

Page 1	Page 2
<p>1 (9:00 a.m.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. Good morning, Ms. Newman. Anything before we</p> <p>4 get started this morning?</p> <p>5 MS. NEWMAN:</p> <p>6 Q. No, Chair. Good morning.</p> <p>7 CHAIRMAN:</p> <p>8 Q. Thank you. I'd just like to acknowledge, I</p> <p>9 guess, express my appreciation to all the</p> <p>10 parties for last week and your cooperation as</p> <p>11 much for the down time, I think, between the</p> <p>12 hearings as it was for the hearings</p> <p>13 themselves, I thank you for that. And indeed,</p> <p>14 Mr. Wells, who joined us as well, President</p> <p>15 and CEO of Hydro, I'd like to express</p> <p>16 appreciation to him. And I think Cheryl</p> <p>17 Blundon, as well, for a relatively seamless</p> <p>18 and uneventful four days travel wise. In any</p> <p>19 event, thank you, once again. Good morning,</p> <p>20 Mr. Banfield. How are you?</p> <p>21 MR. BANFIELD:</p> <p>22 A. Good morning. Fine.</p> <p>23 CHAIRMAN:</p> <p>24 Q. I think you've been sworn in. I don't need to</p> <p>25 do that a second time, do I, Ms. Newman?</p>	<p>1 MS. NEWMAN:</p> <p>2 Q. No, Chair.</p> <p>3 CHAIRMAN:</p> <p>4 Q. Okay. Thank you. Good morning, Ms. Greene,</p> <p>5 when you're ready, please?</p> <p>6 GREENE, Q.C.:</p> <p>7 Q. Good morning, Mr. Chair, Commissioners.</p> <p>8 Before I begin with Mr. Banfield, I did want</p> <p>9 to speak to the Rate Stabilization Plan. When</p> <p>10 the consent documents were filed in earlier</p> <p>11 November, I had advised at that time that we</p> <p>12 were seeking approval of the changes in the</p> <p>13 Rate Stabilization Plan to be effective</p> <p>14 January 1, 2004. I just wanted to mention</p> <p>15 that again, that we are asking for an early, I</p> <p>16 will call it, approval of the proposed changes</p> <p>17 to the Rate Stabilization Plan so that we can</p> <p>18 implement them with the new year. And it's my</p> <p>19 understanding that that has been agreed to by</p> <p>20 the other parties. And I mentioned that at</p> <p>21 the time we filed the consent documents.</p> <p>22 In Mr. Banfield's evidence this morning</p> <p>23 we will be reviewing with the Commissioners</p> <p>24 the proposed changes to the Rate Stabilization</p> <p>25 Plan. Pre-filed evidence was filed on</p>
Page 3	Page 4
<p>1 November 21st, and we plan this morning to</p> <p>2 review that evidence as well in light of our</p> <p>3 request for approval of the changes by the end</p> <p>4 of this year.</p> <p>5 Good morning, Mr. Banfield.</p> <p>6 A. Good morning, Ms. Greene.</p> <p>7 Q. I just wanted to review with you first, Mr.</p> <p>8 Banfield, the evidence that has been filed in</p> <p>9 your name, because there has been a number of</p> <p>10 different versions of this evidence.</p> <p>11 Originally there was evidence pre-filed on</p> <p>12 your name on May 21st, 2003. Is that correct?</p> <p>13 A. Yes, that's correct.</p> <p>14 Q. I believe that there was a revision on August</p> <p>15 12th, 2003, where evidence was filed in your</p> <p>16 name that replaced the evidence of May 21st.</p> <p>17 Is that correct?</p> <p>18 A. Yes, that's correct.</p> <p>19 Q. And again on October 31st, 2003 evidence was</p> <p>20 filed in your name to reflect the rates</p> <p>21 flowing from the revised Cost of Service. Is</p> <p>22 that correct?</p> <p>23 A. Yes, that's correct.</p> <p>24 Q. Do you adopt the evidence filed on October</p> <p>25 31st, 2003, as your evidence for the purpose</p>	<p>1 of your testimony today?</p> <p>2 A. Yes, I do.</p> <p>3 Q. The next evidence that I wanted to refer to is</p> <p>4 your evidence of November 21st, 2003, which</p> <p>5 deals primarily with the proposed changes to</p> <p>6 the Rate Stabilization Plan. Do you adopt the</p> <p>7 evidence filed on November 21st, 2003, in your</p> <p>8 name, as your evidence for the purpose of your</p> <p>9 testimony today?</p> <p>10 A. Yes, I do.</p> <p>11 Q. I'd like now, Mr. Banfield, to review with you</p> <p>12 the proposed changes to the Rate Stabilization</p> <p>13 Plan which have been agreed to by the other</p> <p>14 parties here at the hearing. And here I'd</p> <p>15 like to look at your evidence of November</p> <p>16 21st. At present there are four main</p> <p>17 components of the Rate Stabilization Plan, the</p> <p>18 hydraulic component, the fuel component, the</p> <p>19 load component and the Rural Rate Alteration</p> <p>20 component. The parties have proposed that</p> <p>21 these four components continue to be part of</p> <p>22 the Plan. Is that correct?</p> <p>23 A. Yes, that's correct.</p> <p>24 Q. Okay. I'd like now to look at each of the</p> <p>25 components of the Rate Stabilization Plan and</p>

Page 5	Page 6
<p>1 GREENE, Q.C.:</p> <p>2 the proposed changes to each of them starting</p> <p>3 with the hydraulic component. Could you</p> <p>4 please explain to the Board what are the</p> <p>5 proposed changes to the hydraulic component of</p> <p>6 the Rate Stabilization Plan?</p> <p>7 A. Yes. The calculation of the hydraulic</p> <p>8 variation provision will remain the same as in</p> <p>9 the current RSP, but will be tracked</p> <p>10 separately from the other components. It had</p> <p>11 been contemplated that due to nature of the</p> <p>12 hydraulic cycle, that is, over time the</p> <p>13 variation should tend to zero, this part of</p> <p>14 the RSP might never have to be recovered from</p> <p>15 or refunded to customers, similar to Hydro's</p> <p>16 treatment of the Water Equalization Provision</p> <p>17 prior to the 1986 introduction of the RSP.</p> <p>18 However, after analysis using historic data of</p> <p>19 the amount to which the balance in this</p> <p>20 component could accumulate and the effect on</p> <p>21 Hydro's balance sheet and the risk to Hydro it</p> <p>22 was agreed that a portion of the balance in</p> <p>23 this component would be assigned annually to</p> <p>24 each customer for collection or refund. It</p> <p>25 has been agreed that 25 percent of the balance</p>	<p>1 in the hydraulic variation provision plus 100</p> <p>2 percent of the financing charges for that year</p> <p>3 be recovered from or refunded to customers</p> <p>4 each year. This recovery or refund will be</p> <p>5 calculated at the end of each calendar year</p> <p>6 and allocated to Newfoundland Power and</p> <p>7 Industrial Customers at that time. Based on</p> <p>8 the historic hydraulic cycle studied and an</p> <p>9 assumed \$30 per barrel fuel price, the balance</p> <p>10 in the hydraulic provision should not exceed a</p> <p>11 maximum of approximately \$100 million and in</p> <p>12 most years the balance will be less. Based on</p> <p>13 the hydraulic cycle from 1985 to the present</p> <p>14 the annual balances that would have</p> <p>15 accumulated in this hydraulic provision over</p> <p>16 that time frame are shown in Chart 1 below.</p> <p>17 Q. And I wonder, Mr. Banfield, here if you could</p> <p>18 just please explain what is illustrated on</p> <p>19 Chart 1?</p> <p>20 A. The chart is illustrating, I guess, the text</p> <p>21 which I have just gone through. And that is</p> <p>22 that from 1985 to the present, using the</p> <p>23 various water cycles that have occurred on the</p> <p>24 island, you can see from that chart that the</p> <p>25 maximum due to customers is 100 million and</p>
Page 7	Page 8
<p>1 from customers is approximately a little</p> <p>2 greater than 60 million. So within those</p> <p>3 boundaries the risk to Hydro is limited at</p> <p>4 about \$100 million.</p> <p>5 Q. And I believe you mentioned, Mr. Banfield,</p> <p>6 that actual data was used to determine that</p> <p>7 chart for the hydraulic data. Is that</p> <p>8 correct?</p> <p>9 A. Yes, that's correct. Actual hydraulic cycles</p> <p>10 that have occurred over time were used in</p> <p>11 putting this chart together.</p> <p>12 Q. And the issue of the amount to which the Plan</p> <p>13 could rise, that was one of the issues of</p> <p>14 concern to Hydro is it the amount of</p> <p>15 outstanding balance that could accrue in the</p> <p>16 hydraulic provision?</p> <p>17 A. Yes, that's correct. The risk to Hydro was an</p> <p>18 important element here. And in dealing with</p> <p>19 that with the parties they agreed, as well,</p> <p>20 and that's where the 25 percent of the planned</p> <p>21 balance recovery came from.</p> <p>22 To continue, the proposed change in the</p> <p>23 recovery of the hydraulic portion of the RSP</p> <p>24 will reduce the volatility of the rate</p> <p>25 adjustments for customers relating to this</p>	<p>1 provision of the Plan. And I'll emphasize</p> <p>2 that this is read "to this provision of the</p> <p>3 Plan". Chart 2 shows a range of Industrial</p> <p>4 Customers, the range of Industrial Customers</p> <p>5 rate adjustments based on historical data of</p> <p>6 the proposed 25 percent recovery plus</p> <p>7 financing in contrast to the existing two-year</p> <p>8 amortization of the entire balance in the</p> <p>9 hydraulic component.</p> <p>10 Q. And again I wonder, Mr. Banfield, if you can</p> <p>11 just explain what Chart 2 illustrates?</p> <p>12 A. The blue line is the--represents what the rate</p> <p>13 impacts to the Industrial Customers would be</p> <p>14 based on the existing hydraulic provision of</p> <p>15 the RSP. And I wish to emphasize that it's</p> <p>16 only the existing hydraulic provision and not</p> <p>17 the full balance of the existing RSP, and with</p> <p>18 a two-year amortization. The--and I hesitate</p> <p>19 to guess at the colours, probably magenta,</p> <p>20 represents the proposed recovery of 25 percent</p> <p>21 of the hydraulic balance amortized over a one-</p> <p>22 year period, plus the financing charges in</p> <p>23 that year. We represented--we only showed the</p> <p>24 Industrial Customers because those had the</p> <p>25 greatest volatility. Newfoundland Power's,</p>

Page 9	Page 10
<p>1 MR. BANFIELD:</p> <p>2 the rate to Newfoundland Power would be no</p> <p>3 worse than what's shown here and probably is</p> <p>4 better in terms of volatility.</p> <p>5 Q. So Chart 2 illustrates that with respect to</p> <p>6 the hydraulic component only the proposed</p> <p>7 changes will result in less volatility in</p> <p>8 rates for recovery of the hydraulic component.</p> <p>9 Is that correct?</p> <p>10 A. Yes, that's correct.</p> <p>11 Q. Okay. Moving now to the second component of</p> <p>12 the Plan, the fuel component, where I believe</p> <p>13 there are the most changes proposed from the</p> <p>14 current arrangement. I wonder could you</p> <p>15 explain what the changes are?</p> <p>16 A. Yes. Activity for the fuel component of the</p> <p>17 RSP will continue to be calculated in the same</p> <p>18 manner as currently. However, the present RSP</p> <p>19 has had large balances accumulate because of</p> <p>20 significant differences between the test year</p> <p>21 price and the actual price of fuel. The</p> <p>22 parties agreed that a proactive mechanism to</p> <p>23 address this was needed. A fuel rider was</p> <p>24 developed and is proposed which will take into</p> <p>25 account the forecast price of fuel. Each year</p>	<p>1 three months before the recovery commences of</p> <p>2 the existing balance a forecast price of No. 6</p> <p>3 fuel based on the PIRA forecast will be</p> <p>4 determine to calculate the required fuel rider</p> <p>5 which will be combined with the recovery or</p> <p>6 refund of the existing Plan balance.</p> <p>7 Q. The third component in the RSP is the load</p> <p>8 variation component. Could you please explain</p> <p>9 what the proposed change is in that component?</p> <p>10 A. Yes. The load variation provision has two</p> <p>11 elements, revenue and fuel. In the past</p> <p>12 revenue variations were assigned to the</p> <p>13 customer class which caused the variation.</p> <p>14 Fuel costs were treated as common costs and</p> <p>15 shared proportionately among customer classes</p> <p>16 regardless of the customer class that caused</p> <p>17 the variation. It is proposed to treat the</p> <p>18 fuel component in the same manner as the</p> <p>19 revenue element is currently treated. This</p> <p>20 means that the fuel element resulting from the</p> <p>21 load variation will be assigned fully to the</p> <p>22 appropriate customer class. This recommended</p> <p>23 treatment results in the customer class that</p> <p>24 caused the change in load being assigned the</p> <p>25 cost of fuel associated with that change.</p>
Page 11	Page 12
<p>1 Q. Mr. Banfield, does this address the issue that</p> <p>2 was raised by the Industrial Customers in</p> <p>3 their pre-filed evidence with respect to the</p> <p>4 their concerns on the current load component</p> <p>5 of the RSP?</p> <p>6 A. Yes, we believe it does.</p> <p>7 Q. Now, the last component of the Plan is the</p> <p>8 Rural Rate Alteration component. And I don't</p> <p>9 believe there's any significant change to that</p> <p>10 except that the adjustment resulting from the</p> <p>11 increased revenue from the energy sales to 5--</p> <p>12 from 5 Wing Goose Bay that are being applied</p> <p>13 to the rural deficit will go into the Plan.</p> <p>14 Is that correct?</p> <p>15 A. Yes, that's correct.</p> <p>16 Q. Okay. Now, I wanted to talk to you how the</p> <p>17 Plan balances are going to be recovered.</p> <p>18 Could you please explain how it is proposed in</p> <p>19 the future to recover the Plan balances?</p> <p>20 A. Yes. Recovery of the Plan balance for each</p> <p>21 customer class is proposed to occur over a</p> <p>22 one-year amortization period rather than the</p> <p>23 current two-year period with the adjustment</p> <p>24 rate established to target a zero balance in</p> <p>25 the customer plans at the end of each recovery</p>	<p>1 period. This aspect of the recommended</p> <p>2 changes will also tend to prevent a buildup in</p> <p>3 customer RSP balances.</p> <p>4 Q. And how will the RSP adjustment rate be set?</p> <p>5 A. The RSP adjustment rate will be set to recover</p> <p>6 the Plan balance over a 12-month recovery</p> <p>7 period for each customer class. This rate</p> <p>8 will be comprised of two components. The</p> <p>9 first component will be set to recover</p> <p>10 annually. For Industrial Customers, the Plan</p> <p>11 balance existing on December the 31st of each</p> <p>12 year, plus the projected financing costs of</p> <p>13 the Plan balance for the next 12 months; and</p> <p>14 for Newfoundland Power, the Plan balance</p> <p>15 existing on March the 31st of each year, less</p> <p>16 any projected recovery of that balance for</p> <p>17 April, May and June, plus the estimated</p> <p>18 financing cost of the Plan balance to the end</p> <p>19 of the next recovery period. The second</p> <p>20 component will be the fuel rider noted earlier</p> <p>21 in this evidence. This rider will be</p> <p>22 calculated for each customer class by first</p> <p>23 determining the anticipated amount owing to or</p> <p>24 from customers as a result of the fuel price</p> <p>25 forecast for the next recovery period, that is</p>

Page 13	Page 14
<p>1 MR. BANFIELD:</p> <p>2 the difference between the price of fuel in</p> <p>3 base rates and the current forecast. This</p> <p>4 will be calculated in October for the</p> <p>5 Industrial Customers and in April for</p> <p>6 Newfoundland Power.</p> <p>7 Q. And, Mr. Banfield, the addition of the fuel,</p> <p>8 what we're calling the fuel rider is one of</p> <p>9 the most significant changes being proposed.</p> <p>10 Is that correct?</p> <p>11 A. That is correct.</p> <p>12 Q. Carry on with -</p> <p>13 A. The total adjustment rate will be obtained by</p> <p>14 adding together the rate derived from the Plan</p> <p>15 balance and the fuel rider. This adjustment</p> <p>16 rate will be charged to Industrial Customers</p> <p>17 on January the 1st of each year and to</p> <p>18 Newfoundland Power on July the 1st of each</p> <p>19 year.</p> <p>20 Q. As we have already mentioned, these proposed</p> <p>21 changes have been agreed to by all of the</p> <p>22 parties at this hearing. What does Hydro see</p> <p>23 as the benefits flowing from the--if these</p> <p>24 changes are accepted by the Board?</p> <p>25 A. The benefits of the proposed changes to the</p>	<p>1 RSP are as follows: The Plan will have less</p> <p>2 tendency to build a significant balance</p> <p>3 because the projected fuel price variation is</p> <p>4 collected over one year. There will be an</p> <p>5 improved price signal to customers since the</p> <p>6 proposed plan incorporates a projection of the</p> <p>7 anticipated fuel price for the upcoming</p> <p>8 period. The recommended hydraulic provision</p> <p>9 results in greater rate stability for this</p> <p>10 component of the Plan. And with the July 1st</p> <p>11 rate setting for Newfoundland Power being</p> <p>12 determined in April rather than December,</p> <p>13 which it had previously been, the price signal</p> <p>14 is more current.</p> <p>15 Q. Will the amended Plan result in more stable</p> <p>16 rates than the current existing Rate</p> <p>17 Stabilization Plan for customers?</p> <p>18 (9:15 a.m.)</p> <p>19 A. No, not necessarily. Although, as outlined</p> <p>20 previously, the hydraulic recovery or refund</p> <p>21 is anticipated to reduce rate volatility, the</p> <p>22 customer balance in the Plan, including the</p> <p>23 fuel price variation, is being collected over</p> <p>24 one year and thus, rates may overall, in fact,</p> <p>25 be more volatile. However, rates will reflect</p>
Page 15	Page 16
<p>1 a more current fuel price signal and thus</p> <p>2 provide customers with a timelier and more</p> <p>3 indicative price signal regarding their</p> <p>4 electricity consumption.</p> <p>5 A. Mr. Banfield, we've just finished reviewing</p> <p>6 the proposed changes in the components of the</p> <p>7 Plan. And I wanted to now talk about the</p> <p>8 proposal with respect to the recovery period</p> <p>9 for the existing Plan balances and I mean the</p> <p>10 Plan balances in both of the current RSPs.</p> <p>11 What are the proposed changes regarding the</p> <p>12 recovery period?</p> <p>13 A. As of December the 31st, 2003, there is a</p> <p>14 forecast balance of 94.2 million remaining in</p> <p>15 the August, 2002, RSP with a remaining</p> <p>16 amortization of four years. There is also a</p> <p>17 forecast balance of 72.8 million in the RSP</p> <p>18 which commenced September the 1st, 2002, with</p> <p>19 an amortization period of two years. These</p> <p>20 projected balances would have resulted in an</p> <p>21 estimated additional increase of six percent</p> <p>22 to Newfoundland Power customers on July the</p> <p>23 1st, 2004, and contributed to an estimated</p> <p>24 overall increase of 32.9 percent to Industrial</p> <p>25 Customers on January the 1st, 2004. To reduce</p>	<p>1 the immediate impact on customers' rates, it</p> <p>2 is proposed that both RSP balances will be</p> <p>3 added together and recovered over a four-year</p> <p>4 period starting on January the 1st, 2004 for</p> <p>5 Industrial Customers and July the 1st, 2004</p> <p>6 for Newfoundland Power. This proposal results</p> <p>7 in a July the 1st, 2004, RSP forecast</p> <p>8 adjustment for Newfoundland Power customers of</p> <p>9 3.1 percent instead of the previously</p> <p>10 anticipated six percent and an overall</p> <p>11 forecast increase to Industrial Customers of</p> <p>12 22.6 percent instead of the previous</p> <p>13 anticipated 32.9 percent. These effects are</p> <p>14 shown in Table 1 below of this proposed</p> <p>15 treatment.</p> <p>16 Q. Is there anything you wanted to say about</p> <p>17 Table 1, Mr. Banfield?</p> <p>18 A. No. I think the Table 1 clearly outlines what</p> <p>19 has been just described from a textual</p> <p>20 perspective with some additional information</p> <p>21 there in text right below the Newfoundland</p> <p>22 Power section where the overall rates to end</p> <p>23 consumers as a result of this proposed change</p> <p>24 will be 9.9 percent higher at the end of this</p> <p>25 period than they would have been--than they</p>

Page 17

1 MR. BANFIELD:

2 were at the end of 2003.

3 Q. Now, the parties are requesting that the Board
4 approve these changes to become effective
5 January 1, 2004. Could you explain why that
6 is so?

7 A. Hydro is requesting that the changes to the
8 RSP become effective January the 1st, 2004,
9 for the following reasons: As outlined in
10 Consent No. 3, a four-year amortization period
11 for the Rate Stabilization Plan which exists
12 on December the 31st, 2003, is proposed. This
13 four-year amortization period extends the
14 collection period for the RSP which commenced
15 September 1, 2003, resulting in a reduced 2004
16 rate increase for Newfoundland Power and
17 Island Industrial Customers. Since the
18 Industrial Customers RSP adjustment becomes
19 effective January the 1st, it is necessary to
20 have the RSP changes approved prior to that
21 time. And as outlined in Consent No. 2, the
22 calculation of the Newfoundland Power RSP
23 adjustment rate is based on the March 31st
24 balance and therefore it is necessary that the
25 RSP rules be approved prior to that time.

Page 19

1 Newfoundland Power's weather adjusted native
2 peak, less the generation credit with a
3 minimum of 98 percent of the test year native
4 peak, less the generation credit. The EES
5 proposal results in significant risk to
6 Hydro's earnings since it provides no down
7 side risk protection. Hydro believes its
8 proposals outlined above offers a reasonable
9 incentive to Newfoundland Power to reduce its
10 billing demand while limiting Hydro's risk
11 exposure to an acceptable amount.

12 Q. Thank you, Mr. Banfield. That concludes our
13 direct examination of Mr. Banfield.

14 CHAIRMAN:

15 Q. Thank you, Ms. Greene, Mr. Banfield. Good
16 morning, Mr. Browne.

17 BROWNE, Q.C.:

18 Q. Good morning, Mr. Chairman. Mr. Banfield, in
19 reference to the proposed changes for the--to
20 the RSP, is it fair to say that consumers will
21 be able to track costs more clearly to the
22 actual expenditures incurred by Hydro for
23 bunker C oil under this proposal?

24 A. Yes, that's true.

25 Q. In reference to the proposed date of

Page 18

1 Q. Mr. Banfield, that completes the questions I
2 wanted to ask you on the RSP. And there's one
3 other area where I had a couple of questions,
4 and that relates to the recommendation of EES
5 regarding the calculation or the
6 implementation of a new demand rate for
7 Newfoundland Power. We heard evidence from
8 them during their cross-examination and the
9 direct examination and I wanted to ask you,
10 does Hydro agree with the proposed basis for
11 the demand charges outlined by EES?

12 A. No. As outlined in Hydro's evidence before
13 the Board, Hydro believes that the embedded
14 costs should be used as the basis for setting
15 the demand charge.

16 Q. And it was clear from EES's evidence that they
17 used marginal cost approach to setting the
18 demand rate. Is that correct?

19 A. That's my understanding, yes.

20 Q. With regard to the determination of the
21 billing demand, does Hydro agree with EES's
22 recommendations in this regard?

23 A. No. As outlined in Hydro's evidence before
24 the Board, Hydro believes that a fair basis
25 for the determination of the billing demand is

Page 20

1 implementation, January 1, 2004, is Hydro
2 seeking an interim order to implement on that
3 particular date?

4 GREENE, Q.C.:

5 Q. Yes. And I guess I thought I had made that
6 clear when we filed Consents Nos. 1 and 2 and
7 again this morning. I should add that I've
8 discussed this with Board hearing counsel and
9 it is not our intent to file a separate
10 application as we didn't believe that that was
11 necessary given that Consents 1 and 2 have
12 been filed and that the parties have agreed to
13 it. But, yes, what I was asking for would, in
14 fact, would require an order from the Board,
15 yeah.

16 BROWNE, Q.C.:

17 Q. In reference to your comments concerning
18 customers on page 7 of your evidence you state
19 on line 1, "However, rates will reflect a more
20 current fuel price signal and thus provide
21 customers with a timelier and more indicative
22 price signal regarding their electricity
23 consumption." How do consumers determine
24 their electricity consumption?

25 A. You'll have to forgive me for a moment, I've

Page 21	Page 22
<p>1 MR. BANFIELD: 2 had, as Ms. Greene had said, a number - 3 Q. Sure. Take your time, Mr. Banfield, by all 4 means. 5 A. of pieces of evidence put forward. I'm just- 6 -did you say page 7? 7 GREENE, Q.C.: 8 Q. Of the November 21st. 9 BROWNE, Q.C.: 10 Q. It's on the screen, Mr. Banfield. 11 A. Oh, I see. That's fine. I'm just trying to 12 find it in context. You'll have to excuse me 13 for a minute. I'm sorry, okay. Can you repeat 14 the question again, Mr. Browne? I'm sorry 15 about that. 16 Q. You state there that "The rates will reflect a 17 more current fuel price signal and thus 18 provide customers with a timelier and more 19 indicative price signal regarding their 20 electricity consumption." How do consumers 21 track their electricity consumption? 22 A. Consumers are billed on a monthly basis. And 23 as you had asked me in one of your first 24 questions, the fuel price being collected over 25 one year plus the fuel rider will certainly</p>	<p>1 give them a clearer signal as to the price 2 they're paying and the electricity consumption 3 which they're--is recorded on their monthly 4 bills. 5 Q. And their monthly bills from Hydro's 6 perspective, are they calculated based on 7 monthly meter reading? 8 A. Yes, in general a monthly reading, somewhere 9 in the order of about 31 days, yes. 10 Q. Does Hydro engage in the practice of 11 estimating meters monthly? 12 A. Not as a general rule. There are cases where 13 we do have to estimate for various reasons, 14 but generally, our rules are to read all 15 meters. 16 Q. And how often or on what occasions do you 17 estimate instead of doing actual reading of 18 your meters? 19 A. There was an RFI, I believe, put in on that, 20 Mr. Browne. I do not have that number close 21 at hand, unfortunately. But it's - 22 Q. Well, if you can answer in a general fashion, 23 that'd be fine. 24 A. It's a very low percentage of meters that are 25 estimated to be read.</p>
Page 23	Page 24
<p>1 Q. And during the summer periods you don't engage 2 or do you engage in a practice of estimating 3 during the summer periods? 4 A. No, we don't have any planned program of 5 estimating meters, no. Only in cases where 6 meters are inaccessible or there are times 7 when a meter reader is unavailable through 8 either sickness or annual leave and it's just 9 not cost effective to replace that individual 10 for that particular read will we estimate, but 11 it's certainly not a general practice and it's 12 not planned. 13 Q. If a customer has his meter estimated, can 14 that customer request an actual reading once 15 the customer is made aware of the estimation? 16 A. Customers can always request a re-read of a 17 meter should they wish, but we always--we try 18 and comply wherever we can with that, but we-- 19 in order to try to keep costs to a minimum, in 20 our rural systems sometimes that re-read is 21 not performed immediately but may take place 22 at the next monthly read. 23 Q. So it's only when customers get their bills do 24 they have any idea of how much electricity 25 they've consumed in that particular month?</p>	<p>1 A. In general, yes, that's the case. 2 Q. The new RSP, under the old RSP there were 3 interest charges that were combined as part of 4 the amounts owing in the RSP and that where 5 now there are components of that RSP going 6 into a one-year Plan, does Hydro anticipate 7 less cost for interest charges in the result? 8 A. In as much as Hydro is recovering or refunding 9 monies in a timelier fashion, from that 10 perspective, yes, we would expect to have less 11 interest cost. 12 Q. Has there been any estimation of what that 13 could be on an annual basis? 14 A. No, we have not performed that analysis. 15 Q. And under the new Plan, it's understood that 16 annually customers, there will be an 17 adjustment either upward or downward for 18 customers. But if there is a rebate, 19 customers will actually receive that rebate 20 and it will not be applied for by the 21 utilities for any other purpose? 22 A. I'm sorry, can you repeat that again? 23 Q. Annually it's anticipated under the new Plan 24 there will be an adjustment either upward or 25 downward for customers, if customers have paid</p>

Page 25	Page 26
<p>1 BROWNE, Q.C.:</p> <p>2 enough into the Plan at the end of the year or</p> <p>3 paid too much into the Plan. If they've paid</p> <p>4 too much, it's anticipated that customers will</p> <p>5 get a rebate for that amount?</p> <p>6 A. Yes, any refunds or recoveries from will be</p> <p>7 purely associated with the RSP Plan and won't</p> <p>8 be used for any other purposes.</p> <p>9 Q. It's not anticipated the utilities will come</p> <p>10 forward to make an application for that money</p> <p>11 for any other purpose?</p> <p>12 A. No, it's certainly not anticipated, no.</p> <p>13 (9:30 a.m.)</p> <p>14 Q. Mr. Banfield, moving to another topic. Your</p> <p>15 resume indicates on page I that you're</p> <p>16 involved--that you've held positions within</p> <p>17 the Hydro group in system planning. Are you</p> <p>18 still involved with system planning?</p> <p>19 A. I'm not directly involved with system</p> <p>20 planning, no. I deal with our system planning</p> <p>21 staff, Mr. Budgell, who is the director of</p> <p>22 that department, from time to time on various</p> <p>23 issues, but I'm not directly involved in that</p> <p>24 section, no.</p> <p>25 Q. So that's not an area of your expertise right</p>	<p>1 now to speak to?</p> <p>2 A. Not for this particular application, no.</p> <p>3 Q. In reference to the rural deficit on page 8,</p> <p>4 line 5. Think I might be giving you the wrong</p> <p>5 page. But in any case, you recently heard the</p> <p>6 comments of diesel customers in--or some</p> <p>7 diesel customers, community leaders, in</p> <p>8 Labrador in reference to the proposal put</p> <p>9 forward for changes in the so-called lifeline</p> <p>10 block. Has Hydro communicated to each and</p> <p>11 every customer what the changes would be and</p> <p>12 what customers could anticipate in reference</p> <p>13 to these changes?</p> <p>14 A. No, we have not undertaken any program to</p> <p>15 contact each and every customer individually.</p> <p>16 My understanding and what we had proceeded</p> <p>17 with was that the agreed to lifeline block</p> <p>18 proposal would be discussed during the public</p> <p>19 participation days and from that we would</p> <p>20 garner information to allow the Board to make</p> <p>21 a final decision on that proposal.</p> <p>22 Q. Would you agree with me that some of the</p> <p>23 witnesses seem to be caught unawares by the</p> <p>24 changes proposed to the lifeline block?</p> <p>25 A. There certainly appeared to me to be a lack of</p>
Page 27	Page 28
<p>1 understanding as to the intent and the effect,</p> <p>2 yes.</p> <p>3 Q. And if there is such a lack of understanding,</p> <p>4 what had Hydro planned to alleviate that</p> <p>5 particular problem and concern?</p> <p>6 A. I've taken under--right now, currently, we've</p> <p>7 undertaken no direction in that regard in as</p> <p>8 much as there's been no decision to change the</p> <p>9 lifeline block. I think it would be premature</p> <p>10 to spend time and effort right now in terms of</p> <p>11 trying to promote a change to the lifeline</p> <p>12 block in the absence of one being proposed, or</p> <p>13 being decided on.</p> <p>14 Q. But I guess it's a bit of chicken and an egg.</p> <p>15 If we can't--if people--which comes first. Do</p> <p>16 you have to explain to people what the</p> <p>17 proposal is in order to get the reaction or</p> <p>18 would you think that that would be a</p> <p>19 preliminary step and would be incumbent upon</p> <p>20 Hydro to put forward that as a proposal to</p> <p>21 people who are mostly affected by the</p> <p>22 proposal?</p> <p>23 A. Yes. And as I highlighted a few moments ago,</p> <p>24 my understanding was that was the intent</p> <p>25 of putting it forward at the public</p>	<p>1 participation days, in taking the information</p> <p>2 from what we had garnered from the public</p> <p>3 participation days. We have no--we have not</p> <p>4 taken any further action and don't propose to</p> <p>5 take any further action in terms of discussing</p> <p>6 the lifeline block with other parties at this</p> <p>7 stage in the game until we receive an order</p> <p>8 from the Board to make that change.</p> <p>9 Q. So your customers who are most affected, the</p> <p>10 diesel customers, have not received a copy of</p> <p>11 the proposal?</p> <p>12 A. Other than what was distributed and what we</p> <p>13 had understood was going to be distributed to</p> <p>14 the parties affected at these public</p> <p>15 participation days, no.</p> <p>16 Q. On page 19 of your evidence you make reference</p> <p>17 to surveys that Hydro is involved in. And who</p> <p>18 is commissioned to do these surveys for Hydro?</p> <p>19 A. We have commissioned a group called "Market</p> <p>20 Quest" to perform those surveys for Hydro.</p> <p>21 Q. And what's the purpose of the surveys?</p> <p>22 A. The purpose of the surveys is to evaluate</p> <p>23 customers' views on various, as we term them,</p> <p>24 attributes and to rank the importance that</p> <p>25 customers put on those as well as the</p>

Page 29	Page 30
<p>1 MR. BANFIELD:</p> <p>2 customers' indication of how well Hydro is</p> <p>3 performing in meeting those attributes. It</p> <p>4 provides us with some--with information to</p> <p>5 allow us to trend what customers ranking is, I</p> <p>6 guess to use--for a better word, of where</p> <p>7 Hydro is in performing various services and to</p> <p>8 also at various times to determine how</p> <p>9 customers feel about different service</p> <p>10 delivery products such as services over the</p> <p>11 internet, etcetera.</p> <p>12 BROWNE, Q.C.:</p> <p>13 Q. And have you--did you--trouble with customers</p> <p>14 by asking them if they were willing to pay</p> <p>15 extra cost to get services that Hydro was</p> <p>16 promoting?</p> <p>17 A. In conjunction with yourself, Mr. Browne, and</p> <p>18 Mr. Bowman, your expert, we had discussed that</p> <p>19 and although the timing wasn't right for this</p> <p>20 particular survey which is now just being</p> <p>21 completed, we will be working towards</p> <p>22 including some questions in the survey in 2004</p> <p>23 on that particular point. However, we did</p> <p>24 include, I guess, to get at least some general</p> <p>25 sense of customers' willingness to pay extra,</p>	<p>1 we did include one question on this particular</p> <p>2 survey which was just completed over the last</p> <p>3 couple of weeks.</p> <p>4 Q. On page 20 in line 4 of your second revision</p> <p>5 of October 31, 2003, you state, "In April,</p> <p>6 2003, Hydro introduced an Integrated Voice</p> <p>7 Response, the IVR Internet Customer</p> <p>8 Information System. This system allows</p> <p>9 customers telephone and internet access to</p> <p>10 their account information as well as power</p> <p>11 outage information at any time." Do you know</p> <p>12 how many customers of yours have internet</p> <p>13 access?</p> <p>14 A. Yes. In the survey that was filed with the</p> <p>15 Board, the 2002 survey, there is a section in</p> <p>16 there on the number of customers. And I don't</p> <p>17 have the number right at the tip of my</p> <p>18 fingers, but it's contained in that survey.</p> <p>19 Q. In reference to power outage information,</p> <p>20 well, I assume they couldn't get that from the</p> <p>21 internet if the power was out. But in terms</p> <p>22 of customer telephone, how does that work? If</p> <p>23 the power is out in Port Hope Simpson, how</p> <p>24 would that affect this particular service</p> <p>25 you're offering?</p>
Page 31	Page 32
<p>1 A. We always had or we had had since we</p> <p>2 introduced our Utility Customer Information</p> <p>3 System a power outage line, 1-800 number line</p> <p>4 that customers could phone in and get regular</p> <p>5 updates on power outages in their area.</p> <p>6 That's regularly updated both during office</p> <p>7 hours and non-office hours. The introduction</p> <p>8 of the IVR system allows customers the</p> <p>9 additional advantage of being able to check on</p> <p>10 planned outages that are coming up as well on</p> <p>11 their system. So customers will just use the</p> <p>12 1-800 number, they'll phone in, they'll get a</p> <p>13 voice message which allows them to check and</p> <p>14 see if there are any outages in their area</p> <p>15 currently, the time for restoration, etcetera.</p> <p>16 Q. So from a practical perspective, how does that</p> <p>17 work? If you're going to cook your turkey on</p> <p>18 Christmas Day, for instance, do you phone up</p> <p>19 and see if there's to be a power outage? A</p> <p>20 bit of tongue in cheek with that. But how</p> <p>21 does it work? I guess it's mainly for</p> <p>22 construction people, is it, if someone is</p> <p>23 constructing in a particular area, they would</p> <p>24 phone Hydro and see if there's to be a planned</p> <p>25 outage in that particular area?</p>	<p>1 A. No. The system serves two purposes. One is</p> <p>2 if there is an outage, it allows customers to</p> <p>3 check and ascertain how long the outage is</p> <p>4 going to be in effect, or at least be able to</p> <p>5 get Hydro's best estimate of how long that</p> <p>6 power outage is going to be into effect. And</p> <p>7 second, it allows customers to check and see</p> <p>8 if there are any planned outages in their area</p> <p>9 over the next number of days.</p> <p>10 Q. In terms of the coordination on the island</p> <p>11 with Newfoundland Power, it seems to me they</p> <p>12 have a similar system. How does Hydro's</p> <p>13 information system and Newfoundland Power's</p> <p>14 system intertwine in the case of a power</p> <p>15 outage and advice rendered to customers?</p> <p>16 A. There are two different systems with two</p> <p>17 different toll free numbers that allows</p> <p>18 Newfoundland Power's customers to access the</p> <p>19 information which they need and, as I've</p> <p>20 stated, a toll free number which allows</p> <p>21 Hydro's customers to access the information</p> <p>22 which they need.</p> <p>23 Q. Have you ever anticipated or tried marketing a</p> <p>24 joint effort between Newfoundland Power and</p> <p>25 Newfoundland Hydro in reference to the 800</p>

Page 33	Page 34
<p>1 BROWNE, Q.C.:</p> <p>2 numbers? Are there any cost savings in that,</p> <p>3 for instance?</p> <p>4 A. We had reviewed that with Newfoundland Power</p> <p>5 over the last, I guess, number of years. At</p> <p>6 the time when we had looked at it, the last</p> <p>7 time, there were no real savings involved in</p> <p>8 us having a joint number and there were</p> <p>9 administrative problems related to exchanges</p> <p>10 and customer identification that caused us</p> <p>11 both to agree that at least for this period of</p> <p>12 time, two separate numbers were a reasonable</p> <p>13 way to go.</p> <p>14 Q. Is there any protocol in place between</p> <p>15 yourself and Newfoundland Power in reference</p> <p>16 to a power outage where one spokesman comes on</p> <p>17 and takes responsibility for the outage? For</p> <p>18 instance, if it's Hydro's responsibility, they</p> <p>19 will come and take responsibility. If it's</p> <p>20 Power's outage, they will come in and take</p> <p>21 responsibility.</p> <p>22 A. No written protocol that I'm aware of, other</p> <p>23 than I think it happens by natural course that</p> <p>24 problems that we create on the system, we take</p> <p>25 ownership of and try to get the information</p>	<p>1 out and the same thing for Newfoundland Power,</p> <p>2 but no written protocol that I'm aware of.</p> <p>3 Q. Just moving on, in your evidence there on the</p> <p>4 same page, you mentioned the HYDROWISE</p> <p>5 Program. Now when did that first commence?</p> <p>6 A. In 2002.</p> <p>7 Q. And what are the objectives of the HYDROWISE</p> <p>8 Program?</p> <p>9 A. The HYDROWISE report has been filed with the</p> <p>10 Board in this application, and the objectives</p> <p>11 are well stated in that report, Mr. Browne,</p> <p>12 and if you can just give me a moment, I'll--I</p> <p>13 don't know, Mr. O'Reilly, if you can find that</p> <p>14 on the screen for me, but I think it's</p> <p>15 worthwhile going to that because the</p> <p>16 objectives are well articulated in that.</p> <p>17 MR. O'REILLY:</p> <p>18 Q. Is this it, Mr. Banfield?</p> <p>19 A. Objectives--yes, that's correct. On page</p> <p>20 three of that document, we can see the</p> <p>21 objectives quite clearly stated here and is in</p> <p>22 general "to create a program identity that</p> <p>23 will be common to all energy conservation</p> <p>24 initiatives. This identity will be used to</p> <p>25 promote the wise use of electricity by</p>
Page 35	Page 36
<p>1 reenforcing and sustaining a common message</p> <p>2 over an extended period of time, providing a</p> <p>3 program that is recognizable, beneficial and</p> <p>4 accessible to customers, modifying attitudes</p> <p>5 and behaviour and providing information in</p> <p>6 recognizable and customer-friendly formats.</p> <p>7 Through continuous education and promotion,</p> <p>8 create an environment where two-way</p> <p>9 communication will develop. That is,</p> <p>10 customers will know the program and its</p> <p>11 purpose and feel comfortable in making</p> <p>12 inquiries to address their individual needs."</p> <p>13 BROWNE, Q.C.:</p> <p>14 Q. So is the purpose of HYDROWISE, you referred</p> <p>15 to it as a conservation program to encourage</p> <p>16 people to conserve?</p> <p>17 A. That is generally the fundamental tenet here,</p> <p>18 yes.</p> <p>19 Q. Well, what target has Hydro developed in terms</p> <p>20 of the numbers of megawatts it wishes to</p> <p>21 eliminate in reference to that particular</p> <p>22 program? What's your target?</p> <p>23 A. We have not developed targets for this</p> <p>24 particular program from that perspective</p> <p>25 currently. Our targets right now are aimed</p>	<p>1 mostly at making sure that customers are aware</p> <p>2 of the program, have access to the program,</p> <p>3 understand the program and can take advantage</p> <p>4 of it. As we move forward in time, that type</p> <p>5 of a measure might become necessary or we</p> <p>6 might be able to do that, but currently that</p> <p>7 is not one of the measures that we've put in</p> <p>8 place for this program.</p> <p>9 Q. Well, how do you know when you get results</p> <p>10 unless you have such a target?</p> <p>11 A. The results which we are trying to ascertain</p> <p>12 right now is, from an education perspective,</p> <p>13 is making customers or getting customers to</p> <p>14 take advantage of and understand that there is</p> <p>15 a program to help them and that there are ways</p> <p>16 and means that they can help themselves from</p> <p>17 that perspective. We have not tied it to a</p> <p>18 particular megawatt savings at this particular</p> <p>19 time?</p> <p>20 Q. Is it anticipated that you will move to a</p> <p>21 megawatt savings target?</p> <p>22 A. In the current framework, no, we have not</p> <p>23 looked at that.</p> <p>24 Q. Well, until you do that, how would this Board</p> <p>25 know if that program is a mere platitude as</p>

Page 37

Page 38

1 BROWNE, Q.C.:
 2 opposed to a program that has some teeth in
 3 it?
 4 A. As I've already stated, our measure currently
 5 with this program is that its objectives, as
 6 we've just outlined, is an education program
 7 to make sure customers are aware of and are
 8 able to access ways and means that they can
 9 help themselves in terms of energy
 10 conservation and those are the measures which
 11 we'll be aiming to go after over the next
 12 number of years, and from that perspective, if
 13 customers know there's a program, are
 14 accessing it and using it, from our
 15 perspective, we will have achieved some degree
 16 of success, in terms of conservation issues.
 17 Q. How are you promoting the program?
 18 (9:47 a.m.)
 19 A. We have promoted the program through newspaper
 20 advertisements. When we launched the program
 21 initially through radio spots, where we've
 22 been promoting road safety, we promoted some
 23 of the energy tips from the Hydro program,
 24 from that HYDROWISE Program as well.
 25 Q. And is it developed seasonally? As you come

1 into the heating season, are you out there now
 2 in the marketplace? Have you got ads on radio
 3 or television or print ads currently in the
 4 system?
 5 A. We are currently developing our 2004
 6 objectives. We'll continue to promote the
 7 program through radio, advertisements, where
 8 we see fit to do that. We've also issues
 9 three of the brochures which were part of our
 10 game plan for 2003, and are continuing now to
 11 work on our plan for 2004.
 12 Q. And the objective of the program is to try to
 13 teach people to conserve? Is that what you
 14 acknowledge the objective is?
 15 A. That is the fundamental objective, yes.
 16 Q. Well, when you drive around the streets of the
 17 city in the nighttime now, you notice that a
 18 lot of people have Christmas lights on
 19 already, had them on from--some people have
 20 them on from the middle on November onward,
 21 from what I can determine. Would you think
 22 that if you're into a program to teach people
 23 to conserve, you would be out target specific,
 24 recommending that people not--that people be
 25 HYDROWISE in reference to their use of

Page 39

Page 40

1 electricity over the Christmas season?
 2 A. Yes, it's always nice to be specific on a
 3 target. We have not done that currently, but
 4 that is certainly something we can take under
 5 advisement. The program, as structured
 6 currently, we have--Hydro has been aiming at
 7 our own rural customers mostly, isolated
 8 customers. The impact that it might have on
 9 our indirect customers for Newfoundland Power,
 10 that's something that we have not aimed at in
 11 this program.
 12 Q. Who's the point person at Hydro responsible
 13 for this program?
 14 A. Myself.
 15 Q. In reference to the program, are you
 16 attempting to implement any of the objectives
 17 of the Conservation Plan for Canada as
 18 promoted by the Government of Canada under the
 19 Kyoto protocol?
 20 A. Yes. The one area that we are cognizant of is
 21 the Home Evaluation Program, which we are
 22 monitoring. There is some administrative or
 23 structural problems right now within
 24 Newfoundland, in terms of the deliver of that
 25 program, but we are monitoring and hope that

1 over the next number of months, we'll be able
 2 to come to some agreement with the program
 3 deliverer to make sure that the Hydro
 4 customers can avail of that program.
 5 Q. Between the two utilities in the Province,
 6 have you met in reference to the Conservation
 7 Plan for Canada in an effort to coordinate
 8 efforts to get the maximum benefit for
 9 consumers out of the funding available?
 10 A. We have met, in particular on the Home
 11 Evaluation. I don't know if you're referring
 12 to any broader aspect than that, Mr. Browne,
 13 but we have met on the Home Evaluation and we
 14 are trying to muster our resources together to
 15 make sure that the program can be delivered to
 16 all the electrical consumers.
 17 Q. Now we just came from Labrador West and the
 18 Iron Ore Company of Canada announced that they
 19 had already been in there, got funding for an
 20 assessment, I think they said to the tune of
 21 \$150,000, and had specific targets to bring
 22 down their usage by 19 megawatts, and I must
 23 say, it was good to see that someone in the
 24 Province is taking advantage of the
 25 Conservation Plan for Canada. Do you see

Page 41	Page 42
<p>1 BROWNE, Q.C.:</p> <p>2 yourselves and Newfoundland Power working</p> <p>3 together with similar objectives to try to</p> <p>4 access funding for that purpose?</p> <p>5 A. As I have stated, Hydro and Newfoundland Power</p> <p>6 have met. We have had discussions on how</p> <p>7 program delivery could be achieved. From a</p> <p>8 homeowner's perspective, right now there are</p> <p>9 some administrative difficulties with delivery</p> <p>10 of the program, in terms of having a provider</p> <p>11 of that service in Newfoundland. The Federal</p> <p>12 Government are working on that and over the</p> <p>13 next number of months, we hope to be able to</p> <p>14 come to some conclusion on that so that</p> <p>15 there's a viable delivery mechanism in place</p> <p>16 for residential and commercial customers, both</p> <p>17 on the island and in Labrador.</p> <p>18 Q. Who is the provider currently, Mr. Banfield?</p> <p>19 A. My understanding is it's Enerplan. I believe</p> <p>20 it's a national company. They have an office</p> <p>21 here in St. John's. I believe it's up on</p> <p>22 Major's Path. They took on the responsibility</p> <p>23 for delivery here on a very interim basis.</p> <p>24 We've had some discussion with them, but to</p> <p>25 say that there's a real good game plan in</p>	<p>1 place would be an understatement. They're</p> <p>2 delivering the program as best they can under</p> <p>3 the circumstances, but the Federal Government</p> <p>4 have acknowledged that there is a problem and</p> <p>5 they have gone out for another request for</p> <p>6 proposals for a deliverer of that service here</p> <p>7 in Newfoundland.</p> <p>8 Q. And so Enerplan is doing--are they actually</p> <p>9 involved out there? Are they out there in the</p> <p>10 field doing assessments for people who request</p> <p>11 them?</p> <p>12 A. I'm not sure if they have done any actual</p> <p>13 assessments or not. I know we've given them</p> <p>14 our number at Hydro if they do get calls from</p> <p>15 our customers and there's any problems, that</p> <p>16 we'd--we've told them that we're willing to</p> <p>17 work with them to try and make sure that that</p> <p>18 service can be delivered to our customers in</p> <p>19 the interim.</p> <p>20 Q. Now in your evidence on lines 12 and 13 of</p> <p>21 your revision, October 31 2003, page 12--line</p> <p>22 12 and 13, you state "Hydro continues to</p> <p>23 partner with the Conservation Corps and in</p> <p>24 2002, extended funding to assist customers</p> <p>25 with the cost of an energy audit." Is that</p>
Page 43	Page 44
<p>1 accurate today? Are you in partnership with</p> <p>2 the Conservation Corps today in that</p> <p>3 objective?</p> <p>4 A. No. Things have changed since even that was</p> <p>5 written and the Conservation Corps is no</p> <p>6 longer engaged at the customer level, in terms</p> <p>7 of home evaluations, et cetera.</p> <p>8 Q. So they're no longer involved?</p> <p>9 A. That's correct. That's my understanding, Mr.</p> <p>10 Browne.</p> <p>11 Q. So right now you're not in partnership with</p> <p>12 them at all?</p> <p>13 A. No, that's correct. I should add to that that</p> <p>14 the reason we're not in partnership is because</p> <p>15 they are no longer the deliverer of that</p> <p>16 service here in Newfoundland. The Federal</p> <p>17 Government has, for whatever reasons, decided</p> <p>18 to look for a different delivery arrangement</p> <p>19 than what they had previously with the</p> <p>20 Conservation Corps.</p> <p>21 Q. In reference to the Rural Deficit, has Hydro</p> <p>22 or anyone else, for that matter, that you're</p> <p>23 aware of, conducted an audit in reference to</p> <p>24 the management of that deficit and how that</p> <p>25 deficit can be better controlled?</p>	<p>1 A. I'm not sure what you mean by an audit.</p> <p>2 Q. Let's say a study then.</p> <p>3 A. I don't--I'm not aware of a particular study.</p> <p>4 However, I am aware from my own work at Hydro</p> <p>5 that the provision of services in rural</p> <p>6 Newfoundland has been covered by Mr. Martin</p> <p>7 and others in testimony. It is done and aimed</p> <p>8 at trying to keep that rural deficit to a</p> <p>9 least cost as possible, taking into account</p> <p>10 all of the other impacts, I guess, or the</p> <p>11 other effects that can affect the rural</p> <p>12 deficit, such as I've explained in evidence in</p> <p>13 terms of rates and allocations.</p> <p>14 Q. Is there a manager specific to monitoring that</p> <p>15 huge deficit at Hydro?</p> <p>16 A. As explained in evidence, the deficit is a</p> <p>17 calculation, I guess, that flows from the Cost</p> <p>18 of Service Study. The important issues are</p> <p>19 one of cost control, which Mr. Martin has</p> <p>20 spoken to and is responsible for in Hydro, and</p> <p>21 the other being the revenue, as I've just</p> <p>22 mentioned, and the allocation factors such as</p> <p>23 the Great Northern Peninsula allocation, for</p> <p>24 instance.</p> <p>25 Q. Now when we look at the rural deficit,</p>

Page 45	Page 46
<p>1 BROWNE, Q.C.:</p> <p>2 particularly the deficit on the coast of</p> <p>3 Labrador, we just heard evidence that people</p> <p>4 on the Labrador cannot avail of attempting to</p> <p>5 industrialize in any way, shape or form there</p> <p>6 due to the lack of electricity supply. Do you</p> <p>7 think that's an accurate comment, in the</p> <p>8 coastal areas?</p> <p>9 A. It's certainly a fact that there's no surplus</p> <p>10 of supply. Once loads are identified in any</p> <p>11 of those rural areas, Hydro does its best to</p> <p>12 meet the load forecast at the most economical</p> <p>13 means that it can.</p> <p>14 Q. What's the long-term plan here? Is it just</p> <p>15 more and more diesel? Are you just going to</p> <p>16 throw more diesel at the situation in</p> <p>17 perpetuity or is there a plan in place to</p> <p>18 attempt to electrify these communities through</p> <p>19 other means? Where's Hydro's plan?</p> <p>20 A. I guess you had asked me initially if I had</p> <p>21 expertise in system planning, and the answer</p> <p>22 to that was no, but I can say that the</p> <p>23 provision of services through diesel</p> <p>24 generation in rural--those isolated</p> <p>25 communities, is the most cost effective that</p>	<p>1 Hydro is aware of in the current framework of</p> <p>2 the day.</p> <p>3 Q. A number of presenters commented on the value</p> <p>4 of wind power. Have you done an assessment</p> <p>5 there or have you decided to try to use wind</p> <p>6 power on an experimental basis along the coast</p> <p>7 of Labrador, in order to see if it works?</p> <p>8 A. I can't speak to whether or not a particular</p> <p>9 study has been done aimed at the coast of</p> <p>10 Labrador, but I know from my dealings with</p> <p>11 system planning that they have done</p> <p>12 evaluations of a wind energy and in the</p> <p>13 delivery systems that we have in Newfoundland,</p> <p>14 wind energy is still not an economic</p> <p>15 proposition when compared to the diesel-</p> <p>16 powered generation, without subsidies.</p> <p>17 (10:00 a.m.)</p> <p>18 Q. Is that in the short term or in the long term?</p> <p>19 A. That's within the foreseeable future.</p> <p>20 Q. Have you studied--has Hydro done a study of</p> <p>21 the cost of promoting something like wind</p> <p>22 power in the coastal communities of Labrador</p> <p>23 and determined the cost of it versus the cost</p> <p>24 of pouring diesel into these communities year</p> <p>25 over year over year from now and into the</p>
Page 47	Page 48
<p>1 future? Has a study been done there, an</p> <p>2 analysis of that?</p> <p>3 A. Again, I think you're probably getting outside</p> <p>4 my area of testimony, but I can only assure</p> <p>5 you from my knowledge of Hydro and the system</p> <p>6 planning aspects that if there was a cheaper</p> <p>7 way of providing service to these diesel</p> <p>8 communities, other than diesel generation, I</p> <p>9 can assure you that it would be done.</p> <p>10 Q. But you don't know if there's any studies in</p> <p>11 place or if Hydro has studied the situation</p> <p>12 currently to determine what can be done and to</p> <p>13 suggest what the long-term plan might be?</p> <p>14 A. I can't speak to any particular study that may</p> <p>15 have been done for the Isolated Systems, no.</p> <p>16 Q. In terms of these Isolated Systems there,</p> <p>17 there was testimony in a previous hearing that</p> <p>18 Hydro was actively involved in promoting</p> <p>19 conservation in these communities by going in</p> <p>20 and distributing fluorescent lights and by</p> <p>21 ensuring pipes were insulated and the like.</p> <p>22 Has Hydro embarked upon that program now in</p> <p>23 reference to these communities in coastal</p> <p>24 Labrador?</p> <p>25 A. Hydro has been, since the early 90s, looking</p>	<p>1 at that type of Demand Side Management, I</p> <p>2 guess you'd call it, programs and have</p> <p>3 continued to do that in those communities</p> <p>4 where it proves cost effective. There are--of</p> <p>5 all the diesel communities, when the test of</p> <p>6 the marginal cost versus the marginal revenue</p> <p>7 is applied, there are only a few communities</p> <p>8 where it is cost effective for Hydro to</p> <p>9 actually go in and distribute CFL's, as</p> <p>10 they're referred to, or compact fluorescent</p> <p>11 lights, or insulation wrapped for pipes or</p> <p>12 blankets for hot water tanks. There are only</p> <p>13 a number of those communities, and where that</p> <p>14 is effective, Hydro has done and continues to</p> <p>15 do that. As a matter of fact, I believe in</p> <p>16 2001 we did it in a number of communities,</p> <p>17 Francois being one of those on the island and</p> <p>18 Norman Bay, I believe. We have continued to</p> <p>19 do that. One of the things that we discovered</p> <p>20 as we have gone through the last number of</p> <p>21 years with this type of a program is that</p> <p>22 there are other communities where the marginal</p> <p>23 cost and revenue, once you test that, there's</p> <p>24 not enough of a difference for Hydro to</p> <p>25 provide the materials or to actually hand out</p>

Page 49	Page 50
<p>1 MR. BANFIELD:</p> <p>2 the bulbs and the pipe wrap, but we have</p> <p>3 decided or not decided, but we have--we do</p> <p>4 believe that through an education program like</p> <p>5 we're trying to with HYDROWISE that if we can</p> <p>6 impart to people that there is a possible</p> <p>7 savings to them, then through partnering with</p> <p>8 our own customers, they can provide their own</p> <p>9 compact fluorescent lighting, their own pipe</p> <p>10 wrap, so we can achieve the savings at the end</p> <p>11 by sharing, so Hydro doesn't end up having to</p> <p>12 buy these things for the customers, but they</p> <p>13 can save on their own bills by providing it</p> <p>14 the compact fluorescent lights themselves. So</p> <p>15 that was the marrying of the work that we</p> <p>16 discovered in dealing with our rural areas and</p> <p>17 the HYDROWISE Program, the marrying of those</p> <p>18 two education and conversation versus Hydro</p> <p>19 necessarily delivering the products</p> <p>20 themselves. So between the two of us, I think</p> <p>21 we can do that and work well in doing that</p> <p>22 program.</p> <p>23 BROWNE, Q.C.:</p> <p>24 Q. You spoke in terms of an education. How are</p> <p>25 you going about educating people on the coast</p>	<p>1 of Labrador in terms of conservation? Is that</p> <p>2 strictly the HYDROWISE Program as well?</p> <p>3 A. That is strictly the HYDROWISE Program, and in</p> <p>4 2004, we are developing a school education</p> <p>5 program to deliver. That will all take place</p> <p>6 in four, five and six, as well as partnering</p> <p>7 arrangements, it's one of the difficulties in</p> <p>8 some of the coastal communities is the</p> <p>9 availability of product. We want to make sure</p> <p>10 that before we go out and suggest to people</p> <p>11 that they go out and buy compact fluorescent</p> <p>12 lights to put in their homes that they, in</p> <p>13 actual fact, can get those to put into their</p> <p>14 homes. So we are going to be dealing with</p> <p>15 partners, you know, small community stores, et</p> <p>16 cetera, to make sure that there is a supply of</p> <p>17 those types of things and pipe wrap available</p> <p>18 for these people. But that will be taking</p> <p>19 place in 2004 and '05.</p> <p>20 Q. You mentioned there a school program. Can you</p> <p>21 give us some idea of how that will be</p> <p>22 conducted?</p> <p>23 A. No. That's still in the planning stages.</p> <p>24 We're working on that right now, as to the</p> <p>25 delivery of that type of a program.</p>
Page 51	Page 52
<p>1 Q. And you're doing this in your service areas?</p> <p>2 A. Yes, that's correct.</p> <p>3 Q. Ultimately, Hydro is responsible for the</p> <p>4 electricity in the Province. Unless you</p> <p>5 couple with Newfoundland Power in their</p> <p>6 service area for a school program as well and</p> <p>7 to urge conservation generally across the</p> <p>8 Province, how successful can you really be in</p> <p>9 bringing down energy consumption province</p> <p>10 wide?</p> <p>11 A. From a provincial perspective, I guess that's</p> <p>12 a bigger question and currently we have not--</p> <p>13 we are spending most of our time trying to</p> <p>14 look at our diesel systems to try and manage</p> <p>15 the subsidy and to make sure that what we do</p> <p>16 on those diesel systems is cost effective.</p> <p>17 Q. You mentioned in 2001, there was a program put</p> <p>18 in place in Francois. Is that correct?</p> <p>19 A. I had mentioned that. I thought those were</p> <p>20 the communities, but I can just verify that.</p> <p>21 Q. Sure.</p> <p>22 A. Actual communities were William's Harbour,</p> <p>23 Norman Bay and Francois. There was also pipe</p> <p>24 insulation was installed on hot water</p> <p>25 thermostats and the hot water tanks were</p>	<p>1 adjusted to try and minimize losses in those</p> <p>2 systems as well.</p> <p>3 Q. And what was the result?</p> <p>4 A. From our past work in doing this type of</p> <p>5 insulation, we are able to keep the peak down</p> <p>6 and actually defer capital investment, but</p> <p>7 only defer. One of the problems with any DSM</p> <p>8 type program is the retention of the reduced</p> <p>9 load and how long can you retain it? You have</p> <p>10 no control once the--if the pipe wrap</p> <p>11 deteriorates or people take it off for some</p> <p>12 reason or the compact fluorescent lights burn</p> <p>13 out, you have no control over whether or not</p> <p>14 those people will put those back in again or</p> <p>15 go back to the incandescent type. So that's</p> <p>16 one of the problems with DSM, but we can--have</p> <p>17 shown through our past work that we are able</p> <p>18 to defer at least capital for probably some</p> <p>19 period of time, possibly a year.</p> <p>20 Q. Did you observe less fuel, less diesel fuel</p> <p>21 being consumed in these communities after you</p> <p>22 implemented these programs?</p> <p>23 A. Based on the test sites which were done back</p> <p>24 in the early 90s, the particular test programs</p> <p>25 that were run did result in reduced average</p>

Page 53	Page 54
<p>1 MR. BANFIELD: 2 consumption, yes. 3 BROWNE, Q.C.: 4 Q. So they result in reduced average consumption? 5 A. Again, the problem is retention of that 6 reduction. 7 Q. Well, if they did, in the programs you had in 8 the 90s, did result in reduced consumption, 9 why were they not kept up? Why were they 10 discontinued? 11 A. No, they weren't discontinued. We put them in 12 and we kept monitoring those communities where 13 the marginal cost was much different than the 14 marginal revenue, and again, in 2001, we went 15 back and introduced the same type of thing in 16 those communities which had been done 17 previously in the early 90s. 18 Q. Who is responsible--who is the point person in 19 reference to that, to bringing the 20 conservation program in these communities and 21 to determine the objectives and to monitor and 22 to measure the effectiveness of these 23 programs? 24 A. Back in the early 90s, it was a joint effort 25 and continues to be, I guess, a joint effort</p>	<p>1 between the system planning department who 2 identifies where these types of programs have 3 the economic basis and the customer services 4 group for implementation and delivery. 5 Q. So you went into these three communities, 6 Francois, and what were the other two? 7 A. William's Harbour and Norman Bay. 8 Q. William's Harbour and Norman Bay, in 2001. 9 Who's monitoring them now to see if there have 10 been any results in reference to diesel 11 consumption, diesel fuel consumption there? 12 A. Well, they'll be monitored just by virtue of 13 the fact that we get statistics from all of 14 these diesel communities every year and 15 produce stats on them. So we'll know once the 16 statistics come in, even on a monthly basis, 17 whether or not there is a reduction in fuel 18 usage. 19 Q. And has there been? 20 A. I can't speak to that right now. Based on our 21 past programs that we have in place, I would 22 suspect that there would be four of these 23 programs. Whether or not there was any load 24 growth on top of that, I don't know. 25 Q. Are there facts and figures available of Hydro</p>
Page 55	Page 56
<p>1 in reference to what the situation was prior 2 to the implementation of the program and what 3 the situation is post implementation? 4 A. I'm not aware of those numbers. That would 5 have been something that would have been 6 compiled or would have been looked at by 7 system planning. 8 Q. Do you believe any such figures exist? 9 A. I certainly believe that there would have been 10 some work done to ascertain the implementation 11 of this program. We just wouldn't implement 12 the program without having some basis in fact. 13 Q. Can you, through your counsel, undertake to 14 provide to us the fuel consumption in these 15 communities where the program was established 16 prior to the implementation of the program to 17 the post program period? 18 A. Yes, we - 19 Q. Is that available? I don't know, Ms. Greene, 20 if it's available or not? 21 A. Yes, I'm sure it's - 22 GREENE, Q.C.: 23 Q. I'm sure fuel consumption is available, 24 period, yes. 25 BROWNE, Q.C.:</p>	<p>1 Q. These are my questions. Thank you very much, 2 Mr. Banfield. 3 CHAIRMAN: 4 Q. Thank you, Mr. Browne, Mr. Banfield. Good 5 morning, Mr. Kelly. 6 KELLY, Q.C.: 7 Q. Good morning, Chair. Chair, before I begin, 8 is it your intention to sit until 10:30 or 9 should I go to 11:00? I expect to be an hour 10 and a half to two hours in total with Mr. 11 Banfield. 12 CHAIRMAN: 13 Q. Okay. We should try to get some estimate of 14 time. 15 MR. SEVIOUR: 16 Q. Chair, I don't expect to be any longer than 17 half an hour with Mr. Banfield. 18 MR. KENNEDY: 19 Q. Similar, Chair. 20 CHAIRMAN: 21 Q. I think, on that basis, we would probably 22 finish at 1:30 pretty well. So, we'll go to 23 11:00, if that's okay. 24 KELLY, Q.C.: 25 Q. That's fine, Chair. Good morning, Mr.</p>

Page 57	Page 58
<p>1 KELLY, Q.C.: 2 Banfield. 3 A. Good morning. 4 Q. I'd like to start with some questions with 5 respect to the new rate stabilization plan. 6 And you've explained to the Board through 7 questions with Ms. Greene, some of the key 8 elements of that plan and I'd like to take you 9 first to Chart 1 on page 2 of your November 10 evidence. 11 A. Yes. 12 Q. And this deals with the hydraulic component of 13 the plan and that component will now be 14 adjusted with 25 percent annually, correct? 15 A. Plus financing charges, yes. 16 Q. Plus financing charges. And what you've 17 attempted to show in Chart 1 is the effect 18 that that would have had if we looked at it on 19 a historical basis obviously with some 20 assumptions as to energy price, et cetera, 21 correct? 22 A. That's correct. 23 Q. And as you indicated to Ms. Greene, if we look 24 at this chart, the amounts that would be owing 25 to Hydro run from about sixty million dollars</p>	<p>1 to the other end where there, approximately 2 about a hundred million dollars then owing to 3 customers at any point in time. 4 A. That's correct. 5 Q. Okay. So, on a 25 percent flow through, if we 6 looked at that historical indicator, that 7 would give us a range of numbers in the 8 fifteen million to twenty five million dollar 9 range on the yearly adjustment? 10 A. Yes, that sounds reasonable. 11 Q. Sounds reasonable, right. The big change in 12 the RSP Program is primarily related then, in 13 addition, to fuel costs, would you agree with 14 that and how fuel costs are treated? 15 A. In particular, the fuel rider. 16 (10:15 a.m.) 17 Q. And I'm going to suggest to you, there are 18 three key elements and see if you agree with 19 this. Number one, the fuel costs will be 20 adjusted annually; number two, there's this 21 forward looking fuel rider; and number three, 22 the fuel and the load variation component is 23 modified so it's assigned to the actual user, 24 whether it's Newfoundland Power or the 25 Industrial Customers. Do you agree with those</p>
Page 59	Page 60
<p>1 three principles? 2 A. Your first principle, you said, fuel would be 3 adjusted annually? 4 Q. The fuel price is adjusted annually with the 5 forward looking fuel rider. 6 A. Yeah, but I thought that was your second 7 point. I'm sorry - 8 Q. I put the two of them then together. 9 A. I'm a little confused on your three points, 10 that's all, I'm sorry. 11 Q. Well, if you wish to put the two, put that 12 together as one point, in other words, it's 13 adjusted annually and it's a forward looking 14 mechanism. 15 A. I would agree that the fuel provisions being 16 recovered annually, that there is a fuel rider 17 and that the--and your last point on the load 18 variation where the fuel now is 100 percent in 19 the load variation, I would agree with those 20 three points. 21 Q. Okay, that's fine. So, would you agree with 22 me that then the price to the end-use 23 customers better reflects the current cost of 24 production and distribution under this 25 program?</p>	<p>1 A. I'm sorry, Mr. Kelly, when you use the word 2 distribution, how do you - 3 Q. Well, it's adjusted on--for example, in 4 Newfoundland Power's case, on July 1st and 5 that will reflect then in rates to customers 6 on July 1st, correct? 7 A. That's correct. 8 Q. So, it's the end-use customers that will get 9 the price signal? 10 A. The RSP to Newfoundland Power will get the 11 right price signal, Newfoundland Power, yes. 12 Q. And that will then flow through to 13 Newfoundland Power's customers? 14 A. However Newfoundland Power handles that 15 through their RSA, yes, I would assume. 16 Q. Right. So, would you agree with me that at 17 the end-use customer level, the purpose of 18 this is to better reflect the current cost of 19 production and distribution to the end-use 20 customer? 21 A. Yes, as long as there's a one to one match 22 with Newfoundland Power's RSA, yes. 23 Q. Okay. Now, if I take you to page 6 of your 24 evidence, in fact at lines 22 through to 24, 25 you talk about the price signal is more</p>

Page 61	Page 62
<p>1 KELLY, Q.C.:</p> <p>2 current. And would you agree with me there</p> <p>3 that what we're talking about is ultimately</p> <p>4 the price signal to the end-use customer?</p> <p>5 A. Yes, it's important that the end-use customer</p> <p>6 get the proper price signal. I mean, as long</p> <p>7 as Newfoundland Power flows the RSP through</p> <p>8 their RSA in a timely fashion, yes, that's</p> <p>9 correct.</p> <p>10 Q. And why is it important for the end-use</p> <p>11 customer to get the proper price signal?</p> <p>12 A. Those are the people that actually are using</p> <p>13 the load on the system and thus, have the</p> <p>14 greatest control.</p> <p>15 Q. Okay. Now, you make the point at line 28 and</p> <p>16 following down to line 31 that this program</p> <p>17 could, in fact, lead to more volatility in</p> <p>18 prices and that would be a function, would you</p> <p>19 agree with me of two factors. Number one is</p> <p>20 the movement in fuel prices and other facts,</p> <p>21 but I'll put this primarily as fuel prices</p> <p>22 moving up or down, then also, affected by the</p> <p>23 changes in the hydraulic part of the plan that</p> <p>24 we just looked at.</p> <p>25 A. Yes, I'd agree with that.</p>	<p>1 Q. Okay. And that it will take some time to have</p> <p>2 some experience with the plan to see how much</p> <p>3 that volatility is in practice, would you</p> <p>4 agree with that?</p> <p>5 A. Yes, we'll certainly know over the next number</p> <p>6 of years should this proposal be accepted by</p> <p>7 the Board as to what volatility we're really</p> <p>8 talking about, yes.</p> <p>9 Q. Right. And how customers react to that</p> <p>10 volatility will become evident over the next</p> <p>11 couple of years as well, would you agree with</p> <p>12 that?</p> <p>13 A. I would agree with that.</p> <p>14 Q. Okay. Now, in addition to, as you say,</p> <p>15 providing a more current price signal, the</p> <p>16 other thing that these modifications will do,</p> <p>17 especially with respect to the recovery of the</p> <p>18 past balances, is to recover those over four</p> <p>19 years. And if I take you to page 7 of your</p> <p>20 evidence, the combined balance of the two</p> <p>21 plans, lines 9 through 12 of your evidence is</p> <p>22 approximately one hundred and sixty seven</p> <p>23 million dollars?</p> <p>24 A. That's correct.</p> <p>25 Q. And recovered over four years, that's</p>
Page 63	Page 64
<p>1 approximately 41.75 million per year, in round</p> <p>2 figures?</p> <p>3 A. Yeah, I'll agree with that.</p> <p>4 Q. Okay. And that number in itself is</p> <p>5 approximately the same order of magnitude, for</p> <p>6 example, as the rural deficit number which</p> <p>7 adds about 10 percent to the price of</p> <p>8 electricity for the end-use customer, do you</p> <p>9 agree with that?</p> <p>10 A. The number is the same magnitude as the rural</p> <p>11 deficit, yes, that's correct.</p> <p>12 Q. About forty one million dollars?</p> <p>13 A. That's correct.</p> <p>14 Q. And so forty one million dollars, I'm</p> <p>15 suggesting to you, adds about 10 percent to</p> <p>16 the price of electricity for the end-use</p> <p>17 customer? Do you agree with an order of</p> <p>18 magnitude of that amount?</p> <p>19 A. My math is not very good this morning. I'll</p> <p>20 accept those numbers.</p> <p>21 Q. Okay. So, if we're recovering that one</p> <p>22 hundred and sixty seven million over the next</p> <p>23 four years and we also have a mechanism now to</p> <p>24 more fully recover the actual cost of</p> <p>25 production as they are incurred, would you</p>	<p>1 agree with me that especially over the next</p> <p>2 four years as these past costs are flowed</p> <p>3 through, that there will be a very significant</p> <p>4 price signal to end-use customers?</p> <p>5 A. Yes, there certainly would be an increased</p> <p>6 price signal depending on what happens in the</p> <p>7 new proposal, in the RSP, yes.</p> <p>8 Q. And the new proposal will flow through the</p> <p>9 existing costs better than the old system, you</p> <p>10 agree with that?</p> <p>11 A. Yes.</p> <p>12 Q. And then in addition to that, because the old</p> <p>13 costs are being recovered on top of that,</p> <p>14 there will be a rather large price signal or</p> <p>15 price incentive to the end-use customers, do</p> <p>16 you agree?</p> <p>17 A. Yes. The only reason I'm hesitating is if,</p> <p>18 for instance, there's a substantial down turn</p> <p>19 in the price of fuel in the new plan, there</p> <p>20 could very well be an offsetting -</p> <p>21 Q. Yes.</p> <p>22 A. - but in general, yes, I do agree.</p> <p>23 Q. Well, let's just take that scenario. If, in</p> <p>24 fact, the price of fuel went down, then the</p> <p>25 real cost of electricity for that year would</p>

Page 65	Page 66
<p>1 KELLY, Q.C.:</p> <p>2 go down, wouldn't it? In other words, the</p> <p>3 cost of generating it would go down?</p> <p>4 A. Yes.</p> <p>5 Q. So that the net affect, in terms of the price</p> <p>6 signal to the ultimate consumer relative to</p> <p>7 the actual cost of production would be</p> <p>8 essentially, the same.</p> <p>9 A. Yes.</p> <p>10 Q. Okay. Now, let's turn next and look at the</p> <p>11 demand\energy wholesale rate. Now, in this</p> <p>12 application, the application is filed on the</p> <p>13 basis of the energy-only rate, correct?</p> <p>14 A. In my evidence, I have stated that the</p> <p>15 demand\energy rate with the, I won't say</p> <p>16 caveats, with the items that have been</p> <p>17 identified as needing to be resolved, once</p> <p>18 those are done, is the preferred rate.</p> <p>19 However, we have filed an energy-only rate as</p> <p>20 an alternative to that demand\energy rate,</p> <p>21 that's correct.</p> <p>22 Q. Well, the application itself is filed with the</p> <p>23 energy-only rate and then you have your</p> <p>24 evidence dealing with the proposed sample rate</p> <p>25 structure, correct?</p>	<p>1 A. The rate schedule as put forward to the Board</p> <p>2 have an energy-only rate in them, yes, that's</p> <p>3 correct.</p> <p>4 Q. Okay. Now, when Hydro put forward the</p> <p>5 demand\energy rates proposal, the new RSP</p> <p>6 arrangements had not yet then been discussed</p> <p>7 and agreed between the various parties, had</p> <p>8 they?</p> <p>9 A. No, they hadn't.</p> <p>10 Q. Okay. Now, in terms of Hydro putting forward</p> <p>11 the demand\energy rate, my understanding, if</p> <p>12 we go to NP 151 and if we go down to lines 10</p> <p>13 through 13, that it is based on its analysis</p> <p>14 outlined in exhibit RDG 2, "Hydro believes the</p> <p>15 demand\energy rate structure is in the best</p> <p>16 interest of efficient and fair rates". So, do</p> <p>17 I understand correctly, first of all, that it</p> <p>18 is based upon the analysis put forward in RDG</p> <p>19 2 that Hydro is recommending the demand\energy</p> <p>20 rate?</p> <p>21 A. That's correct.</p> <p>22 Q. So, the objectives that Hydro wants to achieve</p> <p>23 are those contained within RDG 2?</p> <p>24 A. Yes, that's correct.</p> <p>25 Q. Okay. Now, let me turn next to a couple of</p>
Page 67	Page 68
<p>1 what I call principle points and see whether</p> <p>2 we're in agreement on these. Would you agree</p> <p>3 with me, first of all, the Newfoundland Power</p> <p>4 already pays all of its demand costs from</p> <p>5 Hydro's cost of service through the energy-</p> <p>6 only rate.</p> <p>7 A. Yes, it does.</p> <p>8 Q. Okay. The energy-only rate has less revenue</p> <p>9 volatility for both Hydro and Newfoundland</p> <p>10 Power.</p> <p>11 A. Taking into account the RSP, yes, that's</p> <p>12 correct.</p> <p>13 Q. Okay. And, in fact, Hydro is fully protected</p> <p>14 for its revenue on the current wholesale</p> <p>15 energy only rate structure through the energy-</p> <p>16 only rate and the RSP mechanism?</p> <p>17 A. Can you repeat that again, please, I'm sorry.</p> <p>18 Q. Hydro is fully protected for its revenue on</p> <p>19 the current rate structure through the energy-</p> <p>20 only rate and the RSP?</p> <p>21 A. Yes, I'd agree with that.</p> <p>22 Q. Okay. Now, the next point is, the proposed</p> <p>23 sample rate is based on embedded costs or</p> <p>24 historical costs, do you agree with that?</p> <p>25 A. Yes, I'd agree with that.</p>	<p>1 Q. So, and it is calculated to recover the</p> <p>2 revenue requirement in terms of its total</p> <p>3 magnitude just as the energy-only rate is</p> <p>4 calculated to recover the revenue requirement</p> <p>5 to Hydro.</p> <p>6 A. That's correct.</p> <p>7 Q. Okay. Does Hydro agree that marginal costs</p> <p>8 play a role in rate design is the objective is</p> <p>9 to have rates which are efficient and send</p> <p>10 correct price signals?</p> <p>11 A. Yes, marginal costs do play a role, yes, they</p> <p>12 do play a role.</p> <p>13 Q. Okay. Would you agree that economic</p> <p>14 efficiency is achieved if Newfoundland Power's</p> <p>15 rates reflect marginal cost concepts</p> <p>16 appropriately to its customers?</p> <p>17 A. Would you repeat that again, please?</p> <p>18 Q. Would you agree that efficiency is achieved if</p> <p>19 Newfoundland Power's rates reflect marginal</p> <p>20 cost concepts appropriately to its customers?</p> <p>21 A. It's achieved better if there are marginal</p> <p>22 costs, but it doesn't have to be, that's not a</p> <p>23 necessity, but yes, I would agree with that.</p> <p>24 Q. That it is better.</p> <p>25 A. It's better, yes.</p>

Page 69	Page 70
<p>1 KELLY, Q.C.:</p> <p>2 Q. You would agree that efficiency is a desirable</p> <p>3 objective?</p> <p>4 A. Yes.</p> <p>5 Q. Okay. And as we've already talked about in</p> <p>6 the RSP, I take it you agree that it is the</p> <p>7 end use customers that, that it is important,</p> <p>8 ultimately receive the proper price signal</p> <p>9 since it's their consumption that will be</p> <p>10 affected?</p> <p>11 A. Yes, however, it is important as well for</p> <p>12 Newfoundland Power as a major wholesale</p> <p>13 customer to also receive a proper price signal</p> <p>14 as well.</p> <p>15 Q. Okay. And would you agree that Newfoundland</p> <p>16 Power's rates already had demand charges for</p> <p>17 its customers where it is cost effective to do</p> <p>18 so?</p> <p>19 A. Yes, that's correct.</p> <p>20 Q. And that has been in place despite the fact</p> <p>21 that there has been no demand\energy wholesale</p> <p>22 rate?</p> <p>23 A. That's correct.</p> <p>24 Q. Okay. Now, with that behind us then, can we</p> <p>25 go to RDG 2 and look at some of the objectives</p>	<p>1 that Hydro is contemplating. I take you to</p> <p>2 page 3 and at the introduction under key</p> <p>3 issues.</p> <p>4 A. Um-hm.</p> <p>5 Q. It says the history provided in the previous</p> <p>6 section provides a background of the issues,</p> <p>7 objectives and concerns on behalf of all of</p> <p>8 the parties involved in the energy demand rate</p> <p>9 debate. Each of the key issues are summarized</p> <p>10 in the following four paragraphs. And I</p> <p>11 understand that these are the objectives that</p> <p>12 we are--that Hydro is talking about, Mr.</p> <p>13 Banfield?</p> <p>14 A. These are the key issues which had surfaced, I</p> <p>15 guess, over the last number of years in trying</p> <p>16 to discuss, or not in trying to discuss, in</p> <p>17 discussing a demand\energy rate. These are</p> <p>18 the issues and are the issues which we had</p> <p>19 asked Stone and Webster to address in the</p> <p>20 remaining part of this RDG 2 which is their</p> <p>21 report.</p> <p>22 (10:30 a.m.)</p> <p>23 Q. Okay. And items 1 and 3 in particular discuss</p> <p>24 objectives of the program. Do I understand</p> <p>25 that these are the objectives as we just</p>
Page 71	Page 72
<p>1 looked at from NP 151 that Hydro is seeking to</p> <p>2 achieve?</p> <p>3 A. In general, yes, the bolded sections are, yes.</p> <p>4 Q. Okay. Let's start with item number 1 which is</p> <p>5 to send a correct price signal to all the</p> <p>6 parties and then the explanation says, "from</p> <p>7 the inception, a continuing concern has been</p> <p>8 the ability to encourage DSM"--and that I</p> <p>9 understand to be Demand Side Management. "In</p> <p>10 this report, DSM is viewed in a broad all</p> <p>11 encompassing sense, DSM includes not only</p> <p>12 energy efficiency and energy conservation, but</p> <p>13 also peak demand control programs. And</p> <p>14 therefore, in this study, the term load</p> <p>15 management is used to refer to these</p> <p>16 activities". Now, would you agree with me</p> <p>17 that we could look at Demand Side Management</p> <p>18 in two ways? One way would be to look at it</p> <p>19 in terms of the customer demand for</p> <p>20 electricity versus the supply of electricity?</p> <p>21 A. Yes.</p> <p>22 Q. Okay. And that's in kind of a broad sense.</p> <p>23 A. Sure.</p> <p>24 Q. And in the more narrow sense, we could look at</p> <p>25 it in terms of demand or capacity contrasted</p>	<p>1 with energy. In other words, peak control,</p> <p>2 would you agree with that?</p> <p>3 A. Yes.</p> <p>4 Q. Okay. Which of these does Hydro believe is</p> <p>5 more important?</p> <p>6 A. Both peak and energy are important elements in</p> <p>7 any system. And, I guess, whether one is more</p> <p>8 important or less important at a particular</p> <p>9 junction in time, would relate to the combined</p> <p>10 total of its load it serves, but I don't</p> <p>11 believe that any one is more or less important</p> <p>12 and both have their time and place.</p> <p>13 Q. Okay. Now, it's interesting you mentioned</p> <p>14 time as a factor in that. Is time relevant in</p> <p>15 terms of Hydro's expansion plans and what is</p> <p>16 currently driving that expansion plan, whether</p> <p>17 it is, for example, the need for capacity</p> <p>18 versus a need for energy?</p> <p>19 A. I'm sorry, you'll have to repeat that again</p> <p>20 for me.</p> <p>21 Q. You mentioned the concept of time as we talked</p> <p>22 about both of these items, you said, were</p> <p>23 important. I'm trying to get a better</p> <p>24 understanding as to what you meant by that.</p> <p>25 So, I was asking you whether Hydro's expansion</p>

Page 73	Page 74
<p>1 KELLY, Q.C.:</p> <p>2 plans as to which is more important at any</p> <p>3 given point in time play a factor? In other</p> <p>4 words, the need for capacity versus the need</p> <p>5 for energy.</p> <p>6 A. I was using, and probably incorrectly, the</p> <p>7 phrase time and place to more refer to the</p> <p>8 importance one might place on demand or</p> <p>9 capacity and energy, depending on when you</p> <p>10 were looking at the situation. And obviously</p> <p>11 as you get into the peak periods and you're</p> <p>12 constrained on capacity, the capacity is</p> <p>13 obviously very important. If you're into very</p> <p>14 low water situations, as you start to get near</p> <p>15 to your next source of generation being put</p> <p>16 on, then energy might very well be more</p> <p>17 important aspect. So, I was speaking of time</p> <p>18 and place within that context.</p> <p>19 Q. Okay. Now, do I take it then from the answers</p> <p>20 which you gave that Hydro is interested in</p> <p>21 promoting Demand Side Management both in terms</p> <p>22 of the energy conservation and peak control,</p> <p>23 in other words, both aspects?</p> <p>24 A. From a very generic sense, yes, Hydro is</p> <p>25 interested in those elements.</p>	<p>1 Q. When you say "in a generic sense", is there</p> <p>2 some qualification implicit in that answer in</p> <p>3 some fashion?</p> <p>4 A. No, I don't believe so.</p> <p>5 Q. Okay, all right. Now, if we are to evaluate</p> <p>6 any kind of Demand Side Management, do we not</p> <p>7 need to know marginal cost information in</p> <p>8 order to do that. And let me take you first</p> <p>9 to NP 167. And the question posed was, does</p> <p>10 Hydro believe that DSM options should be</p> <p>11 evaluated on a marginal costs or embedded cost</p> <p>12 basis? And the answer was, DSM should be</p> <p>13 evaluated on a marginal cost basis, et cetera.</p> <p>14 So, would you agree that that's the proper</p> <p>15 test?</p> <p>16 A. The proper test of DSM evaluation is the</p> <p>17 marginal cost, yes.</p> <p>18 Q. Right. And, in fact, you just had that</p> <p>19 discussion with Mr. Browne about DSM</p> <p>20 incentives on the Labrador coast and the</p> <p>21 point, if I understood your evidence</p> <p>22 correctly, that you were making with him, is</p> <p>23 well, it's only in some communities that Hydro</p> <p>24 has determined that DSM is effective. Did I</p> <p>25 get the thrust of that correct?</p>
Page 75	Page 76
<p>1 A. Well, I think DSM can be effective in all of</p> <p>2 the communities. It's a matter of who pays</p> <p>3 for the DSM itself.</p> <p>4 Q. Is it not a matter of is it cost effective, in</p> <p>5 other words, is the benefit out of it, is the</p> <p>6 expense of it warranted by the benefit to be</p> <p>7 achieved?</p> <p>8 A. That's correct.</p> <p>9 Q. Okay. Because I take it Hydro would only want</p> <p>10 to have DSM programs that are cost effective.</p> <p>11 Whether that is peak demand or energy</p> <p>12 conservations, correct?</p> <p>13 A. I'm sorry, could you repeat that again,</p> <p>14 please?</p> <p>15 Q. I take it Hydro would only want to have DSM</p> <p>16 programs that are cost effective, in other</p> <p>17 words, the benefit out weighs the cost?</p> <p>18 A. Yes, that's correct.</p> <p>19 Q. Okay. And that would be true whether it is</p> <p>20 simply a capacity or peak issue as well as if</p> <p>21 it was an energy conservation mechanism.</p> <p>22 A. That's correct.</p> <p>23 Q. Okay. Now, if I take you to NP 141, Hydro has</p> <p>24 not completed a Marginal Cost study in the</p> <p>25 last ten years, has it?</p>	<p>1 A. No, it hasn't.</p> <p>2 Q. In fact, the last one, I believe, was 1984, is</p> <p>3 that correct?</p> <p>4 A. I think that's the date, yes. In the '80s,</p> <p>5 early '80s, yes, '83, '84, somewhere in that</p> <p>6 time frame, yes.</p> <p>7 Q. Okay. And can I take you to NP 188 and I take</p> <p>8 it Hydro, apart from the HYDROWISE information</p> <p>9 program, currently has no plans itself to</p> <p>10 implement DSM programs on the Island</p> <p>11 Interconnected System?</p> <p>12 A. On the Island Interconnected System, that's</p> <p>13 correct.</p> <p>14 Q. Could you just explain why?</p> <p>15 A. We had not found it to be an economic</p> <p>16 proposition for us to put in a DSM program at</p> <p>17 this particular junction in time.</p> <p>18 Q. And why not? Why is it not economic?</p> <p>19 A. Part of the problem relates to the fact that</p> <p>20 our customers are paying Newfoundland Power</p> <p>21 rates when you look at the cost and revenues,</p> <p>22 there's a mismatch in those areas. Other than</p> <p>23 that, I really can't comment on it.</p> <p>24 Q. Okay. Well, how would Hydro evaluate the cost</p> <p>25 and benefits of any DSM program without a</p>

Page 77	Page 78
<p>1 KELLY, Q.C.:</p> <p>2 Marginal Cost Study? May I suggest to you it</p> <p>3 can't be done?</p> <p>4 A. In general, yes, you're right. We've stated</p> <p>5 and I've agreed and other witnesses have</p> <p>6 agreed that DSM programs are evaluated on a</p> <p>7 marginal cost basis. There's no doubt about</p> <p>8 that, at all. The demand/energy rate that we</p> <p>9 have proposed and the demand rate itself is</p> <p>10 based on an embedded cost basis as I've agreed</p> <p>11 to as well. However, in looking at it in a,</p> <p>12 maybe a simplistic fashion, but I think a</p> <p>13 realistic fashion as well, the demand rate</p> <p>14 which we had proposed, closely resembles that</p> <p>15 of a peaking unit which would be historically,</p> <p>16 at least, would have been used to judge</p> <p>17 marginal cost basis. And therefore, we</p> <p>18 believe that the demand rate that we proposed</p> <p>19 goes a long way to giving a price signal to</p> <p>20 Newfoundland Power to look at programs.</p> <p>21 Whether or not the program is undertaken or</p> <p>22 whether or not its cost effective, that's for</p> <p>23 Newfoundland Power to ascertain and to decide.</p> <p>24 Q. Okay. Actually, a couple of questions arising</p> <p>25 from that then. First of all, does Hydro have</p>	<p>1 any plans to add a new peaking unit in the</p> <p>2 next three or four years?</p> <p>3 A. No, we don't.</p> <p>4 Q. In fact, does Hydro have any plans to add such</p> <p>5 a peaking unit at least out to 2010?</p> <p>6 A. Based on the evidence put before the Board, I</p> <p>7 think that's correct.</p> <p>8 Q. Okay. Now, in terms of Newfoundland Power</p> <p>9 evaluating a DSM program, would you agree that</p> <p>10 Newfoundland Power, in terms of cost</p> <p>11 effectiveness would also have to evaluate it</p> <p>12 on a marginal cost basis?</p> <p>13 A. Yes, they would.</p> <p>14 Q. And would you agree with me that Newfoundland</p> <p>15 Power could not properly do that without a</p> <p>16 Marginal Cost Study?</p> <p>17 A. As I've stated, I believe that the demand rate</p> <p>18 which we have included in this application,</p> <p>19 even though it fully reflects the embedded</p> <p>20 cost, is also close to a long term peaking</p> <p>21 option and therefore, does give relevant price</p> <p>22 signal and at least allows Newfoundland Power</p> <p>23 to begin that process of looking at Demand</p> <p>24 Side Managements issues. If Newfoundland</p> <p>25 Power believes and can't bring itself to agree</p>
Page 79	Page 80
<p>1 that Demand Side Management is cost effective,</p> <p>2 then I guess on that premise, Demand Side</p> <p>3 Managements programs will not go ahead. But</p> <p>4 that does not counter putting in a demand</p> <p>5 energy rate as we've proposed.</p> <p>6 Q. If Newfoundland Power were to bring forward a</p> <p>7 Demand Side Management program to the Board,</p> <p>8 you would agree with me that the Board would</p> <p>9 have to judge cost effectiveness on marginal</p> <p>10 cost principles.</p> <p>11 A. Yes.</p> <p>12 Q. And without a Marginal Cost Study, the Board</p> <p>13 would not have the information to judge</p> <p>14 whether, in fact, it was cost effective or</p> <p>15 not, would you agree with that?</p> <p>16 A. No, as I've stated before, the rate as we have</p> <p>17 proposed, even though it's based on an</p> <p>18 embedded cost, I believe, reflects and as Mr.</p> <p>19 Greneman has stated as well in his testimony,</p> <p>20 that it reflects a marginal cost from a</p> <p>21 peaking type unit. And, I believe, that the</p> <p>22 Board in its deliberations or Newfoundland</p> <p>23 Power in its deliberations would have to look</p> <p>24 at what type of DSM program it's getting</p> <p>25 involved in and make its own judgments as to</p>	<p>1 whether or not that is cost effective.</p> <p>2 Q. Is it Hydro's position then, based upon what</p> <p>3 you just said, that up to \$84.00 per kilowatt</p> <p>4 per year, that Hydro is recommending that that</p> <p>5 amount of money is, in fact, cost effective to</p> <p>6 spend on peak demand limitation?</p> <p>7 A. I believe you covered this in direct testimony</p> <p>8 with Mr. Greneman and I really don't believe I</p> <p>9 can add much more than what Mr. Greneman</p> <p>10 already stated in his evidence or in the</p> <p>11 transcripts he stated that he would have to</p> <p>12 look at the quality of the product that you're</p> <p>13 getting, whether it's DSM which only gets you</p> <p>14 peak over a limited period of time or whether</p> <p>15 it's a permanent type thing that you're being</p> <p>16 able to put in place. That will dictate how</p> <p>17 much money you're willing to spend on a DSM</p> <p>18 initiative.</p> <p>19 Q. How will you determine qualitatively how much</p> <p>20 money you're prepared to spend on any</p> <p>21 particular initiative then?</p> <p>22 A. Based on the embedded rates which we have</p> <p>23 which I've already said, as well, I believe,</p> <p>24 are close to a marginal cost for a peaking</p> <p>25 unit, if you could permanently remove a</p>

Page 81	Page 82
<p>1 MR. BANFIELD: 2 kilowatt from the system, then you would be 3 able to spend up to the amount of money that's 4 in that rate, but again, you'd have to 5 evaluate exactly what the cost is to you in 6 doing that. 7 KELLY, Q.C.: 8 Q. Now, are Interruptible rates or curtailable 9 rate a form of DSM? 10 A. Yes, in the full picture, yes, it would be, 11 yes. 12 (10:45 a.m.) 13 Q. And in fact, if I take you over to page ten of 14 RDG No. 2, at the top of the page, Mr. 15 Greneman makes the point that typically the 16 largest load management opportunities are 17 derived from commercial and industrial 18 facilities rather than residential facilities 19 and in several US jurisdictions, demand rates 20 have resulted in significant load shifts, when 21 targeted at large users. Is Hydro proposing 22 any DSM with its large industrial customers? 23 A. Not as such, no. 24 Q. Can you explain to the Board why not? 25 A. No reason other than the opportunities have</p>	<p>1 just not presented themselves to us in our 2 dealings with the Industrial Customers. That 3 doesn't mean that there's any right or wrong, 4 and the same would be true for Newfoundland 5 Power. If there were no opportunities for 6 DSM, then obviously we would not expect or I 7 don't think the Board would expect 8 Newfoundland Power to go ahead with DSM 9 programs if they just weren't there. But that 10 does not take away from having a demand/energy 11 rate structure. 12 Q. Now Hydro is proposing to terminate the 13 Interruptible B program at Abitibi 14 Stephenville? 15 A. That's correct. We already have terminated 16 that program. 17 Q. Have terminated it, okay, and that provided 18 for 46 megawatts of peak reduction 25 times a 19 year at \$28.20 per kilowatt? 20 A. That's correct. 21 Q. Okay. Now can I take you to NP-178? In this 22 answer, if I take you down to line 15, Hydro-- 23 it states "Hydro believes that the 24 demand/energy rate structure provides an 25 efficient pricing signal, since it serves the</p>
Page 83	Page 84
<p>1 dual purpose of collecting embedded demand 2 costs while also providing a marginal pricing 3 signal." Now where is the marginal pricing 4 signal? 5 A. As I've stated, we believe that the \$7.00 per 6 kilowatt per month is very close to the cost 7 of a peaker type unit that would be put on the 8 system. From that, we have used that phrase, 9 "providing a marginal pricing signal." 10 Q. Now that - 11 A. It may be simplistic in nature, but it does 12 provide a signal at this current time. 13 Q. Now a peaker unit would be simply something 14 designed to meet a peak capacity? It's not-- 15 it's like your Hardwoods plant or one of your 16 other gas turbines, isn't it? 17 A. That's correct. 18 Q. So you'd only run it at peak, correct? 19 A. That's correct. 20 Q. So I take it then is it now Hydro's position 21 that that \$7.00 a month is an appropriate 22 amount to pay for peak reduction? 23 A. No. Even though the Hardwoods gas turbines or 24 that type of a peaker unit would only be put 25 on the system or at least initially designed</p>	<p>1 to put on the system to meet peak, it 2 certainly provides for more than that, should 3 the need arise. Even though we do not make 4 provision for energy delivered from those 5 plants, it is there in case of an emergency. 6 It's there except for maintenance periods, 7 it's there 24 times 7, 365 days a year, 8 available for emergencies, et cetera. So it 9 does provide additional benefits to the system 10 over and above what an Interruptible load 11 would provide. 12 Q. Okay, Mr. Banfield, if the answer then is that 13 a peaker unit provides more than simply peak 14 capacity, then would you not have to agree 15 with me that the \$7.00 charge then for demand 16 only, pure demand, is too much on the answer 17 that you've just given? 18 A. In terms of avoiding capacity, no, because 19 that's what the capacity costs. If the 20 capacity is already on the system or the 21 demand is already on the system, the cost to 22 remove that demand can be considerably less, 23 as we had demonstrated with the Interruptible 24 B. 25 Q. Let me take you to NP-179, and Hydro's answer</p>

Page 85	Page 86
<p>1 KELLY, Q.C.:</p> <p>2 says "the only implication is that Hydro does</p> <p>3 not require the capacity contracted for under</p> <p>4 the Interruptible B." Now that's 46 megawatts</p> <p>5 of peak capacity, correct?</p> <p>6 A. That was 46 megawatts of capacity, yes, of</p> <p>7 demand which could be removed from the system</p> <p>8 under the premises and the description as you</p> <p>9 just previously gave. That's correct.</p> <p>10 Q. Well, what value then does Hydro believe there</p> <p>11 is for a peak demand reduction, not an energy</p> <p>12 reduction but for a peak demand reduction in</p> <p>13 2004? Is it zero dollars based upon</p> <p>14 terminating Interruptible B?</p> <p>15 A. I'm sorry, can you repeat that again?</p> <p>16 Q. What value does Hydro believe is the value of</p> <p>17 peak demand reduction, in other words, not</p> <p>18 energy reduction but peak demand reduction</p> <p>19 only in 2004?</p> <p>20 A. From an embedded cost basis for Newfoundland</p> <p>21 Power, that cost is \$84.00 per kilowatt per</p> <p>22 year because that's what we already have built</p> <p>23 to supply that demand. In terms of a longer</p> <p>24 term vision stated that based on a peaker</p> <p>25 style unit, it would be approximately the same</p>	<p>1 value, of about \$7.00 per kilowatt per month.</p> <p>2 So there's not a simple answer for what that</p> <p>3 value is.</p> <p>4 Q. But Hydro itself is not prepared to pay</p> <p>5 anything to Abitibi for peak demand reduction</p> <p>6 in 2004?</p> <p>7 A. That's correct, by not renewing the</p> <p>8 Interruptible B, we had no requirement for it</p> <p>9 and therefore we could not justify paying</p> <p>10 anything for it, obviously.</p> <p>11 Q. Right. If you have no requirement for it and</p> <p>12 can't justify paying it for it, then should</p> <p>13 not this Board conclude that peak demand</p> <p>14 reduction only, alone, is not worth anything</p> <p>15 in 2004? Is that not the conclusion, Mr.</p> <p>16 Banfield?</p> <p>17 A. I cannot agree with that conclusion because</p> <p>18 it's not, I don't believe, presenting the</p> <p>19 appropriate facts in the sense that the demand</p> <p>20 costs of, if I could say, consumption on</p> <p>21 Newfoundland Power's perspective is, as we</p> <p>22 have said, directly from the Cost of Service</p> <p>23 Study is \$84.00 per kilowatt per year or</p> <p>24 approximately \$7.00 per kilowatt per month.</p> <p>25 That is what it's costing Hydro to provide</p>
Page 87	Page 88
<p>1 that demand.</p> <p>2 Q. That's historical cost, isn't it?</p> <p>3 A. That's historical cost, that's correct.</p> <p>4 Q. That's not forward looking?</p> <p>5 A. And based on what I've already stated, we</p> <p>6 believe as well that it's representative of a</p> <p>7 long-term forward looking peaker style unit.</p> <p>8 It's not based on a full marginal cost study,</p> <p>9 I agree, but it does give some sense of what</p> <p>10 the value is from a long-term perspective.</p> <p>11 Q. What is Hydro's position with respect to</p> <p>12 Newfoundland Power's curtailable rate? Should</p> <p>13 Newfoundland Power terminate now its</p> <p>14 curtailable rate program, since that is only a</p> <p>15 peak demand limitation just as Hydro is</p> <p>16 terminating the Interruptible B program?</p> <p>17 A. I can't comment on the benefits of</p> <p>18 Newfoundland Power having a curtailable</p> <p>19 program from their perspective or not. There</p> <p>20 may be other reasons why they have that</p> <p>21 curtailable program. It could be transformer</p> <p>22 limitations at a given load centre or</p> <p>23 whatever. I'm not in a position to make that</p> <p>24 judgment, Mr. Kelly.</p> <p>25 Q. In terms of simply capacity for the system and</p>	<p>1 taking it off peak, is there any difference</p> <p>2 between curtailable rates for Newfoundland</p> <p>3 Power and the Interruptible B program?</p> <p>4 A. Again, I won't make any comment on that.</p> <p>5 Q. Okay. Chair, I'm just about to turn to the</p> <p>6 next section. This is probably a good time to</p> <p>7 break.</p> <p>8 CHAIRMAN:</p> <p>9 Q. Sure. That'll be fine, Mr. Kelly. Thank you.</p> <p>10 Thank you, Mr. Banfield. We'll break until</p> <p>11 11:30.</p> <p>12 (10:54 a.m. - BREAK)</p> <p>13 (11:29 a.m. - RESUMED)</p> <p>14 CHAIRMAN:</p> <p>15 Q. Thank you. Are you ready, Mr. Banfield? When</p> <p>16 you're ready, Mr. Kelly.</p> <p>17 KELLY, Q.C.:</p> <p>18 Q. Thank you, Chair. Mr. Banfield, when we had</p> <p>19 broken, we had looked at the DSM issue and in</p> <p>20 the course of answering some of my questions,</p> <p>21 you referred to the peaker and I questioned</p> <p>22 you over Hydro's plans to add a peaker out to</p> <p>23 2010. Can I take you, for a moment, to NP-</p> <p>24 154? And in this particular question, if I</p> <p>25 take you down to about line 10, "Hydro would</p>

Page 89	Page 90
<p>1 KELLY, Q.C.:</p> <p>2 normally plan to add generation in 2010 as the</p> <p>3 energy deficit in 2009 is not considered</p> <p>4 significant. Since the next plant addition is</p> <p>5 required to meet both demand and energy</p> <p>6 requirements, a reduction in peak only with no</p> <p>7 associated energy reduction will not defer the</p> <p>8 next plant addition, although it may have an</p> <p>9 impact on which options would be considered</p> <p>10 least cost at that time and beyond." Would</p> <p>11 you agree with me that in 2010, Hydro does not</p> <p>12 plan to add a peaker unit?</p> <p>13 A. Under the present circumstances and system as</p> <p>14 we know it today, you're correct.</p> <p>15 Q. And to properly evaluate DSM on a marginal</p> <p>16 cost basis, may I suggest to you that it would</p> <p>17 be necessary to model Hydro's long-run</p> <p>18 expansion plan to determine that long-run</p> <p>19 marginal cost?</p> <p>20 A. To know for sure and to know accurately what</p> <p>21 the long-run marginal cost is on the system, a</p> <p>22 true marginal cost study would have to be</p> <p>23 performed. In the absence of such a study,</p> <p>24 the cost associated with a peaker unit is not</p> <p>25 a bad proxy for long-run marginal costs.</p>	<p>1 Q. Okay. And let's turn next then to the next</p> <p>2 point, which is in RDG No. 2 at page three</p> <p>3 again, which is the issue of revenue</p> <p>4 neutrality and avoiding earnings revenue</p> <p>5 volatility and it talks about "all parties,</p> <p>6 Hydro and NP remain revenue neutral and avoid</p> <p>7 earnings revenue volatility." I won't read</p> <p>8 the rest of the bullet points. Let's look</p> <p>9 first at Newfoundland Hydro. Can I take you</p> <p>10 to PUB-151? And at line 7, the difference,</p> <p>11 "since '96, the difference between Hydro's</p> <p>12 forecast for NP native peak and the weather</p> <p>13 adjusted actual has been within the range of</p> <p>14 plus or minus five percent," and Hydro, in its</p> <p>15 proposal proposes a two percent floor, in</p> <p>16 terms of how load demand would fall, and at</p> <p>17 line 16, that is 21.1 megawatts, correct?</p> <p>18 A. That's correct.</p> <p>19 Q. Okay. So on Hydro's proposal, the most demand</p> <p>20 that Hydro would wish to have taken off the</p> <p>21 system would be a maximum of 21 megawatts,</p> <p>22 21.1?</p> <p>23 A. 21.1 is what we propose as being the floor</p> <p>24 from a billing perspective to protect Hydro's</p> <p>25 revenue requirement. Should it be seen fit to</p>
Page 91	Page 92
<p>1 take more than that off the system, that's a</p> <p>2 choice by Newfoundland Power, but from a</p> <p>3 costing or a billing perspective, that's all</p> <p>4 that Hydro had proposed that it was willing to</p> <p>5 set as a floor.</p> <p>6 Q. Okay. Now can we look at PUB-152? And that</p> <p>7 floor is 1.7 million dollars. So Hydro</p> <p>8 currently has no revenue volatility as we</p> <p>9 discussed because of the energy only rate, the</p> <p>10 RSP, and Hydro would now have a low range</p> <p>11 volatility or a lower--on the negative side of</p> <p>12 1.77 million, correct?</p> <p>13 A. That's correct.</p> <p>14 Q. Okay. Now on the up side, Hydro has a</p> <p>15 potential gain of 4.95 million, correct?</p> <p>16 A. Based on the plus/minus five percent, yes.</p> <p>17 Q. Okay. Now in item two in RDG-2, it talked</p> <p>18 about revenue neutrality and avoiding</p> <p>19 volatility and avoiding windfalls. What does</p> <p>20 Hydro--first of all, would you agree with me</p> <p>21 that it is not neutral if there is a potential</p> <p>22 upside gain which significantly exceeds any</p> <p>23 downside risk?</p> <p>24 A. What you had referred to in RDG-2, Mr. Kelly,</p> <p>25 were the issues that had been raised in prior</p>	<p>1 discussions regarding a demand/energy rate.</p> <p>2 What Hydro has proposed, based on the Stone</p> <p>3 and Webster Report, is how Hydro was to</p> <p>4 address these concerns and we came to the</p> <p>5 conclusion, in dealing with Stone and Webster,</p> <p>6 that, and as Mr. Greneman had stated that if</p> <p>7 the demand/energy rate was to be put in place,</p> <p>8 then there would have to be some risk or some</p> <p>9 volatility associated with that. You can't</p> <p>10 sort of have one without the other. I think</p> <p>11 Mr. Greneman sort of used the words here</p> <p>12 "inseparable." So you're correct in that as a</p> <p>13 premise that if we were to keep all revenues</p> <p>14 neutral and avoid earnings volatility, then</p> <p>15 the energy only rate does do that. We had</p> <p>16 concluded however that for other reasons as</p> <p>17 Stone and Webster have included in their</p> <p>18 report, that a demand/energy rate was a fairer</p> <p>19 rate, and therefore, by virtue of putting it</p> <p>20 in, there has to be some revenue volatility.</p> <p>21 Q. So my question to you is, it is not balanced,</p> <p>22 is it, and there is--it is not revenue neutral</p> <p>23 because your upside gain on your proposal is</p> <p>24 4.95 million versus a downside risk of 1.77</p> <p>25 and since it is not revenue neutral, has Hydro</p>

Page 93	Page 94
<p>1 KELLY, Q.C.:</p> <p>2 abandoned revenue neutrality as an objective?</p> <p>3 A. Revenue neutrality, from the perspective, I</p> <p>4 believe of what Stone and Webster had put</p> <p>5 forward in the RDG-2 was based on the energy</p> <p>6 only rate and the RSP, that type of revenue</p> <p>7 neutrality, not a symmetry of ups and downs.</p> <p>8 Q. Does Hydro believe that it would be</p> <p>9 appropriate to have some kind of cap on its</p> <p>10 potential upside or not?</p> <p>11 A. What Hydro has proposed is a floor and we have</p> <p>12 not proposed a cap on the upside, based on a</p> <p>13 plus/minus five percent range.</p> <p>14 Q. And why have you not proposed a cap on the</p> <p>15 upside?</p> <p>16 A. We just not have proposed a cap on the upside.</p> <p>17 I don't have a reason. We believe that within</p> <p>18 the framework of what we had proposed that</p> <p>19 there was no necessity for an upside cap.</p> <p>20 Q. Okay. If the demand rises, that revenue would</p> <p>21 have to flow from Newfoundland Power and</p> <p>22 ultimately from its customers in some fashion?</p> <p>23 Would you agree with that?</p> <p>24 A. It certainly would have to flow from</p> <p>25 Newfoundland Power. How Newfoundland Power</p>	<p>1 wished to evaluate or to guard against or to</p> <p>2 take steps to correct any imposition on itself</p> <p>3 would be up to them.</p> <p>4 Q. Okay. Can I take you to NP-127? And I take</p> <p>5 it when you filed your original evidence,</p> <p>6 Hydro had not evaluated the revenue risk and</p> <p>7 rate stability issues of the demand/energy</p> <p>8 rate insofar as it applied to Newfoundland</p> <p>9 Power and its customers?</p> <p>10 A. Sir, can you repeat that again?</p> <p>11 Q. When you filed your original evidence in May</p> <p>12 and August, I take it you hadn't evaluated the</p> <p>13 risk to Newfoundland Power of the</p> <p>14 demand/energy rate?</p> <p>15 A. No, we hadn't. We had knowledge obviously</p> <p>16 that there would be revenue earnings</p> <p>17 volatility for Newfoundland Power, but in</p> <p>18 terms of an analysis, no, I would agree that</p> <p>19 we hadn't analyzed it.</p> <p>20 Q. Okay. Now you've since then had an</p> <p>21 opportunity to look at Mr. Perry and Mr.</p> <p>22 Henderson's evidence? Have you done that?</p> <p>23 A. Yes, I have.</p> <p>24 Q. And do you accept their evidence as to the</p> <p>25 revenue volatility effects on Newfoundland</p>
Page 95	Page 96
<p>1 Power?</p> <p>2 A. There are certainly revenue volatility effects</p> <p>3 on Newfoundland Power as a result of the</p> <p>4 demand/energy rate being proposed. That's</p> <p>5 correct.</p> <p>6 Q. Okay. And some of the mechanisms that have</p> <p>7 been discussed: from Mr. Brockman's testimony,</p> <p>8 a pass-through mechanism, so it would be</p> <p>9 passed through to customers in some fashion; a</p> <p>10 reserve account mechanism; and one of the</p> <p>11 witnesses also talked about expanding the</p> <p>12 scope of the range of rate of return. Does</p> <p>13 Hydro have any position if a demand/energy</p> <p>14 rate were implemented which, if any of those</p> <p>15 mechanisms would be appropriate?</p> <p>16 A. No, Hydro has not taken any position on any of</p> <p>17 those mechanisms on which would be</p> <p>18 appropriate. We would leave that to</p> <p>19 Newfoundland Power. However, if Newfoundland</p> <p>20 Power wished to discuss any of those issues</p> <p>21 with us, we would be only too glad to do that.</p> <p>22 Q. And would you agree that if a demand/energy</p> <p>23 rate were to be implemented, that would be an</p> <p>24 issue that would have to be addressed and</p> <p>25 considered by the Board?</p>	<p>1 A. If Newfoundland Power felt that that revenue</p> <p>2 volatility was of such a magnitude that it</p> <p>3 wished to discuss that with the Board and to</p> <p>4 seek the Board's guidance on it, quite</p> <p>5 obviously that would be Newfoundland Power's</p> <p>6 prerogative to do that, but Hydro does not</p> <p>7 feel that that volatility is in and of itself,</p> <p>8 enough not to introduce a demand/energy rate</p> <p>9 as proposed by Hydro.</p> <p>10 Q. Now can I take you to item three of the Stone</p> <p>11 and Webster Report at page three, RDG-2? And</p> <p>12 item three was to provide NP an incentive to</p> <p>13 minimize the island peak, and if we go through</p> <p>14 this, as I read it, at least three things are</p> <p>15 proposed. Let's take them one at a time. "A</p> <p>16 demand rate can provide NP with the direct</p> <p>17 incentive to reduce peak through the use of</p> <p>18 its own generation during peak." Now does</p> <p>19 Hydro want any change in the method currently</p> <p>20 used to dispatch generation at peak?</p> <p>21 A. Let me make a comment first. The items which</p> <p>22 we're reviewing here in RDG-2 are items which</p> <p>23 Stone and Webster, to the best of my</p> <p>24 knowledge, put forward as issues and items</p> <p>25 that had been raised during previous</p>

Page 97	Page 98
<p>1 MR. BANFIELD:</p> <p>2 discussions on the demand/energy rate. They</p> <p>3 are in and of themselves not necessarily</p> <p>4 issues for go forward, but we have, in putting</p> <p>5 forward the demand/energy rate, tried to</p> <p>6 address sort of the obstacles, if I could put</p> <p>7 it that way, of what had been discussed in the</p> <p>8 past regarding a demand/energy rate.</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Before we then go on to item three, let me ask</p> <p>11 you this question, because I started off this</p> <p>12 question this morning earlier on asking you</p> <p>13 about the objectives and were the objectives</p> <p>14 set out in RDG-2, and I thought we agreed with</p> <p>15 that. Are there any--does Hydro have any</p> <p>16 objectives as to what it is trying to achieve</p> <p>17 which is not set out in this summary?</p> <p>18 A. I had agreed that the objectives that are in</p> <p>19 bold in these items are certainly the</p> <p>20 objectives of what we tried to deal with in</p> <p>21 terms of proposing a rate, that is provide NP</p> <p>22 an incentive to minimize the island peak.</p> <p>23 Some of the other comments in there, I think,</p> <p>24 are commentary on some of the problems that</p> <p>25 were in the past and how we might be able to</p>	<p>1 address those going forward. That was my</p> <p>2 position in answering your question before,</p> <p>3 Mr. Kelly.</p> <p>4 Q. Okay. So if the objective is to have NP--to</p> <p>5 give NP, Newfoundland Power, an incentive to</p> <p>6 minimize the island peak, there are three</p> <p>7 items that are discussed in this next</p> <p>8 paragraph and perhaps we can discuss the three</p> <p>9 of them and then I'll ask you whether there</p> <p>10 are any other ways that you think are</p> <p>11 appropriate. The first one, as we just looked</p> <p>12 at, was "a demand rate can provide NP with a</p> <p>13 direct incentive to reduce peak through the</p> <p>14 use of its own generation during peak." And</p> <p>15 my question to you was, does Hydro want any</p> <p>16 change in the method currently used to</p> <p>17 dispatch Newfoundland Power's generation at</p> <p>18 peak?</p> <p>19 A. No, and that's why in this report the option A</p> <p>20 was proposed.</p> <p>21 Q. Okay. So Hydro wants to continue the existing</p> <p>22 methodology of how Newfoundland Power's</p> <p>23 generation is dispatched at peak? In other</p> <p>24 words, when called upon by Hydro, Newfoundland</p> <p>25 Power runs its generation at peak?</p>
Page 99	Page 100
<p>1 A. Yes. We see no--we have proposed that that</p> <p>2 continue, yes.</p> <p>3 Q. Okay. So the first part is not really</p> <p>4 important. Then the second one is "through</p> <p>5 the use of a demand rate, NP in turn can</p> <p>6 provide incentives to its customers to reduce</p> <p>7 peak through rates." I'll just stop you</p> <p>8 there. Has Hydro looked at Newfoundland</p> <p>9 Power's rate structure?</p> <p>10 A. No, Hydro has not performed any analysis of</p> <p>11 Newfoundland Power's rate structure in</p> <p>12 relationship to this particular item, no.</p> <p>13 Q. And can I take you to PUB-148? And in fact,</p> <p>14 I'll let you read the question and the answer,</p> <p>15 and in the answer, it says "due to the absence</p> <p>16 of either the experience of the hypothetical</p> <p>17 utility or data to support an alternative, no</p> <p>18 different strategy can be surmised." So I</p> <p>19 take it that Hydro is not aware of any changes</p> <p>20 that it would want to make in Newfoundland</p> <p>21 Power's rate structure to minimize peak?</p> <p>22 A. Hydro is not aware of any changes, nor have we</p> <p>23 studied it to see if there should be any</p> <p>24 changes. We would leave that solely to</p> <p>25 Newfoundland Power to do that, based on a</p>	<p>1 proper demand energy signal sent from</p> <p>2 Newfoundland Hydro. If Newfoundland Power</p> <p>3 determined that there was no change required</p> <p>4 in their rate structure, that would be</p> <p>5 Newfoundland Power's decision.</p> <p>6 Q. Okay. So can I take you to CA-236 for a</p> <p>7 moment? And if we could scroll up a little</p> <p>8 bit until we get to the--you can have a chance</p> <p>9 to look at it, but the part I want to take you</p> <p>10 to is a little further down the page. If we</p> <p>11 can move up a little, Mr. O'Reilly, when</p> <p>12 you're ready? There you go. Can we just go</p> <p>13 down a bit so we get the block in? There we</p> <p>14 go. One of the things that has been of</p> <p>15 concern to Newfoundland Power is that the</p> <p>16 energy component in its demand/energy retail</p> <p>17 rates is, in fact, priced too low. You'll see</p> <p>18 there it's 92 percent, 90 percent and 90</p> <p>19 percent, in the higher general service</p> <p>20 category, and you'll see the explanation down</p> <p>21 at the bottom. Has Hydro formulated any</p> <p>22 opinion as to the demand/energy balance in</p> <p>23 Newfoundland Power's general service classes?</p> <p>24 A. No. I have not studied it. I'm not aware of</p> <p>25 any studies that Hydro has undertaken to</p>

Page 101	Page 102
<p>1 MR. BANFIELD: 2 evaluate the energy rate provided by 3 Newfoundland Power to its general rate 4 classes, no. 5 KELLY, Q.C.: 6 Q. Okay. So can we go back then to point number 7 three at RDG-2 and page three? We looked at 8 reducing peak through changing generation. We 9 looked at it reducing peak through rates and 10 the last part of it is, I'll read it, "through 11 the use of a demand rate, NP in turn can 12 provide incentives to its customers to reduce 13 peak." The first was through rates and the 14 next is "or other cost effective means." Now 15 I take it other cost effective means would be 16 the Demand Side Management components we 17 talked about earlier? 18 A. Yes, that would certainly be some of those, 19 yes. 20 Q. And they would have to be evaluated on a 21 marginal cost basis, as we talked about? 22 A. That's correct. 23 Q. Now are there any other things that you want 24 to incent Newfoundland Power to do by this, 25 other than the points that we have talked</p>	<p>1 about here? 2 A. No. 3 Q. Okay. Now then, since we don't want to change 4 generation and since no problems have been 5 identified with respect to the rates, and 6 since we don't have a Marginal Cost Study to 7 determine what is cost effective DSM, why do 8 we need to add the volatility that we have 9 talked about, if we're not going to achieve 10 anything until those things have been 11 analyzed? 12 GREENE, Q.C.: 13 Q. Excuse me. In terms of the question, Mr. 14 Kelly said that there's been no issue 15 determined with respect to the rates. This 16 issue came up as well with respect to Mr. 17 Greneman's evidence. Hydro's position is that 18 it has not studied Newfoundland Power's rate 19 structures to its customers. That is not part 20 of Hydro's application. It is our position 21 that that is the responsibility of 22 Newfoundland Power to do, and again, Mr. Kelly 23 this morning has asked Mr. Banfield a number 24 of questions about the Newfoundland Power rate 25 structure. So I just wanted to ensure that</p>
Page 103	Page 104
<p>1 Hydro's position was correct, because I 2 believe it was misstated by Mr. Kelly there in 3 his question. It is Hydro's position that it 4 is Newfoundland Power's responsibility to look 5 at its own rate structures to determine 6 whether they are appropriate and whether they 7 would need to be changed if the Board orders a 8 new demand/energy rate, and it is not part of 9 our application to comment on the Newfoundland 10 Power rate structure. 11 KELLY, Q.C.: 12 Q. Yes, I understand that. 13 GREENE, Q.C.: 14 Q. That was not the way the question was phrased. 15 KELLY, Q.C.: 16 Q. Well, let me try the question again, Mr. 17 Banfield. I thought the question was 18 reasonably fair. If in fact you don't want to 19 change the generation methodology, dispatch 20 methodology, and if I'll use Ms. Greene's 21 phraseology that Hydro takes no position with 22 respect to Newfoundland Power's rates, and if 23 we haven't determined other cost effective 24 means of DSM, because we don't have the 25 Marginal Cost Study, why do we need to</p>	<p>1 introduce this volatility and rate stability 2 issue without knowing the--without a clear 3 objective of what benefits we want to achieve? 4 Try that question. 5 A. The item three that we're referring to here 6 states "provide NP an incentive to minimize 7 the island peak." By promoting or by asking 8 the Board to approve a demand/energy rate 9 structure, we believe that we have provided NP 10 an incentive to minimize the island peak. In 11 going on through the discussion in this 12 particular point, some of the issues that had 13 been raised in--or one of the issues that had 14 been raised in the past was a demand rate 15 providing NP with a direct incentive to reduce 16 peak. In view of the fact that we, as we have 17 just agreed, Mr. Kelly, that we did not want 18 Newfoundland Power to change the way it 19 operated its generation in an efficient 20 fashion to try and maximize water, et cetera, 21 and not unduly use thermal generation when it 22 didn't need to, we have agreed and proposed 23 that option A, which is to treat the 24 generation now the same as it always was, so 25 we've overcome that particular item here. We</p>

Page 105	Page 106
<p>1 MR. BANFIELD:</p> <p>2 have put forward a demand rate which is based</p> <p>3 on the embedded rate, and as I stated earlier</p> <p>4 in my testimony, we believe that it is in some</p> <p>5 way sending somewhat of a marginal signal,</p> <p>6 based on a peaker type, simplistic as it may</p> <p>7 be, price signal which could induce</p> <p>8 Newfoundland Power, through either rates or</p> <p>9 other cost effective means, to help reduce the</p> <p>10 peak. If Newfoundland Power does not see fit-</p> <p>11 -that's inappropriate of me to say that. If</p> <p>12 Newfoundland Power can't--if it's not cost</p> <p>13 effective for Newfoundland Power, is what I'm</p> <p>14 trying to say, in using that signal to provide</p> <p>15 DSM type measures, then I would not expect</p> <p>16 Newfoundland Power to do so, but I believe</p> <p>17 there's nothing lost. There is a volatility</p> <p>18 introduced, but I think all of the witnesses,</p> <p>19 at least Mr. Greneman and myself, have said</p> <p>20 that in order to have that demand/energy rate</p> <p>21 in place, it goes hand in hand with having</p> <p>22 some volatility. So I don't think it's quite</p> <p>23 the position that you're taking, Mr. Kelly, or</p> <p>24 what you're proposing. So that's where I am</p> <p>25 in terms of item number three.</p>	<p>1 KELLY, Q.C.:</p> <p>2 Q. But you say, sir, that nothing is lost. May I</p> <p>3 suggest to you that what is lost is revenue</p> <p>4 stability to both utilities and rate stability</p> <p>5 to customers?</p> <p>6 A. There is certainly an introduction of revenue</p> <p>7 stability. How that gets translated into</p> <p>8 rates is an entirely different issue and one</p> <p>9 which I stated before, I would expect if</p> <p>10 Newfoundland Power had concerns over that,</p> <p>11 that they would be petitioning the Board or</p> <p>12 they would be taking whatever steps necessary</p> <p>13 to deal with the rates issue.</p> <p>14 Q. Okay. Now, Mr. Banfield, what is Hydro's</p> <p>15 position with respect to seasonal rates and</p> <p>16 time-of-day rates? And perhaps you can break</p> <p>17 those into two, if you like, and I'd like you</p> <p>18 to address that question.</p> <p>19 A. Seasonal and time-of-use rates have been</p> <p>20 questioned of Hydro over some period of time.</p> <p>21 Hydro has not done an analysis of those</p> <p>22 aspects. I think we've answered in an RFI</p> <p>23 that in the absence of a Marginal Cost Study,</p> <p>24 we would be unable to look at seasonal or</p> <p>25 time-of-use rates, very important element in</p>
Page 107	Page 108
<p>1 doing that, and we would, after this</p> <p>2 particular application and after we deal with</p> <p>3 the issues arising from this application, then</p> <p>4 we would be willing to look at and consider</p> <p>5 the necessity for a Marginal Cost Study and</p> <p>6 flowing from that, time-of-use or seasonal</p> <p>7 type rates. In the absence of having that</p> <p>8 Marginal Cost Study or even having seasonal or</p> <p>9 time-of-use rates in no way impacts, as has</p> <p>10 been stated also by Mr. Greneman, the</p> <p>11 placement on the system of a demand/energy</p> <p>12 rate for Newfoundland Power.</p> <p>13 Q. Can I take you to IC-127 and to the attachment</p> <p>14 page 129? And if you go down a little bit</p> <p>15 further, the paragraph that begins "In the</p> <p>16 context of a system". You see that?</p> <p>17 A. Yes.</p> <p>18 Q. On the screen there? It says, "In the context</p> <p>19 of a system such as that serving the Island of</p> <p>20 Newfoundland, which is predominantly hydro</p> <p>21 electrical and oil fire generating supplying</p> <p>22 winter peak, time of day rates make little</p> <p>23 sense in relation to the cost of generating</p> <p>24 electrical energy. Any reduction in demand at</p> <p>25 one time just saves some of the reservoir</p>	<p>1 water and less oil is used later as a result.</p> <p>2 The same argument applies to seasonal rates."</p> <p>3 Does Hydro agree with that statement?</p> <p>4 A. Past evidence has been filed with this Board,</p> <p>5 and I think even in the last rate application</p> <p>6 had stated that based on the work that had</p> <p>7 been done in the early '80s that time of date</p> <p>8 rates did not appear to have a place in the</p> <p>9 Newfoundland service territory. I'm not sure</p> <p>10 in the context of this particular paragraph,</p> <p>11 which I obviously am not the author and I</p> <p>12 wouldn't second guess who the author was, but</p> <p>13 I'm just concerned about the statement, "any</p> <p>14 reduction in demand". I think if that was any</p> <p>15 reduction in energy -</p> <p>16 Q. I'll accept that.</p> <p>17 A. Okay. One point in time I would probably</p> <p>18 agree.</p> <p>19 Q. Okay. And the comment goes on, it says, "The</p> <p>20 same argument applies to seasonal rates."</p> <p>21 What--do you agree with that part of it?</p> <p>22 A. Well, I guess I agree to it in some context</p> <p>23 with the way it's stated here. However, we</p> <p>24 have stated that we are willing once the</p> <p>25 issues arising from this hearing are</p>

Page 109	Page 110
<p>1 MR. BANFIELD:</p> <p>2 addressed, that we are willing to undertake a</p> <p>3 Marginal Cost thing--Study, and to look at the</p> <p>4 results of that to see if there's any new</p> <p>5 information flowing from that which would</p> <p>6 incent us to look at time-of-day rates or</p> <p>7 seasonal rates.</p> <p>8 KELLY, Q.C.:</p> <p>9 Q. And would you agree that that Marginal Cost</p> <p>10 Study is necessary to look at a seasonal rate</p> <p>11 structure or time of use structure?</p> <p>12 A. Yes, I believe that Marginal Cost Study is</p> <p>13 necessary for that.</p> <p>14 Q. Okay. Why then is Hydro in this--adopting</p> <p>15 this sample rate with a seasonal component in</p> <p>16 the wholesale rate to Newfoundland Power?</p> <p>17 A. Maybe I should ask you first from what context</p> <p>18 are you asking me about a seasonal rate within</p> <p>19 a sample rate?</p> <p>20 A. Well, if you go to the sample rate structure,</p> <p>21 I can find that for you in Mr. Greneman's</p> <p>22 document. It has different rates proposed</p> <p>23 for--if you go to Chart 1, page 15. And if</p> <p>24 you go to the bottom of the page, you'll see</p> <p>25 the differences in monthly charges. And then</p>	<p>1 if I take you--once you've had a chance to</p> <p>2 look at that, I'll take you to NP-128. And</p> <p>3 the higher block would apply, based on</p> <p>4 historical experience, in the month most</p> <p>5 likely January, February, March, December,</p> <p>6 lines 9 through 11. Would you not agree that</p> <p>7 this sample rate has a seasonal component?</p> <p>8 A. The sample rate, I just wanted to be clear,</p> <p>9 Mr. Kelly, of what you were referring to.</p> <p>10 Thank you, very much, for taking me there.</p> <p>11 The sample rate as designed was from an energy</p> <p>12 perspective was addressing the issue that had</p> <p>13 been raised in previous discussions, that the</p> <p>14 rate should exhibit or would be nice to</p> <p>15 exhibit some marginal, short-run marginal</p> <p>16 elements. From that perspective it's seasonal</p> <p>17 in nature in that the proposed sample rate</p> <p>18 does look at a higher price block in the</p> <p>19 months of January, February, March and</p> <p>20 December, yes.</p> <p>21 Q. And would you agree with me based upon what</p> <p>22 you've said already about the need for a</p> <p>23 Marginal Cost Study to look at seasonal rates,</p> <p>24 that we should have a Marginal Cost Study to</p> <p>25 address that issue?</p>
Page 111	Page 112
<p>1 A. There is certainly no need to have a Marginal</p> <p>2 Cost Study to address the short-run marginal</p> <p>3 costs as proposed in this particular rate.</p> <p>4 For a longer term impact of seasonal rates or</p> <p>5 time of use rates from a longer terms</p> <p>6 perspective, yes, there is a need for a</p> <p>7 Marginal Cost Study from that perspective.</p> <p>8 Q. But I thought, Mr. Banfield, that the whole</p> <p>9 purpose of what you were proposing was</p> <p>10 predicated upon its long-term effect, not its</p> <p>11 short-term effect. Am I missing something?</p> <p>12 A. On the demand side, the Demand Rate was</p> <p>13 predicated on an embedded cost base, on an</p> <p>14 embedded cost basis. And as I've stated</p> <p>15 earlier, believe, we believe that it has some</p> <p>16 marginality associated with it. As again, as</p> <p>17 I said, even from a simplistic perspective in</p> <p>18 that its priced to a peaker, the energy, it's</p> <p>19 been framed on a short-run marginal cost basis</p> <p>20 which is basically the price of fuel at</p> <p>21 Holyrood in those months when the energy use</p> <p>22 would be much higher.</p> <p>23 Q. In fact, if we just go back to page 15, may I</p> <p>24 suggest to you that the pricing in any of the</p> <p>25 months is below the short-run marginal cost at</p>	<p>1 Holyrood, which is 5.13 cents?</p> <p>2 A. 4.7 is below 5.1, there's no doubt about that.</p> <p>3 And I don't mean to say that in a facetious</p> <p>4 sense, Mr. Kelly. But this is a sample rate</p> <p>5 and the objective here was to try and have the</p> <p>6 end block rate close to the marginal cost of</p> <p>7 fuel at Holyrood, which is the short-run</p> <p>8 marginal cost. The 5.1 which you mention</p> <p>9 includes a factor for O and M and was a system</p> <p>10 planning number that had been put forward in</p> <p>11 one of the RFIs. In proposing the final rate</p> <p>12 for Newfoundland Power, should the Board</p> <p>13 accept a demand/energy structure, we would</p> <p>14 have that end block rate at what we believe is</p> <p>15 the short-run marginal cost which is around</p> <p>16 the 4.7 number.</p> <p>17 Q. Would you have it at the end block rate all</p> <p>18 year round?</p> <p>19 (12:00 p.m.)</p> <p>20 A. I'm sorry, say that again?</p> <p>21 Q. Sorry. Would you have it at the short-run</p> <p>22 marginal cost, the end block rate, because we</p> <p>23 see that for just having looked at the</p> <p>24 previous RFI, the price for eight months of</p> <p>25 the year would only fall in the first block.</p>

Page 113	Page 114
<p>1 KELLY, Q.C.:</p> <p>2 Are you suggesting now that Hydro would have</p> <p>3 in all months of the year the energy price at</p> <p>4 least at the short-run marginal cost or</p> <p>5 production?</p> <p>6 A. Well, the sample rate as proposed has the</p> <p>7 marginal cost in those months of January,</p> <p>8 February, the winter months. And as we had--</p> <p>9 just take me to the RFI in those four months</p> <p>10 or whatever it was. For the remaining months,</p> <p>11 it would be at 3.44.</p> <p>12 Q. Which is well below the marginal cost of</p> <p>13 production during those months. So my</p> <p>14 question is, would--you mentioned that this is</p> <p>15 a sample rate. Is it now Hydro's position</p> <p>16 that it should be modified to reflect the</p> <p>17 marginal cost of production in all months?</p> <p>18 A. No, Hydro has not taken that position. This</p> <p>19 is what we have put forward. And we have also</p> <p>20 responded in other RFIs to that particular</p> <p>21 type of question that the average rate, I</p> <p>22 believe as Mr. Greneman had testified to, was</p> <p>23 in the order of about three and a half cents,</p> <p>24 I believe it was, or 3.6 cents, somewhere in</p> <p>25 that ball park, so that the first block, even</p>	<p>1 though it's at 3.44, it's only slightly below</p> <p>2 the average price and we did not believe that</p> <p>3 that was an inefficient price signal. Should</p> <p>4 the Board wish to order us to design an energy</p> <p>5 rate which clearly reflects the short-run</p> <p>6 marginal costs for each and every month, I'm</p> <p>7 sure that could be undertaken, it could be</p> <p>8 done.</p> <p>9 Q. Okay. Can we turn to next to look at the</p> <p>10 issue of at least some things that may need to</p> <p>11 be done. Can I take you to NP-126? I think</p> <p>12 we have agreement on some of these points. In</p> <p>13 NP-126, we can just go to the bold headlines</p> <p>14 to save time, Mr. Banfield, there's a</p> <p>15 discussion of some of the things that have to</p> <p>16 be addressed. One of them, which is the first</p> <p>17 one, is the demand energy balance. And that</p> <p>18 entails the whole question of where and how</p> <p>19 the Demand Energy Rate should be set, in other</p> <p>20 words, at what levels for demand, at what</p> <p>21 levels for energy?</p> <p>22 A. Yes, that would need to be decided. And as</p> <p>23 we've already discussed, we have proposed a</p> <p>24 rate.</p> <p>25 Q. Right. One of the questions we looked at was</p>
Page 115	Page 116
<p>1 the question of windfall and revenue</p> <p>2 stability. One of the questions that the</p> <p>3 Board would have to look at is how that</p> <p>4 question of earnings to Hydro should be dealt</p> <p>5 with. Do you agree with that?</p> <p>6 A. Is that a part of this RFI or is that a</p> <p>7 separate -</p> <p>8 Q. Not specifically referenced, but would you</p> <p>9 agree that that would be one of the items that</p> <p>10 the Board would have to address?</p> <p>11 A. We've proposed and given the Board some</p> <p>12 understanding of the range of volatility that</p> <p>13 Hydro would be subject to. That would be</p> <p>14 entirely up to the Board. I do not see that</p> <p>15 as a necessity to have solved immediately for</p> <p>16 to have a Demand/Energy Rate put in place, no.</p> <p>17 Q. Okay. The Board would have to determine the</p> <p>18 issues of revenue stability and rate stability</p> <p>19 for both Newfoundland Power and its customers.</p> <p>20 Do you agree with that one?</p> <p>21 A. Again, that's essentially a Newfoundland Power</p> <p>22 concern and one which I would expect that they</p> <p>23 would be debating either internally or with</p> <p>24 the Board.</p> <p>25 Q. Okay. If we move on through NP-126, we just</p>	<p>1 go to the next one, Hydro's treatment of</p> <p>2 Newfoundland Power's generation, we've touched</p> <p>3 on that. Hydro's risk, we've touched on that.</p> <p>4 We just go to No. 4, the Weather</p> <p>5 Normalization. And that issue still had to be</p> <p>6 addressed?</p> <p>7 A. Yes. There needs to be an agreement on a</p> <p>8 Weather Normalization mechanism that could be</p> <p>9 used, yes.</p> <p>10 Q. Okay. And if rates are to reflect marginal</p> <p>11 cost principles for purposes of efficiency, as</p> <p>12 we've talked about, then the question of a</p> <p>13 Marginal Cost Study becomes an issue to be</p> <p>14 resolved, correct?</p> <p>15 A. The marginal cost issues is certainly one</p> <p>16 which the Board needs to determine whether or</p> <p>17 not a study should be done. But that in and</p> <p>18 of itself has no impact on imposing--I</p> <p>19 shouldn't say "imposing". Of ordering a</p> <p>20 Demand/Energy Rate to be put in place for</p> <p>21 Newfoundland Power. As Mr. Greneman said, and</p> <p>22 I rely on his expert testimony, that he viewed</p> <p>23 a Demand/Energy Rate as being necessary and</p> <p>24 could be put in place immediately with a</p> <p>25 Marginal Cost Study being used to, as Mr.</p>

Page 117

1 MR. BANFIELD:
 2 Greneman, I'll use his word, not mine, would
 3 be used to tweak the Demand/Energy Rate after
 4 it had been in.
 5 KELLY, Q.C.:
 6 Q. And if we wanted to affect the end-use
 7 consumers through the rate, through the retail
 8 rate structure, then the question of a retail
 9 rate-the question of retail rate designs
 10 becomes an issue to be addressed. Would you
 11 agree with that?
 12 A. If Newfoundland Power feels that that's a
 13 necessity, to have a Retail Rate Study done,
 14 then, yes. But again, I don't believe that
 15 that has any bearing on whether or not a
 16 Demand/Energy Rate should be ordered by this
 17 Board.
 18 Q. Now, if the wholesale rate is intended to have
 19 some effect on retail rates, if that is one of
 20 the purposes, one of the incentives, so to
 21 speak, would it make sense for both of these
 22 issues, the wholesale rate issue and the
 23 retail rate issue to be addressed together?
 24 A. I don't believe that's necessary. In as much
 25 as the wholesale rate and how Newfoundland

Page 119

1 Hydro. And at the top of page 5 Hydro in its
 2 letter dated August 31st, '98 expressed
 3 concern that these two items had particular
 4 significance for Hydro. They stated that the
 5 Board reviews Hydro's wholesale rates to NP at
 6 Hydro's rate hearings. The issue of the
 7 structure of this rate should be addressed in
 8 context with Hydro's other rate issues. And
 9 the issues of marginal cost based rates has
 10 implications for customers of both NP and
 11 Hydro, consequently, these issues are best
 12 addressed at a hearing in which Hydro is the
 13 proponent. Hydro indicated that a general
 14 rate hearing is proposed in 1999. And if I go
 15 down to the bottom of the page, there were no
 16 objections. And at the top of page 6 the
 17 Board deferred, I won't read it all, but the
 18 Board deferred a whole list of items,
 19 including some Cost of Service, basic customer
 20 charge, curtailable rates, rate design based
 21 upon marginal cost, time of use design
 22 principles, other innovative rate options and
 23 the Demand and Energy Rates for power
 24 purchased by NP from Hydro. So, if I can
 25 start by saying, first of all, would you

Page 118

1 Power would react to such a wholesale
 2 Demand/Energy Rate and what that might do to
 3 its own rate design issues, they can follow
 4 one after another. They do not have to be
 5 done at the same time, no.
 6 Q. Now, when these issues first came before the
 7 Board in 1998 or came before the Board--they
 8 came before the Board together in 1998 in a
 9 Newfoundland Power hearing. And can I take
 10 you to P.U. 36, order 1998, '99? And the
 11 clerk has copies of the relevant passages in
 12 case this is not available on the screen. And
 13 I've provided them to you, Mr. Banfield.
 14 MS. NEWMAN:
 15 Q. This has been circulated to the parties and
 16 the Board and it'll be identified as
 17 Information Item 22.
 18 KELLY, Q.C.:
 19 Q. Twenty-two. And if I take you to page 4 of
 20 that document, Mr. Banfield, at the bottom of
 21 the page there's reference to two items. The
 22 rate design alternative is based upon marginal
 23 cost, time of use design principles and other
 24 innovative rate options and the demand and
 25 energy rates for power purchased by NP from

Page 120

1 agree, Mr. Banfield, originally these issues
 2 were together, correct?
 3 A. They were certainly listed together in this
 4 document, that's correct.
 5 Q. Right. And they were deferred as an
 6 application by Hydro or at Hydro's request?
 7 A. I'm sorry, can you point me to where that is?
 8 Q. At the top of page 5 we just looked at, Hydro
 9 in its letter expressed concern, these items
 10 had particular significance for Hydro,
 11 etcetera.
 12 A. Hydro had indicated that a--consequently these
 13 issues are best addressed at a hearing at
 14 which Hydro is the proponent. Yes, I agree
 15 with that.
 16 Q. Right. And one of the issues is the issue of
 17 marginal cost based rates has implications for
 18 customers of both NP and Hydro. So the--why
 19 would not those issues all be dealt with
 20 together in a hearing in which both Hydro and
 21 Newfoundland Power would participate?
 22 A. The rate that we are proposing, the
 23 Demand/Energy Rate is not a marginal cost
 24 based rate, it's an embedded cost base rate.
 25 It has some marginal aspects associated with

Page 121	Page 122
<p>1 MR. BANFIELD: 2 it, as you've already pointed out with the 3 short-run marginal cost for the second block 4 of energy. I don't believe anybody would 5 characterize that as a marginal rate. And 6 therefore, I don't see the connection here at 7 all. 8 KELLY, Q.C.: 9 Q. Okay. There are two--I've attached--provided 10 the two letters as well and perhaps they could 11 be marked, as well? 12 MS. NEWMAN: 13 Q. These also have been circulated. The first 14 letter is August 31st, 1998 and we'll call 15 that Information Item No. 23. And the second 16 is September 8th, 1998, and that'll be 17 Information Item No. 24. 18 CHAIRMAN: 19 Q. Okay. 20 KELLY, Q.C.: 21 Q. Can I take you to Info Item No. 23, which is 22 the August 31st letter? And in the second 23 paragraph, Mr. Banfield, Hydro--you see about 24 four or five lines down "Hydro respectfully 25 submits that the issue of the structure of</p>	<p>1 this rate," he's talking about the wholesale 2 rate now, "should be addressed in context with 3 Hydro's other rate issues and it would 4 therefore be more appropriate for a hearing in 5 which Newfoundland Hydro--Newfoundland and 6 Labrador Hydro is the proponent." And in the 7 next paragraph "The issue of marginal cost 8 based rates has implications for customers of 9 both utilities, the effects of such rates may 10 vary significantly from one utility to the 11 other." And then it goes on to propose a 12 generic hearing. 13 A. Um-hm. 14 Q. What is Hydro's position at this stage with 15 respect to a generic hearing? 16 A. Hydro has proposed, and I repeat myself, but I 17 think I need to, a Demand/Energy Rate for 18 Newfoundland Power based on embedded cost 19 principals. I think the impact of the third 20 paragraph as included in this letter is to say 21 that if the Board so wished to evaluate or to 22 look at marginal cost based rates, which is an 23 entirely different animal than an embedded 24 cost based rate structure, then that a generic 25 hearing would probably be the best vehicle to</p>
Page 123	Page 124
<p>1 have that done through. I'm sure that Hydro 2 would take the same position, that if the 3 Board wished to change its rational or its 4 method of setting rates to a marginal type 5 based rate, then a generic hearing might be 6 the very appropriate vehicle to take to do 7 that. But that's not my understanding of the 8 rates that we are setting in this jurisdiction 9 today. 10 Q. Mr. Banfield, the point made in the paragraph 11 that the effect of such rates may vary 12 significantly from one utility to the other, 13 we're talking about, as I understand it, in 14 that paragraph, the rates to customers. Has 15 Hydro looked at the implications for the rate 16 structure to its customers? I asked you 17 whether Hydro looked at Newfoundland Power's 18 rate structure and you said no. Has Hydro 19 considered the impact on its own customers and 20 its own retail rate design? 21 (12:15 p.m.) 22 A. I'm sorry, Mr. Kelly, but I read that sentence 23 to refer to the issue of marginal cost based 24 rates. And we have not proposed or have 25 undertaken any study to look at marginal cost</p>	<p>1 based rates. So, therefore, we have not 2 looked at any--the significance or the 3 variability from one customer to another from 4 a marginal based rates perspective. 5 Q. Okay. Well, let me ask you this question. 6 One of the points we looked at in RDG-2 was 7 the fact that you wanted to incent 8 Newfoundland Power to potentially affect peak 9 through rates. That was on page 3, item 3. 10 Has Hydro looked at that issue in relation to 11 its own rates to its own customers? 12 A. We have certainly looked at that from the 13 isolated diesels, as I explained this morning 14 earlier on. We had done a joint program with 15 Newfoundland Power in the early '90s on some 16 DSM type programs, but that was phased out, I 17 think, in around the mid, the mid '90s. Other 18 than that, no, we have not. 19 Q. No, my question is specifically addressed to 20 rates. Has Hydro looked at any changes it 21 should make to its own rate structure to 22 reduce peak through rates? 23 A. I'm sorry, Mr. Kelly, I'm not following your 24 question. 25 Q. Let me try it again. In item 3 it says,</p>

Page 125	Page 126
<p>1 KELLY, Q.C.:</p> <p>2 "Through the use of a demand rate NP in turn</p> <p>3 can provide incentives to its customers to</p> <p>4 reduce peak through rates." I take it you</p> <p>5 would agree with me that Hydro could also</p> <p>6 provide incentives to its customers to reduce</p> <p>7 peak through rates. First of all, would you</p> <p>8 agree with that?</p> <p>9 A. Yes. But I need to qualify that, I guess,</p> <p>10 that really it's only the Industrial Customers</p> <p>11 that we would have--that we set rates directly</p> <p>12 for. The Rural Customers that we have through</p> <p>13 policies of government and through this Board</p> <p>14 pay the same rates as Newfoundland Power, so</p> <p>15 we have no control over those rates.</p> <p>16 Q. But there's nothing that prevents Hydro from</p> <p>17 coming forward and proposing changes to that</p> <p>18 rate structure, is there?</p> <p>19 A. Well -</p> <p>20 GREENE, Q.C.:</p> <p>21 Q. I think Mr. Kelly is getting into what is</p> <p>22 really an issue for legal argument as opposed</p> <p>23 to the witness. The government did give</p> <p>24 direction to the Board with respect to the</p> <p>25 policies to be used by this Board in setting</p>	<p>1 the rates for Rural Customers. That is a</p> <p>2 direction to the Board under Section 5.1 of</p> <p>3 the Electrical Power Control Act, which is a</p> <p>4 direction to the Board on how rates are set.</p> <p>5 If Mr. Kelly wishes to argue as to</p> <p>6 government's right to do that, and Hydro's</p> <p>7 right not to comply with a policy directive, I</p> <p>8 think that is more appropriate for legal</p> <p>9 argument as opposed to a question for the</p> <p>10 witness.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. With respect, that's not the question, Chair.</p> <p>13 The question is has Hydro looked at whether it</p> <p>14 should make any proposals to change its own</p> <p>15 rate structure. And this witness can tell me</p> <p>16 that either Hydro has looked at it or hasn't</p> <p>17 looked it. I think that's a fair -</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. The witness already answered -</p> <p>20 KELLY, Q.C.:</p> <p>21 Q. - question for the witness.</p> <p>22 GREENE, Q.C.:</p> <p>23 Q. The witness answered the question that the</p> <p>24 rates for the Rural Customers are set as a</p> <p>25 result of direction from government and this</p>
Page 127	Page 128
<p>1 Board, which was the answer to the question.</p> <p>2 Mr. Kelly has then gone to the next part as to</p> <p>3 Hydro's ability to change the rates, given the</p> <p>4 direction that has been given to the Board by</p> <p>5 government.</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. Well, I'll try the question again because the</p> <p>8 question that I'm trying to get an answer to</p> <p>9 is has Hydro looked at changing its own rate</p> <p>10 structure in any manner to reduce peak?</p> <p>11 That's the thrust of the question. I think</p> <p>12 that's a fair question for Hydro's witness.</p> <p>13 A. My answer, the only answer to that is as I've</p> <p>14 already stated is that based on the fact that</p> <p>15 by Board order we charge our Rural</p> <p>16 Interconnected Customers the same rate as</p> <p>17 Newfoundland Power, the answer is no.</p> <p>18 Q. Okay. Now, I want to turn lastly, Mr.</p> <p>19 Banfield, to a couple of questions on the</p> <p>20 rural deficit. And I don't want to go through</p> <p>21 these examples in detail unless I need to take</p> <p>22 you to any of it for explanatory purposes.</p> <p>23 But I discussed with other Hydro witnesses, in</p> <p>24 particular, Mr. Wells and Mr. Roberts, three</p> <p>25 case examples dealing with the rural deficit.</p>	<p>1 The first dealt with the fish plants in</p> <p>2 Charlottetown and Little Bay Islands and the</p> <p>3 addition of new generation capacity for those</p> <p>4 plants and the impact that that had on and has</p> <p>5 on the rural deficit. First of all, are you</p> <p>6 familiar with that issue?</p> <p>7 A. Yes, I am.</p> <p>8 Q. Okay. And the second one is with respect to</p> <p>9 L'Anse-au-Loop and the growth on that system</p> <p>10 and the fact that there is at least some</p> <p>11 indication now that additional diesel capacity</p> <p>12 may have to be added because of the growth on</p> <p>13 that system. And I can take you to that if</p> <p>14 you need to. Are you familiar with that one?</p> <p>15 A. I'm familiar enough with that one, yes.</p> <p>16 Q. Okay. And the last one is with respect to the</p> <p>17 relocation from Davis Inlet to Natuashish, and</p> <p>18 in particular, the decommissioning costs at</p> <p>19 Davis Inlet and the impact that that will have</p> <p>20 on the rural deficit. Are you familiar with</p> <p>21 that one?</p> <p>22 A. Yes.</p> <p>23 Q. Okay. Now, I've read the additional testimony</p> <p>24 that you filed dealing with the rural deficit</p> <p>25 and how it flows out of the Cost of Service</p>

Page 129	Page 130
<p>1 KELLY, Q.C.:</p> <p>2 Study. And I guess the difficulty that I</p> <p>3 would have with that is that just trying to</p> <p>4 extract it from the Cost of Service has</p> <p>5 difficulties of transparency and</p> <p>6 understandability. And with that as the</p> <p>7 background, could I put this to you and get</p> <p>8 your reaction? When Hydro brings forward an</p> <p>9 application, whether it is a capital budget</p> <p>10 application or another--any other type of</p> <p>11 application, would you agree it would be</p> <p>12 appropriate for Hydro to advise the Board of</p> <p>13 the impact, if any, and the extent of the</p> <p>14 impact on the rural deficit of that particular</p> <p>15 expenditure item or other change?</p> <p>16 A. I'm not--can you just repeat that again for</p> <p>17 me, please?</p> <p>18 Q. Would you agree that it would be appropriate</p> <p>19 for Hydro to advise the Board when its coming</p> <p>20 forward, for example, in a capital budget</p> <p>21 application, if there is an impact on the</p> <p>22 rural deficit, first of all, whether there is</p> <p>23 such an impact and the extent of the impact?</p> <p>24 I'll give you an example if it'll help you.</p> <p>25 Take, for example, the Charlottetown addition</p>	<p>1 of generation capacity there which was to</p> <p>2 serve the fish plant which had \$170,000 annual</p> <p>3 addition to the rural deficit.</p> <p>4 A. I'm only, I guess I'm only struggling, Mr.</p> <p>5 Kelly, because the addition of--and I guess</p> <p>6 I'm--the addition of any capital works in the</p> <p>7 rural isolated areas or the interconnected</p> <p>8 system in general will have a tendency to</p> <p>9 increase the rural deficit, unless there's a</p> <p>10 corresponding increase in load or revenue.</p> <p>11 The information put forward in even the</p> <p>12 supplemental evidence has basically stated</p> <p>13 that in the absence of a major movement on</p> <p>14 being able to collect more revenues from our</p> <p>15 isolated or the interconnected systems, the</p> <p>16 chances of reducing the deficit are virtually</p> <p>17 nil in the sense that costs are much greater</p> <p>18 than our revenues. And if both were to even</p> <p>19 increase at the rate of inflation, the gap</p> <p>20 will be ever widening. So I'm really not sure</p> <p>21 as to other than a generic statement that the</p> <p>22 addition of obviously a new diesel in</p> <p>23 Charlottetown, for instance, unless there's</p> <p>24 enough load growth to fully utilize that</p> <p>25 diesel, in as much as customers in those areas</p>
Page 131	Page 132
<p>1 are paying approximately 27 percent of cost,</p> <p>2 almost intuitively means that a deficit would</p> <p>3 have to rise to meet that. I'm sorry, Mr.</p> <p>4 Kelly, I'm not -</p> <p>5 Q. Let me focus the question for you. Let me</p> <p>6 take you to NP-50. And this deals with</p> <p>7 Charlottetown. And the cost to increase the</p> <p>8 capacity at Charlottetown was \$1.58 million,</p> <p>9 correct?</p> <p>10 A. That's correct.</p> <p>11 Q. And just go over to NP-51. And just scroll up</p> <p>12 a little bit. There's the costs or the impact</p> <p>13 on the rural deficit for Charlottetown, 72,000</p> <p>14 for depreciation and 96 for financing for a</p> <p>15 total of about \$170,000 a year. First of all,</p> <p>16 I take it that Hydro could easily calculate</p> <p>17 those numbers to advise the Board when it's</p> <p>18 considering whether to approve a 1.5 million</p> <p>19 addition what the impact on the rural deficit</p> <p>20 would be?</p> <p>21 A. I'm sorry, is that--can you just scroll down,</p> <p>22 Mr. O'Reilly, please? And can you just go</p> <p>23 back up to the question for me? I'm sorry, in</p> <p>24 reading that RFI I'm not sure if that's the</p> <p>25 actual deficit increase or if all that was</p>	<p>1 responded to was to give you the depreciation</p> <p>2 and financing. It's not clear to me that</p> <p>3 those were the actual deficit numbers.</p> <p>4 Q. Okay. Well -</p> <p>5 A. They look to be only the depreciation</p> <p>6 financing. But, yes, obviously for a \$1.5</p> <p>7 million expenditure we can work out based on a</p> <p>8 30 year write off and whatever else, and a</p> <p>9 certain interest rate, Hydro could provide the</p> <p>10 depreciation and financing costs.</p> <p>11 Q. And the purpose of that, just to follow this</p> <p>12 train along a little bit, if you got to NP-52,</p> <p>13 and then if you go to Section 5.3.5 of that</p> <p>14 document. The pages, I'm afraid, aren't--</p> <p>15 sorry, page 5.14 on the bottom of the page.</p> <p>16 Page 5.14. The page numbers are on the bottom</p> <p>17 if that helps you, Mr. O'Reilly. There you</p> <p>18 go. And if you just have a look at 5.3.5,</p> <p>19 this dealt with a new policy is required to</p> <p>20 cover the recovery of capital cost of</p> <p>21 installing generating equipment at the request</p> <p>22 of a major general service customer. And my</p> <p>23 point out of it, Mr. Banfield, is that Hydro</p> <p>24 has the ability to tell the Board the impact</p> <p>25 on the rural deficit of some of these</p>

Page 133	Page 134
<p>1 KELLY, Q.C.:</p> <p>2 expenditures so the Board can consider how</p> <p>3 that--whether that expenditure should be made</p> <p>4 and how it should be appropriately allocated</p> <p>5 in terms of cost. Would you agree with that?</p> <p>6 A. Hydro can certainly make an estimate of the</p> <p>7 impact on the deficit, but it would be at a</p> <p>8 very rough and high level number and would not</p> <p>9 have any of the allocated costs of attraction,</p> <p>10 etcetera, that takes place through the Cost of</p> <p>11 Service Study. I'm not really sure how</p> <p>12 meaningful that would be. If you're then</p> <p>13 saying that the Board then would have to make</p> <p>14 a decision as to the impact on reliability or</p> <p>15 indeed even servicing new load in some of</p> <p>16 these areas based on that deficit, I don't</p> <p>17 believe I'm in a position to answer that, Mr.</p> <p>18 Kelly.</p> <p>19 Q. But it is information that Hydro could provide</p> <p>20 to the Board and the Board could then</p> <p>21 determine what assistance it provides to them</p> <p>22 as it deems appropriate?</p> <p>23 A. Hydro can certainly provide a very, very rough</p> <p>24 order of magnitude of the rural deficit. But</p> <p>25 as I've explained in my supplementary</p>	<p>1 evidence, the deficit itself is a direct flow</p> <p>2 from the Cost of Service with all of the</p> <p>3 allocated costs that take place, etcetera.</p> <p>4 And I'm really not sure how meaningful that</p> <p>5 calculation would be or how--in terms of its</p> <p>6 accuracy, in terms of the Board then making</p> <p>7 decisions on that.</p> <p>8 Q. Can Hydro also provide annually the changes in</p> <p>9 the rural deficit and what items have</p> <p>10 contributed to the change in the rural</p> <p>11 deficit, is that information that Hydro is</p> <p>12 capable of providing?</p> <p>13 A. Based on the actual Cost of Service run that</p> <p>14 would be performed at the end of each year, we</p> <p>15 could provide that information in terms of the</p> <p>16 deficit on a system basis, yes.</p> <p>17 (12:30 p.m.)</p> <p>18 Q. Okay. Thank you, Mr. Banfield, those are my</p> <p>19 questions.</p> <p>20 CHAIRMAN:</p> <p>21 Q. Thank you, Mr. Kelly, Mr. Banfield. Good</p> <p>22 afternoon Mr. Seviour. When you're ready</p> <p>23 please.</p> <p>24 MR. SEVIOUR:</p> <p>25 Q. Thank you Chair, good afternoon, Mr. Banfield.</p>
Page 135	Page 136
<p>1 Mr. Banfield, I'm going to take you to your</p> <p>2 evidence of October 31 first at page 4. And</p> <p>3 at the bottom of the page, page 4, lines 18 to</p> <p>4 22, perhaps I can get you to read the revised</p> <p>5 evidence into the record and I'm going to ask</p> <p>6 you a couple of questions about it.</p> <p>7 A. Beginning at line 18?</p> <p>8 Q. Line 18 to 22, please.</p> <p>9 A. "For non-firm service, Hydro is proposing to</p> <p>10 eliminate the existing demand charge of \$1.50</p> <p>11 per month--per kilowatt per month and to</p> <p>12 adjust the existing variable energy charge to</p> <p>13 include an allowance for transmission line</p> <p>14 losses. The calculation for the energy charge</p> <p>15 is outlined on page 3 of the Proposed Rate</p> <p>16 Schedule which are included with the</p> <p>17 Application under the Rate Schedule 2004 tab."</p> <p>18 Q. Okay, and what is the background to this</p> <p>19 proposed recommendation please, Mr. Banfield?</p> <p>20 A. This was an agreement that had been made</p> <p>21 through the mediation process.</p> <p>22 Q. I just wanted to come to that point for the</p> <p>23 assistance of the Board, you can confirm that</p> <p>24 that is a matter of agreement as between Hydro</p> <p>25 and the Industrial Customers, is that correct?</p>	<p>1 A. Yes, that is correct.</p> <p>2 Q. And I would indicate that for the record as</p> <p>3 well, on behalf of the Industrial Customers,</p> <p>4 Mr. Chair. Just above at lines 15, 16, there</p> <p>5 is a statement dealing with the average rate</p> <p>6 base increase. This will result in an average</p> <p>7 base rate increase of 12.2 percent for Island</p> <p>8 Industrial Customers and a 2004 revenue-to-</p> <p>9 cost ratio of 1.0. And that's the current</p> <p>10 projection based on the re-filed Cost of</p> <p>11 Service, is that correct?</p> <p>12 A. That's correct.</p> <p>13 Q. And perhaps I can begin by asking you about</p> <p>14 the revenue-to-cost ratio of 1.0, what is</p> <p>15 meant by that?</p> <p>16 A. That the cost as determined by the Cost of</p> <p>17 Service Study and that the revenues that we</p> <p>18 aim to collect match that a hundred percent.</p> <p>19 Q. And the intent there is to simply reflect the</p> <p>20 costs, for example, to the Industrial</p> <p>21 Customers as shown on the Cost of Service and</p> <p>22 match those to the revenues that are collected</p> <p>23 from the Industrial Customers?</p> <p>24 A. That's correct.</p> <p>25 Q. And is that an accepted rate design approach</p>

Page 137	Page 138
<p>1 MR. SEVIOUR: 2 in your experience? 3 A. I believe it is, I'm not--there are other 4 revenue-to-cost coverages for in our Labrador 5 system for our Domestic Customers, we aim for 6 a 95 percent coverage. The General Service 7 are a little bit higher than that. I think 8 you will find in some other jurisdictions that 9 even for Industrial Customers, because of the 10 risk associated with an Industrial Customer 11 not necessarily being there in a given year, 12 that that coverage might even be higher than 13 the 1.0 which we've included here in this 14 Application. 15 Q. But Hydro's position respecting the Industrial 16 Customers is to seek a 1.0 coverage, is that 17 correct? 18 A. That's correct. 19 Q. Can I take you to IC No. 1(c). And I'm 20 looking in particular for page 3 of 98 and 21 this is a page from the 2002 Actual Cost of 22 Service. You're familiar with this document? 23 A. Yes. 24 Q. And what does that reflect--well, this, first 25 of all, is the actual cost of service as</p>	<p>1 compared to the 2002 filed cost of service, is 2 that correct? Is that what we understand this 3 document to be? 4 A. I'm sorry, can you repeat that, Mr. Seviour? 5 Q. The document is a comparison of the actual 6 cost of service to the filed cost of service 7 for 2002? 8 A. No, it's not a comparison, it is the actual 9 cost of service for 2002. 10 Q. Okay. And - 11 A. I would expect in the 2002 if a Test Year had 12 been set, you would have seen Newfoundland-- 13 the Island Industrial Customers at 1.0. 14 Q. Okay, that's why I want to take you to the 15 significance of the revenue-to-cost coverage 16 in 1 and 2 of this document, Mr. Banfield, 17 shows it to be 1.13. What does that reflect? 18 A. It's a statement that our revenues were 13 19 percent greater than our cost of service. 20 Q. If you go over to columns 2 and 3, does that 21 then reflect for the Island Industrials for 22 2002 that the actual cost of service was 23 \$49,348,679 as against the revenue of 24 \$55,855,978? 25 A. Yes, that's correct.</p>
Page 139	Page 140
<p>1 Q. Thank you. Can I take you back to this 12.2 2 percent rate figure that you mention in your 3 re-filed evidence or your supplementary 4 evidence. That doesn't include the RSP 5 adjustment, is that correct? 6 A. No, it does not, that's purely the base rate. 7 Q. And the RSP adjustment, that adds an 8 additional 10.3 percent to the base rate 9 figure, does it? 10 A. The full impact - 11 Q. Perhaps I can take you to your evidence on it, 12 it's November 21, Supplementary Evidence, Page 13 7. 14 A. The full impact of the base rate and the RSP 15 for the Industrial Customers is 22.6. 16 Q. And that's 10.4 percent higher than the base 17 rate increase that we just covered, 12.2? 18 A. Yes, sorry, I'm hesitating a bit because and I 19 really don't want to make this complicated, 20 but - 21 Q. Please don't. 22 A. The 12.2 is the increase from the rate base. 23 The 12.2 and the 22.6 are not subtractive or 24 in the converse, the 10 that you calculated is 25 not additive to the 12.2. If you take the</p>	<p>1 full revenue requirement from the Industrial 2 Customers for the base rate change and the RSP 3 all included, the revenue under proposed rates 4 and the revenue from existing rates, you will 5 get 22.6 percent and that is the full 6 increase, okay? The 12.2 is if you take the 7 revenues from proposed rates for the base rate 8 change only and put it over the revenues from 9 existing rates, then you would get 12.2, okay? 10 So we've used two different bases in coming up 11 with these numbers and the reason we've done 12 that, is because--this may be unbelievable, 13 but we did not want to be accused of 14 reflecting a lower number in the base rate. 15 And if you had used the same bases for taking 16 the percentage, in actual fact the base rate 17 would be something like 10 point something. 18 So in order to properly reflect the full 19 increases, okay, the base rate in isolation is 20 the 12.2 percent increase. When you take all 21 of the revenue requirements, then it's 22.6 22 percent. 23 Q. Well what is the percentage increase of the 24 RSP portion of the rate impact alone, can you 25 help us on that?</p>

Page 141	Page 142
<p>1 MR. BANFIELD:</p> <p>2 A. I need to give you these numbers. Why don't I</p> <p>3 just go through the numbers with you and then</p> <p>4 maybe I can help you, okay?</p> <p>5 MR. SEVIOUR:</p> <p>6 Q. Thank you.</p> <p>7 A. Based on the 22.6 percent, which is the total</p> <p>8 rate increase for the Industrial Customers</p> <p>9 based on the revenue requirement and the</p> <p>10 revenues which would be existing in January 1,</p> <p>11 2004, without any increases at all, okay, is</p> <p>12 22.6 percent. That's made up of 10.9 percent</p> <p>13 for the -</p> <p>14 CHAIRMAN:</p> <p>15 Q. I hesitate to ask, Mr. Banfield, what is it</p> <p>16 that you're referring to there?</p> <p>17 A. Oh, I'm sorry, these are my back-up numbers</p> <p>18 that I have, I've very sorry. That's made up</p> <p>19 of 10.9 percent for the base rate and 11.7</p> <p>20 percent for the RSP adjustments, okay? The</p> <p>21 sum of those numbers, hopefully, will give you</p> <p>22 22.6 percent, okay?</p> <p>23 MR. SEVIOUR:</p> <p>24 Q. That's what I get.</p> <p>25 A. When we were doing our evidence and putting</p>	<p>1 information out into the public, instead of</p> <p>2 using the 10.9, what we did was we went back</p> <p>3 and we used just the revenues for the base</p> <p>4 rate and those corresponding numbers are, for</p> <p>5 the base rate alone, under the proposed</p> <p>6 revenue requirement is \$50,550,504 and the</p> <p>7 revenues which we get without an increase at</p> <p>8 all, are \$45,035,451. When you take those</p> <p>9 numbers percentage wise, you get 12.2 percent,</p> <p>10 okay?</p> <p>11 Q. But the 22.6 percent, explaining the</p> <p>12 difference and the way you come to your</p> <p>13 figures, that incorporates both RSP and the</p> <p>14 base rate impacts?</p> <p>15 A. It certainly does, yes. Sorry for that</p> <p>16 confusion, if there was any, but that's how we</p> <p>17 had presented it.</p> <p>18 Q. That's helpful. And does that rate impact,</p> <p>19 let's stick with the 12.2 percent. That</p> <p>20 reflects a common assignment of the GNP</p> <p>21 transmission, does it and the proposed Cost of</p> <p>22 Service?</p> <p>23 A. No, that proposal is based on the Board's</p> <p>24 order which is the rural assignment of both</p> <p>25 the transmission line and the generation on</p>
Page 143	Page 144
<p>1 the GNP.</p> <p>2 Q. And with respect to the Doyles-Port aux</p> <p>3 Basques transmission assignments, specific</p> <p>4 assignment of that line to Newfoundland Power,</p> <p>5 that is an assumption that's based into this</p> <p>6 12.2 rate impact that you're -</p> <p>7 A. Yes, it is.</p> <p>8 Q. And if that were to change, the rate impact</p> <p>9 would be higher, presumably, if it was</p> <p>10 assigned to common, it would be a higher rate</p> <p>11 impact to the Industrial Customers?</p> <p>12 A. That's correct.</p> <p>13 Q. And just to be clear, this rate percentile</p> <p>14 impact that you're assuming or you're</p> <p>15 testifying to, this assumes also the common</p> <p>16 assignment of the Burin transmission?</p> <p>17 A. That's correct.</p> <p>18 Q. And assumes the existing treatment for the NP</p> <p>19 generation credit?</p> <p>20 A. That's correct.</p> <p>21 Q. And finally, it assumes that there's no</p> <p>22 Interruptible B program?</p> <p>23 A. That's correct.</p> <p>24 Q. And would you agree with me that the</p> <p>25 Interruptible B program is of a specific</p>	<p>1 concern really to only Stephenville in the</p> <p>2 context of this hearing, in terms of its -</p> <p>3 A. That would be my understanding, yes.</p> <p>4 Q. Is it your understanding that the</p> <p>5 discontinuance of that program has an</p> <p>6 aggregate cost impact to Stephenville in the</p> <p>7 \$1.3 million annually, is that generally -</p> <p>8 A. \$1.2 to \$1.3 million, yes, in that order.</p> <p>9 Q. And my instructions are that the impact of</p> <p>10 that additional cost of \$1.3 million is the</p> <p>11 equivalent of something in the order of 7.25</p> <p>12 rate increase, would that be something that</p> <p>13 you would be aware of or had studied?</p> <p>14 A. No, I had not done the calculations, I know</p> <p>15 that the inclusion of that as a component in</p> <p>16 calculating any percentage would obviously</p> <p>17 make the increase higher than the 12.2 for</p> <p>18 that particular customer, but I'll take your</p> <p>19 numbers that that's what it is.</p> <p>20 Q. It doesn't sound out of the order of magnitude</p> <p>21 that you would expect.</p> <p>22 A. No, it sounds about right, yes.</p> <p>23 Q. Sounds about right, well that's fair enough.</p> <p>24 For Stephenville, in particular then, with the</p> <p>25 removal of the Interruptible B program, if we</p>

Page 145	Page 146
<p>1 MR. SEVIOUR: 2 use your figures of 22.6 percent aggregate 3 rate impact and use my figure of 7 1/4 impact 4 where in the 29, 30 percent range in terms of 5 aggregate impact for Stephenville alone? Do 6 you follow that math? 7 A. I'm sorry, can you do that again? 8 Q. If you take your figure as to the total rate 9 impact, rate increase impact, including the 10 RSP impact that we talked about a short while 11 ago, I think your figure was 22.6 percent? 12 A. Uh-hm. 13 Q. And you add to that the additional impact of 14 7.25 percent, which I suggest to you is the 15 impact to Stephenville for the loss of the 16 Interruptible B program, that gets us to a 17 figure of about 29.75 percent for 18 Stephenville? 19 (12:45 p.m.) 20 A. I haven't checked that number in detail, but I 21 can't disagree that it's in that order of 22 magnitude, yes. 23 Q. Yeah, and it's higher for the other Industrial 24 Customers, and just finally on this line of 25 questions, the figures that you're giving us--</p>	<p>1 no, that's fine, I think we covered that. 2 The final point I wanted to come to was the 3 RSP adjustments on Table 5 of your October 31 4 evidence. And my question there related to 5 the mill rates with the implementation of the 6 RSP changes that you've outlined and which are 7 agreed, what are the revised mill per kilowatt 8 hour rates for Table 5, do you know those 9 figures? 10 A. No, I'm sorry, I don't have those handy. We 11 did not do the table again based with mills, 12 we had just put forward the rate itself. 13 Q. And is that something that you can undertake 14 to supply to us? 15 A. Sure. 16 Q. Thank you, Chair, those are my questions. 17 CHAIRMAN: 18 Q. Thank you, Mr. Seviour. Good afternoon, Mr. 19 Kennedy. 20 MR. KENNEDY: 21 Q. Thank you, Chair, Commissioners. Mr. 22 Banfield, I wanted to ask some questions about 23 the proposed RSP. 24 A. Yes. 25 Q. And so I'm looking at Consent No. 2, Consent</p>
Page 147	Page 148
<p>1 No. 3 in your evidence, your Supplementary 2 Evidence of November 21st, those three 3 documents effectively. Mr. Banfield, would 4 you refer to, in particular, Consent No. 2, 5 the Rate Stabilization Plan as being now 6 proposed by Hydro as a negotiated settlement 7 between the parties? Is that how you would 8 look upon it? 9 A. Yes. 10 Q. And just so we're clear, I understand Consent 11 No. 3, which is the new proposal for the 12 recovery of the existing plan balances, 13 receive the expressed consent of Hydro, the 14 Consumer Advocate and Newfoundland Power, but 15 I think it was the Industrial Customers, that 16 they had no position on that, on this 17 particular proposal, that's your understanding 18 as well? 19 A. That's my understanding. 20 Q. Now, I take it that as negotiated settlements 21 that there would have been some give and take 22 during the process as between the parties on 23 given points that ultimately comprise the 24 proposed Rate Stabilization Plan? 25 A. That would be a fair characterization, I</p>	<p>1 think. 2 Q. Yes. And I guess we're sort of "tiptoeing 3 through the tulips" in asking questions about 4 specifics in regards to the Rate Stabilization 5 Plan in so far that some of those discussions 6 might have been of a confidential nature? 7 A. Well, I think your characterization is not 8 incorrect, although I guess I would have to 9 begin to guess then what was confidential and 10 what wasn't. 11 Q. Sure. 12 A. But obviously the positions that people took 13 would be, I think, for the expressed purpose 14 of getting a mediated or--I shouldn't say 15 "mediate" but a negotiated settlement, yes. 16 Q. Sure. And in that regard, the questions I do 17 have aren't meant to try to flush out what a 18 respective party's position may have been, so 19 I'm not asking you to tell any tales out of 20 school, but it being Hydro's proposal in light 21 of the fact that Hydro is the Applicant, I'm 22 going to ask you specific questions about the 23 operation of the RSP which I would ask for you 24 to comment on, just solely from Hydro's 25 perspective of what Hydro considered and</p>

Page 149	Page 150
<p>1 MR. KENNEDY: 2 didn't consider? 3 A. Sure. 4 Q. Before we get on to the specifics though, 5 having looked through Consent No. 2, would you 6 agree that generally the complexity of the RSP 7 as proposed has increased over the existing 8 RSP? 9 A. I think in looking at it as a cold document 10 compared to the other ones, I would say yes, 11 the level of complexity has increased. In 12 terms of the calculations, I think it does a 13 far better job in terms of trying to address 14 the issues which were surrounding the parties, 15 but yes, I could not argue with that. 16 Q. Mr. Kelly, when he was crossing you in regards 17 to, I think it was the wholesale rate, he 18 talked about the tenet of transparency and 19 understandability, and I'm wondering would you 20 see those as something that should also apply 21 to the operation of the RSP, or do you see the 22 RSP as something so internal to the workings 23 of the rate-making process that the 24 transparency and understandability are sort 25 of secondary issues, are ones that we can</p>	<p>1 avoid? 2 A. I don't believe we can avoid them entirely and 3 it's obviously, I think, a very good tenant to 4 have, regardless of what you do that if you 5 can make it understandable and simpler, then 6 it bodes well for all parties at the end of 7 the day in trying to remember what happened in 8 years past and then bringing it forward. But 9 having said that and in as much as some of the 10 formulas and the implementation issues might 11 seem to be complex in terms of some of the 12 rules and when we get forecasts and when we 13 apply them and what rates we use, yes, that 14 can be somewhat overwhelming, I guess, to 15 somebody who hasn't been right into the depths 16 of this. But I think the fundamental 17 principles of what we're trying to do can be 18 articulated, I think, fairly clearly and can 19 be made to be understandable to the parties in 20 the sense of the very high level principles of 21 what's trying to be adopted here. So I think 22 there are two levels. 23 Q. And would that level or one of those levels 24 include the end customer? Would Hydro expect 25 to be able to explain the operation of this</p>
Page 151	Page 152
<p>1 RSP to its customers, to me, as a residential 2 customer or to your average residential 3 customer? 4 A. I don't mean this to be--but after thirty- 5 something years in this business, I never 6 presume that I can explain things to people, I 7 always get--we always get tripped up when we 8 try to do that. But yes, I believe we can put 9 this forward in a language that's 10 understandable, and again at the principle 11 level, in as much as we're trying to keep the 12 water nature of the business, sort of away 13 from people having to pay for it going 14 forward, that we're asking for fuel to be paid 15 for on a yearly basis, those types of high 16 level principle issues, yes, I believe we can 17 put that forward to consumers. Whether 18 they'll agree is another issue, but 19 understandability, I believe we can. But to 20 go to the next level, absolutely not. 21 Q. So would it be Hydro's intention to embark on 22 some sort of communication plan to, in the 23 event that the Board was to accept whole or in 24 large part the proposed Rate Stabilization 25 Plan, to explain that to its customers?</p>	<p>1 A. We had not given a lot of extended 2 consideration to that until such time as the 3 Board adopts this, but once the--if the Board 4 was to see fit to adopt the RSP as put forward 5 through its negotiated settlement, I think 6 then that's something that Newfoundland Power 7 and Hydro could work towards in terms of 8 trying to put together a pamphlet that 9 customers could understand, yes. 10 Q. Okay. Again, just generally before just 11 dealing with some of the specifics, I 12 understand that within this RSP as proposed, 13 that there's to be some monthly adjustments 14 that are to take place, is that correct, on 15 some of the elements of the plan or that 16 there's a yearly adjustment made on the fuel, 17 for instance? 18 A. There are yearly adjustments made on the plan, 19 there are no monthly adjustments. 20 Q. No, the actual adjustments that the end- 21 customer sees would be on a yearly basis, 22 right? 23 A. That's correct, in general, yes. 24 Q. But would Hydro normally calculate the results 25 of the RSP's operation on a month-by-month</p>

Page 153	Page 154
<p>1 MR. KENNEDY: 2 basis? 3 A. The RSP is tracked on a month-by-month basis, 4 yes. 5 Q. And would Hydro have any problem then with 6 reporting to the Board the operation of the 7 RSP on a month-by-month basis? 8 A. We had been doing that and then we had 9 agreement to put that in the quarterly reports 10 that we had - 11 Q. And I understand the quarterly reports only 12 provide a statement of the last month's 13 activity in the quarter? 14 A. That's correct. 15 Q. You would not, in your quarterly report, have 16 shown the month-by-month operation, is that 17 correct? 18 A. No, we would not have shown the previous 19 months, we only put the last quarter in the 20 report. 21 Q. And Hydro, presumably, would have no 22 difficulty in its quarterly reporting to also 23 show the month-over-month activity? 24 A. That would not be a problem, no. 25 Q. In that quarter? Okay. How long does Hydro</p>	<p>1 propose that this new RSP would be in 2 operation for, Mr. Banfield? 3 A. Until such time as another proposal is put 4 forward, I mean, I'm sorry, Mr. Kennedy, I 5 don't understand the question. 6 Q. No, fair enough, I think you answered it, 7 there's no "sunset" clause, if you will, in 8 this RSP? 9 A. No, that's correct, I'm sorry, yes. 10 Q. And I think it's been alluded to that, as is 11 your own testimony, that there may be an 12 increase in volatility experienced at the 13 customer rate level, is that right? That's 14 one possible outcome as a result of this 15 operation of the new RSP as proposed? 16 A. That's certainly true, in as much as we'll be 17 recovering, we're proposing to recover the 18 balance over the next year and that there's 19 also a fuel price projection rider in here, 20 yes, it could very well become more--it could 21 become volatile. 22 Q. And I think you alluded to the fact that it's 23 difficult to, at this point, know what the 24 customer response will be to this new RSP, 25 once it's implemented, if in fact it is?</p>
Page 155	Page 156
<p>1 A. Yes, I would hesitate to guess as to what that 2 that might be. 3 Q. So - 4 A. But maybe I could just add that based on the 5 evidence that's been provided to the Board and 6 through various testimonies, it would appear 7 that, at least from the people in this room, 8 the Intervenors, et cetera, that it's 9 important to send a proper price signal to 10 consumers. Based on that fact, I think it's 11 probably, it's doing or we're trying to do--to 12 meet that goal and objective. Whether the 13 consumers, on the other hand, react in kind, I 14 guess is another issue. 15 Q. Would you consider it appropriate to have some 16 sort of a triggering mechanism for when a 17 review of this new RSP would need to be 18 conducted? 19 A. I don't believe that that's necessary to have 20 a definite date. I think by Hydro and the 21 parties reviewing this on a timely basis, as 22 months go by and with the Board having it 23 through the quarterly reports, I'm sure will 24 tweak well enough to whether or not it's being 25 problematic or not, so I don't see the</p>	<p>1 necessity for - 2 Q. You don't see the necessity for a definitive 3 date, but is there anything in the proposal 4 here about a trigger based on a plan balance, 5 for instance? 6 A. No, there's not. We believe that, from the 7 cases that we've run, looking at the hydraulic 8 sequences that we looked at and other things, 9 and the fact that we're writing it off over 10 one year, the opportunity or the chances of 11 the plan balance getting to a point, as it has 12 in the past, we believe--nothing is 13 impossible, but we believe it's very highly 14 improbable that that will happen and thus the 15 need for that. 16 Q. A particularly significant shift, for 17 instance, in the price of fuel from forecast 18 to actuals, that could drive--still drive up 19 your plan balance though, could it not, before 20 it gets recovered? 21 A. Yes, but the mitigating factor to that is in 22 the new plan that we're proposing, the fuel 23 rider, depending on when that happens, would 24 mitigate and would help offset that, right. 25 Q. And the fuel rider gets put in place once a</p>

Page 157	Page 158
<p>1 MR. KENNEDY: 2 year? 3 A. Yes, it's all part and parcel of that 4 adjustment, the 25 percent--whatever the plan 5 balance is, say for Newfoundland Power as of 6 March 31st, plus the fuel rider and financing 7 charges, et cetera. 8 Q. But the fuel rider is based on a forecast 9 price of No. 6 for the following 12 months as 10 based on your PIRA data and opinion. 11 A. That's correct. 12 (1:00 p.m.) 13 Q. And if that information is off, if you will, 14 that the actuals come in, for instance, much 15 higher than what PIRA had forecast, your plan 16 balance will increase beyond what you 17 expected? 18 A. It will increase beyond what you expected, 19 that's correct, but certainly one would hope a 20 lot less than what it would have if the rider 21 hadn't been there in the first place. 22 Q. Sure, but at this point, there's nothing in 23 your proposal that puts any sort of cap on 24 what that plan balance could grow to? 25 A. No, you're correct.</p>	<p>1 Q. It would just be simply collect it again the 2 next year? 3 A. No, you're absolutely right, there's not. 4 Q. Would there be any utility or usefulness in 5 having a trigger based on the magnitude of a 6 rate change caused by the RSP? 7 A. At this point in time, I wouldn't see that as 8 being useful. 9 Q. Again generally, Mr. Banfield, as I understand 10 it, under this new RSP you've now allotted for 11 changes in your cost of fuel or the fuel 12 variance, correct? 13 A. Yes. 14 Q. That's a part of the RSP? 15 A. Fuel variance is, yes. 16 Q. Changes to the hydraulic production or your 17 hydraulic variance, that's another aspect of 18 this RSP? 19 A. Yes, it is. 20 Q. And you have changes to the load bearing 21 formula as well, correct? 22 A. That's correct. 23 Q. All right. Now, among those three items, 24 that's the variance in fuel, hydraulic 25 production and load, is there anywhere in the</p>
Page 159	Page 160
<p>1 new RSP that Hydro is experiencing increased 2 risk on any of those fronts? 3 A. No, not from the RSP itself, no. 4 Q. Would it be safe to say that Hydro, by the way 5 that the RSP is designed, similar to the past, 6 received 100 percent indemnity from its 7 customers for any of the costs associated with 8 changes in the price in fuel, the variance in 9 hydraulic production or variance in load from 10 the Test Year? 11 A. Other than the Board deciding in terms of a 12 demand/energy rate to Newfoundland Power, that 13 would be the case. Demand/energy rate 14 obviously will take some of the stability out 15 of that RSP through the demand portion. 16 Q. Now that's a related question I had, the load 17 adjustment in the RSP is based on energy only, 18 is that right? 19 A. The load adjustment in the RSP is based on the 20 energy-only portion, yes. 21 Q. So are there any implications created by this 22 proposed RSP to the implementation of the 23 sample wholesale rate as put forward by Hydro? 24 A. I'm sorry, can you repeat that again, Mr. 25 Kennedy?</p>	<p>1 Q. Sure. Are there any implications created by 2 this proposed RSP to the adoption of the 3 sample rate proposed by Hydro, the sample 4 wholesale demand rate proposed by Hydro? 5 A. No, the proposal put forward in this RSP 6 stands on its own. 7 Q. They're independent of each other? 8 A. Independent in the sense of implementing and 9 putting it in place, obviously a demand/energy 10 rate will have an impact on Hydro in the sense 11 of not having the demand stabilized, but I 12 mean, they're not really linked. The only 13 thing in the RSP that would be stabilized is 14 the energy portion. 15 Q. Right. So if there's a wholesale demand rate 16 implemented as a result of this hearing, as 17 has been, I think, abundantly shown, there is 18 the potential for increased volatility in 19 Hydro's earnings and that's what you're 20 referring to by increased volatility, I take 21 it? 22 A. No, the increased volatility is related to 23 Newfoundland Power's peak being higher or 24 lower by 5 percent. In actual fact, I think 25 there was an RFI answered, related to this,</p>

Page 161	Page 162
<p>1 MR. BANFIELD:</p> <p>2 where we were asked to give an evaluation or</p> <p>3 to look at the risks associated with the</p> <p>4 demand portion being taken out and we had said</p> <p>5 in that response that that wasn't a big enough</p> <p>6 risk to Hydro to warrant any change in our ROE</p> <p>7 that we had been asking for.</p> <p>8 MR. KENNEDY:</p> <p>9 Q. Okay, but in so far as the RSP that's</p> <p>10 proposed, there is no new transferring or risk</p> <p>11 as between Hydro and its customers?</p> <p>12 A. No, none that I'm aware of. Only, I'll point</p> <p>13 out, make sure, within the load variation, as</p> <p>14 I had pointed out, the fact now that the</p> <p>15 agreed settlement has been that the customer</p> <p>16 who caused the load variation will receive not</p> <p>17 only the revenue plus or minus, but also the</p> <p>18 fuel, total fuel as opposed to that fuel being</p> <p>19 split. So that was a bit of risk transference</p> <p>20 internally within the RSP between customers.</p> <p>21 Q. Right, but not as between Hydro and its -</p> <p>22 A. No.</p> <p>23 Q. - customers per se?</p> <p>24 A. No.</p> <p>25 Q. Okay. I wonder if we could just go through</p>	<p>1 Consent No. 2, Mr. Banfield. I have some</p> <p>2 specific questions here that help us</p> <p>3 understand what's taking place. Do you have</p> <p>4 that in front of you there now?</p> <p>5 A. Yes, I do.</p> <p>6 Q. Okay. And just dealing with Section A first,</p> <p>7 the hydraulic production variance, and the</p> <p>8 formula is fairly straightforward. It's your</p> <p>9 test of your Cost of Service net hydraulic</p> <p>10 production less your actual net hydraulic</p> <p>11 production divided by your test of your Cost</p> <p>12 of Service Holyrood net conversion factor and</p> <p>13 then times by your monthly test year Cost of</p> <p>14 Service of price of fuel, correct?</p> <p>15 A. That's correct.</p> <p>16 Q. Okay. Now am I gathering correctly that C</p> <p>17 being proposed by Hydro at this point, if that</p> <p>18 was accepted, it would be booked in at 624</p> <p>19 kilowatt hours per barrel?</p> <p>20 A. That's correct.</p> <p>21 Q. Now does that number change at all year over</p> <p>22 year during the operation of this RSP or does</p> <p>23 that number stay the same year over year</p> <p>24 throughout the duration that the RSP is in</p> <p>25 operation?</p>
Page 163	Page 164
<p>1 A. That is the number that's used in the RSP.</p> <p>2 Q. So if Hydro improves its conversion factor at</p> <p>3 Holyrood subsequent to whatever number is</p> <p>4 adopted by the Board, let's just use, for</p> <p>5 argument's sake, the proposal of Hydro, 624.</p> <p>6 If that goes up to 630, 635 over 2005, 2006</p> <p>7 and so on, who would benefit from that</p> <p>8 improvement in the conversion factor?</p> <p>9 A. In as much as there would be less fuel burned</p> <p>10 and less expenses, Hydro would benefit and</p> <p>11 then obviously on the other side, should it be</p> <p>12 only 610 or 605, then Hydro would lose.</p> <p>13 Q. Right. And generally, which way has your</p> <p>14 conversion factor moved over the last decade?</p> <p>15 Has it increased in kilowatt hours per barrel</p> <p>16 or decreased in kilowatt hours per barrel?</p> <p>17 A. I'm sorry, I won't venture into that area, Mr.</p> <p>18 Kennedy. Mr. Haynes would be better.</p> <p>19 Unfortunately, he's not behind me. He was</p> <p>20 ahead of me.</p> <p>21 Q. I'm not sure, I think there's some RFIs on the</p> <p>22 record in any event that we can bring that</p> <p>23 out. Point number two under the Section A,</p> <p>24 you indicate "each month, financing charges</p> <p>25 using Hydro's approved Test Year weighted</p>	<p>1 average cost of capital will be calculated on</p> <p>2 the balance." Referred to as WAC, is the WAC</p> <p>3 figure used as the basis for calculating the</p> <p>4 finance charges in all aspects of the RSP?</p> <p>5 A. Yes, it is.</p> <p>6 Q. Are you familiar with, in other jurisdictions</p> <p>7 that have similar sort of RSP like programs</p> <p>8 and where there's, in effect, an account</p> <p>9 receivable being carried by the utility owed</p> <p>10 to it from its customers, that it was financed</p> <p>11 with special securitizations? Are you</p> <p>12 familiar with that at all?</p> <p>13 A. I've heard evidence on that, and I've heard</p> <p>14 discussions on that, but that's certainly</p> <p>15 outside of my level of expertise on these</p> <p>16 matters, Mr. Kennedy.</p> <p>17 Q. Okay. So do you know if any thought was given</p> <p>18 by Hydro to looking at special securitizations</p> <p>19 for financing the RSP balance year over year?</p> <p>20 A. I can't speak to whether or not other things</p> <p>21 were looked at in-depth, but I know that the</p> <p>22 issue of what should be used to calculate the</p> <p>23 financing charges was certainly discussed and</p> <p>24 that's been put forward by Mr. Roberts that</p> <p>25 the weighted average cost of capital is an</p>

1 MR. BANFIELD:
2 appropriate value to be used. We consider the
3 RSP is treated as an asset like any other and
4 therefore the WAC, we believe, is the
5 appropriate financing charge to be used.
6 MR. KENNEDY:
7 Q. Okay. That was Hydro's position in regards to
8 what financing charge should apply to the RSP
9 balances throughout?
10 A. That's my understanding.
11 Q. And just one final question, there's nothing
12 in Hydro's proposal regarding an automatic
13 adjustment to be made year over year to its
14 weighted average cost of capital, is there?
15 A. No, for these purposes, it's the Test Year
16 weighted average cost of capital.
17 Q. As per your GRA, you're seeking now a 9 1/4
18 percent rate of return on equity and then a
19 corresponding rate of return on rate base,
20 correct?
21 A. That's correct.
22 Q. And that number, once -
23 A. Sorry.
24 GREENE, Q.C.:
25 Q. I'm sure everybody mis-spoke themselves. It's

1 9 3/4.
2 A. 9 3/4, I'm sorry, okay.
3 MR. KENNEDY:
4 Q. 9 3/4, beg your pardon.
5 GREENE, Q.C.:
6 Q. It's getting late in the day.
7 KELLY, Q.C.:
8 Q. Won't get that one by her.
9 MR. KENNEDY:
10 Q. It's half a point. What's a half a point
11 between friends, Mr. Banfield?
12 A. Yes, I certainly wouldn't want to be accused
13 of that. That's for sure.
14 Q. No, no.
15 GREENE, Q.C.:
16 Q. No, if you want to eat your lunch later
17 (laughter).
18 MR. KENNEDY:
19 Q. So 9 3/4.
20 A. 9 3/4.
21 Q. That's used in the calculation of what the
22 actual end rate of return on rate base would
23 be approved for Hydro, but Hydro hasn't
24 applied for something similar to what
25 Newfoundland Power has in the way of an

1 Automatic Adjustment Formula which would
2 automatically adjust that rate of return on
3 rate base year over year to take into account
4 market conditions year over year?
5 A. No, we haven't asked the Board for that.
6 Q. So the weighted average cost of capital that's
7 used in the calculation of the financing
8 charges for your planned balances in the RSP
9 will remain as approved by this Board from
10 this hearing until such time as a new RSP is
11 proposed or a new GRA takes place?
12 A. That's correct.
13 Q. Just flipping over to RS-5, on this same
14 document, Mr. Browne. Thank you. And just
15 looking at the Industrial fuel price
16 projection, Mr. Banfield.
17 A. Um-hm.
18 Q. And it says "in October each year, fuel price
19 projection for the following January to
20 December shall be made to estimate a change
21 from the Test Year No. 6 fuel costs, and
22 Hydro's projection shall be based on the
23 change from the average test year No. 6 fuel
24 price in Canadian dollars per barrel
25 determined from the forecast oil prices

1 provided by the PIRA Energy Group and the
2 current US exchange rate." So just out of
3 curiosity, we're using a forecast--in order to
4 make the fuel price projection, we're using
5 forecast fuel prices for the following 12-
6 month period as provided to you by PIRA
7 Energy, correct?
8 A. That's correct.
9 Q. But you're going to use the current US
10 exchange rate and current, I understood to be
11 September exchange rate, an average of the
12 exchange rate for the month of September?
13 A. That's correct.
14 Q. Is that kind of mixing apples and oranges?
15 You're using forecast data in some respects
16 and actual data in other respects, and I'm
17 wondering whether there was minds put to using
18 forecast exchange rates in addition to
19 forecast energy costs?
20 A. The use of a forecast exchange rate was
21 certainly discussed. As part, as you say, of
22 the negotiated settlement, we all agreed that
23 the use of an easy identifiable exchange rate
24 was probably less problematic in terms of
25 trying to arrive at a fuel price projection at

Page 169	Page 170
<p>1 MR. BANFIELD:</p> <p>2 the end of the day, in terms of having to</p> <p>3 deliver things for the customers and the Board</p> <p>4 in terms of agreement. That that was probably</p> <p>5 a better way of doing it, was to pick that.</p> <p>6 Obviously the forecast fuel price has to be</p> <p>7 forecast. That's the whole idea, and I don't</p> <p>8 mean that in any way, but the forecast of fuel</p> <p>9 prices obviously had to be done, but all other</p> <p>10 things that where we could make them as simple</p> <p>11 as we could, we tried to do that.</p> <p>12 MR. KENNEDY:</p> <p>13 Q. Just flipping over to the next page, RS-6, and</p> <p>14 just dealing with the adjustments, Section D,</p> <p>15 and could you just explain to us how this</p> <p>16 April, May and June calculation works for the</p> <p>17 adjustment that Newfoundland Power would face</p> <p>18 each year? You do a as of March 31 each year,</p> <p>19 so why are we talking about April, May and</p> <p>20 June from the previous year?</p> <p>21 A. We're trying to--we're taking the March 31st</p> <p>22 balance. We've already, in the end of the--in</p> <p>23 the adjustment rate, we're already recovering</p> <p>24 the balance, so we wanted to make sure that we</p> <p>25 didn't recover that or set the rate twice. So</p>	<p>1 we wanted to adjust the balance for that</p> <p>2 amount that was going to be recovered in those</p> <p>3 three months.</p> <p>4 Q. So the adjustment won't take place until July</p> <p>5 1 of that year?</p> <p>6 A. That's correct.</p> <p>7 Q. You're doing your calculations as to what the</p> <p>8 adjustment should be in July 1 based on the</p> <p>9 data that you have as of March the 31st?</p> <p>10 A. That's correct.</p> <p>11 Q. But you'll be continuing to either recover the</p> <p>12 RSP balance or vice versa be creating a larger</p> <p>13 balance over the period of April, May and June</p> <p>14 between when you're calculating it and when it</p> <p>15 gets implemented and that needs to be factored</p> <p>16 into the July 1 adjustment as well?</p> <p>17 A. Yes. We wanted to make sure that we adjusted</p> <p>18 that balance for those recoveries or payments.</p> <p>19 Q. Okay. And in the case of the Island</p> <p>20 Industrial Customers, just starts right at the</p> <p>21 bottom of RS-6 and then goes over to RS-7, it</p> <p>22 says "as of December 31 each year, the</p> <p>23 adjustment rate for Industrial Customers for</p> <p>24 the 12-month period commencing January 1 is</p> <p>25 determined as the rate per kilowatt and it's</p>
Page 171	Page 172
<p>1 projected to be" and so on. So could you tell</p> <p>2 me, how is it that the Industrials you can fix</p> <p>3 a new rate for January 1 based on December 31,</p> <p>4 but you need--so in other words, you can do it</p> <p>5 right away, as it appears on this paper, as</p> <p>6 opposed to Newfoundland Power where you need</p> <p>7 that three-month lag?</p> <p>8 A. As part of the negotiated settlement, that was</p> <p>9 the time period that it was felt that</p> <p>10 Newfoundland Power needed in order to flow</p> <p>11 this through their own system to their RSA, et</p> <p>12 cetera, and do whatever they needed to do in</p> <p>13 order to have this out by July the 1st. So</p> <p>14 that was part of the negotiated settlement.</p> <p>15 (1:18 p.m.)</p> <p>16 Q. Okay. So the extra period of time is as a</p> <p>17 result of the Newfoundland Power flow through?</p> <p>18 A. Basically. I'm sure they have other reasons</p> <p>19 or whatever they might be, but that was the</p> <p>20 negotiated settlement.</p> <p>21 Q. Okay. I just have some specific questions,</p> <p>22 Mr. Banfield, on the November the 21st</p> <p>23 evidence, and I just wanted to deal first with</p> <p>24 the hydraulic variation. And as you've</p> <p>25 testified, the proposed recovery period under</p>	<p>1 the new RSP is now four years, correct? That</p> <p>2 the--it's a 25 percent recovery of your</p> <p>3 hydraulic variance year over year?</p> <p>4 A. Each year we'll take 25 percent of the</p> <p>5 balance.</p> <p>6 Q. Right.</p> <p>7 A. Yes. I wouldn't characterize it as four</p> <p>8 years. It's 25 percent of the balance,</p> <p>9 whatever that balance is.</p> <p>10 Q. It's not a declining balance, is it?</p> <p>11 A. Well, I mean, it -</p> <p>12 Q. It's not a straight line amortization that</p> <p>13 you're doing here?</p> <p>14 A. No, no, it's not an amortization in any sense.</p> <p>15 It's just 25 percent of whatever the balance</p> <p>16 is in that hydraulic portion at the end of the</p> <p>17 year.</p> <p>18 Q. And -</p> <p>19 A. Plus financing charges, yes.</p> <p>20 Q. - and recognizing that the similar issue got</p> <p>21 us into trouble, if you will, on the old RSP,</p> <p>22 the first one, where it wasn't a straight line</p> <p>23 amortization, it was a revolving collection,</p> <p>24 if you will, or recovery of the balance, can</p> <p>25 you give us some measure of comfort as to why</p>

Page 173	Page 174
<p>1 MR. KENNEDY:</p> <p>2 we won't run into the same problem now with</p> <p>3 this proposal of a 25 percent recovery,</p> <p>4 revolving recovery, as opposed to a straight</p> <p>5 line recovery?</p> <p>6 A. The previous recovery was on the full plan</p> <p>7 itself, which had hydraulic, fuel, load and</p> <p>8 everything all combined into it. Based on the</p> <p>9 new rules, with the fuel being recovered over</p> <p>10 each yearly period, and only 25 percent being</p> <p>11 taken from the hydraulic, which based on the</p> <p>12 runs that we had done, looking at the various</p> <p>13 hydraulic cycles, we do not see that as a</p> <p>14 large prospect, to have huge balances built up</p> <p>15 in the plan.</p> <p>16 Q. Okay. You indicate there on page one that "it</p> <p>17 had been contemplated that due to the nature</p> <p>18 of the hydraulic cycle," and then you go "ie.</p> <p>19 over time, the variation would tend to zero.</p> <p>20 This part of the RSP might never have to be</p> <p>21 recovered from or refunded to customers."</p> <p>22 Could you tell us, over time, is there any</p> <p>23 indication of what period of time we're</p> <p>24 dealing with?</p> <p>25 A. Oh, my.</p>	<p>1 Q. When you would expect the hydraulic variation</p> <p>2 to tend to zero?</p> <p>3 A. I think we're probably talking about over a</p> <p>4 15-year period, somewhere in that ballpark,</p> <p>5 maybe even longer than that, but in that</p> <p>6 period of time. It was longer than a few</p> <p>7 years.</p> <p>8 Q. Okay. I've heard some--and I don't know if</p> <p>9 there's ever been evidence led on it, that</p> <p>10 there's this sort of magical solar cycle of 11</p> <p>11 years and that affects your water years. That</p> <p>12 sound familiar at all?</p> <p>13 A. I wouldn't -</p> <p>14 GREENE, Q.C.:</p> <p>15 Q. Definitely not in evidence.</p> <p>16 MR. KENNEDY:</p> <p>17 Q. You're not going to go near there?</p> <p>18 A. No.</p> <p>19 Q. Okay. I'm just wondering, again, is this</p> <p>20 four-year period or this 25 percent recovery</p> <p>21 is that again a negotiated term as between the</p> <p>22 parties?</p> <p>23 A. Yes, it was. We had run a various number of</p> <p>24 hydraulic cycles, considerable number as a</p> <p>25 matter of fact, starting the hydraulic cycle</p>
Page 175	Page 176
<p>1 at particular times to see what type of</p> <p>2 balances would build up in that portion of the</p> <p>3 plan and 25 percent seemed to be the number</p> <p>4 that everybody agreed was reasonable, in order</p> <p>5 to keep the risks as we've shown here to Hydro</p> <p>6 at a level that we were willing to accept.</p> <p>7 Q. The Chart 1 that you have there on page two,</p> <p>8 is this a cumulative figure year over year?</p> <p>9 In other words, is this chart post the--as</p> <p>10 this is new 25 percent per year recovery had</p> <p>11 applied since 1986 to 2002? Is that what I'm</p> <p>12 looking at when I see this Chart 1?</p> <p>13 A. Yes, it is.</p> <p>14 Q. Okay. And it's a--and in that sense, the</p> <p>15 balance given for each of those notes is, on</p> <p>16 your chart, is a cumulative balance?</p> <p>17 A. Yes, cumulative in the sense that if you start</p> <p>18 your hydraulic cycle in '86, which is at</p> <p>19 around 5 million, then by the end of the next</p> <p>20 year, it had risen to 60 something million and</p> <p>21 then so on and so forth from that perspective,</p> <p>22 yes.</p> <p>23 Q. Okay. And so with this 25 percent recovery</p> <p>24 over the period of 1985 to 2002, we would have</p> <p>25 flirted with something just above 60 million</p>	<p>1 dollars in credit to the RSP or the hydraulic</p> <p>2 portion of the RSP and flirted with just under</p> <p>3 a 100 million dollar balance owing by</p> <p>4 customers under the RSP?</p> <p>5 A. About 100 owing from, yes, and roughly 60</p> <p>6 million owing to or due to customers, yes.</p> <p>7 Q. And does Hydro feel confident that, again</p> <p>8 based on your analysis of your hydraulic</p> <p>9 production over this period that we've looked</p> <p>10 at, and I guess maybe other periods, that</p> <p>11 using this 25 percent recovery period that you</p> <p>12 will not exceed 100 million dollar plan</p> <p>13 balance on the hydraulic portion of the RSP?</p> <p>14 A. Based on the numbers presented and the</p> <p>15 hydraulic cycles that we had run through this</p> <p>16 model with 25 percent recovery and financing</p> <p>17 charges, we believe that we can stay below the</p> <p>18 hundred million cap, the hundred million mark,</p> <p>19 I should say.</p> <p>20 Q. Just switch gears, Mr. Banfield, just a quick</p> <p>21 question on the proposed lifeline block.</p> <p>22 Anecdotally, would it be fair to say that</p> <p>23 there seem to be some misapprehension among</p> <p>24 some of your potential customers who would see</p> <p>25 this lifeline block about what impact it may</p>

Page 177	Page 178
<p>1 MR. KENNEDY:</p> <p>2 have on their bills, speaking specifically to</p> <p>3 the individuals that provided some</p> <p>4 presentations during our most recent trip to</p> <p>5 Labrador.</p> <p>6 A. Yes, there certainly seemed to be some</p> <p>7 misunderstanding about the value or what had</p> <p>8 been proposed in terms of the lifeline block.</p> <p>9 And that being, even the absence of having</p> <p>10 circulated this prior to going to Labrador to</p> <p>11 the parties that were intervening and having</p> <p>12 copies available at the presentations</p> <p>13 themselves, even in that absence, there still</p> <p>14 seemed to be some confusion as to the</p> <p>15 benefits.</p> <p>16 Q. One of the essential items secured by Hydro on</p> <p>17 agreeing to this new two-tier lifeline block</p> <p>18 was that it would be, at the end of the day,</p> <p>19 revenue neutral.</p> <p>20 A. That's correct.</p> <p>21 Q. And so from that perspective, on an individual</p> <p>22 customer basis and recognizing there may be</p> <p>23 variances from customer to customer, that it</p> <p>24 would be, from a customer's perspective,</p> <p>25 billing neutral.</p>	<p>1 A. Basically, yes, absolutely. What it did</p> <p>2 provide was the opportunity for customers who</p> <p>3 had the need for more energy in a particular</p> <p>4 month to be able to utilize that, say, in the</p> <p>5 winter months, but overall, it was revenue</p> <p>6 neutral.</p> <p>7 Q. I wasn't here, but I understand, Mr. Banfield,</p> <p>8 that there was a significant amount of</p> <p>9 evidence that would have been led at the time</p> <p>10 that the lifeline block was set as to what</p> <p>11 that lifeline block should be. Were you</p> <p>12 around in those days? Were you around when</p> <p>13 the 700 kilowatt hours got set?</p> <p>14 A. I'm aware of the information that was put</p> <p>15 forward and read the various Board Orders, et</p> <p>16 cetera, yes.</p> <p>17 Q. Did Hydro do a similar analysis in order to</p> <p>18 come up with the figures that it's now</p> <p>19 proposing under the two-tier lifeline block of</p> <p>20 moving from 700 kilowatt hours to 900 kilowatt</p> <p>21 hours or 1000 kilowatt hours depending on what</p> <p>22 month?</p> <p>23 A. We had done the analysis as was contained in</p> <p>24 the report that was put to the Board on the</p> <p>25 lifeline block proposal in which, I think</p>
Page 179	Page 180
<p>1 actually, we had proposed a four-tier block,</p> <p>2 but during negotiations and with the agreement</p> <p>3 of the Consumer Advocate and the Consumer</p> <p>4 Advocate's experts, the three-tier block was</p> <p>5 agreed to as a reasonable way of matching</p> <p>6 customers seasonal patterns and making the</p> <p>7 lifeline block, therefore, appropriate from</p> <p>8 that perspective.</p> <p>9 Q. Just one last set of questions, just a few</p> <p>10 moments, Chair. Mr. Banfield, the wholesale</p> <p>11 rate, Mr. Kelly asked you a question that, if</p> <p>12 I can paraphrase, he said, with the energy</p> <p>13 only rate, Hydro is or Newfoundland Power is</p> <p>14 paying its full share of the allocated costs</p> <p>15 for demand and energy and I believe you</p> <p>16 responded to that, yes.</p> <p>17 A. Yes, Newfoundland Power are fairly allocated,</p> <p>18 demand and energy, and are paying for that</p> <p>19 through the energy only rate, yes.</p> <p>20 Q. And that mil rate for the energy only rate is</p> <p>21 determined on the cost of service method of</p> <p>22 Hydro's embedded cost, correct?</p> <p>23 A. Sorry, can you repeat that again.</p> <p>24 Q. The mil rate that Hydro uses in the energy</p> <p>25 only rate for Hydro, or for Newfoundland Power</p>	<p>1 was based upon the cost of service</p> <p>2 allocations?</p> <p>3 A. Yes, that's correct.</p> <p>4 Q. All right. And that gets set each Test Year?</p> <p>5 A. Yes, that's correct.</p> <p>6 Q. And it doesn't get--under an energy rate, it</p> <p>7 doesn't get changed between Test Years?</p> <p>8 A. No, the rate would only get changed based on a</p> <p>9 rate application to the Board, yeah.</p> <p>10 Q. So, if Newfoundland Power's load profile was</p> <p>11 to change between Test Years, for instance, if</p> <p>12 Newfoundland Power's load profile was to</p> <p>13 improve after a Test Year has set it's energy</p> <p>14 only rate, would Newfoundland Power still be</p> <p>15 paying its fair share of costs of the system?</p> <p>16 A. Yes, from the perspective that the rates were</p> <p>17 set on the Test Year rates or the Test Year</p> <p>18 allocations, yes, it still would be. What</p> <p>19 doesn't happen, of course, is they do not</p> <p>20 receive that pricing signal or message that if</p> <p>21 they take more or take less, then they pay for</p> <p>22 it on, at least on a seasonal basis.</p> <p>23 Q. That's all the questions I have, Chair. Thank</p> <p>24 you.</p>

Page 181

Page 182

1 CHAIRMAN:
 2 Q. Thank you, Mr. Kennedy. Thank you, Mr.
 3 Banfield. It is 1:35 p.m. right now. How
 4 long, Ms. Greene, do you have on re-direct?
 5 GREENE, Q.C.:
 6 Q. I do have some questions, they're not very
 7 lengthy, but I do have three or four.
 8 CHAIRMAN:
 9 Q. And the Board has some questions as well.
 10 This is likely to take, I'm just guessing
 11 twenty minutes to half an hour probably.
 12 What's the desire? I'm prepared to push on or
 13 certainly, we can--we're looking at taking 20
 14 minute in the morning, if that's--getting
 15 beyond 1:30 is a bit of cruel and unusual
 16 punishment for the witness; I realize that,
 17 but I'm open.
 18 GREENE, Q.C.:
 19 Q. One of the issues, as you know, is that we
 20 have the cost of capital experts from out of
 21 town starting tomorrow and we had actually
 22 hoped to discuss among counsel what our
 23 thoughts were on the schedule for that, after
 24 we concluded. So, I'm not sure at this point
 25 if the amount of time that we believe will be

1 required for the three out of town experts,
 2 and as to whether we would want to take half
 3 an hour. I find that if we leave it until the
 4 next day, it always takes longer in terms of
 5 the questioning, time from tomorrow, but I
 6 leave it certainly to the Board. We're
 7 prepared to proceed this afternoon to finish,
 8 if we think we can finish Mr. Banfield in half
 9 an hour, I don't know if you want to have a
 10 five minute break to stretch legs or whatever,
 11 but, so, we're prepared to either adjourn
 12 until tomorrow, but I don't know the amount of
 13 time required for the experts because we
 14 haven't had the discussion and we're prepared
 15 to carry on now, if you wanted a five minute
 16 break now. We'll leave it to the Board.
 17 CHAIRMAN:
 18 Q. Anyone else got any observations, any -
 19 BROWNE, Q.C.:
 20 Q. We could have lunch and come back at 2:30 p.m.
 21 GREENE, Q.C.:
 22 Q. No, if it's only going to--well, my suggestion
 23 is if we believe it's going to be half an
 24 hour, it's probably more prudent just to carry
 25 on through and -

Page 183

Page 184

1 BROWNE, Q.C.:
 2 Q. How do we know how long he's going to be,
 3 because if the Board gets into questions, we
 4 might have questions arising.
 5 CHAIRMAN:
 6 Q. I--pardon?
 7 COMMISSIONER SAUNDERS:
 8 Q. Might as well adjourn.
 9 CHAIRMAN:
 10 Q. Yes. I think given that there is, and as I
 11 say, four and a half hours is a bit long, in
 12 any event. I think what we'll do, we're
 13 looking at twenty minutes to half an hour in
 14 the morning. We'll adjourn for today, allow
 15 counsel to get together on the schedule. You
 16 have control over your re-direct in terms of
 17 time and we have control over the questions.
 18 So, we shouldn't go beyond twenty minutes to
 19 half an hour.
 20 GREENE, Q.C.:
 21 Q. I'm never long.
 22 A. And control over the witness, I might add.
 23 CHAIRMAN:
 24 Q. So, we will adjourn now--thank you very much--
 25 until 9:00 tomorrow morning at which time

1 we'll begin our re-direct.
 2 Upon concluding at 1:37 p.m.

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 2nd day of December, A.D., 2003 before
8 the Board of Commissioners of Public Utilities,
9 Prince Charles Building, St. John's, Newfoundland
10 and Labrador and was transcribed by me to the best
11 of my ability by means of a sound apparatus.
12 Dated at St. John's, Newfoundland and Labrador
13 this 2nd day of December, A.D., 2003
14 Judy Moss Lauzon