizes that particular</p> <p>14 procedure?</p> <p>15 A. No, I don't think that's been explicit in any</p> <p>16 Board Order, subject to check, Mr. Hutchings,</p> <p>17 but I can't recall that being specifically</p> <p>18 detailed in an Order.</p> <p>19 Q. Now I'm trying to understand exactly what's</p> <p>20 happening in doing that accumulation and how</p> <p>21 that relates to the table that starts at line</p> <p>22 17 on that page. Do I take it that the table</p> <p>23 actually shows in the line headed "non-</p> <p>24 regulated expenses" the accumulation year over</p> <p>25 year of these amounts, or are these individual</p>	<p>1 amounts in respect of each year?</p> <p>2 A. No, that would be accumulative.</p> <p>3 Q. Okay. Can you explain for me why the 2003</p> <p>4 forecast is less than the 2002 actual?</p> <p>5 A. No, I cannot, Mr. Hutchings, right off the top</p> <p>6 of my head.</p> <p>7 Q. That's one of the reasons we had some trouble</p> <p>8 with the notion of whether this was in fact</p> <p>9 cumulative because it seems like there would</p> <p>10 have to be a negative non-regulated expense in</p> <p>11 2003.</p> <p>12 A. Yes. I can't answer that.</p> <p>13 Q. Okay. Just on the theory behind doing it this</p> <p>14 way, am I correct in assuming that by adding</p> <p>15 back these non-regulated expenses, the amount</p> <p>16 of regulated equity is increased and hence,</p> <p>17 the actual return to Hydro in dollar figures</p> <p>18 is increased?</p> <p>19 A. That would be correct, based on the allowed</p> <p>20 return. The regulated equity is adjusted by</p> <p>21 this amount upward, yes.</p> <p>22 Q. Yes. And the non-regulated expenses, as I</p> <p>23 understand them, represent amounts such as</p> <p>24 promotional expenses and so on that Hydro has</p> <p>25 actually paid out, but the Board has directed</p>
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<p>1 should not be charged to rate payers, is that</p> <p>2 correct?</p> <p>3 A. Correct.</p> <p>4 Q. Can you explain for me then the rationale of</p> <p>5 having these amounts added back to equity when</p> <p>6 the result is that the rate payers end up</p> <p>7 paying Hydro a return on these amounts that we</p> <p>8 weren't supposed to be responsible for in the</p> <p>9 first place?</p> <p>10 A. I'm not sure if there is a clear explanation</p> <p>11 to that, Mr. Hutchings. There is certainly a</p> <p>12 counter argument to suggest that the nature of</p> <p>13 those expenditures should be charged to the</p> <p>14 shareholder and the shareholder is deemed to</p> <p>15 have extracted that money and therefore, you</p> <p>16 don't add it back to rate base. But logically</p> <p>17 if you've denied them a return, then the</p> <p>18 adjustment to equity really reflects the fact</p> <p>19 that they--to not include it in equity would</p> <p>20 be--could be argued as a double penalty, I</p> <p>21 guess I'm trying to say, I'm not doing a very</p> <p>22 good job of describing it, but you've denied</p> <p>23 them the expense and recovery from rate payers</p> <p>24 and then you're saying that you're also deemed</p> <p>25 to have paid it out and extracted it from the</p>	<p>1 company by denying them to keep it in equity.</p> <p>2 Q. But I mean, it is Hydro's and in the boarder</p> <p>3 sense is the shareholder's decision to pay out</p> <p>4 these amounts, isn't that correct?</p> <p>5 A. Yes.</p> <p>6 Q. So, I mean, it is in fact an amount that is</p> <p>7 very similar to a dividend, in that it is gone</p> <p>8 from the Company and applied to the</p> <p>9 shareholder's purposes?</p> <p>10 A. Yes.</p> <p>11 Q. Okay. If this situation is allowed to</p> <p>12 continue, leaving aside the 2003 anomaly,</p> <p>13 presumably this amount is going to get larger</p> <p>14 year over year?</p> <p>15 A. Yes.</p> <p>16 Q. I mean, where does that take us 20 years down</p> <p>17 the road? Are we going to be paying a return</p> <p>18 on tens of millions of dollars of this</p> <p>19 notional equity or fictional equity that's not</p> <p>20 actually there?</p> <p>21 A. Well, it would grow supposedly at a relatively</p> <p>22 slow pace, Mr. Hutchings, but you're right, in</p> <p>23 theory it would continue to grow and we would</p> <p>24 continue to--in setting rates, allow a return</p> <p>25 on this notional adjustment to equity if we</p>

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<p>1 MR. BRUSHETT:</p> <p>2 continued with this practise, which is, and I</p> <p>3 suspect Hydro has done this again for</p> <p>4 consistency because it is similar to the way</p> <p>5 Newfoundland Power has approached it in the</p> <p>6 past and was discussed, I guess, at some point</p> <p>7 during a GRA earlier this year.</p> <p>8 HUTCHINGS, Q.C.:</p> <p>9 Q. Okay, you have nothing additional to offer in</p> <p>10 terms of the rationale for doing that, do you?</p> <p>11 A. No, and I accept or acknowledge, I should say,</p> <p>12 the fact that it can be somewhat--appear to be</p> <p>13 contradictory in the way it flows, but the</p> <p>14 counter argument, as I suggested, is the fact</p> <p>15 that you've denied the expense and you've also</p> <p>16 denied, really imposed a double penalty by</p> <p>17 denying the return.</p> <p>18 Q. Okay, well I think we'll leave those arguments</p> <p>19 for the Board to determine. Those are all my</p> <p>20 questions.</p> <p>21 CHAIRMAN:</p> <p>22 Q. Thank you, Mr. Hutchings. Good morning, Mr.</p> <p>23 Seviour.</p> <p>24 MR. SEVIOUR:</p> <p>25 Q. Good morning, Chair, Commissioners. Good</p>	<p>1 afternoon, Mr. Brushett.</p> <p>2 A. Good afternoon.</p> <p>3 Q. I'm the last of Mr. Kennedy's wolves, Mr.</p> <p>4 Brushett and I can tell you that there seems</p> <p>5 to be limited flesh left on the bones, so I'll</p> <p>6 be relatively brief with my questions. I</p> <p>7 wanted to return, though, briefly to the</p> <p>8 capital underspending point and I took the</p> <p>9 discussions in your report to amount to a</p> <p>10 recommendation that the Board should look at</p> <p>11 this issue carefully and in effect, implement</p> <p>12 a 14 percent downward adjustment to the</p> <p>13 forecast capital expenditures for the purposes</p> <p>14 of determining rate base and revenue</p> <p>15 requirement. Do I have that correctly?</p> <p>16 A. Somewhat, Mr. Seviour, but I'd just clarify</p> <p>17 that we've completed the analysis which shows</p> <p>18 the average was 14 percent, and I think the</p> <p>19 Board should consider that information in</p> <p>20 determining the level of an adjustment--</p> <p>21 whether an adjustment is appropriate and the</p> <p>22 level of the adjustment that it takes. We're</p> <p>23 not recommending a 14 percent downward</p> <p>24 adjustment, we're providing information that</p> <p>25 suggests on average, it has been historically</p>
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<p>1 14 percent and this is the impact of the 14</p> <p>2 percent.</p> <p>3 Q. And just coming to the discussion on the</p> <p>4 achievement of that 14 percent, you relate</p> <p>5 that in your evidence to an underspending by 5</p> <p>6 percent on a project basis and a 9 percent</p> <p>7 variance on delays and carry overs. And I</p> <p>8 wonder if you could elaborate for the Board</p> <p>9 what your analysis and conclusions in that</p> <p>10 respect were?</p> <p>11 A. That was primarily based on--that information</p> <p>12 was primarily based on our discussions as we</p> <p>13 reviewed the background on the variances, our</p> <p>14 discussions with Hydro staff who are involved</p> <p>15 in the capital--in the accounting department</p> <p>16 in terms of managing the capital programs and</p> <p>17 accounting and reporting on that.</p> <p>18 Q. And the 14 percent that you achieved as the</p> <p>19 figure that you've used, this is a normalized</p> <p>20 figure, I understand?</p> <p>21 A. We had normalized it for some unusual items--</p> <p>22 unusual delays, I guess, and so on.</p> <p>23 Q. And without the normalization, that figure</p> <p>24 would have been higher, is that correct?</p> <p>25 A. Yes.</p>	<p>1 Q. And these reasons for this historical</p> <p>2 adjustment that you achieve, these are all in</p> <p>3 the category of the reasons beyond Hydro's</p> <p>4 control, I think you described in your</p> <p>5 evidence in response to questions from Ms.</p> <p>6 Greene?</p> <p>7 A. Yes, the logic or the rationalization of that</p> <p>8 is the history says that for reasons, various</p> <p>9 reasons, some of which certainly are beyond</p> <p>10 the control of Hydro, there is an</p> <p>11 underspending and as you can appreciate,</p> <p>12 delays which would cause--carry overs means</p> <p>13 delays in timing of when you start recording</p> <p>14 depreciation, when you start--those are in</p> <p>15 service and so the cost of capital associated</p> <p>16 with it goes in the revenue requirement.</p> <p>17 Q. And the implications of a downward adjustment</p> <p>18 of the type that's being discussed, it would</p> <p>19 reduce depreciation expense and interest</p> <p>20 expense for the revenue requirement, is that</p> <p>21 correct?</p> <p>22 A. Yes, we'd characterize as a reduction on</p> <p>23 return on rate base without specifically</p> <p>24 saying it's financed entirely by debt, but the</p> <p>25 same effect, yes, it reduces depreciation in</p>

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<p>1 MR. BRUSHETT: 2 return. 3 MR. SEVIOUR: 4 Q. With the implication of lower rates. 5 A. Yes. 6 Q. Thank you. On the fuel conversion factor, I 7 just got a brief question, a couple of 8 questions because it's been canvassed fairly 9 fully. I understand that you do not make a 10 specific recommendation in this area? 11 A. No, we do not. 12 Q. And you're aware of the most recent filing by 13 Hydro in response to NP-310. Perhaps we could 14 just pull that up for reference, Mr. O'Reilly, 15 which gives a year-to-date to November 30, 16 result of 636.2 kilowatt hours per barrel? 17 A. Yes. 18 Q. And I think I understood your evidence to be 19 the reasonableness of the conversion factor 20 should be a matter left for the Board and in 21 the Board's judgment, after looking at all of 22 the information on the record, is that 23 correct? 24 A. That is correct. 25 Q. And in your assessment based on your own</p>	<p>1 knowledge of the record and particularly this 2 most recent information, is that figure, in 3 your judgment, 636.2 kilowatt hours per 4 barrel, is that within the range of 5 reasonableness as you would see it? 6 A. I think that's within the range, the range 7 would be--if that is the level that's being 8 achieved during the current year, then it's 9 reflective of the operating conditions this 10 year and the Board would need to assess 11 whether the expected operating conditions next 12 year are going to be comparable, so it could 13 possibly be within the range of what the Board 14 could view as reasonable, yes. 15 Q. Thank you. I wanted to talk very briefly 16 about the debt-equity ratio, a point touched 17 on by Mr. Kelly on his cross-examination and 18 I'm going to take you to page 11 of your 19 report. At the bottom of the page, please, 20 Mr. O'Reilly. Can I ask you to read for the 21 record lines 33 through to 37 please? 22 A. Yes. "The payment of dividends of \$65.7 23 million from regulated operations was in 24 excess of 74 percent of net operating income 25 for 2002, which totalled \$9.7 million. The</p>
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<p>1 minutes of the Board of Director's meeting in 2 which the dividends were approved, document 3 the fact that consideration was given to the 4 Company's dividend policy, including the 5 impact the payment will have on Hydro's debt- 6 to-equity ratio." 7 Q. And just to be clear on this, I would 8 understand that Grant Thornton was not asked 9 to assess the prudence of that dividend 10 declaration or disbursement, is that fair? 11 A. That's correct. 12 Q. And did you, in your due diligence, take it 13 that from your review of the minutes that 14 Hydro's board accepted the impact of the 15 dividend payment on Hydro's operations? 16 A. My understanding, which is based on a review 17 of the minutes, is that it appears to--my 18 understanding is that the Board considered 19 those implications and then approved the 20 resolution. 21 Q. Thank you. I wanted to take you briefly to 22 Key Performance Indicators and beginning with 23 that, I'd like to take you to page 45 of your 24 report. And this is just an example of what 25 it is I want to focus on in terms of the</p>	<p>1 efficiency indicators which you've talked 2 about in your supplementary evidence. Perhaps 3 we'll begin by reading lines 1 to 3 on that 4 page into the record, could you do that 5 please? 6 A. "The high cost in the professional services 7 category for 2002 related primarily to the 8 Business Process Improvement project. This 9 initiative alone accounted for one million and 10 ten thousand in consulting fees. The forecast 11 decrease for 2003 and 2004 is attributable to 12 the removal of these fees." 13 Q. And I think we looked earlier this morning at 14 CA-46 which purported to relate a \$600,000 15 savings to a--\$1 million on consultancy fees 16 that were incurred in 2002, do you recall 17 that? 18 A. Yes, I do recall that. 19 (12:45 p.m.) 20 Q. And my question to you, as an advisor to the 21 Board, was whether or not from an accounting 22 perspective you are able to make that 23 relation; in other words, were you able to 24 relate the Business Process Improvement 25 expenditure, in particular these consulting</p>

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<p>1 MR. SEVIOUR:</p> <p>2 fees in that regard, to the \$600,000 savings</p> <p>3 that are reflected in CA-46?</p> <p>4 A. Based on my review--again, I haven't reviewed</p> <p>5 individual projects for Process Improvement,</p> <p>6 but based on my understanding of the evidence,</p> <p>7 the pre-filed evidence and the record so far</p> <p>8 in this hearing, Mr. Seviour, is that the</p> <p>9 \$600,000 does relate to some specific projects</p> <p>10 undertaken as part of this broader Business</p> <p>11 Process Improvement Initiative and that they</p> <p>12 are very much related, that that is the</p> <p>13 savings attributable to this direction that's</p> <p>14 Hydro is going.</p> <p>15 Q. Well let me come at it the other way, were you</p> <p>16 able to look at the million dollar consulting</p> <p>17 expenditure in 2002 and quantify the benefits</p> <p>18 of that from an accounting perspective?</p> <p>19 A. No, there's been no cost benefit analysis and</p> <p>20 the \$600,000 that's been identified in the</p> <p>21 evidence, I would suspect is not the only</p> <p>22 savings that Hydro is targeting based on a one</p> <p>23 million dollar expenditure. I don't know if</p> <p>24 that's where your question is going, I would</p> <p>25 expect that they would want to get a better</p>	<p>1 return on the consulting costs that were</p> <p>2 incurred than that and I think the evidence</p> <p>3 suggests that this is a process that's going</p> <p>4 to be continually generated to hopefully</p> <p>5 efficiency improvements as they go throughout</p> <p>6 the organization.</p> <p>7 Q. And what I'm wondering about, Mr. Brushett, in</p> <p>8 this reference in your supplementary evidence</p> <p>9 that was recently filed, is the issue of the</p> <p>10 establishment of targets for Key Performance</p> <p>11 Indicators and particularly the notion of</p> <p>12 linkages of Key Performance Indicators to</p> <p>13 those targets and background supports and</p> <p>14 rationales for the targets, is this the kind</p> <p>15 of the thing that you would like to see</p> <p>16 improved upon by Hydro in the future?</p> <p>17 A. Yes, we would definitely like to see and this</p> <p>18 is again looking at it from a regulatory</p> <p>19 perspective. If the objective is to monitor</p> <p>20 performance overall, then having that</p> <p>21 information as to how Hydro is implementing</p> <p>22 its strategy of process improvement and how</p> <p>23 that ties to overall efficiency as measured by</p> <p>24 the KPIs, we would like to see that on a go-</p> <p>25 forward basis.</p>
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<p>1 Q. And maybe I can ask Mr. O'Reilly to pull up</p> <p>2 Hydro's undertaking No. 17. I think you</p> <p>3 referred to this undertaking in your</p> <p>4 supplementary evidence and noted that for the</p> <p>5 test year, many of the categories do not in</p> <p>6 fact have determined targets or figures</p> <p>7 outlined?</p> <p>8 A. Not in the manner in which I guess I described</p> <p>9 in our supplementary report. I mean, they are</p> <p>10 based to the extent there's, you know, OM&A</p> <p>11 costs per installed megawatt hour of capacity,</p> <p>12 they are based on Hydro's forecast for the</p> <p>13 2004 year and by inference, I guess, their</p> <p>14 targets for that year, but no formal process</p> <p>15 of looking at this in terms of the plan for</p> <p>16 process improvement and targeting</p> <p>17 efficiencies, which is really where we would</p> <p>18 like to see them go.</p> <p>19 Q. And, you know, looking at this from a lay</p> <p>20 perspective, would I understand that Grant</p> <p>21 Thornton's position is that there should be</p> <p>22 figures set out for 2004 which would represent</p> <p>23 those targets and that to use the language in</p> <p>24 your supplementary report, there should be a</p> <p>25 corresponding support, background support or</p>	<p>1 rationale for each of those targets which</p> <p>2 would allow assessment down the road?</p> <p>3 A. I guess I would agree with you, except when</p> <p>4 you say it should be put forward for 2004. At</p> <p>5 this point, I'm not sure that, you know,</p> <p>6 certainly the Board would be any better off if</p> <p>7 they went seeking that information at this</p> <p>8 point. There's been an awful lot of</p> <p>9 information put forward on 2004 already,</p> <p>10 certainly a large body of evidence that they</p> <p>11 can turn to, in terms of making their</p> <p>12 decisions, but on a go-forward basis, once we</p> <p>13 go out beyond 2004 into 2005, 6 and 7, the</p> <p>14 Board still has a regulatory responsibility to</p> <p>15 oversee and monitor Hydro's performance and I</p> <p>16 guess in those particular years, I would like</p> <p>17 to see some targets and some reporting to the</p> <p>18 Board on where Hydro is going to, in terms of</p> <p>19 efficiency and performance improvement.</p> <p>20 Q. I had one question on the excess earnings</p> <p>21 account, I understand your evidence to be at</p> <p>22 the end of the day that in the event that</p> <p>23 there are accruals to the excess earnings</p> <p>24 account, your view is that, first of all, this</p> <p>25 is a matter that would need to be administered</p>

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1 MR. SEVIOUR:
 2 by this Board? Those findings would need to
 3 be administered by this Board, is that
 4 correct?
 5 A. Yes.
 6 Q. And did I understand your evidence in response
 7 to some questions from Mr. Browne this morning
 8 to be that it would be also a prudent measure
 9 for the Board to implement a timing for that
 10 or a triggering for that review and
 11 determination to be made?
 12 A. I think my response and I'm not sure if I was
 13 clear, is that it would be--it's certainly
 14 valid to suggest that that should be dealt
 15 with on a timely basis, whether it's necessary
 16 to change regulations to give effect to that,
 17 I think that's something the Board can
 18 consider on its own, but there's no, you know,
 19 the idea that it should be dealt with on a
 20 timely basis, the disposition of those is
 21 certainly a very valid comment.
 22 Q. But your evidence is that it does not go to a
 23 specific recommendation in that respect?
 24 A. No, I am not going to a specific
 25 recommendation.

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1 that Mr. Wells gave in respect to the
 2 strategic direction, Mr. Brushett. I'll just
 3 give you a second or two to familiarize
 4 yourself with the first paragraph.
 5 A. Yes.
 6 Q. And he talks about strategic planning in all
 7 aspects of the business operations. And we've
 8 heard the words "strategic plan" mentioned
 9 several times throughout this hearing. Are
 10 you aware of a document within Hydro called a
 11 strategic plan?
 12 A. I have not reviewed the strategic plan, report
 13 or document in detail, no. I guess I'm aware
 14 that they do have plans, but I haven't
 15 reviewed the report.
 16 Q. And I guess the reason I wanted to ask you
 17 about that was in respect, particularly of
 18 your supplementary evidence of December 5,
 19 wherein you spent considerable time and made
 20 certain recommendations in respect of targets.
 21 A. Yes.
 22 Q. And we've heard a number of witnesses come
 23 forward from Hydro throughout this hearing
 24 talking about their Business Improvement
 25 Process, and I spent some time in questioning

1 Q. The final question I have related to the
 2 treatment of the Davis Inlet matter in the
 3 current test year revenue requirement, and the
 4 amortization of that loss on disposable
 5 capital assets, is that a matter that pertains
 6 exclusively to the rural deficit, Mr.
 7 Brushett?
 8 A. Yes, I suspect it does.
 9 Q. Thank you, that concludes the questions that I
 10 have.
 11 CHAIRMAN:
 12 Q. Thank you, Mr. Seviour. Thank you, Mr.
 13 Brushett. Good afternoon, Mr. Kennedy, I
 14 think the woods have become safer for Little
 15 Red Riding Hood as each day goes by.
 16 MR. KENNEDY:
 17 Q. Nothing on re-direct. So, it'll be over to
 18 the wolves in sheep clothing.
 19 CHAIRMAN:
 20 Q. The proceeding has gone on too long. Any
 21 questions from the Board?
 22 COMMISSIONER SAUNDERS:
 23 Q. I have a couple, Mr. Chair, thank you. Mr.
 24 O'Reilly, if you could bring up Mr. Wells'
 25 evidence, page 19, line 20. This is evidence

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1 Mr. Wells to try and determine some specifics
 2 in regard to what it was they were trying to
 3 achieve through this process and the retaining
 4 of Covenco, I think it was, who did the
 5 introduction of the process to Hydro and, I
 6 guess, Hydro now carrying on doing the process
 7 through their trained staff, if you like,
 8 that's my understanding of what's taken place.
 9 A. Yes.
 10 Q. And, Mr. O'Reilly, if you could bring up the
 11 transcript October 10th, page 117 and if
 12 you'll notice here starting at line 6, I asked
 13 Mr. Wells what the terms of reference were,
 14 and I think if you read the answer, there
 15 isn't any terms of reference per say, but in
 16 the last paragraph on page 118, line 20, he
 17 talks about terms of engagement that were
 18 defined. I gather from reading that and re-
 19 reading it, it was defined through meetings
 20 they held?
 21 A. That's certainly the way I understand the
 22 testimony.
 23 Q. And then I went about trying to determine
 24 through my questions the specifics of the
 25 arrangement with Covenco and what it was Hydro

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<p>1 COMMISSIONER SAUNDERS:</p> <p>2 were trying to achieve and at page 123, line</p> <p>3 20, I asked if there was any goals established</p> <p>4 by Hydro in their decision to retain Covenco.</p> <p>5 And again, when you read the answers, "If</p> <p>6 there are any goals, they're very vague in</p> <p>7 terms of how they were described by Mr.</p> <p>8 Wells." And then, moving along to page 129 at</p> <p>9 line 18, I ask Mr. Wells what his objectives</p> <p>10 were as CEO of Hydro, in terms of the process</p> <p>11 and procedures and so on that he was trying to</p> <p>12 address here through this initiative that he</p> <p>13 called the Business Improvement Process. And</p> <p>14 if you read the answer, I'm not sure that the</p> <p>15 specific objectives were, let's say, put on</p> <p>16 the record. So, I bring you through this</p> <p>17 portion of the evidence to ask you at this</p> <p>18 point and you've been in this business of</p> <p>19 advising the Board, as well as other clients,</p> <p>20 I'm sure, in terms of business processes and</p> <p>21 improvement and so on, isn't this a bit</p> <p>22 unusual in your opinion, in terms of how it</p> <p>23 was that Covenco were assigned this project--</p> <p>24 there's nothing on paper, there aren't any</p> <p>25 terms of reference, and as far as we can</p>	<p>1 determine, there aren't any targets</p> <p>2 established. Do you have an opinion in</p> <p>3 respect of this whole process?</p> <p>4 A. I guess I understand your comments, and</p> <p>5 particularly as it relates to whether this was</p> <p>6 clearly defined from the outset. In terms of</p> <p>7 Process Improvement Initiatives and so on, it</p> <p>8 would be common practice to outline what the</p> <p>9 objectives were and try to quantify that. And</p> <p>10 I'm not sure whether Hydro has internally</p> <p>11 developed some objectives that--clearly they</p> <p>12 haven't put forward, but maybe to guide them</p> <p>13 through this process, Mr. Saunders. But</p> <p>14 you're right, in a process such as this,</p> <p>15 undertaking such a large initiative, it would</p> <p>16 be certainly expected that you would set out</p> <p>17 some objectives as to what the outcome should</p> <p>18 be at the end of the day. Now whether you</p> <p>19 were able to, you know, reach--make a decision</p> <p>20 to proceed without being able to quantify that</p> <p>21 very definitively would, I guess, depend on</p> <p>22 the circumstances and if there was sort of</p> <p>23 lots of opportunity and such that there's no</p> <p>24 need to go through the exercise of quantifying</p> <p>25 it because we know it's there, the pay back</p>
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<p>1 will be there, that may be a part of the</p> <p>2 process, I'm not sure, but you would expect to</p> <p>3 have some objectives and some expectations at</p> <p>4 the outset, yes.</p> <p>5 (1:00 p.m.)</p> <p>6 Q. In your report and this is the Regulatory</p> <p>7 Performance Measures Report on page 1, you</p> <p>8 talk about the quarterly reports currently</p> <p>9 includes statistics for SAIFI, SAIDI and SARI</p> <p>10 and so on in the first paragraph. How do you</p> <p>11 think these should be measured in terms of</p> <p>12 comparison? They're usually measured against</p> <p>13 CEA sample utilities, are they not?</p> <p>14 A. These issues are around reliability and I</p> <p>15 can't say I have intimate knowledge of all of</p> <p>16 these types of statistics, Mr. Saunders, but</p> <p>17 yes, my understanding is that they are</p> <p>18 measured against, primarily against the</p> <p>19 industry averages and so on is the comparison</p> <p>20 that is generally put forward. And, of</p> <p>21 course, any historical and internal record.</p> <p>22 Q. Are you familiar with any goals that Hydro has</p> <p>23 established in respect of these particular</p> <p>24 indices?</p> <p>25 A. I am not aware unless someone were to point me</p>	<p>1 to some additional information, I'm not aware</p> <p>2 of any specific goals or targets on these</p> <p>3 particular measures, no.</p> <p>4 Q. In respect of inter-utility comparisons, do</p> <p>5 you place much reliance on the results of</p> <p>6 those comparisons, and I'm thinking</p> <p>7 particularly where it's difficult to find two</p> <p>8 utility companies that are alike in all</p> <p>9 respects, let's say in terms of structure and</p> <p>10 similar characteristics, so then I wonder what</p> <p>11 reliance should be placed on inter-utility</p> <p>12 comparisons?</p> <p>13 A. You're absolutely right and that was discussed</p> <p>14 to some degree with Ms. Greene earlier this</p> <p>15 morning. There is a caution that you have to</p> <p>16 understand the differences and, you know, the</p> <p>17 context of what's being measured. But, having</p> <p>18 said that, I believe there is value in doing</p> <p>19 inter-utility comparisons. I believe looking</p> <p>20 internally only is a flawed approach because</p> <p>21 it does not allow you to understand and</p> <p>22 appreciate what's happening in the industry</p> <p>23 with respect to improvements and how</p> <p>24 technology has affected operating processes</p> <p>25 and so on, and to some degree, I am sure Hydro</p>

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<p>1 MR. BRUSHETT:</p> <p>2 is aware of all this, they're a member of CEA</p> <p>3 and they have people who are on committees and</p> <p>4 so on, I'm sure they are aware of all of these</p> <p>5 things anyway. But on a more formal basis,</p> <p>6 from a regulatory perspective, it would also</p> <p>7 be useful and add value to be able to do those</p> <p>8 comparisons, recognizing they may not be, you</p> <p>9 know, you shouldn't base decisions on those</p> <p>10 solely alone because of the concerns that you</p> <p>11 just expressed, but they are of value to be</p> <p>12 able to do those comparisons.</p> <p>13 COMMISSIONER SAUDNERS:</p> <p>14 Q. On page 22 of your 2003 report, on the general</p> <p>15 rate hearing, you talk about the valuation of</p> <p>16 the rate base pursuant to Section 64, and if</p> <p>17 you look at PUB-110, you will find, I think,</p> <p>18 in there that it was raised with Hydro and I</p> <p>19 think Ms. Greene or whoever responded on</p> <p>20 behalf of Hydro, suggested it might be a legal</p> <p>21 question. And I would expect that we might</p> <p>22 hear something more about that in final</p> <p>23 argument, but getting back to your report, how</p> <p>24 important is it that valuation of the rate</p> <p>25 base be done pursuant to Section 64?</p>	<p>1 A. I believe it is one, somewhat of a legal issue</p> <p>2 in terms of the legislation and requirement to</p> <p>3 do this valuation. A valuation of the rate</p> <p>4 base pursuant to Section 64, purely from an</p> <p>5 operational point of view to determine if all</p> <p>6 the plant is used and useful, in service and</p> <p>7 so on, I'm not sure if it serves a great</p> <p>8 purpose. Hydro does already review its plant</p> <p>9 and equipment and determine, as we've heard</p> <p>10 earlier about retirements and when they're</p> <p>11 required and when assets are taken out of</p> <p>12 service, whether it be at the end of their</p> <p>13 useful life or prematurely. So I'm not sure</p> <p>14 if, from an operational point of view,</p> <p>15 valuation of the rate base serves a great</p> <p>16 purpose, but it is certainly a legal item</p> <p>17 relevant to Section 64.</p> <p>18 Q. Just one more question I have for you, Mr.</p> <p>19 Brushett and it's in respect of FTES. Maybe</p> <p>20 you could give the Board some background in</p> <p>21 terms of the introduction of the FTE system to</p> <p>22 Hydro when it was done, and I don't want</p> <p>23 specific dates, but I gather from your answers</p> <p>24 to the questions from Mr. Kelly, that there</p> <p>25 have been some problems in respect of Hydro's</p>
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<p>1 adopting the FTE system, if you like?</p> <p>2 A. I think the problems are not necessarily that</p> <p>3 there's issues with the way they've adopted or</p> <p>4 the way they're calculating it today, it's the</p> <p>5 fact that we have--we're going through sort of</p> <p>6 a transition where we're looking back to '98</p> <p>7 or '99 or 2000 when there was no formal</p> <p>8 calculation of FTES, they're certainly not</p> <p>9 done consistent to what it is today, where</p> <p>10 starting, I think it was in 2001, started</p> <p>11 accumulating the data on FTES which in 2002</p> <p>12 certainly generated more meaningful data. But</p> <p>13 the problem is probably more of a transitional</p> <p>14 issue where we still talk about complement and</p> <p>15 vacant positions and we have a FTE calculation</p> <p>16 that says here is the fulltime equivalent</p> <p>17 based on the total salaries paid out during</p> <p>18 the period. So the issue is probably more of</p> <p>19 a transitional one that, as we get a couple</p> <p>20 more years behind us, this will be a lot more</p> <p>21 useful to the Board, in terms of its</p> <p>22 assessment of Hydro's overall workforce and</p> <p>23 the salary cost and so on. That's really my</p> <p>24 own view of where the issue lies today. It's</p> <p>25 not so much that Hydro needs to change what</p>	<p>1 they're doing, it's just get some more data</p> <p>2 behind us in terms of these calculations, so</p> <p>3 that we can start looking at it more</p> <p>4 meaningful.</p> <p>5 Q. So it hasn't been an easy transition, that's</p> <p>6 what you're saying?</p> <p>7 A. No, and because we're looking at complement</p> <p>8 and from an operational point of view, you</p> <p>9 know, Hydro didn't go back and recalculate all</p> <p>10 the previous years to come up, make sure we</p> <p>11 had some good comparative data. Whether that</p> <p>12 would have been an useful exercise from a cost</p> <p>13 benefit analysis, you know, is probably</p> <p>14 questionable to ask them to recalculate</p> <p>15 everything. So, picking up this change and</p> <p>16 moving forward, as I say, as we get more years</p> <p>17 behind us, it will--hopefully these issues</p> <p>18 that we seem to have in terms of what those</p> <p>19 numbers are, hopefully will be eliminated.</p> <p>20 Q. Okay, thank you, Mr. Brushett.</p> <p>21 CHAIRMAN:</p> <p>22 Q. Thank you, Commissioner Saunders.</p> <p>23 Commissioner Whalen, do you have any</p> <p>24 questions?</p>

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1 COMMISSIONER WHALEN:

2 Q. No questions, thank you Mr. Brushett.

3 CHAIRMAN:

4 Q. I have no questions. Any matters on questions
5 from Mr. Saunders?

6 GREENE, Q.C.:

7 Q. I have no questions arising.

8 CHAIRMAN:

9 Q. Okay, thank you very much, Mr. Brushett. I
10 found your testimony most helpful, thank you,
11 sir. That brings to a conclusion, I guess
12 today's--are there any items that you have,
13 Ms. Newman, before -

14 MS. NEWMAN:

15 Q. No, Chair.

16 CHAIRMAN:

17 Q. Thank you very much. Today or tomorrow, I
18 should say, we have Industrial Customer's
19 witnesses, Mr. Dean who I have noticed is here
20 today and Mr. Guillot tomorrow morning and
21 that would, as far as I know, bring to an end
22 the proceeding outside of the final oral and
23 written argument and certainly that's not an
24 inconsequential Christmas gift for anybody in
25 this room, I don't think. So we'll see you at

1 9:00 tomorrow morning. Thank you.

2 Upon concluding at 1:13 p.m.

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1 CERTIFICATE

2 I, Judy Moss Lauzon, hereby certify that the
3 foregoing is a true and correct transcript in the
4 matter of Newfoundland and Labrador Hydro's 2003
5 General Rate Application for approval of, among
6 other things, its rates commencing January, 2004
7 heard on the 11th day of December, A.D., 2003
8 before the Board of Commissioners of Public
9 Utilities, Prince Charles Building, St. John's,
10 Newfoundland and Labrador and was transcribed by me
11 to the best of my ability by means of a sound
12 apparatus.
13 Dated at St. John's, Newfoundland and Labrador
14 this 11th day of December, A.D., 2003
15 Judy Moss Lauzon