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1 (9:19 a.m.)	1 witnesses this morning are Mr. Barry Perry and	
2 CHAIRMAN:	2 Mr. Lorne Henderson of Newfoundland Power.	
3 Q. Good morning everybody, I apologize for the	3 Mr. Perry is Vice-President Finance and Chief	
4 delay. We have no real control over traffic	4 Financial Office of Newfoundland Power and Mr.	
5 accidents on the Outer Ring Road. Good	5 Henderson is the Superintendent Rates and	
6 morning, Ms. Newman, are there any matters	6 Operations. If the witnesses can be sworn.	
7 before we begin?	7 CHAIRMAN:	
8 MS. NEWMAN:	8 Q. Thank you very much. Good morning, Mr. Perry,	
9 Q. Good morning, Chair. Yes, I believe that	9 a familiar seat for you. Welcome back.	
10 counsel for Newfoundland and Labrador Hydro	10 MR. PERRY:	
11 has one undertaking they'd like to speak to.	11 A. Good morning.	
12 MR. YOUNG:	12 CHAIRMAN:	
13 Q. Yes, we've circulated to the parties, Mr.	13 Q. Mr. Henderson, good morning.	
14 Chair, and provided copies to the Board	14 MR. BARRY PERRY (SWORN)	
15 Secretary. It's in response to an undertaking	15 MR. LORNE HENDERSON (SWORN)	
that came up with Ms. McShane, it's a very	16 CHAIRMAN:	
straight forward matter, beta was asked about	17 Q. Thank you very much. When you're ready, Mr.	
a particular company that was in her data.	18 Kelly.	
19 That's all, thanks.	19 KELLY, Q.C.:	
20 CHAIRMAN:	20 Q. Thank you, Chair. Mr. Perry, you had filed	
21 Q. Thank you very much, Mr. Young. Good morning,	21 pre-filed evidence in this matter dated	
22 Mr. Kelly. Could you introduce your	September 2, 2003. Do you adopt your pre-	
witnesses, please?	23 filed testimony as your evidence in this	
24 KELLY, Q.C.:	24 proceeding?	
25 Q. Yes, good morning, Chair, thank you. The	25 MR. PERRY:	
Pag	Pa Pa	ige 4
1 A. Yes, I do.	points in turn now if we can. Why do you say	Ü
2 Q. And Mr. Henderson, do you adopt your pre-filed	that there'll be no measurable benefit to	
testimony as your evidence in this proceeding?	3 customers?	
4 MR. HENDERSON:	4 MR. PERRY:	
5 A. Yes, I do.	5 A. The proposed rate does not provide	
6 Q. Mr. Perry, I'd like to start by looking at the	6 Newfoundland Power with any new or improved	
7 demand/energy rate, would you please advise	7 information with respect to system costs that	
8 the Board of Newfoundland Power's position	8 will lead us to change the retail rates that	
9 with respect to the demand energy wholesale	9 are currently in place. These rates already	
rate proposed by Hydro?	reflect Hydro and Newfoundland Power's total	
11 MR. PERRY:	embedded system cost. Approximately 204,000	
12 A. Yes, I can. Newfoundland Power believes that	or 92 percent of Newfoundland Power's	
the proposed rate is flawed and should not be	customers are domestic and small general	
approved by the Board.	service customers. These customers consume	
15 Q. What are Newfoundland Power's concerns wit	approximately 61 percent of the energy sold by	
respect to the proposed demand/energy rate?	Newfoundland Power. It is generally accepted	
17 MR. PERRY:	that it is not appropriate to charge these	
18 A. Our concerns focus on two specific areas.	customers on the basis of a demand energy	
Number one, the proposed rate will provide no	charge. So 92 percent of our customers, it's	
20 measurable benefit to our customers. Number	20 not appropriate to charge them a demand energy	
two, the proposed rate will create additional	21 charge. Therefore, introducing a demand	
earnings volatility for Newfoundland Power	22 energy wholesale rate will not result in any	
which will in turn create rate instability for	change in the retail rate structure for these	
24 our customers.	24 customers. The remainder of Newfoundland	
25 Q. I'd like to get you to look at both of those	25 Power's customers are larger general service	

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1 MF	R. PERRY:	_	when overlaid with the impact on the
2	customers who are already served under a	2	2 electrical system and generation planning."
3	demand/energy rate. Once again, introducing a	3	The Board went on to say, "The Board finds it
4	demand energy wholesale rate will not result	4	difficult, however, to provide specific and
5	in any change in the retail rate structure for	5	5 meaningful policy direction to the utilities
6	those customers. Therefore, it seems to me	1	on DSM and conservation issues in the absence
7	that we must all ask ourselves what are we	7	of supporting evidence and related impacts on
8	trying to achieve here, what is the objective?	8	8 system overall. This matter will be most
9	The current energy only rate collects		9 appropriately addressed in the context of a
0	Newfoundland Power's share of Hydro's Cost of	10	
1	Service, including the demand and energy cost.	11	
2	The energy only rate has done this effectively	12	
3	for years. It has been suggested that the	13	
4	proposed demand/energy rate will incent	14	
5	Newfoundland Power to implement DSM program		
6	to defer the addition of new generating	16	
7	facilities on the system. However, neither	17	
8	Hydro, nor Newfoundland Power, nor the Board,		8 KELLY, Q.C.:
9	have the information to even determine how	19	
)	much is cost effective to spend on DSM.	20	
1	In Newfoundland Power's last General Rate	21	•
2	Order on page 111 the Board stated, "The	22	
3	relationship between rates and electricity		3 MR. PERRY:
4	consumption and the impact of DSM and energy	24	
5	efficiency programs is complex, especially	25	
		Page 7	Pag
1	On the other hand, Newfoundland Power is	_	1 resulting earnings volatility is arising from
2	already subject to earnings volatility of		2 a demand charge of \$12 combined with an energy
3	approximately \$900,000 under the energy or		3 charge of 5.13 cents a kilowatt hour, could
4	rate and that's described in my evidence.	· .	4 consume the entire two million dollar range of
5	The proposed demand/energy rate structure		5 return on rate base.
6	introduces earnings volatility for Hydro and		6 Now if we look at Hydro's proposal.
7	significantly increases Newfoundland Power		7 Hydro's proposed \$84 demand charge results in
8	earnings volatility as a result of forecast		potential earnings volatility that is
9	variances. For example, Newfoundland Pov		9 approximately four times Newfoundland Power's
0	could face a decrease in pre-tax earnings of	10	
1	approximately eight million dollars under the		
	proposed rate. This is nine times the impact	11	
2	felt by Newfoundland Power under the curre		
3 4	energy only rate. This is unacceptable to		•
	Newfoundland Power.	14	1 . 0
5	The Rate of Return on rate base for	15	1 1 3 3 7
6 7	Newfoundland Power has been set in a narro	017	, 1
7			
8	range of plus or minus 18 basis points. This	18	8 instability that will result. Mr. Greneman's

translates into a range on earnings of plus or 19 earnings volatility solution of expanding the minus two million dollars on a pre-tax basis. 20 range of Rate on Return on rate base is Our current 900,000 of earnings volatility 21 contrary to Newfoundland Power's recent rate under the energy only rate already consumes 22 order and does not solve the earnings about half of that amount. Let me give the 23 volatility issue. In fact, Hydro itself has Board an idea of the impact of a demand/energy 24 acknowledged that earnings volatility for both rate on Newfoundland Power's earnings. The 25 utilities would be significantly increased as

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	Page 9			Page 10
1	MR. PERRY:			R. PERRY:
2	a result of introducing the proposed			A. Under the proposed rate and in the absence of
3	demand/energy rate. Hydro is sufficiently		3	a reserve or flow through mechanism,
4	concerned about this earnings volatility that		4	Newfoundland Power would be required to apply
5	it has proposed a floor for their demand		5	to the Board for relief in the following two
6	revenue recovery. Last week Mr. Banfield said		6	situations: number one; if peak demand
7	that the rate proposed by the Board's		7	materially exceeds the forecast or number two;
8	consultant presented significant risk to		8	if energy sales are projected to be materially
9	Hydro's earnings since it did not provide		9	below forecast. Furthermore, these events
10	Hydro with down side risk protection.	1	.0	could also occur in tandem. In addition, if
11	Although Hydro has proposed a floor for	1	.1	Newfoundland Power's peak demand were to
12	itself, no such protection for Newfoundland	1	2	decline in a subsequent year as has happened
13	Power has been proposed. Hydro simply says	1	.3	in the past, Newfoundland Power may then find
14	that this is a Newfoundland Power issue.	1	4	itself in an excess earnings position. This
15	Well, we disagree. This is a Hydro issue as	1	.5	would result in a rebate to customers and may
16	well since anything that potentially impacts		6	result in a rate decrease. In the next year,
17	Newfoundland Power's customers rates also		7	the situation could again reverse itself and
18	impacts the rates charged to Hydro's retail		.8	the company may be forced to yet again seek
19	customers on the island. Earnings volatility		.9	relief from the Board. So one can see how
20	is an issue for the Board as part of its		20	rate instability can result under the proposed
21	mandate to regulate customer rates and to	$\frac{1}{2}$		demand/energy rate. Even with a reserve or
22	balance customer and utility interests.		22	pass through mechanism, the issue of rate
1	KELLY, Q.C.:		23	stability remains without any benefit accruing
	Q. How does year-over-year rate instability arise		.5	to customers. In Newfoundland Power's view,
24 25	for customers?		.4 25	creating these problems in the absence of any
23		+		
	Page 11	l		Page 12
1	benefit for our customers is inappropriate and		1	two Abitibi mills there could be up to 90
2	unnecessary.		2	megawatts of interruptible power available
3	Q. What approach does Newfoundland Power propose		3	today. It is also possible that there is
4	should be adopted?		4	interruptible power available from the Kruger
5 1	MR. PERRY:		5	mill in Corner Brook. The Board should have
6	A. Commissioners, there should be a coordinated		6	all of the necessary information in order to
7	system-wide approach to this matter. First,		7	evaluate any proposed change to the wholesale
8	Hydro and Newfoundland Power should complete		8	rate structure. This includes both the short
9	long run marginal costs and retail rate design		9	and long run marginal costs of electrical
10	studies. Mr. Haynes has said that Hydro	1	.0	system as well as the results of a retail rate
11	currently has ample capacity. Hydro's	1	.1	design study.
12	decision to discontinue the interruptible B	1	2	Certain experts in Hydro take the
13	contract with Abitibi Stephenville Newsprint	1	3	position that a demand/energy rate is needed
14	Mill was based on that premise. Hydro has	1	4	now to provide long-term future benefits.
15	effectively said at \$28 per kilowatt for 45	1	5	This is to be achieved by incenting
16	megawatts of interruptible B capacity is too		.6	Newfoundland Power to do DSM and to make
17	much to pay to Abitibi to reduce system peak	1	.7	unspecified changes to retail rates. However,
18	because Hydro doesn't need that capacity.		.8	they say this without any concrete evidence
19	At the same time Hydro is proposing to		9	that effective DSM programs are available,
20	send a signal to Newfoundland Power that we		20	without knowing how much to spend on cost
21	should pay up to \$84 per kilowatt or about		21	effective DSM programs, without knowing how
22	three times the cost of the interruptible B to		22	retail rates should be changed, without
23	reduce system peak. Commissioners, this does		23	addressing any of the earnings volatility and
24	not make any economic sense. Furthermore,		24	rate stability issues that a demand/energy
25	Newfoundland Power believes that between the		25	rate creates and without having fully
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Page 13		Page 14
1 MR. PERRY:	1	rate structure for Newfoundland Power. To
2 addressed the outstanding issues identified in	2	ensure the correct price signals are sent to
3 the Stone & Webster report.	3	Newfoundland Power's customers, the Board
4 In addition, a demand/energy rate creates	4	should order Hydro to work with Newfoundland
5 timing differences between payments to Hydro	5	Power to complete long run marginal costs and
6 and revenue received from Newfoundland Power's	6	retail rate design studies. As it is,
7 customers. These timing differences can	7	Newfoundland Power's customers and Hydro's
8 result in up to an additional five million	8	retail customers will face a significant rate
9 dollars being paid to Hydro by Newfoundland	9	increase in 2004. The resulting rate
Power in the first year if implementation	10	increases to our customers will provide them
occurs other than at January 1st in the year.	11	with a significant incentive to use
This will vary depending on the level of	12	electricity wisely and conserve where
demand charge and the amount of	13	possible. The revised RSP will provide a more
implementation. But based on Hydro's proposal	14	current price signal as changes in fuel prices
it's approximately five million dollars, up to	15	will be quickly reflected in electricity
16 five million dollars. Commissioners,	16	rates. This in turn will create a degree of
Newfoundland Power believes that we should	17	rate instability for our customers.
consider all of these issues together in a	18	Adding further instability to customer
19 coordinated approach.	19	rates by introducing a demand energy wholesale
20 KELLY, Q.C.:	20	rate is unwarranted. Newfoundland Power
21 Q. What is Newfoundland Power suggesting that the	21	believes that it would be prudent to allow for
22 Board should do now?	22	a settling period for customers after this
23 MR. PERRY:	23	rate increase. The settling period will allow
24 A. Newfoundland Power believes that the Board	24	time to conduct the studies required and
should continue with the energy only wholesale	25	conduct any generic hearings that the Board
Page 15		Page 16
1 considers appropriate.	1	rate, but I think you'll recognize this,
2 Q. Mr. Perry, do you have any concluding remarks?	2	particularly Mr. Henderson will at a glance
3 MR. PERRY:	3	I'm sure, as being essentially Newfoundland
4 A. The Board needs to consider the impact of the	4	Power's rate. Can you confirm that, is that
5 proposed demand/energy rate on Newfoundland	5	correct?
6 Power and its 220,000 customers and Hydro's	6 N	MR. HENDERSON:
7 22,000 customers for that matter. The Board	7	A. Yes.
8 should not approve a new wholesale rate	8	
	0	Q. I notice looking at that rate that there is a
9 structure to Newfoundland Power that creates	9	Q. I notice looking at that rate that there is a demand charge, it's-well, it's two different
9 structure to Newfoundland Power that creates 10 additional earnings volatility and rate		-
	9	demand charge, it'swell, it's two different
10 additional earnings volatility and rate	9 10	demand charge, it'swell, it's two different demand charges. It looks like a seasonal
additional earnings volatility and rate instability and is without any measurable	9 10 11	demand charge, it'swell, it's two different demand charges. It looks like a seasonal thing which is a little over \$6 a kVa and
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Page 17 IMR. HIPNDTRSON: 2 brought those customers, you know, made this 3 rate applicable to the larger customers that we have. You know, in so doing we developed 5 the demand charge and the energy charges as we felt were appropriate to ensure that there was 7 fairness within the rate that was provided to those large customers. 9 MR. YOUNG: 10 Q. When you say you develop the demand and energy 11 rates to ensure their fairness is that based 12 on a Cost of Service study? 13 MR. HENDERSON: 14 A. Yes. 15 Q. And based on Hydro's. Newfoundland Power's, 16 both? How do that work? 17 MR. HENDERSON: 18 A. That's both. In our Cost of Service, we take 19 the demand energy splits that arise from 19 Hydro's Cost of Service and inpurt our Cost 21 of Service to ensure that what our end 22 customers would see would be similar to what 23 they do see if it was a verticully integrated 24 utility. 25 Q. So essentially, the costs that are sent to Page 19 1 that show up because of the purchase power 2 rate structure. 3 Q. So the Cost of Service which has demand and 2 energy rates reflected in the costs that are sent to Page 19 1 that show up because of the purchase power 2 rate structure. 3 Q. So the Cost of Service which has demand and 2 energy rates reflected or demand and energy 3 of service would see would be similar to what 2 and—perhaps acture it think Mr. 7 Perry just mentioned that Hydro's Cost of 8 Service study is something that can be used to 10 of very eidence. It's at lines 17 to 19. 11 Ji just read a few semiences in and ask you 12 of your eidence in the similar to what 13 to comment on them. "Hydro's Cost of Service 14 that form the other comments you're made 15 the Cost of Service with that from 26 what you just told us a few iminates ago, there 27 were times when you take those commonation 28 what you just told us a few iminates ago, there 29 were times when you take those cumponents from 20 what you just told us a few iminates ago, there 21 were finely the costs t	December 7, 2005	Verbaum Court Reporters
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trans applicable to the larger customers that we have. You know, in so doing we developed the demand charge and the energy charges as we felt were appropriate to ensure that there was fairness within the rate that was provided to those large customers. MR. YOUNG: O, When you say you develop the demand and energy rates to ensure their fairness is that based to on a Cost of Service study? NM. YOUNG: O, And based on Hydro's, Newfoundland Power's, to both? How do that work? MR. HINDIRSON: A That's both. In our Cost of Service, we take the demand energy splits that arise from they'd see if it was a vertically integrated utility. O, So, essentially, the costs that are sent to Page 19 that show up because of the purchase power rate structure. O, So, to sest that we commodities reflected in this rate structure. I think Mr. Perry just mentioned that Hydro's Cost of Service study is something that can be used to determine the energy only rate appropriately and—perhaps actually 1 can take you to page 7 related costs specifically assigned costs and rural deficit to Newfoundland Power." And 1 take it from the other comments you we made that that Cost of Service study fant they'd see seem an option? I'm not suggesting it would have been a good option, but is it possible? The main and an energy of all Hydro's cost of service with has demand and energy rates reflected or demand and energy cost components, it has two commodities reflected in this rate structure. I think Mr. Perry just mentioned that Hydro's Cost of Service study is that custormer. I was a vertically integrated deficit to Newfoundland Power." And 1 take if from the other comments you we made that that Cost of Service study fant that custor in the short yound related costs, energy related costs specifically assigned costs and rural deficit to Newfoundland Power." And 1 take if from the other comments you we made that that Cost of Service study fand power." And 1 take if from the other comments you we made that that Cost of Service study from your perspective	1 MR. HENDERSON:	1 Newfoundland Power from Hydro's Cost of
4 we have. You know, in so doing we developed 5 the demand charge and the energy charges as we 6 felt were appropriate to ensure that there was 7 fairness within the rate that was provided to 8 those large customers. 9 Mik. YOUNG: 10 Q. When you say you develop the demand and energy 11 rates to ensure their fairness is that based 12 on a Cost of Service study? 13 Mik. HENDERSON: 14 A. Yes. 15 Q. And based on Hydro's, Newfoundland Power's, 16 both? How do that work? 17 Mik. HENDERSON: 18 A. That's both. In our Cost of Service, we take 19 the demand energy splits that arise from 20 Hydro's Cost of Service and input to our Cost 21 of Service to ensure that what our end 22 customers would see would be similar to what 23 they'd see if it was a vertically integrated 24 utility. 25 Q. So, essentially, the costs that are sent to 26 Service study? 27 In that's both. In our Cost of Service, we take 28 tructure. 29 In that show up because of the purchase power 20 rate structure. 21 cost components, it has two commodities 22 reflected in this rate structure. 23 G. So the Cost of Service which has demand and 24 energy rates reflected or demand and energy 25 cost components, it has two commodities 26 reflected in this rate structure. Hink Mr. 27 Perry just mentioned that Hydro's Cost of Service and input to our Cost 28 Service study is something that can be used to 29 determine the energy only rate appropriately 20 and—perhaps actually I can take you to page 7 21 of your cividence. It's a lines 17 to 19. 21 of your cividence. It's a lines 17 to 19. 22 I'll just read a few sentences in and ask you 38 to comment on them. "Hydro's Cost of Service 49 study properly accounts for the demand and 40 energy of all Hydro's customers and allocates 40 that that Cost of Service study from your 41 take it from the other comments you've made 42 that that Cost of Service study from your 43 the demand and power aside from its rate 44 that that Cost of Service study from your 45 that that Cost of Service study in that are sent to 46 that that	2 brought those customers, you know, made this	2 Service study essentially are supposed to be
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7 MR. HINDERSON: 8 those large customers. 9 MR. YOUNG: 10 Q. When you say you develop the demand and energy 11 rates to ensure their fairness is that based 12 on a Cost of Service study? 13 MR. HINDERSON: 14 A. Yes. 15 Q. And based on Hydro's, Newfoundland Power's, 16 both? How do that work? 16 both? How do that work? 17 MR. HINDERSON: 18 A. That's both. In our Cost of Service, we take 19 the demand energy splits that arise from 20 Hydro's Cost of Service and input to our Cost 21 of Service to ensure that what our end 22 customers would see would be smillar to what 23 they'd see if it was a vertically integrated 24 utility. 25 Q. So, essentially, the costs that are sent to 26 Page 19 1 that show up because of the purchase power 27 rate structure. 28 Q. So the Cost of Service which has demand and 29 energy rates reflected or demand and energy 29 cost components, it has two commodities 20 reflected in this rate structure. I think Mr. 21 Perry just mentioned that Hydro's Cost of Service study is something that can be used to 29 determine the energy only rate appropriately 20 and—perhaps actually I can take you to page 7 11 of your evidence. It's at lines 17 to 19. 12 I'll just read a few sentences in and ask you 15 to comment on them. "Hydro's Cost of Service 16 the amount of demand related costs, energy 17 related costs specifically assigned costs and 18 nural deficit to Newfoundland Power." And I 19 take it from the other comments you've made 20 that that Cost of Service sudy irace, but that from 21 through an energy only rate, but that from 22 through an energy only rate, but that from 23 through an energy only rate, but that from 24 were times when you take those components from 25 through an energy only rate, but that from 26 that that Cost of Service sudy from your 27 perspective is quite properly passed on 28 through an energy only rate, but that from 29 through an energy only rate, but that from 20 through an energy only rate, but that from 21 perspective is quite properly passed on 22 through an energy on	5 the demand charge and the energy charges as v	e Cost of Service study that Hydro has, is that
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12 on a Cost of Service study? 13 MR. HENDERSON: 14 A. Yes. 15 Q. And based on Hydro's, Newfoundland Power's, 16 both? How do that work? 17 MR. HENDERSON: 18 A. That's both. In our Cost of Service, we take 19 Hydro's Cost of Service and input to our Cost 20 define any extriction of the word of the costs that are sent to 21 of Service to ensure that what our end 22 customers would see would be similar to what 23 they'd see if it was a vertically integrated 24 utility. 25 Q. So, essentially, the costs that are sent to 26 Using that show up because of the purchase power rate structure. 27 That HENDERSON: 28 A. That's both. In our Cost of Service and input to our Cost of Service to ensure that what our end 29 that show up because of the purchase power rate structure. 20 Q. So, essentially, the costs that are sent to 21 that show up because of the purchase power rate structure. 22 they of see if it was a vertically integrated to that show up because of the purchase power rate structure. 24 utility. 25 Q. So, essentially, the costs that are sent to 26 cost components, it has two commodities energy rates reflected or demand and energy 27 that show up because of the purchase power of the reflected in this rate structure. 28 Fine MENDERSON: 29 A. Well it's an input into the rate design. You service customers, is that correct? 31 MR. HENDERSON: 40 A. Well it's an input into the rate design. You went through our evidence you'll energy only rate appropriately accounts for the demand and energy of your evidence. It's at lines 17 to 19. 31 Fill pair tend a few sentences in and ask you to comment on them. "Hydro's Cost of Service study sessinged costs and rural deficit to Newfoundland Power." And I take it from those components from the components from through an energy only rate appropriately assigned costs and through an energy only rate properly passed on through an energy only rate properly passed on through an energy only rate, but that from the components from through and energy only rate, but that from the components f	10 Q. When you say you develop the demand and en	ergy 10 Q. Could you have, if you wished, used an energy
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17 MR.HENDERSON: 18 A. That's both. In our Cost of Service, we take 19 the demand energy splits that arise from 20 Hydro's Cost of Service and input to our Cost 21 of Service to ensure that what our end 22 customers would see would be similar to what 23 they'd see if it was a vertically integrated 24 utility. 25 Q. So, essentially, the costs that are sent to 26 Page 19 1 that show up because of the purchase power 27 rate structure. 28 Q. So the Cost of Service which has demand and energy rates reflected or demand and energy see to emponents, it has two commodities 29 for ure vidence. It's at lines 17 to 19. 20 Fill just read a few sentences in and ask you to opment on them. "Hydro's Cost of Service study properly accounts for the demand and energy of all Hydro's customers and allocates that that Cost of Service study is one them, and allocates that that Cost of Service study is quite properly passed on that that Cost of Service study is quite properly passed on through an energy only rate, but that from your year eight content on the want you just told us a few minutes ago, there 20 The MR. HENDERSON: 21 A. Yes, it would be possible. 22 Tate, wo chose the energy and demand 21 differences that occurred from the Cost of 22 Service study, is that correct? 23 MR. HENDERSON: 24 A. Yes. We very much tried to focus on system 25 cost as opposed to any vagaries of the costs 22 service customers, is that correct? 23 MR. HENDERSON: 24 A. Well it's an input into the rate design. You 3 MR. HENDERSON: 25 Cost components, it has two commodities 4 A. Well it's an input into the rate design. You 4 A. Well it's an input into the rate design so it's certainly not an exact match by any 3 means, but it's a major means by which we assess fairness. 26 Service study is something that can be used to 4 a well into a few minutes and allocates 4 into rates, in Hydro's Cost of Service study gets translated 4 into rates, in Hydro's GRA's, but not in 4 into take it from the other comments you've made 5 into the and they can be fairly 5 signi	15 Q. And based on Hydro's, Newfoundland Power	s, lambda been an option? I'm not suggesting it would
18 A. That's both. In our Cost of Service, we take the demand energy splits that arise from 20 Hydro's Cost of Service and input to our Cost 21 of Service to ensure that what our end 22 customers would see would be similar to what 23 they'd see if it was a vertically integrated 24 utility. 25 Q. So, essentially, the costs that are sent to 26 That Wash DERSON: 27 Page 19 1 that show up because of the purchase power 28 rate structure. 29 Q. So, essentially, the costs that are sent to 29 That Wash DERSON: 29 A. Yes, it would be possible. 20 That wasn't your choice in designing this rate, you chose the energy and demand differences that occurred from the Cost of Service study, is that correct? 29 Service study, is that correct? 20 Service study, is that correct? 21 MR. HENDERSON: 22 That wasn't your choice in designing this rate structure. 23 MR. HENDERSON: 24 A. Yes, wo were much tried to focus on system cost as opposed to any vagaries of the costs 25 cost as opposed to any vagaries of the costs 26 The Service customers, is that correct? 27 A. Well it's an input into the rate design. You service customers, is that correct? 28 MR. HENDERSON: 4 A. Well it's an input into the rate design. You went through our evidence you'll read that the valso factor in the short run marginal costs also into the rate design so it's certainly not an exact match by any means, but it's a major means by which we assess fairness. 29 Machine definition of the demand and energy ofly rate appropriately means, but it's a major means by which we assess fairness. 20 Page 10 though an energy only rate appropriately means, but it's a major means by which we assess fairness. 21 Cyburder evidence. It's at lines 17 to 19. 22 In the study properly accounts for the demand and energy ofly rate appropriately energy of all Hydro's Cost of Service study energy ofly rate to Newfoundland Power aside from its rate hearings. 28 A. That's correct. 39 A. Well it's an input into the rate design. You show that we also factor in the short run marginal costs also	both? How do that work?	have been a good option, but is it possible?
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through an energy only rate, but that from 22 significant, but that's essentially correct, 23 what you just told us a few minutes ago, there 24 were times when you take those components from 24 MR. HENDERSON:		·
23 what you just told us a few minutes ago, there 23 isn't it? 24 were times when you take those components from 24 MR. HENDERSON:		
24 were times when you take those components from 24 MR. HENDERSON:		
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Γ	Page 21		Page
	1 MR. YOUNG:	1	1 A. What you're saying is in between hearings if
	2 Q. Aside from that though, for example, if you	2	our load factor changes significantly that we
	were to go three years between rate hearings	3	will receive a pricing signal more quickly?
	4 there wouldn't be a specific change between	4	4 Q. Yes.
	5 those rate hearings, there would be a three	5	5 MR. HENDERSON:
	6 year break between the changes in the pricing	6	A. Is that what you're trying to get at? Like,
	7 and consent on, is that correct?	7	you know, from what I understand of Hydro's
	8 MR. HENDERSON:	8	8 cost, that capacity costs are generally
	9 A. Yes, from what I understand with the revenue	9	speaking related to long-term investments and
1	requiredthe rates in between hearings, Hydro	10	over the short term, those costs don't vary
1	continues to recover basically its short run	11	very much. So, if you take the period in
1	variable costs through the RSPs. So to the	12	between hearings, I suspect that if there's
1	best of my knowledge, Hydro continues to	13	any material capital additions, that's
1	recover a reasonable level of its cost between	14	4 probably going to pull Hydro in for a rate
1	hearings.	15	hearing as it did this time with the addition
1	Q. The sample rate which has the demand and	16	of Granite Canal. In between hearings the
1	energy component in it, would you agree that	17	demand cost don't vary very much and to the
1	it can be or if changes in Newfoundland	18	best of my knowledge, Hydro continues to get
1	Power's rate structuresorry, in their load	19	1
2	factor, can be reflected more quickly under	20	know if there is any necessary signal to pass
2	the sample rate, you would see a more	21	through -
2	immediate response to a change as opposed to	22	2 MR. PERRY:
2	waiting for a load factor change that might be	23	A. It's my understanding that, you know, there's
2	reflected in the following GRA?	24	no new demand expected until 2010, 2011, so
2	25 MR. HENDERSON:	25	really all, you know, in between hearings
	Page 23		Page
	1 Hydro gets paid for energy as there's	1	on the go with a bunch of DSM projects because

3 so really there's no--I don't see any loss to Hydro between hearings. 4 5 Q. Aside from loss, just think for a moment if you can, considering how our Industrial 6 7 Customers rates work though. If they have a 8 change in their demand or a change in their 9 load factor which changes that shift, they get that price signal fairly immediately don't 10 11 they?

increases in energy supplied, so it gets paid

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12 MR. HENDERSON: 13 A. Yes, they can do something with it also. For us, we supply customers who use the 14 15 electricity. They're the ones who make decisions about electricity consumption. They 16 17 have the appropriate signals. Providing that signal in the short term to us doesn't do 18 19 anything for us because we're familiar with 20 system costs anyway, we see it through the 21 system. So we know those costs are coming 22 down. In the late 1980s we knew that 23 Newfoundland Hydro was staring at a gas 24 turbine, you know, in the early 90s and that

there's a potential for deferral. So we can 2 3 and we always have and we monitor Hydro's capital budgets and we're familiar with what's 4 5 going on, that we know these costs are coming down. So we get a signal through, you know, 6 7 what we know is coming down through the 8 system, we don't need it in a wholesale price. 9 Q. When Mr. Greneman was on the stand he referred to volatility as being part and parcel, going 10 11 part and parcel with the demand/energy rate 12 structure. And I suppose your take on his 13 next comment which I'm going to relate to you, 14 he talked about dynamic efficiency which is what I spoke of a moment ago, of the more 15 immediate transfer of the signal and changes 16 17 that can occur in response to that within 18 Newfoundland Power's customer groups or within 19 Newfoundland Power's rates if they so choose 20 to do that. Do you agree that volatility is 21 part and parcel of the demand/energy rate 22 structure, going from where we are presently with an energy only rate and at the RSP the 23 24 way it is?

was a flag for us to indicate we need to get

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	Page 25	Page 26
1 MR. PERRY:	1	the absolute level of customer rates in its
2 A. I would say yes, that's why we have a r	najor 2	decisions. In addition, mechanisms such as
3 issue. Like, you know, frankly one of	-	Newfoundland Power's weather normalization
things that Mr. Greneman said which cor		reserve and Hydro's Rate Stabilization Plan
to bother me is, you know, he suggested		have been established by the Board to provide
6 five million dollar volatility number in h		rate stability and predictability to retail
view was not a humongous number. I ca		customers. The existence of these mechanisms
you, the Board, that it is a humongous nu		also provides revenue stability to
9 for Newfoundland Power and I think ev		Newfoundland Power and Hydro." Acouple of
Board considers it a humongous number		questions arise from that. One, the Board has
it set our range and Rate of Return on ra		traditionally stressed stability and rates.
1		The fact that it wished to have this issue
base at plus or minus two million dolla		
So, you know, clearly, yes, it's part an		explored further in this hearing, the
parcel with a demand/energy rate and it's		demand/energy rate structure, I'll ask you to
of the major reasons why we don't supp		comment on whether you think that that's an
demand/energy rate.	16	indication that perhaps stability is not the
17 (9:45 a.m.)	17	only attribute that they thought was important
18 MR. YOUNG:	18	and some of the other ones perhaps are ones
19 Q. I wonder, Mr. O'Reilly if I could go to		that they are willing to look at more closely,
20 next page, page 8a little further down t		do you see that coming from this requirement
page, lines 18 and 19. Read the bottom o		of the Board for us to report on demand/energy
page and go to the next page just a fe		rate structure?
sentences, ask you just a couple of questi		HENDERSON:
of that. It says, "The Board has	24 A	I cannot presuppose what the Board's
25 traditionally stressed stability, fairness in	25	motivation is beyond knowing that in 1989,
	Page 27	Page 28
1 1990 the company, for whateverfor par	ticular 1	know, I wish I could just go off and talk to
2 reasons at that time, came forward looking		the Industrials and say, listen, I'm getting
a demand/energy rate. And this issue,	I 3	84, I'll pay you 28, I save the difference.
4 suspect substantially because of this		You know, I think the Board needs to know what
5 volatility issue and to some extent the ra		the right number should be if it's going to go
6 design issue has ended up never being ab		down the path of setting a demand energy
be effectively settled between negotiation		charge. And right now, that evidence is not
8 between us and it's dragged on. And		before the Board.
9 Board, I'm sure is seeking resolution to t		Now, Mr. Perry, that gives me some trouble
issue. As to whether they in particular a		because as I understand the evidence that was
seeking resolution because they think t		just given a few moments ago, the Cost of
there's definitely certain attributes that,		Service at Hydro, the embedded Cost of Service
you know, it merits, you know, I can't re		Hydro uses, is used by Newfoundland Power in
14 say for sure.	14	providing rates to Newfoundland Power's
15 MR. PERRY:	15	customers and the same rates that Hydro uses
16 A. And the other thing is I think the Boar		for its customers as we've pointed out. Is it
17 continues not to have sufficient information		that you don't have any faith at all in what
to resolve the issue, you know, that's ou		comes out of the embedded Cost of Service
		study because that gives the \$84?
· ·		
20 the long run cost of operating the system		HENDERSON: I think this issue of using embedded cost idea.
capacity on the system is. Asking the B		I think this issue of using embedded cost idea
to approve \$84 is like a shot in the dark		with regard to rate design isyou got to go
me. You know, what happens if it's no		back to Bombright's principles and realize
right number? It's incenting us to go out		what the objective of good rate designs.
do programs that, you know, up to \$84 w	hen we 25	You're balancing off fairness and efficiency

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	Page 29	Page 30
1 MR. HENDERSON:	1	it, therefore, there's no fairness issue.
2 issues. And for fairness issues, which is th	e 2	Therefore the only issue with regard to the
allocation of costs appropriately between	n 3	wholesale mill rate is really efficiency. And
4 customers, you've got more than one customers	omer 4	if efficiency is the only real reason which
5 in a particular class. When I go to set the	5	seems to be what everybody is talking about,
6 rate to make sure this person's paying the	e 6	an incentive for potentially DSM, you know,
7 appropriate amount versus that much, you	need 7	possibly a need to make sure Newfoundland
8 demand/energy rate from an embedded fai	rness 8	Power sets its rates more efficiently in terms
9 perspective to allocate the cost between the	em 9	of rate options. These are all efficiency
properly. And that's the fairness issues.	10	arguments and efficiency requires marginal
11 From an efficiency perspective to the external		costs as I believe, you know, Hydro's experts
to which you have good long run margin	nal 12	support, along with all the other Cost of
costs, you build them into your rate designation	s. 13	Service experts. So, that's the real issue
14 You know, efficiencies is a primary criteri	ia 14	we're trying to deal with here and the Board
for probably rate options and it may be	15	doesn't have that.
weighted a lot higher when you just start	t 16 M	R. PERRY:
developing rate options to ensure things ar	e 17	A. In fact, I think there's an RFI that Hydro
efficient, because customers always have t	the 18	acknowledges that DSM programs should be
option to go on this rate if they consider	19	evaluated based on marginal costs. And, you
themselves unfairly treated, if you want to	20	know, sending us a signal of \$84 that yes an
look at it that way. With regard to the	21	embedded cost number is mathematically correct
wholesale rate for Newfoundland Pow	er, 22	based on embedded costs, suggests to us that
Newfoundland Power is the only person w		that's the number we use as a benchmark to go
under this energy only rate. Hydro recove		out and find DSM programs. You know, I guess
its fair cost from the Cost of Service through	gh 25	the Board could order us after it orders the
	Page 31	Page 32
demand/energy rate put in place, say,	1	about aligning rates with integrated resource
2 Newfoundland Power even though we set a		planning, trying to deal with this efficiency
you can't spend the \$84 to look for DSM		issue. And then he talked about, yes, a lot
4 programs and put a condition in like that.		of jurisdictions do have rates based on
But, you know, again, what's the purpose		embedded costs that's probably inappropriate.
6 doing that.	6	It's an inappropriate emphasis put on embedded
7 MR. YOUNG:	7	costs.
8 Q. You seem to take a different perspective of		R. PERRY:
9 that than most of the experts I'd suggest to		A. I just want to go to NP-178 because I think
you who have appeared here. Mr. Patric		Hydro itself answers its question on this, if
Bowman indicated that he didn't see the li		we could. I believe the way I understand
between the marginal cost study and th		this, anyway. If you go down to line 15 it
demand/energy rate structure. And some of		says, "Hydro believes that the demand/energy
other experts have indicated, Mr. Grenem		rate structure provides an efficient pricing
that the marginal cost study can be used after		signal since it serves the dual purpose of
the fact to fine tune, tweak I think is the	16	collecting embedded demands costs while also
word, the rates, but that pricing the two	17	providing a marginal pricing signal and thus
components; demand and energy, from a C		it is in the long-term best interest of system
19 Service study, from an embedded basis is		expansion planning." So, you know, I think
20 very traditional rate making principle.	20	Hydro is saying, you know, that it is a signal
21 MR. HENDERSON:	21	that you're planning on sending to us and if
22 A. That's right. If you look to Larry Brockma		that signal, if DSM is to be valued at a
testimony, he alluded to a study, I believe		marginal cost, I think that if the Board in
•	123	marginar cost, i timik that if the board in
that was done by NARUC, the regulator		its wisdom, wants a demand/energy rate, I

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Page 33	Page 34
1 MR. PERRY:	time. And to suggest that \$84 is going to
2 principles rather than embedded cost	send us the right number, right signal, I have
3 principles.	3 trouble with that. It may turn out to be that
4 MR. YOUNG:	4 number, but I think the prudent approach is to
5 Q. Well, it does a bit of both doesn't it? As I	5 do the work, do the study and then if the
6 read that sentence I see that the \$84 per	6 Board decides to put in a demand/energy rate,
7 kilowatt per year is collecting the embedded	7 then at least it will be based on the
8 demand costs, but it also doesand Mr.	8 appropriate number.
9 Banfield touched on this when he was on the	9 Q. Going back to thewe don't need to go back to
standit also does a fairly good job of	it because I read in parts of your evidence in
reflecting the long run marginal costs if you	relation to some of the issues that the Board
use a proxy as a peaker. I mean -	has stressed, the stability and things of that
13 MR. PERRY:	nature and part of that passage also referred
14 A. I guess that's why we have problems -	to things the Board has looked at before for
15 Q it seems to be added comfort from our point	rate stability. For example, Newfoundland
of view. I don't know why you would take it	Power's weather normalization reserve; Hydro's
17 differently.	17 Rate Stabilization Plan. I think you'd agree
18 MR. PERRY:	with me that those two measures were moves to
19 A. I think, Mr. Young, that's where we have	moderate or attenuate the volatility in the
20 problems. If we used a proxyyou know, this	past, is that correct?
21 information can determine, the right numbers	21 MR. PERRY:
can be put in front of the Board. We do know	22 A. Sorry, Mr. Young, where are you?
that Hydro has discontinued an interruptible	23 Q. Well the reference I was reading from was in
contract for \$28, so that's the real evidence	your evidence on page 8.
25 that's in front of the Board at this point in	25 MR. PERRY:
Page 3:	Page 36
1 A. Okay, yes. Bottom of page 8.	1 canvassed other jurisdictions, have you
2 Q. It's still on the screen, actually.	2 considered what might occur where distributing
3 MR. PERRY:	3 utilities buy purchased power under a
4 A. Perfect.	4 demand/energy rate structure to deal with an
5 Q. Lines 18 toand it goes to the next page.	5 issue like this?
6 MR. PERRY:	6 MR. PERRY:
7 A. Okay.	7 A. Generally, obviously the first one you have to
8 Q. I'm just wondering if you'd agree with me that	8 deal with is weather normalization and I think

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- Q. I'm just wondering if you'd agree with me that 9 those two measures, the Newfoundland Power's weather normalization reserve and Hydro's RSP, 10 11 they're essentially means that the Board has
- 12 used in the past and has approved to deal with 13 some volatility issues that have occurred even
- 14 under the energy only rate, would you agree?
- 15 MR. PERRY:
- A. Yes. 16
- 17 Q. I'm just wondering, under the sample rate, your concern has been expressed that perhaps 18
- 19 more volatility could occur and I think Mr.
- Greneman agrees that under the sample rate or 20 21 a demand/energy rate structure, at least some
- 22 volatility goes hand in hand with it. Have
- 23 you looked at other means that may be used by
- 24 Newfoundland Power, on its own side, to address these volatility issues? Have you 25
- Hydro has acknowledged that, you know, we'd have to work on figuring out how to normalize the demand and the work is not done yet, but we believe that it could be--we could agree with Hydro on an approach for that. I guess the next solution that could be made is some sort of reserve mechanism where the variance gets placed in a reserve account, a balance sheet account I'll call it that is--you know, so our earnings are not impacted. And that account, I guess there's a couple of approaches. One is it's a flow through, you know, once you put the balance in the following year, customer rates are impacted, or another mechanism probably similar to our Hydro equalization reserve where it balances

out over time. But that presents some

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Pag	ge 37	Page 38
1 MR. PERRY:	1 Vio	ce President and Treasure of Abitibi
2 problems because we have this floor that Hydro	2 Co.	nsolidated.
3 has for their protection, we have our cap on	3 Q. An	d you were one of a number of vice-
4 Newfoundland Power's earnings so we'd have to	4 pre	sidents?
5 factor all that in so it wouldn't be easy to	5 MR. PER	
6 develop this but, you know, it is I think a	6 A. Ye	s.
7 possible solution to the volatility problem is	7 Q. At	Abitibi -
8 to put in some sort of reserve mechanism.	8 MR. PER	
9 MR. YOUNG:	9 A. Ye	s, that is correct.
Q. Thank you, that's all my questions, thank you.	1	d you joined in April, 2000. And upon
11 CHAIRMAN:		ning Newfoundland Power, did you take any
12 Q. Thank you, Mr. Young. Good morning, Mr.	1	irses in rate design?
Browne.	13 MR. PER	_
14 BROWNE, Q.C.:	14 A. No	. I went to grade school, as I said to you
15 Q. Good morning, Mr. Chairman. Good morning, Mr.		ce before, with Mr. Alteen, but no formal
Perry, Mr. Henderson. Mr. Perry, let's go	16 cou	irses.
over some of your basic qualifications to	17 Q. So	you had conversations with Mr. Alteen, who
speak to these issues. When did you join	18 wa	s your -
19 Newfoundland Power?	19 MR. PER	RY:
20 MR. PERRY:	20 A. An	d Mr. Henderson.
21 A. April 2000.	21 Q. An	d have taken any since the time of the last
22 Q. And upon joining Newfoundland Power where did	22 hea	ring?
you come from?	23 MR. PER	RY:
24 MR. PERRY:	24 A. No	, I haven't, Mr. Browne.
25 A. I was with Abitibi Consolidated. I was the	25 Q. So	you're here purporting to be a Cost of
Pag	ge 39	Page 40
1 Service expert?	1 A. Phi	illip Hughs is the President; Earl Ludlow is
2 MR. PERRY:	2 VP	Operations; I'm the Chief Financial
3 A. Definitely not.	3 Off	ficer; and Michael Mulcahy is the Vice-
4 Q. The information you have in reference to Cost	4 Pre	esident of Customer Service and Corporate
5 of Service issues and the like would come from	n 5 Ad	ministration; and Peter Alteen is our
6 others?	6 Co	rporate Secretary.
7 MR. PERRY:	7 Q. So	there's a five-member executive?
8 A. Yeah. CFO, Mr. Browne, you know, obviously	I 8 MR. PER	RY:
9 have to take input from Mr. Henderson and		at is correct.
other people to make decisions and, you know	_	nought I had heard in the press that Mr.
to come to conclusions on how Newfoundlar		ghs had gone. Is he still there?
Power would be impacted by Hydro's proposa		
So, yes, I do take input from others.	1	is there until the end of this year, Mr.
14 Q. And you are currently Vice-Presidentor		owne.
you're currently CFO at Newfoundland Power,		d are youwhat's your status?
that your position right now?	16 MR. PER	
17 MR. PERRY:		n actually taking a new role, as well.
18 A. That's correct.		ective January 1st I'll be the Chief ancial Officer of Fortis.
Q. And you're a member of the executive there at		
20 Newfoundland Power? 21 MR. PERRY:	20 Q. As 21 MR. PER	of January 1?
21 MR. PERRY: 22 A. Yes, I am.	21 MR. PER 22 A. Ye	
23 Q. And who is on the executive there at	1	s. d is Mr. Ludlow still there?
24 Newfoundland Power these days?	24 MR. PER	
25 MR. PERRY:	1	s, currently he's still there. He's -
- Interpretation	25 71. 10	o, tarrenaj ne o ban anoro. 110 b

Page 41 Page 42 within the range of return that the Board has 1 BROWNE, O.C.: Q. Is he going as well? 2 specified. Q. Okay. And that range of return is what for 3 MR. PERRY: 3 A. He's doing some stints out west. It's 2003? 4 possible he may move out west, but it's not 5 5 MR. PERRY: finalized yet. A. I believe it's between something like 8.9 6 6 Q. And Mr. Mulcahy is still there and Mr. Alteen? percent and 9.2 percent. 7 7 Q. And for 2004 is it the same? 8 MR. PERRY: A. Absolutely, yes, he is. And just to complete 9 MR. PERRY: the picture, Mr. Browne, as the Board would be 10 A. Yes. 10 aware, Mr. Carl Smith has been appointed the Q. And what are you able to achieve on your Rate 11 11 President and CEO as of January 1st. And the of Return on Equity in reference to the 12 12 current Board order? 13 Board would be familiar with Mr. Smith and I 13 think you would, as well. 14 14 MR. PERRY: Q. And your concern here in coming before the A. Commissioners, the current order set rates 15 15 16 Board is dealing basically with volatility in 16 using 9.75 percent Return on Equity. The earnings, is that your major concern? Board also indicated to the Company that there 17 17 was a range of about approximately 50 basis 18 MR. PERRY: 18 points above that 9.75 before a rate review 19 A. As well, no benefit to customers of the 19 Demand/Energy Rate that's being proposed. could be triggered. 20 20 Q. And in reference to your first concern, Q. So -21 21 volatility in earnings, how are you doing with 22 22 MR. PERRY: your earnings? 23 23 A. Or, actually, not a rate review. That's 24 MR. PERRY: probably not the right word. A review by the 24 A. We're doing okay this year. We're, you know, Board could be triggered. 25 Page 43 Page 44 Q. So you can earn up to 10.25 percent? number, but if you've checked it, I'll rely 1 2 MR. PERRY: that it's the right number. 2 Q. So you say subject to check -A. That's correct. 3 3 Q. Okay. And in reference to 2003, is that where 4 MR. PERRY: 4 5 you're headed? A. Yes. 6 MR PERRY: Q. - it's not a bad estimate? In reference to 6 A. I hope so. 7 this volatility issue, therefore, your rate 7 Q. Do you have any idea? right now and your rate for 2004 has been set 8 by the Board? 9 MR. PERRY: 9 10 MR. PERRY: A. No. Mr. Browne, we're, you know, we're 10 tracing it at 9.75 to 10 range at this point 11 11 A. Customer rates are set for 2003 and 2004, in time. 12 12 absolutely. 13 Q. And in actual earnings, in actual profit that 13 Q. And then for 2005, 2006 and 2007 you go on the you've made up to the end of your third Automatic Adjustment Formula, is that correct? 14 14 quarter, what had your profitability been? 15 MR. PERRY: 15 16 MR. PERRY: A. That is correct. 16 17 A. I don't have that number off the top, Mr. 17 Q. Okay. In 2003 the Board set your rate in part based on the long-term Canada, is that Browne, for the three quarters. It's public 18 18 19 information available, I just don't have it on correct? 19 the top of my head. 20 MR. PERRY: 20 Q. Does 24 million to 25 million sound familiar, 21 21 A. Yes, that's correct. 22 perhaps? 22 Q. And the long-term Canada at the time was what, do you remember that? 23 MR. PERRY: 23 24 A. I think it does, but I would rather just, you 24 MR. PERRY: know, if you--you know, we can give you the 25 A. I don't recall. 25

December 9, 2003	Multi-Pa	Name of the Name o
	Page 45	Page 46
1 BROWNE, Q.C.:		the long Canadas go up, go down after they're
2 Q. Does 5.6, 5.65 sound familiar?	2	set. But mathematically, you're right in that
3 MR. PERRY:	3	the current rate is about 25 basis points
4 A. Yeah. I think it's actually 5.6. I wasyou		lower than when rates were set.
5 know. It is 5.6 was the base.	5	Q. And that current rate will prevail for 2004,
6 Q. It is 5.6. And what is it today, the long-	6	you rates will be set as if the long-term
7 term Canada?	7	Canadas were at 5.6?
8 MR. PERRY:	1	MR. PERRY:
9 A. I'd say long Canada is right now around 5		A. Absolutely.
10 5.35, something like that.	10	Q. Despite the fact that they might be at 5.3?
11 Q. So it's 5.3, 5.35. So based on that, your		MR. PERRY:
rates are set 25 basis points above the 5.60		A. Or they might be at 5.9.
is that correct?	13	Q. And also, is yourwhen your rates were set,
14 MR. PERRY:	14	they were based on your forecasting of short-
15 A. Can you repeat your question, Mr. Browne		term interest rates, as well?
16 Q. Based on that your rates are set 25 basis		MR. PERRY:
points above the current long-term Canada		A. A certain part of our debt is forecasted to be
long-term Canada is five, I'm sorry, 5.3.		short-term debt, so we would have had a short-
three is 30 basis points, right, to 5.6?	, 16 19	term interest rate forecast as well, yes.
20 MR. PERRY:		Q. And the short-term interest rate forecast that
1	the 20 21	you presented the Board with in 2003 would be
· I		what?
question the way you've asked it, Mr. Brown The rates today are 25 basis points lower the		MR. PERRY:
		A. I can't recall the actual number, Mr. Browne.
when rates were set. That's a natural thing You know, rates are set at a point in time a	-	It was probably around four percent, I think,
23 Tou know, rates are set at a point in time a		
	Page 47	Page 48
something like, I think. I think it was five		go up, some go down and the range of Return on
2 percent for next year and four percent for		Rate Base is there to accommodate for those
3 this year, if I recall correctly.	3	fluctuations, so that's essentially how it
4 Q. Would fiveyeah, okay, five percent or 5.		works. You can't set rates every day,
5 percent, in that range?	5	basically. You set them for periods of time
6 MR. PERRY:	6	and you have a mechanism in place to monitor
7 A. For 2004, yeah.	7	the returns. And obviously the Company always
8 Q. And do you have any idea of what the she	ort- 8	has the choice to come back in if things go
9 term interest rates are now?	9	all against it, but you know, so yes,
10 MR. PERRY:	10	interests, we're hopeful that we can make some
11 A. We're borrowing about, I would say, at ab		gains on the short-term interest side next
three and a half percent right now, three		year because we're going to need them to
twenty-five to three and a half percent.	13	offset some increases in some other areas that
14 Q. And for 2004 your rates will be set based		we have.
the forecast, the forecast of your embedde	ed 15	Q. But basically in terms of volatility you have
cost of short-term debt as if it were five	16	two good numbers in your favour as we sit, you
percent despite the fact you're getting the		have the 5.6 rate despite the fact the long-
lower figure?	18	term Canadas at 5.3 and you also have the
19 MR. PERRY:	19	short-term, the short-term borrowing, the cost
20 A. That's correct. But again, it's the natural		of embedded debt which you have booked in at
21 way that rates are set. I will tell you that	21	five despite the fact it's three or below
we havewe're gaining onwe expect, I w		three now?
say, to gain some on the interest side. But		MR. PERRY:
can tell you we're losing a lot on pension		A. Yeah, I agree with that. But I would also
and insurance costs. These things go up, so	ome 25	add, we have a couple that are not in our

De	cember 9, 2005	Mulu-	<u> 1 a</u>	ge verbaum Court Reporters
	Pa	ge 49		Page 50
1	MR. PERRY:		1	A. I'm not. I hope that's the case.
2	favour that are very similar in size, as well.		2	Q. And if that's the case, you'd be getting the
3	BROWNE, Q.C.:		3	benefit of that, as well?
4	Q. And in terms of volatility in your		4	MR. PERRY:
5	forecasting, howhave you been monitoring	g	5	A. Commissioners, you know, this year the economy
6	your forecasting in reference to housing		6	of the island seems to be doing well, and
7	starts and the like, how well have you been		7	obviously Newfoundland Power, you know,
8	doing there?		8	benefits from that and it's a positive thing.
9	MR. PERRY:		9	We still are seeing a real split between rural
10	A. I think our customer growth is about point one	e	10	areas and the Avalon, that's still evident,
11	of a percent ahead of where we had expected	I	11	but, you know, growth is tracking slightly
12	to be. I think point one I think is about		12	ahead of where we had expected it to be.
13	200, 200 houses or something like that.		13	Q. You're stating that the Demand/Energy Rate
14	Q. So you're 200 up thus far?		14	would not be beneficial to consumers. Is that
	MR. PERRY:		15	your evidence?
16	A. Yeah. I think that'sif I recall correctly,			MR. PERRY:
17	we're about point one of a percent ahead, so		17	A. Yes. What we're saying is that we would
	220,000 customers is about 200 or so		18	because 92 percent of all our customers are
18	customers.			domestic and small general service customers
19			19	_
20	Q. And I think I just heard in the press CMHC		20	where, you know, it's basic standard industry
21	stating that the vacancy rate for apartments		21	practice that they're not on a Demand/Energy
22	in the urban areas, in particular, in St.		22	Rate, we wouldn't change anything for those
23	John's, is at an all time low of two percent		23	customers. And when you look at the remaining
24	or three percent. Are you familiar with that?		24	customers, we already have demand rates in
25	MR. PERRY:		25	place for them, so we wouldn't change anything
		ge 51		Page 52
1	there. So, we said it's no benefit from the		1	a kilowatt. So that's what we're staring at.
2	rate for those customers. And then when you	ı	2	Q. We've had evidence from Mr. Greneman in this
3	start looking at the other issues with the		3	proceeding. And, Mr. O'Reilly, if we can go
4	rate, we sort of say, why would you go ahead		4	to the transcript of November 14, 2003 at page
5	with this.		5	21? And I asked Mr. Greneman the question at
6	Q. But isn't it true that there would be a		6	line 21, "And the rates will go down because
7	positive aspect to the introduction of the		7	there will not be as great a capital outlay?"
8	Demand/Energy Rate for consumers general	ly?	8	And I was speaking in reference of the
9	Do you know of any positive aspect that there	:	9	Demand/Energy Rate. And his answer was, "It's
10	might be?		10	not necessarily in the very immediate term,
11	MR. PERRY:		11	but in the longer term it may defer the next
12	A. No. One couldyou know, what you keep)	12	plant and therefore will eventually be a lower
13	hearing is that it will send a signal to		13	outlay and there actually could be a present
14	Newfoundland Power to go out and do DSM,	to	14	worth effect of that." And then I asked him
15	control growth in demand on the system. W	e	15	again, "So with a Demand/Energy Rate we should
16	believe that you don't need to have a		16	see eventually reduced capital budgetary
17	Demand/Energy Rate to do that. What we ne	ed	17	expenditures by Power and indeed by Hydro?"
18	is to know what is cost effective to spend on		18	And he says, "That would be my expectation."
19	DSM and at this point in time we don't have		19	And then I asked him, "And therefore,
20	that evidence; Hydro doesn't have it and the		20	ultimately the consumers wouldn't be paying
21	Board doesn't have it. The only piece that we		21	for what is not really necessary on the
22	do have is Hydro has said they have ample		22	system?" And he said, "And that's correct."
23	capacity, there's no capacity issue on the		23	With a Demand/Energy Rate would you anticipate
24	system and that they just turned down aor		24	your capital expenditures would come down?
25	not extended a deal with Stephenville for 428			(10:16 a.m.)
			_	· · · · · · · · · · · · · · · · · · ·

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	Page 5		Page 54
1	MR. HENDERSON:	1	don't agree, I suspect, with the premise by
2		2	which Mr. Greneman is coming forward with
3		3	those statements. And as far as I'm
4		4	concerned, if the Board establishes some kind
5		5	of process for evaluating DSM against system
6		6	costs, which has never really gotten off the
7	· · · · · · · · · · · · · · · · · · ·	7	ground here and had, you know, had these
8		8	marginal costs or has the necessary studies to
9		9	do appropriate rate designs, we will get the
10		10	benefits and it won't be attributed to the
11		11	Demand/Energy Rate, it would be attributed to
12		12	the studies that have been done.
13		13	Q. In reference to your testimony, Mr. Perry, can
14	-	14	you go to page 5 of your evidence, please, of
15		15	September 2, 2003? And at line 6 you state,
16		16	"The use of an energy-only rate for domestic
17		17	customers and small general service customers
ı		18	as a common billing practice among Canadian
18		19	utilities." What do you mean by that?
19			•
20	•		MR. PERRY: A. Most Canadian utilities bill their customers,
21		21	
22	_	22	domestic customers on an energy-only rate.
23	•	23	For example, Nova Scotia Power, Maritime
24		24	Electric, NB Power, Hydro Quebec, Hydro 1,
25		25	Ottawa Hydro, Manitoba Hydro, Sask Power,
	Page 5	55	Page 56
1	, 1	1	So they do it, I know they purchase their
2		2	energy and capacity separately. And in
3		3	talking to them I understand they're paying
4	6,7	4	something in the order of \$2 a kilowatt month
5		5	for purchasing capacity during the winter.
6	MR. HENDERSON:	6	So, you know -
7		7	MR. PERRY:
8	,	8	A. And they also have reserves in place to
9	\mathcal{E}	9	mitigate volatility as well, Mr. Browne, so.
10		10	Q. Yes. Because I asked all the experts who came
11		11	forward here to name for me any other
12	, , , , , , , , , , , , , , , , , , ,	12	jurisdiction in Canada that sells power on an
13		13	energy-only rate, and they came up with two, I
14	requirements separately. Theyyou know, I'm	14	think, which they referred to as anomalies,
15	sure some of their rates may be a	15	the Yukon and some other place close by.
16	Demand/Energy Rate. But there's a plethora of	16	MR. PERRY:
17	•	17	A. Do you mean buy power at an energy-only rate
18	1	18	or?
19	•	19	Q. Yes. That would be comparable to yourselves,
20	here in which you have one distributor and one	20	you know. And they referred to you, I think
١٠٠		101	

22

23

25

24 MR. PERRY:

A. I guess -

one of the witnesses referred to Newfoundland

Power as an outlier in reference to this

particular matter.

seller and there's only one rate out there, you know, generally speaking. I know with

Maritime Electric they purchase power off New

Brunswick and Nova Scotia and occasionally, I

think, Maine and even Hydro Quebec at times.

21

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23

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	Page 57	Page 58
1 BROWNE, Q.C.:	1	J
2 Q. Now, Mr. Henderson, I notice you're answ	-	,
3 here. You're not purporting to be a Cost of	of 3	,
4 Service expert yourself, are you, just to	4	quite a bit and he's done training courses for
5 clarify for the record?	5	public utility reports or whatever, so he's an
6 MR. HENDERSON:	6	expert on it. And I guess everybody gets
7 A. I'm quite familiar with Cost of Service. I'v	re 7	their training and eventually becomes somewhat
8 -	8	of an expert on it. You know, I feel I know
9 Q. And I grant you that. But are you -	9	him fairly well.
10 MR. PERRY:	10	MR. PERRY:
11 A. He's an expert in my eyes, Mr. Browne, I k	know 11	A. We don't pay him extra, Mr. Browne.
12 that.	12	Q. He should get a bit of an extra cheque, maybe
Q. I just want to get on the record what he'si	if 13	
he's an expert, if he's purporting to be an		
expert. Have you been declared an expert a		
16 Cost of Service expert in the same vein as t		
Mr. Bowmans and Mr. Greneman?	17	
18 MR. HENDERSON:	18	
19 A. I guess if some other utility wanted me to) 19	
20 testify on their behalf in another		MR. HENDERSON:
jurisdiction, I'd be called an expert there.	21	
You know, I don't know how you develo		
criteria as to what is an expert. I'm very	23	
familiar with the issues of Cost of Service.		-
		•
1 ve, you know, been involved in doing it i	or 25	and 1992. Is that correct, Mr. Henderson?
25 I've, you know, been involved in doing it f		· ·
	Page 59	Page 60
1 MR. HENDERSON:	Page 59	Page 60 relatively large wholesale distributing
1 MR. HENDERSON: 2 A. That's correct.	Page 59	Page 60 relatively large wholesale distributing utilities such as Hydro and Newfoundland
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1 MR. HENDERSON:	1 makes us unique. And the effect of which
2 have to deal with the volatility. This	2 utilities on the mainland are able to deal
3 particular jurisdiction is unenviable or	3 with volatility because of their options, you
4 unenviable position to actuallyof actually	4 know, I can't speak to. But it just goes to
5 regulating both the wholesale rate and the	5 show that the situation in Newfoundland is
6 retail rates. But, yes, it's fairly common.	6 considerably different than you would find,
7 Then again, Newfoundland Power's is a lot	you know, on the North American grid.
8 different looking than most of the utilities	8 Q. He mentioned in his answer there that it's on
9 in North America in terms of its hydraulic	9 account of the hydraulic mix that that would
mix, as you know, in terms of being isolated,	be a distinguishing factor. Do you agree with
and so on. But I certainly can't argue that	11 that, that that would be a distinguishing
it doesn'tit's not an outlier."	factor that would suggest an energy-only rate
13 BROWNE, Q.C.:	would be applicable for Newfoundland Power?
Q. Now, are you here telling us today it isthat	14 MR. HENDERSON:
that's not correct?	15 A. I think what he's speaking to with regard to
16 MR. HENDERSON:	16 hydraulic makes Newfoundlandthe
17 A. No. I agree that Demand/Energy Rates, I would	interconnected system on Newfoundland somewhat
say probably, except for the two, distribution	unique. You know, there's a lot of other
19 utilities generally purchase power under	aspects that make it unique, it being isolated
demand, a mixture of demand and energy rate.	from the North American grid and so on. With
Newfoundland Power is in somewhat of a unique	21 regard to why we have an energy-only rate, I
situation, as Mr. Brockman talks about here,	suspect there's other unique circumstances
and, you know, unlike a lot of jurisdictions	23 that attribute to that being a viable option
in North America, I'd say we have much less	in Newfoundland and it's been viable, you
choice in where we purchase our power, so that	know, ever since we started purchasing off
Page 6.	Page 64
1 Hydro back in the '60s, and it's still viable.	1 Q. And these two companies, are they in fact on a
2 On the mainland where you probably have quite	2 Demand/Energy Rate?
a number of customers under the same rate,	3 MR. PERRY:
4 that energy-only rate is probably not viable	4 A. I'll talk to B.C Maybe you can talk to
5 because you have fairness concerns which arise	5 Alberta. I think AlbertaB.C., sorry, they
6 which means that you're going to have one	6 generate 50 percent of their own power. It's
7 customer pitted against the other saying that	7 very much a vertically integrated company.
8 I'm not being allocated the right rate, I've	8 And they purchase 25 percent under an energy-
9 got a better load factor. Those things will	9 only rate from a hydroelectric operator. And
happen necessitating Demand/Energy Rates.	then the remaining 25 percent, they purchase
Newfoundland, the situation in Newfoundland is	from B.C. Hydro under a Demand/Energy Rate.
unique and as a result an energy-only rate is	So they buy 25 percent of their power
perfectly viable here.	requirements under Demand/Energy Rate and
Q. Now, in reference to the current situation	there is a reserve mechanism to deal with
with Newfoundland Power, it's my understanding	volatility for that 25 percent as well. In
that Fortis is in the process of purchasing	16 Alberta, can you comment? I'm not -
two new utilities in Canada. Is that correct,	17 MR. HENDERSON:
18 Mr. Perry?	18 A. Alberta, all I know is that we are basically a
19 MR. PERRY:	poles and wire company. We aren't a retailer.
20 A. Yes.	Therefore, we're not responsible for thewhat
21 Q. And those utilities that they are purchasing,	21 I understand, and Barry can correct if -
can you name those for us?	22 MR. PERRY:
23 MR. PERRY:	23 A. You're right.
24 A. They are Aquilla British Columbia and Aquilla	24 MR. HENDERSON:
25 Alberta.	25 A that we're not obligated for any of the
L	

1 MR. HENDERSON: 2 difference in costs between energy sales to 3 customers and energy purchases. The utility 4 is primarily affected by its own poles and 5 wires costs. The rates are unbundled, as a 6 result you have a substantial flow-through of 7 any purchase power costs. So with respect to- 8 -you know, I don't know to what extent it 9 actually is obligated to purchase power and 10 sell it to customers. It's a different kind 11 of arrangement. 12 MR. PERRY: 13 A. Just to give you a sense, Mr. Browne, in my 14 understanding the Alberta operation is they 15 don't even own-they don't own any 16 transmission lines, they don't own any 17 substations. They basically own the poles, 18 the wires and the transformers on the tops of 19 the poles. That's what that company owns. 20 And it basically transmits or distributes the 21 power, I would say, for a fee, essentially is 22 what happens. 23 BROWNE, Q.C.: 24 Q. So Fortis is out purchasing a company that has 25 a Demand/Energy Rate, at least in British 26 demand/energy rate, then make sure it's put in 27 demand/energy rate, then make sure it's put in 28 with the right rate, first of all, and 29 secondly, make sure that we deal with the 4 volatility issues and you know, it could be 5 put in place after that. There's a bunch of 6 other issues that have to be salted away, 7 obviously as well, but you know, we don't 8 think you have to go down that path, but if 9 you do, then do those things and we end up 10 with a demand/energy rate. 11 Columbia, and you're here telling to revenues. Do you see some inconsistency in that, perhaps? 6 MR. PERRY: 12 Companies, they don it in the type I whow, every utility is different. Every regulator has different views in most cases. 14 You know, I think when I look at the Fortis Companies, they all have unique things that they do and you know, it'syou know, when y look at the EC company, they eve done amendenergy. They have: 15 done the poles. That's what that company owns. 16 demand/energy rate, then make sure it's put in vith the pri	<u>De</u>	cember 9, 2005 Mul	u-r	age verbaum Court Reporters
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6 result you have a substantial flow-through of any purchase power costs. So with respect to-you know, I don't know to what extent it sectually is obligated to purchase power and sell it to customers. It's a different kind sell it, and sell it to customers. It's a different kind sell it, but you know, then y look at the BC company, they have under stately of their power on demand energy. They have to five done marginal cost studies, for example, to done marginal cost studies, and we're saly on saying if the Board decides to go down the road for a seed of the sell it in the seed to spend on that, based on our marginal cost studies, and we're also saying if the Board decides to go down the road for a sell it in the seed to spend on that, based on our marginal cost studies, and we're also saying if the Board decides to go down that benefits and they to be salted away, of obviously as well, bu	4	is primarily affected by its own poles and	4	revenues. Do you see some inconsistency in
7 A. No, obviously on the face of it, it's successfully is obligated to purchase power and sell it to customers. It's a different kind of arrangement. 10 sell it to customers. It's a different kind of arrangement. 11 A. Just to give you a sense, Mr. Browne, in my understanding the Alberta operation is they don't even own—they don't own any lot transmission lines, they don't own any lot transmission lines, they don't own any lot transmission lines, they don't own any lot the wires and the transformers on the tops of the poles. That's what that company owns. And it basically transmits or distributes the power, I would say, for a fee, essentially is a Demand/Energy Rate, at least in British 25 a Demand/Energy Rate, at least in British 25 a Demand/Energy Rate, at least in British 25 a put in place after that. There's a bunch of other issues that have to be salted away, obviously as well, but you know, te odn't with a demand/energy rate. There's a bunch of other issues that have to be salted away, obviously as well, but you know, we don't think you have to go down that path, but if you do, then do those things and we end up with a demand/energy rate. There's a bunch of other issues that have to be salted away, obviously as well, but you know, we don't think you have to go down that path, but if you do, then do those things and we end up with a demand/energy rate. In the word of the proving signal to control their load. For Newfoundland, Newfoundland Power sells to some of its own to balance fairness and efficiency, and that's the important pricing signal is the one to, you know, we don't the with a demand/energy rate, does it not? 10 MR. HENDERSON: 11 A. No, obviously in know, id ocustemer in the face of it, it's inconsistent when you look at the Fortis Companies, they lot havon, it syou know, it she bevery uithly is defiferent. Every regulator has different views in most cases. 12 Man PERRY: 13 A. No, obviously on the face of it	5	wires costs. The rates are unbundled, as a	5	that, perhaps?
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23 BROWNE, Q.C.: 24 Q. So Fortis is out purchasing a company that has 25 a Demand/Energy Rate, at least in British Page 67 1 demand/energy rate, then make sure it's put in 2 with the right rate, first of all, and 3 secondly, make sure that we deal with the 4 volatility issues and you know, it could be 5 put in place after that. There's a bunch of 6 other issues that have to be salted away, 7 obviously as well, but you know, we don't 8 think you have to go down that path, but if 9 you do, then do those things and we end up 10 with a demand/energy rate. 11 Q. So in British Columbia, a company has been 12 acquired by Fortis that has a demand/energy 13 rate and you yourself in Newfoundland, 14 Newfoundland Power sells to some of its own 15 customers on demand/energy rate, does it not? 16 MR. HENDERSON: 17 A. Yes, that's correct. 23 spend on that, based on our marginal cost studies, and we're also saying if the Board decides to go down the road for a Page 67 Page 67 Customers of ours, I don't think there's either one so sophisticated that they could see through their rates, see what the impact on their costs would be by gaining an understanding of what's going on in the system. As a result, they need a pricing signal to control their load. For Newfoundland Power, we don't have very much load ourselves. The whole objective of all this is to try to get customers to use their electricity wisely and appropriately and the pricing signals we give our customers are based on the best information we have, trying to balance fairness and efficiency, and that's the important pricing signal is the one to, you know, the end users. 17 Q. Now, you keep mentioning the word "volatility"	21	power, I would say, for a fee, essentially is	21	demand/energy rate. We think that we can do
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15 customers on demand/energy rate, does it not? 16 MR. HENDERSON: 17 A. Yes, that's correct. 18 the important pricing signal is the one to, 19 you know, the end users. 19 Q. Now, you keep mentioning the word "volatility"	13	rate and you yourself in Newfoundland,	13	based on the best information we have, trying
16 MR. HENDERSON:16 you know, the end users.17 A. Yes, that's correct.17 Q. Now, you keep mentioning the word "volatility"	14	Newfoundland Power sells to some of its own	14	to balance fairness and efficiency, and that's
17 A. Yes, that's correct. 17 Q. Now, you keep mentioning the word "volatility"	15	customers on demand/energy rate, does it not?	15	the important pricing signal is the one to,
	16	MR. HENDERSON:	16	you know, the end users.
18 O And how is it that it can be good for these	17	A. Yes, that's correct.	17	Q. Now, you keep mentioning the word "volatility"
16 Q. 7 and now is it that it can be good for these 16 but some of the experts that came here, than it	18	Q. And how is it that it can be good for these	18	but some of the experts that came here, didn't
19 customers, but not good for the rest? 19 they address that very issue, how volatility	19	customers, but not good for the rest?	19	they address that very issue, how volatility
20 MR. HENDERSON: 20 can be addressed in reference to the	20	MR. HENDERSON:	20	can be addressed in reference to the
21 A. Because we're in the fortunate position of 21 introduction of a demand/energy rate? Have	21	A. Because we're in the fortunate position of	21	introduction of a demand/energy rate? Have
beingwe're substantially all thewe're 90 you been reading the transcripts at all?	22	· · · · · · · · · · · · · · · · · · ·	22	you been reading the transcripts at all?
percent of the customers in Newfoundland. We 23 MR. PERRY:	23		23	MR. PERRY:
see the system costs. We don't need a 24 A. Yes. It is an amazing amount of material	24	•	24	_
demand/energy rate for a pricing signal. 25 that's been put forward, Mr. Browne, on this	25	demand/energy rate for a pricing signal.	25	that's been put forward, Mr. Browne, on this

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	Page		Page 70
1	MR. PERRY:		MR. PERRY:
2	topic. Yes, I hope I've read just about all	2	,
3	of it.	3	, i e
4 E	BROWNE, Q.C.:	4	E
5	Q. Because I just want to refer you to what Mr.	5	
6	Greneman had to say on the issue of	6	1 , 5 1
7	volatility, because he was asked that very	7	after weather normalization.
8	question, and if you go to his evidence of	8	MR. HENDERSON:
9	November 14, 2003, on page 14, I asked him	9	A. One of the things you need to understand is
10	concerning volatility and volatility issues	10	that the process of weather normalizing is a
11	and he stated that there was a number of ways	11	process of doing some kind of analytical
12	to mitigate the volatility on line 11 and 12	12	exercise to figure out, within the demand, how
13	on page 14, and he goes on to state, "well,	13	much of it is actually related to weather.
14	number one, Hydro has gone a long way in	14	That calculation is very rough at best. The
15	offering to weather normalize the demand, and	15	question becomes how good of a model, how much
16	that goes a very large way in mitigating	16	of the weather can you actually normalize out
17	volatility, and that is to say it's recognized	17	of it? Hydro has a model that probably knocks
18	that there'll be colder winters, there'll be	18	the variances down from plus or minus maybe
19	warmer winters. What we're proposing to use a	19	ten percent down to five percent. That's
20	weather normalized demand, so that goes a long	20	significant, and he talks about it and I'll
21	distance to stabilizing volatility." And I	21	encourage it, you know. If and when
22	gather there will still be weather	22	Newfoundland Power and Hydro get together to
23	normalization in reference to a demand/energy	23	try to improve upon that, you know, we may be
24	introduction in this jurisdiction. Is that	24	able to knock it down a little bit more, but
25	not true?	25	knowing that our peak is dependent on load on
	Page	71	Page 72
1	the west coast and load on the east coast and	1	
2	load in central Newfoundland, the weather is	2	volatility will be, but will it bring it to a
3	going to be different at different times	3	
4	across the province, be warm here and cold on	4	
5	the west coast. Trying to come up with a	5	Q. He also goes -
6	single calculation that somehow takes weather		MR. PERRY:
7	accounting for those huge number of variables	7	
8	is goingis very difficult and the success at	8	~
9	the end of the day, from my perspective, you	9	MR. PERRY:
10	know, I'd be quite surprised if we're able to	10	A. The perspective that Mr. Greneman is coming
11	get that weather normalized down to a level	11	
12	such that the volatility on demand is	12	
13	comparable to volatility on energy, and from	13	
14	what I've seen of our numbers, even if that	14	
15	were the case, because you've moved from one	15	
16	rate form to the other, and each one has	16	
17	different impacts, at the end of the day,	17	
18	you're probably still going to have this	18	
19	volatility issue or concerns for that bottom	19	
20	line.	20	
21	Q. But yet we have Mr. Greneman telling us that	21	
22	weather normalization would assist in	22	
23	reference to that volatility. Are you saying	23	
24	he is wrong?	24	demand/energy rate is going to be implemented,
25 N	MR. HENDERSON:	25	
1 -			

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1	BROWNE, Q.C.	1		day, and you know, that's how it works.
2	Q. But you must have a favourable volatility now,	2		Mr. Greneman also mentioned that the rate
3	don't you? Because you just told us	3		stabilization plan would assist in any initial
4	previously that your rates were booked in at a	4		volatility. Do you agree with that, Mr.
5	long-term Canada of 5.60, even though the	5		Henderson?
6	long-term Canada is 5.30 and your interest	6	MR. J	HENDERSON:
7	rates were booked in at around 5, and the	7	A.	Can you take me to that in his testimony, just
8	short-term interest rates are below 3. So	8		so as I understand the context?
9	that must be giving you a couple of million	9	Q.	Sure. Same page. Well, we can go down over
10	dollars cushion there, wouldn't it?	10		it all actually, what he said. It's very
11	MR. PERRY:	11		interesting. It's on page 14, line 20, I was
12	A. I don't agree with that number. Mr. Browne,	12		reading from where he mentioned weather
13	you refuse to -	13		normalized demand, and then he begins at line
14	Q. Would you tell us what the number might be	14		21, page 14, "in addition, the volatility that
15	perhaps?	15		NP has shown in their evidence is based upon a
16	MR. PERRY:	16		plus and minus five percent deviation. That
17	A. I don't know what the number is, but you	17		was really a rounded number. Within the
18	refuse to add to your statements that there	18		recent history actually, the maximum deviation
19	are other offsetting expenses that are going	19		has been in the order of 3.6 percent. It was
20	against those positives. That's the way it	20		just rounded up to five percent as a whole
21	works. There are costs that go up. There are	21		number." Is that correct, by the way?
22	costs that go down, and there is a mechanism	22		HENDERSON:
23	in place which is called a range of return on	23	A.	With respect towhen I look back historically
24	rate base that covers that off. Rates are set	24		at our forecast versus actuals, there's a huge
25	at a point in time. They're not set every	25		amount of volatility that has occurred over
	Page 75			Page 70
1	the last number of years. It's up and down	1	A.	I don't -
2	and up and down and as a result, it becomes	2	Q.	Is Mr. Greneman wrong in informing the Board
3	very difficult to try to say what is the	3		of that?
4	likelihood of it being within a certain range.	4		HENDERSON:
5	The plus or minus five percent figure, I took	5	A.	I don't know the basis for Mr. Greneman's or
6	a look at variances that suggest that the	6		Hydro's calculation of plus or minus five
7	total range is somewhere around 11 percent.	7		percent, nor the 3.6 percent that Mr. Greneman
8	Taking half of that, you're talking about plus	8		talks about. So I can't speak to it.
9	or minus five percent.	9		PERRY:
10	Q. So Mr. Greneman isn't correct?	10	A.	I want to just make sure the Board understands
- 1	MR. HENDERSON:	11		that point, you know. This is an answer that
12	A. Depending on the period you take, it could	12		Hydro gave, in terms of the plus or minus five
13	possibly be as low as 3.6, but you know, from	13		percent. They calculated the number. Mr.
14	what I've seen of the volatility numbers, at	14		Greneman, their expert witness, obviously came
15	3.6 percent, you know, even if you're to try	15		up with another number and I think even
16	toyou know, just said that that was a	16		subsequent to that, Mr. Banfield discussed
17	reasonable interpretation of what the	17		this issue in the range of five percent after
18	volatility is, it's still going to be well in	18		Mr. Greneman was on the stand. So, you know,
19	excess of what, you know, our returns, our	19		5 percent, 3.6 percent, doesn't really matter.
20	range is. So it's still going to be a	20		It's still a big number, and it's too big and
21	problem, whether it's 3.6 or 5 percent.	21		has to be dealt with by the Board, in terms of
22	Q. So are you taking exception to what Mr.	22		if they're going to go down the path of demand
23	Greneman has said, that you've in fact rounded	23		energy, appropriate reserve or some other
24	up to 5 percent from 3.6 percent?	24		mechanism to deal with the volatility.

Q. And we were headed toward what he said about

25 MR. HENDERSON:

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	Page	77		Page 78
1	BROWNE, Q.C.:	1	Po	ower's income statement. So as a result, it
2	the rate stabilization plan, and if we can	2	is	immaterial from that perspective. It
3		3		ertainly flows Hydro's costs through to our
4	concerning the range, line 11, that "earnings	4		istomers. There's no question about that.
5		5	So	o the RSP in of itself doesn't stabilize
6	conditions. One of them was the fact that	6	VC	platility for Newfoundland Power. We have -
7	they would be served under an energy only rate	7	Q. B	ut it does -
8	and there was a decreased level of volatility.	8 N	MR. HE	NDERSON:
9	The other one is the fact that there was a	9	A	we have weather normalization, which
10	load variation component in Hydro's rates and	10	st	abilizes our purchase power expense to some
11	they had RSA as well, so when their range of	11	ex	stent, and our RSA, we flow through municipal
12	allowed earnings is viewed in the context of	12	ta	x adjustments. There's a couple of other
13	the energy only rate and viewed in the context	13	lit	tle small things that tend to reduce
14	of the rate stabilization plan, it would, in a	14	VC	platility and there's no question that the
15	sense, make sense." Is he in fact suggesting	15	ra	nge that has been set for Newfoundland Power
16	that the rate stabilization plan would reduce	16	is	based in the context that all these things
17	volatility? Would you say that, Mr.	17	ex	sist, therefore a certain level of volatility
18	Henderson?	18	ex	tists, therefore the range is what it is.
19	MR. HENDERSON:	19	Q. H	ow do you assist customers currently in
20	A. The rate stabilization plan, the way the	20	re	ference to volatility in rates? Do you have
21	mechanism works is that Hydro has this rate	21	ar	ny plans in effect that will assist customers
22	stabilization plan and that is an annual	22	th	ere?
23	· ·	23 N	MR. HE	NDERSON:
24		24		m trying to understand what you mean by
25	RSP plan itself does not affect Newfoundland	25	VC	platility. Customers -
	Page	79		Page 80
1	Q. Well, if we look at volatility in customers'	1	in	npacted. You know, that's our position on
2	rates, you people have testified here this	2	th	at, but the demand rate will create much
3	morning that if you allow the demand energy	3	m	ore volatility and what we're saying is it
4	charge, there will be volatility in customers'	4	W	ould cause us to have to apply for relief
5	rates. Haven't you told us that?	5	fr	om the Board. There'd have to be a reserve
6	MR. HENDERSON:	6	m	echanism, so customer rates will be impacted
7		7	ar	nd will maybe go up in one year. The next
8	Q. Okay. How do you deal with volatility in	8	ye	ear, they may go down. So you're going to
9	, , ,	9		ave this yo-yo effect on rates.
10	equal payment plan or something like that so	10		ure, but other utilities across the country
11	that -	11		ave been dealing with this for years, haven't
12	MR. PERRY:	12		ey, they're on a demand/energy rate?
13		'	(10:45	•
14	*		MR. PEI	
15		15		he ones that Ithe one I have looked at in
	MR. PERRY:	16		C obviously has a reserve, so it mitigates
17		17		e volatility and Maritime Electric, I think,
18		18	_	cks up 90 percent90 percent of the
19		19		recast variance is flowed back to customers
20	e	20		nd there's a 10 percent of it that they
21	•	21		osorb. So you know, again, it brings the
22	• •	22		umber down to a sizable number that the
23		23		ility can deal with. There is no such
24		24	•	roposal in front of the Board for the Hydro

rate to do that for Newfoundland Power.

deal with that and customer rates are not

December 7, 2003	With age	verbatiii Court Reporters
I	Page 81	Page 82
1 MR. PERRY:	1	but if the Board decides to go that way, it'll
2 Essentially Hydro said we'll take care of	2	have the right information on what the right
3 ourselves by putting this demand floor in	3	rate should be and we can put the appropriate
4 place, and Newfoundland Power, you do what yo	ou 4	mechanisms in place to deal with volatility.
5 want to do. They sort of washed their hands	5	We think that's a reasonable approach.
6 of it, you know.	6 Q	. Haven't you had every opportunity to work with
7 BROWNE, Q.C.:	7	Hydro in the past to deal with a demand/energy
8 Q. But they can't manage the enterprise for you.	8	rate? In fact, wasn't there an existing order
9 Certainly you're not suggesting Hydro should	9	of this Board, stemming from previous
come forward and inform you how you will reac	t 10	decisions, to have the two utilities work
to the imposition of a demand/energy rate. I	11	together in reference to the introduction of
could hear the screams now.	12	demand/energy rate? Do you know of anything
13 MR. PERRY:	13	like that? Mr. Henderson, you recall that?
14 A. Mr. Browne, I think that's absolutely	14 MR.	HENDERSON:
incorrect. The two utilities deal with each		. Yes, we have looked at it in the past and the
other every day. We believe that the best	16	reason why it eventually, as far as I'm
approach for this would have been a	17	concerned, the reason why it faltered was
coordinated approach between the two utilities	18	because of this volatility issue and the
to design a solution, if one needed to be	19	consequence that whatever we do is not going
designed for this. We think what needs to	20	to improve things for customers, then why do
21 happen is do the long-run marginal cost	21	it? At the last hearing, I think we both came
studies, retail rate design studies, then	22	forward saying it's not necessary, it's not
there can be a discussion with the Board	23	required, it's not going to achieve anything.
24 whether a demand/energy rate is appropriate.		And what was the reason you said that? Didn't
25 Our position will be that we don't think so,	25	you write a letter to the Board after their
		•
	Page 83	Page 84
last direction telling you to get together on		impasse at the last hearing in thatwell, at
2 the demand/energy rate? Newfoundland Hydro,		the last hearing, I suspect there was not
3 or Newfoundland Power, under Mr. Gerard Haye		sufficient evidence presented for the Board to
4 signature, wrote the Board stating that it was	4	make a decision. Now we're at an impasse at
5 no longer necessary to pursue this because it	5	this point in time and the Board's going to
6 would impact on the revenue requirements for	6	have to adjudicate as to whether they think
7 the utilities. Do you have any recollection	7	there's sufficient benefits in a demand/energy
8 of that?	8	rate to offset the impact of volatility and
9 MR. HENDERSON:	9	that it's something that's worth going ahead.
10 A. I know, before the lastwe wrote Hydro, we	10	We're stating our position; obviously the
had discussions with Hydro and we wrote Hydro		other parties are stating their position.
a letter indicating that an energy only rate	12	There's no question that at this point in
was most appropriate.	13	time, I'm really not sure if negotiation
14 Q. And now you want to come forward and you're	14	without any firm direction from the Board is
suggesting to the Board, despite the fact	15	going to achieve anything.
we've been dealing with this issue since 1989		PERRY:
and you've had opportunities in the past to	17 A	. Mr. Browne, clearly, our position, and I'll
deal with the issue, of suggesting that you be	18	state it again, is that we still believe the
given more opportunity to do further studies?	19	Board does not have sufficient evidence before
Where is that going to get us ultimately, sir?	20	it to make a decision on this rate. It does
21 MR. HENDERSON:	21	not know what the long-run marginal cost of
22 A. I think the reality of it is that we've come	22	capacity is on the system. Hydro's asking the
23 through an impasse. We've come through and	23	Board to give Newfoundland Power a signal to
impasse probably, I don't know, maybe four	124	spend \$84.00 a kilowatt on demand side
years ago. There certainly seems to be an	24	management programs when it knows right now

Dec	cember 9, 2003 Mult	1-Page	Verbatim Court Reporters
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1	MR. PERRY:	1	information which we'd like to have. So I'm
2	that it can go and, maybe the price has gone	2	sure it's very possible that you could come up
3	up from the Industrials now, but it could have	3	with a rate. Is it a good rate? Is it going
4	extended a contract with Stephenville at	4	to give youcan it purport to be efficient?
5	probably \$28.00. So the logic of Newfoundland	5	I think there's significant problems with it
6	Power going out and spending \$84.00 on water	6	purporting to be efficient. I know people say
7	heater control programs when you know you can	7	it reflects embedded costs, therefore it may
8	access 46 megawatts for sure, maybe another 50	8	be even considered fair, but as we've
9	at Grand Falls, maybe another 50 at Corner	9	discussed, I don't think there's any
10	Brook Pulp and Paper, it's very simple there.	10	particular fairness issues with the current
11	They have refiner lines, big motors. They	11	energy only rate.
12	switch them off; they store the pulp in their		PERRY:
13	pulp tanks, and off you go. At one hour's		. Mr. Browne, I'll go a little further. I think
14	notice, you know, they can do it. It boggles	14	it's foolhardy. I think thatI'm not an
15	my mind that there's this discussion about 84	15	expert here, but to put a rate in willy nilly,
16	and 28.	16	I know it's based on embedded costs, but what
1	BROWNE, Q.C.:	17	is that? When you know you can do a study,
18	Q. Isn't it true that experts have testified	18	come up with the right number, have the right
19	before this Board that there's no requirement	19	information before the Board and the Board can
20	for a marginal cost study prior to the	20	say "okay, Newfoundland Power, this is the
21	implementation of demand/energy rate?	21	signal that you're getting. This is what
1	MR. HENDERSON:	22	you're going to be measured on, on DSM
23	A. I think what they all stated is that it is not	23	programs. We don't want you out there
24	necessary, you know. Newfoundland Power right	24	spending money that you don't need to spend."
25	now develops its rates in the absence of this	25	You know, it all ends up impacting customers.
	<u> </u>	+	
١.	Page 87		Page 88
1	And I think it's a bit foolhardy, frankly,		HENDERSON:
2	that we'd go forward without knowing what the		Sorry, Doug Bowman argued that you needed to
3	right number is.	3	have marginal cost before you did a wholesale
4	Q. Yet all the experts have come forward, with	4	rate. At the latest hearing, they're saying
5	the exception of your own, advising the Board	5	that well, you should go ahead with it anyway.
6	that it is appropriate thing to do. Are you	6	Do the study, and then tweak it or adjust it
7	describing them as being foolhardy?	7	afterwards, and I think pretty well every
1	MR. PERRY:	8	expert has said well, marginal cost is
9	A. Well, that's what boggles my mind. I wouldn't	9	important for efficiency and you then tweak in
10	say they're foolhardy. I don't want to use	10	the rate afterwards and I'm concerned that
11	that word, but I interpret it, when I see	11	what they call tweaking is something that
12	what's in front of the company and what we're	12	could be very substantial and as a result, I
13	being asked to do, unless the Board, as soon	13	don't particularly see that the rate theory or
14	as it writes the Order, that yes, the demand/	14	anything along that line is inconsistent
15	energy rate is \$84.00 and Newfoundland Power,	15	between the various experts, just but all the
16	you can't spend \$84.00, unless that's the next	16	expertsa lot of the experts are saying
17	sentence they write, they you got to ask	17	you've got enough information that you can do
18	yourself why was it put in place in the first	18	a rate, but I think, in general you can
19	place. You know, I think that's why I	19	foresee reading between the lines that they
20	conclude it's foolhardy.	20	all acknowledge that in order for to ensure
21	MR. HENDERSON:	21	the rate's efficient, you need marginal cost
22	A. One other comment I'd like to add on it is	22	and you need to reflect that in the rate.
23	that Mr. Bowman at the last 2001 GRA mentioned	23 Q	. Isn't it true that Newfoundland Power likes
24	that you need to have marginal -	24	business as usual, the energy only rate
25	Q. Which Mr. Bowman?	25	certainly in reference to the revenue
			

	Page 89		Page 90
1 BR	OWNE, Q.C.:	1	CHAIRMAN:
2	requirements, don't disturb what we have now?	2	Q. Ready, Mr. Perry and Mr. Henderson.
3	Isn't it true that you're really here	3	MR. PERRY:
4	advocating the comfortable pew approach?	4	A. Yes.
5 MR	a. PERRY:	5	CHAIRMAN:
6 .	A. No, that's not correct. We've beenyou know,	6	Q. When you're ready, Mr. Browne, please.
7	obviously this demand/energy rate impacts the	7	BROWNE, Q.C.:
8	company, impacts our customers. We're	8	Q. Thank you. There's just one other area I wish
9	representing our customers and the company	9	to explore with the witnesses. Can we go to
10	here and clearly, if the Board decides to go	10	NLH-217 NP? There was a question posed in
11	down the demand/energy rate, we will work with	11	reference to your hydraulic generating
12	Hydro and the Board. We would hope that there	12	facilities and you state that Newfoundland
13	would be a reserve mechanism put in place, you	13	•
14	know. Clearly that's how we would conduct our	14	generating facilities in the best interest of
15	affairs. So Mr. Browne, you know, I think	15	
16	we're putting our views forward. That's all	16	line 16, "it is Newfoundland Power's position
17	we're doing.	17	that the sample rate proposed by Hydro
18	Q. Okay. Thank you for that. It's nearly 11:00.	18	
19	I'm moving into another area. Can we take a	19	-
20	break now, Mr. Chairman?	20	Section 3.B(i) of The Electrical Power Control
21 CH	AIRMAN:	21	Act and is therefore inappropriate." Now how
22	Q. Sure. We'll take a half hour break now until	22	
23	25 after, please.	23	
24	(BREAK - 10:55 A.M.)	24	
25	(RESUME - 11:28 A.M.)	25	•
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1	now?	1	marginal cost of Holyrood and also, seeing
2 MR	. HENDERSON:	2	that seasonal cost difference would encourage
3 .	A. Primarily through coordination with Hydro. We	3	anyone under that charge to shift their
4	talk to Hydro regularly about, you know, how		. ,
5		4	
6	our generation can be utilized for the overall	5	production from summer to winter.
1 ~	our generation can be utilized for the overall system benefit to minimize costs. Hydro is		production from summer to winter. Q. Encourage who?
7		5	production from summer to winter. Q. Encourage who? A. It will -
8	system benefit to minimize costs. Hydro is	5 6	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here?
1	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch	5 6 7	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself,
8	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are	5 6 7 8	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to
8 9	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as	5 6 7 8 9	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to
8 9 10 11	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily	5 6 7 8 9 10	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also
8 9 10 11	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro.	5 6 7 8 9 10	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the
8 9 10 11 12	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro. Q. Are there occasions now when Newfoundland	5 6 7 8 9 10 11 12	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the system are the same all year round for energy
8 9 10 11 12 13 14	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro. Q. Are there occasions now when Newfoundland Power is not operating its facilities in	5 6 7 8 9 10 11 12 13	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the system are the same all year round for energy costs. It's primarily Holyrood fuel costs.
8 9 10 11 12 13 14 15 MR	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro. Q. Are there occasions now when Newfoundland Power is not operating its facilities in accordance with the Act?	5 6 7 8 9 10 11 12 13 14	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the system are the same all year round for energy costs. It's primarily Holyrood fuel costs. And as a result, we know to the system there's
8 9 10 11 12 13 14 15 MR	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro. Q. Are there occasions now when Newfoundland Power is not operating its facilities in accordance with the Act? L. HENDERSON:	5 6 7 8 9 10 11 12 13 14 15	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the system are the same all year round for energy costs. It's primarily Holyrood fuel costs. And as a result, we know to the system there's no benefit in shifting things. Also, the way
8 9 10 11 12 13 14 15 MR 16	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro. Q. Are there occasions now when Newfoundland Power is not operating its facilities in accordance with the Act? 3. HENDERSON: A. Not that we know of.	5 6 7 8 9 10 11 12 13 14 15 16	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the system are the same all year round for energy costs. It's primarily Holyrood fuel costs. And as a result, we know to the system there's no benefit in shifting things. Also, the way the RSP is set up, if we go and shift costs,
8 9 10 11 12 13 14 15 MR 16 17 0	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro. Q. Are there occasions now when Newfoundland Power is not operating its facilities in accordance with the Act? HENDERSON: A. Not that we know of. Q. In reference to the proposed demand energy	5 6 7 8 9 10 11 12 13 14 15 16 17	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the system are the same all year round for energy costs. It's primarily Holyrood fuel costs. And as a result, we know to the system there's no benefit in shifting things. Also, the way the RSP is set up, if we go and shift costs, we may save Newfoundland Power some money on
8 9 10 11 12 13 14 15 MR 16 17	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro. Q. Are there occasions now when Newfoundland Power is not operating its facilities in accordance with the Act? HENDERSON: A. Not that we know of. Q. In reference to the proposed demand energy charge, what exactly is Newfoundland Power	5 6 7 8 9 10 11 12 13 14 15 16 17 18	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the system are the same all year round for energy costs. It's primarily Holyrood fuel costs. And as a result, we know to the system there's no benefit in shifting things. Also, the way the RSP is set up, if we go and shift costs, we may save Newfoundland Power some money on the bottom line, but the reduction in revenue
8 9 10 11 12 13 14 15 MR 16 17 18 19 20	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro. Q. Are there occasions now when Newfoundland Power is not operating its facilities in accordance with the Act? L. HENDERSON: A. Not that we know of. Q. In reference to the proposed demand energy charge, what exactly is Newfoundland Power suggesting therefore in reference to its	5 6 7 8 9 10 11 12 13 14 15 16 17 18	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the system are the same all year round for energy costs. It's primarily Holyrood fuel costs. And as a result, we know to the system there's no benefit in shifting things. Also, the way the RSP is set up, if we go and shift costs, we may save Newfoundland Power some money on the bottom line, but the reduction in revenue
8 9 10 11 12 13 14 15 MR 16 17 18 19 20 21 MR	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro. Q. Are there occasions now when Newfoundland Power is not operating its facilities in accordance with the Act? HENDERSON: A. Not that we know of. Q. In reference to the proposed demand energy charge, what exactly is Newfoundland Power suggesting therefore in reference to its generation facilities?	5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the system are the same all year round for energy costs. It's primarily Holyrood fuel costs. And as a result, we know to the system there's no benefit in shifting things. Also, the way the RSP is set up, if we go and shift costs, we may save Newfoundland Power some money on the bottom line, but the reduction in revenue that Hydro sees because Newfoundland Power is able to shift some generation around will
8 9 10 11 12 13 14 15 MR 16 17 18 19 20 21 MR	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro. Q. Are there occasions now when Newfoundland Power is not operating its facilities in accordance with the Act? 3. HENDERSON: A. Not that we know of. Q. In reference to the proposed demand energy charge, what exactly is Newfoundland Power suggesting therefore in reference to its generation facilities? 3. HENDERSON:	5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the system are the same all year round for energy costs. It's primarily Holyrood fuel costs. And as a result, we know to the system there's no benefit in shifting things. Also, the way the RSP is set up, if we go and shift costs, we may save Newfoundland Power some money on the bottom line, but the reduction in revenue that Hydro sees because Newfoundland Power is able to shift some generation around will result in Hydro taking money out of the RSP to
8 9 10 11 12 13 14 15 MR 16 17 18 19 20 21 MR 22	system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing thekeeping the system operating as efficiently as it can. So it's primarily through coordination with Newfoundland Hydro. Q. Are there occasions now when Newfoundland Power is not operating its facilities in accordance with the Act? A. HENDERSON: A. Not that we know of. Q. In reference to the proposed demand energy charge, what exactly is Newfoundland Power suggesting therefore in reference to its generation facilities? A. HENDERSON: A. Newfoundland Power's concern is with the	5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	production from summer to winter. Q. Encourage who? A. It will - Q. What are you suggesting here? A. It will encourage us. Now the signal itself, what will Newfoundland Power do in response to it? We recognize that it's not an efficient thing to do, to shift things. We also recognize that the cost differences on the system are the same all year round for energy costs. It's primarily Holyrood fuel costs. And as a result, we know to the system there's no benefit in shifting things. Also, the way the RSP is set up, if we go and shift costs, we may save Newfoundland Power some money on the bottom line, but the reduction in revenue that Hydro sees because Newfoundland Power is able to shift some generation around will result in Hydro taking money out of the RSP to make up for it and charging it to our

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1 MR. HENDERSON:	1		water in reservoirs and given the nature of
2 something we are going to do towe are n	ot 2	2	the weather, especially on the Avalon
going to go out and shift our load for this	3	;	Peninsula, you know, winter time is when you
4 purpose, but the fact that the signal is	4		get a lot of precipitation. It could cause
5 there, the fact that the signal is	5	;	if you're going in full reservoirs, it could
6 inconsistent with system costs, all those	6	j	cause more spillage on the system. We're
7 things make that an inappropriate signal.	7	,	saying why would you ever put a rate in place
8 BROWNE, Q.C.:	8	3	that encourages that to happen? We're not
9 Q. You're not suggestingI think one of the	9)	going to do it, but like, why would you go
witnesses, when he answered about that, us	sed 10)	there in the first place? That's all that
the term "gaming the system." You're no	ot 11		we're talking about here, and clearly, we've
suggesting that Newfoundland Power will	be 12	!	been going around in circles on this a little
gaming the system through its generation	n 13	;	bit. I'll say on the record, we're not going
facilities on account of the introduction of	14		to do it. But you know, why the Board would
the demand energy charge?	15	;	approve the rate in the first place that sort
16 MR. HENDERSON:	16	·	of suggests that's what should be done, we
17 A. No, there'syou know -	17		have some problems with.
18 MR. PERRY:	18		And it's true that your facilities have a
19 A. We don'tno, Mr. Browne, clearly not. A			relatively large amount of storage, don't
20 we're saying is that the rate that's being	20		they, the generation facilities, with the
21 suggested or put forward incents generation			exception of Rose Blanche?
occur in the wintertime because that's whe			HENDERSON:
23 you'd pay more for purchased power, and the			I wouldn't describe them as large. We have 90
24 going to causecould cause, you know, on			gigawatt hours relative to annual production
face of it, to go into the winter with more	25		of 400.
-			01 100.
			D 06
	Page 95	٨	Page 96
1 MR. PERRY:	1		Yes, I do.
1 MR. PERRY: 2 A. 400 or so, yes.	1 2	Q.	Yes, I do. And who is she?
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1	MR. HENDERSON:	1	in their large generation.
2	A. She's obviously much more expert than me on	2 BR	OWNE, Q.C.:
3	this. I think she's obviously comparing	3	Q. In your opinion, Mr. Perry, would it be better
4	ourselves to a run-of-river plant that, you	4	and more efficient if Hydro took over all the
5	know, I think Abitibi probably has a plant	5	generation in the province?
6	that has a tremendous amount of spillage	6 MI	R. PERRY:
7	associated with it, but if in her judgment she	7	A. I don't think so. I think that, you know,
8	considers it a large amount of storage, she	8	most of these plants are remotely operated as
9	can consider it. I accept that. From my	9	they are. We coordinate with Hydro very well
10	perspective, our storage is significantly less	10	on the plants. I don't see a huge amount of
11	than Newfoundland Hydro's and we do have a	11	savings in putting them under one roof at this
12	significant number of generators that are run	12	point in time. I just don't see that.
13	of the river, you know, which does attribute	13	Q. Thank you, Mr. Perry and Mr. Henderson. Thank
14	to a certain degree of spill, but there's no	14	you.
15	question we do have storage and the storage	15 CH	IAIRMAN:
16	can be managed in a manner to minimize spill.	16	Q. Thank you, Mr. Browne, Mr. Perry and
17	If she wants to call it large amounts of	17	Henderson. We'll move now togood morning,
18	storage, I'll accept that.	18	Mr. Hutchings.
19	MR. PERRY:	19 нц	TCHINGS, Q.C.:
20	A. Mr. Browne, it's simply our position is Bay	20	Q. Good morning, Mr. Chair. Good morning, Mr.
21	D'Espoir is large storage, you know, that's	21	Perry and Mr. Henderson.
22	massive storage. We're talking about Mobile,	22 MI	R. PERRY:
23	Tors Cove. These are little ponds around the	23	A. Morning.
24	Avalon Peninsula that are in no way in	24 MI	R. HENDERSON:
25	comparison to anything that Hydro would have	25	A. Good morning.
	Page 99)	Page 100
1	Q. I had a few questions as well on the last	1	driest years, three consecutive driest years
2	subject that Mr. Browne was dealing with and	2	criteria that Hydro uses or do you know?
3	maybe we should look at Schedule 2 to Mr.	3 M	R. HENDERSON:
4	Haynes' evidence, so we can just confirm that	4	A. I don't know.
5	we're talking about the same numbers here.	5	Q. Okay. And in contrast to Hydro's facilities,
6	Okay, if we could just highlight the customer	6	I take it that essentially each and everyone
7	generation section there, second block on the	7	of your plants are independent in the sense
8	page. Yes, okay. So that shows Newfoundland	8	that none of them share a reservoir?
9	Power's hydroelectric capacity at 93. 2	9 M	R. HENDERSON:
10	megawatts and annual average energy at 424	10	A. We do have some that shares reservoirs. We
11	gigawatt hours. Does that sound about right?	11	havedown on the Southern Shore, we have a
12	MR. HENDERSON:	12	small plant at Lourdes that feeds now into, I
13	A. Yes.	13	think, it's Mobile. To the best of my
14	Q. Okay. And there's a firm annual energy shown	14	knowledge, it's probably the only one.
15	of 323. What criteria do you use to determine	15	Q. And just by way of comparison, if we were to
16	your firm annual energy?	16	look at Mr. Haynes' Schedule 4, the total
17	MR. HENDERSON:	17	system energy storage there, maximum operating
18	A. From what I understand, and maybe it could be	18	level, the top line, just to put in context
19	subject to check, but from what I understand,	19	your question earlier on, is sometimes in
20	that firm criteria came out of the study that	20	excess of 2500 gigawatt hours?
21	Acres recently did and was probably based on	21 M	R. HENDERSON:
22	available informationwas based on basically	22	A. That's what it shows here, yes.
23	around 30 years of historical data that was	23	Q. Yes. And that's wellit's, in fact, over 50
24	available.	24	percent of the average annual energy that
25	Q. Okay. And is this something like the three	25	Hydro produces hydroelectrically, yes, okay.

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1 HUTCHINGS, Q.C.:	1 A. From what I understand is we maximize
2 Do you utilize anything like this system	2 availability of our hydraulic generation
3 energy storage curve that Hydro uses?	during the winter season, during the peak
4 MR. HENDERSON:	4 periods during the winter season.
5 A. You know, I know there's certain guide curves	5 MR. PERRY:
6 used for hydro generation. As far as	6 A. For example, Hydro called upon us last week
7 reporting storage levels on an aggregate basis	7 during the storm and we delivered 82 megawatts
8 like this, I'm not familiar with it.	8 of capacity during the storm, which I think is
9 Q. Okay.	9 exactly what they've included in their
10 MR. HENDERSON:	assumptions that they would get from us in
11 A. We may.	that situation. So you know, in this time of
12 Q. And what are the operating guidelines for your	12 year, going into the winter time, we make sure
hydraulic plants? What terms and conditions	that we can do that, if called upon by Hydro.
or guidelines do you follow for regulating	14 Q. Okay. And I'm assuming that the production
their operation?	from these plants is essentially year round,
16 MR. HENDERSON:	16 is it?
17 A. I'd have to say I'm really not expert in that	17 MR. HENDERSON:
area. I really don't know of any formal	18 A. Yes. You know, during the summer when there's
I	
1	
	20 kilowatt hour production in the run of a month
Q. Okay. I mean, you've told us that obviously	21 is less than it would be in our wet time
you want to minimize spillage. I mean, are	period, but you know, they are available to
23 there any other guidelines that you have or	23 run all year round.
you're not aware?	24 Q. And this production is localized to your
25 MR. HENDERSON:	25 service areas, I presume?
Page 103	Page 104
Page 103 1 MR. HENDERSON:	Page 104 1 provides information on the amount of
-	
1 MR. HENDERSON:	1 provides information on the amount of
MR. HENDERSON: A. All of our generation connects to Newfoundland	provides information on the amount of generation available, which would be, you
1 MR. HENDERSON: 2 A. All of our generation connects to Newfoundland 3 Power's transmission or distribution line.	provides information on the amount of generation available, which would be, you know, 81.6 for hydraulic and I can't think of the figure right off the top of my head for
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1	HUTCHINGS, Q.C.:	1	Power has control of the dispatch?
1 2	54.2 less whatever reserve -	2	MR. HENDERSON:
3	MR. HENDERSON:	3	A. It's really a coordinated effort. Our two
4	A. That's correct.	4	control centres coordinate things. So if
5	Q number is appropriate? Okay. So I take it	5	Hydro has a need for thermal generation during
6	your forecast that you provide to Newfoundland	6	the summer and requests us to put on what's
7	and Labrador Hydro would assume that you're	7	available, we will do so. You know, so it's
8	generating average annual energy from your	8	very much a coordinated perspective. So to
9	hydraulic plants, the 424 gigawatt hours we're	9	say one person has control at one point and
10	seeing here?	10	someone else has control at another point is
1	MR. HENDERSON:	11	not really correct. It's a coordinated
12	A. Yes, that's correct. It's slightly higher	12	effort. So during the winter, if Hydro sees a
13	than that, but I think it's 425 and 426 are	13	point that, well, you know, next week, we know
14	the actual numbers that are in the forecast.	14	this and this is happening and we really need
15	Q. Okay. And assumes that you generate nothing	15	to make sure that your thermal generation is
16	from your thermal?	16	on. They will contact us and we will
1	MR. HENDERSON:	17	coordinate to make sure that every possible
18	A. For energy, yes, that's correct.	18	thing is available. So it's much more of a
19	Q. Yes, okay. Now can you help me with the	19	coordination effort as opposed to one having
20	question of dispatch of Newfoundland Power	20	the all encompassing role.
21	production? Because I've seen references that	21	Q. Okay. Is there any contractual relationship
22	say that Newfoundland and Labrador Hydro has	22	between Hydro and Newfoundland Power that
23	control of that dispatch when it's necessary	23	addresses that issue?
24	to meet system peak. Is it implicit that		MR. HENDERSON:
25	other than on those occasions, Newfoundland	25	A. I wouldn't say there's a formal contract
		+	•
	Page 107		Page 108
1	arrangement. Newfoundland Power and Hydro	1	don't think Newfoundland Power could willy
2	have joint committees and through that, I'm	2	nilly go off and say we're going to run our
3	sure they develop certain guidelines. Whether	3	generation completely different than what
4	they're written or verbal or whatever, it's	4	we're doing today, because I think what's in
5	certainly a very clear understanding between	5	place today is good for the system, so you
6	the two as to the roles that they're playing,	6	know, and I know that's not sort of clean, but
7	and it works through that. It works through	7	there are obligations that we have and we
8	that coordination effort.	8	recognize under the PCA that factor into this
9	Q. So all the facilities that we're talking about	9	as well.
10	are owned by Newfoundland Power?	10	Q. I come back to, I guess, page 10 of your
1	MR. HENDERSON:	11	evidence, right at the top, where you say
12	A. Yes.	12	"Hydro directs the operation of Newfoundland
13	Q. Okay. So you know, and I don't know why it	13	Power's generating plants when required to
14	would ever come up, but it would be for	14	ensure sufficient on-line generation on the
15	Newfoundland Power to decide if Hydro	15	Island Interconnected System." Is that really
16	requested dispatch of any amount of power from	16	more of a request than a direction, a request
17	your facilities, it would be within your	17	that's almost inevitably answered, but -
18	rights, you'd be within your rights to say		MR. HENDERSON:
19	"no, we just don't want to do that right now."	19	A. Yes, you know, it depends on how you interpret
1	MR. PERRY:	20	what the meaning of "direct" means, you know.
21	A. Well, I think there are other considerations,	21	Hydro will call us and say we need generation,
22	you know, in terms of The Electrical Power	22	and we will go and put it on.
23	Control Act and our obligation to adhere to	23	Q. Okay.
104	the Ast in terms of molting I award the best	104	MD HENDERGON

24 MR. HENDERSON:

25

A. You know, as to say whether--you know, I can't

the Act in terms of making, I guess, the best

utilization of the resources available. I

24

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1 MR. HENDERSON:	1	obviously requested it and we got 82 megawatts
2 imagine a situation where Newfoundlar	nd Power 2	on.
3 is going to refuse because I don't know	who 3	Q. Okay. In the absence of a request from Hydro,
4 that benefits.	4	it's up to you to decide whether you're going
5 HUTCHINGS, Q.C.:	5	to have it on or not have it on?
6 Q. No.	6	MR. HENDERSON:
7 MR. PERRY:	7	A. Yes. Now Hydro hasyou know, the notice that
8 A. And again, a recent example was just	a few 8	Hydro's necessarily going to give us for
9 days ago. They asked for it and we pu	ıt 82 9	,
10 megawatts on.	10	, 1
11 Q. Okay. And that was your hydraulic gen	eration? 11	generation, we're going to be dispatching it
12 MR. PERRY:	12	· ·
13 A. Yes.	13	
14 Q. Okay. So what would be happening wi		
15 82 megawatts had not Hydro requested to	them?	• • • • • • • • • • • • • • • • • • • •
16 MR. HENDERSON:	16	
17 A. We run them to optimize our kilowatt		
production. If for some reason the stor	_	, , ,
was such in one of those facilities that		•
Newfoundland Power was betterfelt i		advance or you know, whatever.
better to build it up, in the event that Hy		MR. PERRY:
might need to require it, we may not have		
it on during peak. We may have left it		
and let the water build up, so if they req		2
25 it the following day, we will put it on. T	hey 25	that we have to have so much storage going
	Page 111	Page 112
into the winter so that when Hydro place	es the 1	approach between Newfoundland Hydro and
2 call or the request that we can actually	put 2	Newfoundland Power. I know on the radial
3 the 82 megawatts on. So you know, th	at's a 3	systems themselves, Hydro might need to
4 consideration that we have now, this tir	ne of 4	maintain their line or more locally, we might
5 year, that as we go into the winter month	ns, we 5	have to maintain our own line and in those
6 need to have storage so that we can del	iver 6	situations, there's a coordinated effort to
7 that 82 megawatts.	7	get the generation on to support, you know,
8 Q. But overall, the operating criteria is to		,
9 maximize kilowatt hour production from	n your 9	U 3 '
10 hydraulic resources? Is that -	10	
11 MR. HENDERSON:	11	
12 A. That would be, I'd say, the primary crite		
The secondary criteria is making sure	it's 13	•
14 available for all peak.	14	•
15 Q. Okay. And you rely more on Hydro in	-	
to the secondary criteria than on your	own 16	
resources, shall we say?	17	
18 MR. HENDERSON:		MR. PERRY:
19 A. Yes. Hydro, yes.	. 19	
20 Q. Yes, okay. All right. What are the opera	-	
guidelines for your thermal capacity?		MR. HENDERSON:
22 MR. HENDERSON:	22	· · · · · · · · · · · · · · · · · · ·
23 A. It would be substantially similar to		•
hydraulic, from the perspective that th		
dispatch would be reflective of a coording	nated 25	a fairly small amount?

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		Page 113	Page 114
	1 MR. HENDERSON:	1	Q. Would Newfoundland Power be prepared to sell
	2 A. Yes, I would say it's fairly small. It	2	its thermal production capacity to
:	depends on which one. I think I was re-	ading 3	Newfoundland Hydro?
۱ ,	4 something that was indicating ourany	way it 4	MR. PERRY:
:	was one of our generators that had signi-	ficant 5	A. We haven't really considered that, Mr.
(6 amount of production. I think it may l	nave 6	Hutchings, as a business proposition, I guess,
'	7 been related to certain distribution work	c or 7	so I'm not prepared to answer that sitting
;	you know, we may have been reconstru	acting a 8	here without considering all the ramifications
1	line or something, and as a result, it was	as 9	of doing it.
10	0 utilized more so than it otherwise would	have 10	Q. I suppose the implication of the question is
1	been.	11	does Newfoundland Power have a use for this
12	2 HUTCHINGS, Q.C.:	12	generating capacity that is unrelated to the
1.	Q. So essentially those generators are there	e to 13	Newfoundland Hydro system?
14	support the system in the event of	a 14	MR. HENDERSON:
1:	5 maintenance outage or an unplanned out	tage or,	A. Yes. We use it to backup, you know, some of
10	6 you know, for voltage support or someth	ning of 16	our own components on the system. So they
1	7 that nature? Is that correct?	17	provide assistance to the system and they
13	8 MR. HENDERSON:	18	provide assistance to the local load.
19	9 A. It's for those and it's for system peak to	o. 19	Q. I mean, you can understand our interest in
20	0 Q. Yes.	20	this, in that if Hydro owned this plant, we'd
2	1 MR. HENDERSON:	21	be paying less than 20 percent of the cost and
2	2 A. I think, you know, recently Hydro had a	a peak 22	now we're paying almost 60 percent of the
2	that was high enough, and I don't know	if they 23	cost. So this is not a subject that has been
2	4 had generation enough, but they reque	ested 24	discussed between yourselves and Hydro?
2:	5 available generation just in case.	25	MR. PERRY:
		Page 115	Page 116
	1 A. I have not been involved in any discussion	s 1	it was like across the province and all that
'	with anyone at Hydro on that. Whether M	fr. 2	kind of stuff. So that's probably the reason
.	Hughes has, I'm unaware, but myself, I've r	ot 3	why that variance actually occurred.
۱ ،	been involved in any discussions on it.		MR. PERRY:
:	5 Q. Okay. Just one other area to cover with you	. 5	
'	6 If we could for a moment go back to Mr		it, so this again confirms what we talked
'	Haynes' evidence and look at Schedule 11?	I 7	about earlier about the variance potential on
;	8 need the original Schedule 11 actually, not	8	demand of being 10-11 percent that, you know,
!	9 the revision. Yes, that's the one. Looking	9	when weather is factored in, we likely would
10	•	he 10	have hadI think it was probably February
1		11	10th of that year, it was extremely cold right
1.			across the province, and that's a time when I
1.	6		think we just about had everything on to keep
14	-		the lights on. I think there might have been
1:	, , ,	15	one piece of capacity left to put on, but you
10	·	16	know, as Lorne said, everything lined up at
1	7 much?	17	that point in time.
13	8 MR. HENDERSON:	18	Q. You may recall that there was some debate
19	•		about this in the last Hydro general rate
20	1		hearing because that forecast of 1,001.2
2	•	· .	megawatts was, in fact, a new one which was
2	2 higher than forecast. It shows there it's 92	22	produced in the course of the hearing, which
10	2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		

24

25

was significantly lower than the previous one.

Can you explain to us why the decrease at that

point in that forecast?

megawatts. You know, what caused it to be

higher, you know, I guess it depends on the

wind conditions and the temperature and what

23

24

	Page 117		Page 118
1	MR. HENDERSON:	1	MR. HENDERSON:
2	A. Basically, the reason why the forecast	2	A. The methodology we used was based on the
3	decreased is we annually do up the forecast	3	actual load factors that occurred in the five-
4	and in 2000, we provided Hydro a forecast	4	year period and that was the consistent
5	based on the methodology we used at the time,	5	methodology that we used in the subsequent.
6	which involved looking at the load factors in	6	You know, we don't go in and start playing
7	the previous five years. So our 2000 forecast	7	with the numbers so as to try to, I don't
8	would have been based on Newfoundland Power's	8	know, account for something. You know, we
9	native peak that occurred from between the	9	wouldn't have consideredwe didn't go back
10	periods of 1995 and 1999. When we filed a new	10	and look at 1995 and say something weird is
11	forecast in 2001, the five-year historic	11	going on here, as a result something should be
12	period that was covered included 1996 through	12	done differently. Our forecast up to that
13	to 2000 and primarily what changed with regard	13	point has been tracking reasonably good. The
14	to the load factor was that in 1995, the load	14	forecasts are high some years, low other
15	factor was considerably lower than it was in	15	years, so that methodology was working quite
16	2000, and that resulted in the projected load	16	well. In our forecast for 2001 or 2002,
17	factor changing in the order of three and a	17	forecast that year was higher than the peaks
18	half percent. So that resulted in the	18	that have occurred, I think, in the previous
19	projected forecast dropping by roughly 25	19	four or five years as it was. I would suspect
20	megawatts.	20	whoever did the forecast at that point in time
21	(12:00 p.m.)	21	had no reason to believe that it was, you
22	HUTCHINGS, Q.C.:	22	know, anywhereany less accurate, I suppose,
23	Q. Did you consider making an adjustment to your	23	than what it otherwise could be.
24	forecast to take into account the anomalous	24	HUTCHINGS, Q.C.:
25	1995 year?	25	Q. I understood from Mr. Haynes that there has
	Page 119		Page 120
1	been a change in your methodology of doing the	1	Newfoundland Power purchases from Newfoundland
2	been a change in your methodology of doing the forecast?	2	Newfoundland Power purchases from Newfoundland Hydro based on an energy only rate, there's
2	been a change in your methodology of doing the forecast? MR. HENDERSON:		Newfoundland Power purchases from Newfoundland Hydro based on an energy only rate, there's basically no financial implication for you as
2 3 4	been a change in your methodology of doing the forecast? MR. HENDERSON: A. Yes. Subsequent to that occurrence of having	2 3 4	Newfoundland Power purchases from Newfoundland Hydro based on an energy only rate, there's basically no financial implication for you as to whether or not your forecast of demand is
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2 3 4 5 6	been a change in your methodology of doing the forecast? MR. HENDERSON: A. Yes. Subsequent to that occurrence of having a very large variance, Hydro approached us about trying to come up with a methodology	2 3 4 5 6	Newfoundland Power purchases from Newfoundland Hydro based on an energy only rate, there's basically no financial implication for you as to whether or not your forecast of demand is accurate or not? Is that correct? MR. HENDERSON:
2 3 4 5 6 7	been a change in your methodology of doing the forecast? MR. HENDERSON: A. Yes. Subsequent to that occurrence of having a very large variance, Hydro approached us about trying to come up with a methodology that reflected a longer historic period and	2 3 4 5 6 7	Newfoundland Power purchases from Newfoundland Hydro based on an energy only rate, there's basically no financial implication for you as to whether or not your forecast of demand is accurate or not? Is that correct? MR. HENDERSON: A. There's no immediate impact on our costs or
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	Page 121		Page 122
1	HUTCHINGS, Q.C.:	1	E ,
2	Those are all my questions.	2	
3	CHAIRMAN:	3	<i>5</i> /
4	Q. Thank you very much, Mr. Hutchings. Good	4	that would be true?
5	afternoon, Mr. Kennedy.	5	MR. PERRY:
6	MR. KENNEDY:	6	A. That is correct.
7	Q. Good afternoon, Chair, Commissioners. Mr.	7	Q. And when you say "no customer benefits" you're
8	Perry and Mr. Henderson, I wanted to mostly	8	referring specifically to your own customers,
9	just focus on your pre-filed testimony and go	9	Newfoundland Power's customers?
10	through it. I've got some questions	10	MR. PERRY:
11	concerning some of the data and analysis that	11	A. Yes, and I suppose in the way the system works
12	you complete in it. Just before we start	12	
13	there, I just wanted to make sure I had the	13	·
14	correct understanding about what Newfoundland	14	
15	Power's concerns are with the sample rate as		MR. PERRY:
16	proposed by Hydro vis-a-vis moving from an	16	
17	energy only rate to the proposed wholesale	17	
l	demand rate, and did I gather correctly that		MR. PERRY:
18	the two concerns are earnings volatility and		
19	- · · · · · · · · · · · · · · · · · · ·	19	
20	that there were no customer benefits that	20	, ,
21	Newfoundland Power could see?	21	that's a different customer class than Hydro's
l	MR. PERRY:	22	
23	A. Yes. The only volatility point translates		MR. PERRY:
24	also into a rate instability issue for	24	
25	customers. So they're somewhat linked, but I	25	Q. Okay. And so if we were going to implement a
	<u> </u>	1	
	Page 123	+	Page 124
1	<u>*</u>	+	Page 124
1 2	Page 123		Page 124 a wholesale level, Newfoundland Power would
l	Page 123 new wholesale rate, wouldn't the first question be whether that materially benefits	1	Page 124 a wholesale level, Newfoundland Power would see two sets of prices for those two separate
2 3	Page 123 new wholesale rate, wouldn't the first	1 2 3	Page 124 a wholesale level, Newfoundland Power would see two sets of prices for those two separate
2 3	Page 123 new wholesale rate, wouldn't the first question be whether that materially benefits the wholesale customer relationship? MR. PERRY:	1 2 3	Page 124 a wholesale level, Newfoundland Power would see two sets of prices for those two separate products? MR. PERRY:
2 3 4 5	Page 123 new wholesale rate, wouldn't the first question be whether that materially benefits the wholesale customer relationship? MR. PERRY: A. I don't know where you're going, Mr. Kennedy,	1 2 3 4 5	Page 124 a wholesale level, Newfoundland Power would see two sets of prices for those two separate products? MR. PERRY: A. Normally at a wholesale level -
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Page 12	25	Page 126
1 MR. KENNEDY:	1	signal between Hydro and then its wholesale
2 every day like we have, which we're -	2	customer, Newfoundland Power, that that would
3 MR. PERRY:	3	be the intention of a wholesale demand rate?
4 A. But there's no name in -	4	MR. PERRY:
5 Q all envious of, I can assure you, but -	5	A. No, we don't recognize that.
6 MR. PERRY:	6	Q. Okay. I wonder if we could just turn to your
7 A. There's no name on the record anywhere.	7	pre-filed evidence? And I just wanted to go
8 Q. I think the only names on the record were	8	through this and make sure I understood some
9 referred to specifically the two utilities	9	of the tables as I alluded to. First, though,
that did not have a wholesale demand rate. So	10	I just wanted to get a fix on the amount of
I guess it would have been superfluous to then	11	money that we're dealing with or amounts of
go through the exercise of naming all the	12	money that we're dealing with in your analysis
utilities in North America that would have a	13	of the potential volatility that the sample
14 wholesale rate.	14	rate may have on Newfoundland Power's
15 MR. PERRY:	15	earnings. And at page 1 you indicate thatat
16 A. Aquilla, Alberta doesn't have one so, you	16	line 21, that after you do youryou say,
know, they weren't on the list.	17	starting on line 18, "The sample rate
Q. Yes. But you just explained that they're a	18	significantly increases the potential
poles and wires company?	19	financial impact of forecast variances." And
20 MR. PERRY:	20	you go, line 21, "Consequently, there is a
21 A. True.	21	combined risk that forecast variances under
22 Q. Yes. So, I guess what I'm trying to	22	the sample rate could result in an 8.3 million
understand is would Newfoundland Power	23	
recognize that the purpose of the wholesale	24	-
demand rate is to send an appropriate price	25	
Page 1	27	Page 128
Page 12		Page 128 O Oh okay So this isn't the percent change
that we're referring to the same thing. And	1	Q. Oh, okay. So this isn't the percent change
that we're referring to the same thing. And if I'm gathering correctly, the post-tax	1 2	Q. Oh, okay. So this isn't the percent change based on forecast data?
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that we're referring to the same thing. And if I'm gathering correctly, the post-tax combined risk forecast variance under the sample rate would be 5.4 million, is that	1 2 3 4	Q. Oh, okay. So this isn't the percent change based on forecast data? MR. HENDERSON: A. No, no.
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December 7, 2003	Willi-i a	
	Page 129	Page 130
1 MR. PERRY:	1	in your documents?
should, they should moveyou know, be		MR. HENDERSON:
on the same concepts. And I think it's go		A. No, there's not.
4 evidence to suggest that the demand could		Q. Okay.
5 in opposite direction than energy.		MR. HENDERSON:
6 MR. KENNEDY:	6	A. The evidence which we relied on for the
7 Q. So at page 22 in Chart 6, we have the ann		volatility infrom forecast is based on
8 forecast variance in energy requirements.		Hydro's response to one of their questions
9 am I gathering correctly that Chart 6 is	9	which they talked about the plus or minus five
showing the difference between actual		percent volatility.
forecast in energy purchase by Newfound		MR. PERRY:
Power for each of the years given in tha		A. And when you look at demand itself, obviously
chart? So in other words, in 1993 you we		we know that our customer demand for the
about one and a half percent less energy sa		customers that are on demand rates does not
or energy purchased from Newfoundland from forecast?		track the actual native peak demand for
16 from forecast? 17 MR. PERRY:	16 17	Newfoundland Power, and that's shown in Chart 3 on page 18. So when you look at demand
18 A. Correct.	18	itself, there is no relation there.
19 Q. Which is it, is it sales or purchased power'		MR. HENDERSON:
20 MR. PERRY:	20	A. It might be helpful if you want to turn to NP-
21 A. I think the total energy requirement.	20 21	156, NLH, which Hydro has provided a
22 MR. HENDERSON:	22	comparison of historic forecast to actual.
23 A. That's right. So that would be purchased a		It's on the second page. And you can see
24 produced.	24	there the variances that occurred between the
25 Q. Okay. So is there a similar chart for dema		forecast error and gigawatt hours. So let's
1 > 2		8 8
	Page 131	Page 132
	Page 131	Page 132 what we were just looking back. Just back one
pick a year like 1996. In 1996 our forecast	st 1	what we were just looking back. Just back one
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pick a year like 1996. In 1996 our forecast for energy was high and our peak forecast low. So they're in opposite directions.	st 1 was 2 3	what we were just looking back. Just back one page, I think, yeah, Mr. O'Reilly. There we go. This is the point you were just trying to make, Mr. Henderson, of the fact that demand
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	Page 133	Page 134
1 MR. HENDERSON:	1	know, we've acknowledged that demand variances
2 A. That's correct.	2	have been as high as 11 percent without
3 MR. KENNEDY:	3	stripping out the weather normalization issue.
4 Q. And would that under the wholesale rate as	4	And stripping out the weather normalization
5 proposed by Hydro work in Newfoundland P	ower's 5	brings us down to about a five percent
6 favour?	6	problem. So you're stillyou know, when you
7 MR. HENDERSON:	7	weather normalize those numbers, you're still
8 A. Yes, if that was the forecast variances to	8	going to have resulting variances.
9 variances to forecast. This is just the year	9	Q. Where does the five percent come from?
10 over year changes.	10	MR. PERRY:
11 Q. Right. So -	11	A. I think thatthe five percent of stripping
12 MR. HENDERSON:	12	out weather normalization?
13 A. There will be years in which the two will be	13	Q. No. The five percent variance in forecast
14 additive so as it will -	14	demand as a potential range of what
Q. I know you say that, but I guess I'm trying to	15	Newfoundland Power could be off in its
find that information in your report where	16	forecast of demand for a given year?
we're actually dealing with forecast.	17	MR. HENDERSON:
18 MR. PERRY:	18	A. That was put on the record by Newfoundland
19 A. Well, I think he just took you tohe just	19	Hydro. Just a second, I'll -
20 took you to Hydro's evidence that -	20	Q. I think if you go to PUB-151. You actually
21 Q. Yeah, but that wasn't weather normalized, so	21	referenced it in your -
it's not much that we can do with that whether	er 22	MR. PERRY:
23 it's notif it's not weather normalized?	23	A. That's correct.
24 MR. PERRY:	24	Q report. So it's, I guess, from this very
25 A. Well, I disagree, Mr. Kennedy, because, you	u 25	first sentence, that since 1996 the difference
	Page 135	Page 136
between Hydro's forecast for NP native peak	-	
2 and the weather adjusted actual has been	2	
3 within a range of plus or minus five percent?	3	
4 MR. PERRY:	4	accurate in its demand forecast?
5 A. That's correct.	5	MR. PERRY:
6 Q. So now this is the difference between Hydro'	s 6	A. There's no financial incentive, but we do our
7 forecast for your native peak and then your	7	
8 actual weather adjusted peak. So that Hydro	8	
9 forecast, does that come from Newfoundlar		
10 Power, do you know?		MR. PERRY:
11 MR. HENDERSON:	11	A. Clearly.
12 A. It does -	12	•
13 Q. Or does Hydro do its own forecast?	13	
14 MR. HENDERSON:	14	
15 A. No, it comes from us but Hydro, I know,	15	
applies for our native peak. I know Hydro in		
the past has tried to calculate an expected		MR. HENDERSON:
amount hydro production for Newfoundla		
Power, so as a result they came up with a		MR. PERRY:
20 component of what created Newfoundlar		
21 Power'shang on, that says native peak	21	· · · · · · · · · · · · · · · · · · ·
forecast. Yeah, I suspect we should have	22	
23 information that's similar to what they must	23	
24 have based theirs on.	24	
25 Q. Yeah. So you wouldNewfoundland Power-		
	1	- · · · · · · · · · · · · · · · · · · ·

Page 137	Page 138
1 MR. KENNEDY:	1 that correct?
on what the variance has been for forecast	2 MR. HENDERSON:
demand sales for the period 1993 to 2002?	3 A. Yes, that's correct.
4 MR. HENDERSON:	4 Q. Okay. And when we look at that chart, 1993 to
5 A. I believe it's in that response that I took	5 1996, your forecasting seemed to be, I guess,
-	
6 you to in Hydro's testimony.	6 optimistic compared to what actually occurred
7 Q. And which one was that, sorry?	7 during that period, generally?
8 MR. HENDERSON:	8 MR. HENDERSON:
9 A. NP-156. That's on the record.	9 A. Yeah. I think what you see in the slope of
10 Q. Oh, yes, okay. That's theit's not weather	the curve that you're seeing here is probably
11 normalized?	business cycle effects that, you know, we use
12 MR. HENDERSON:	inputs from Conference Board of Canada, and I
13 A. Okay, not weather normalized, okay.	guess in the early '90s the Conference Board
Q. Okay. Just going to the next section then,	of Canada was probably projecting that
the volatility, page 22, that Chart 6 again.	15 Newfoundland PowerNewfoundland's economy was
And this we know to be the annual forecast	going to be better than what it actually
variance in energy requirements. Do you know	turned out to be. Probably more recently
if this is weather normalized?	they've probably been under forecasting it
19 MR. HENDERSON:	somewhat. You know, those types of effects
20 A. Yes, that's weather normalized.	are going through here.
21 Q. That's weather normalized, okay. And this	21 Q. Sure. So I think sometimes it's been referred
chart is actually representative of the data	22 to the fact that we have a cod moratorium that
that Newfoundland Power used to calculate its	took place in that early '90s and that had a
energy forecast variance for the period 1993	24 dramatic impact on Newfoundland Power's
to 2002 to be plus or minus 2.4 percent. Is	25 financial results?
Page 139	Page 140
1 MR. PERRY:	the fact that under Hydro's Application they
2 A. I'd say it's part of it.	2 I guess, there's been some different words
3 Q. Is that a fair statement?	3 used about whether the Interruptible B
4 MR. PERRY:	4 contract was not being renewed. And I think
5 A. It's part of the problem.	5 there was a statement that it's already
6 Q. So, do you have any idea what the plus or	6 discontinued prior to the GRA Application
7 minus energy variance would be if we took the	7 being filed, so it was just a case of it not
8 period 1996 to 2002?	8 being renewed. And you seemed to attach some
9 MR. HENDERSON:	9 significance to the fact that Hydro was not
10 A. If you look at the graph, obviously the -	renewing that Interruptible B contract. And
11 Q. It's not cumulative, right, so.	if I gather correctly, that significance to
12 MR. HENDERSON:	Newfoundland Power is the fact that if Hydro
13 A. Yeah. The low point is just under one percent	doesn't feel there's value in the
and the high point on that graph is, you know,	14 Interruptible B contract at \$28 kilowatt, how
somewhere around 2.4 percent.	could it allege that the demand charge should
Q. So it would be plus two percent and a minus	be \$84 a kilowatt. Is that a fair summary?
17 0.2 percent?	17 MR. PERRY:
18 MR. HENDERSON:	18 A. Yes.
19 A. Sure. And, you know, I don't think that's	19 Q. So if the Board were to accept the Industrial
necessarily going to be indicative of what's	20 Customer's position and order that the
going to happen in the future. Things always	21 Interruptible B contract be re-instituted for
turn around and I'm sure we'll be seeing	the benefit of those Industrial Customers on
variances again that are in the order of minus	23 the basis that it does have value, would that
24 2.4 percent again.	24 alleviate that concern?

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Page	e 141 Page 142
1 MR. PERRY:	the wholesale demand rate?
2 A. Not as much. I think the Board needs to	2 MR. HENDERSON:
3 understand what the cost of capacitymarginal	3 A. Yes.
4 cost of capacity is on the system. \$28 may be	4 Q. You're aware of that?
5 too much, you know. So I'm not saying that	5 MR. HENDERSON:
6 it'sthat Hydro should go off and enter into	6 A. Yeah.
7 aor extend its contract for \$28. I think we	7 Q. And they calculated theor proposed, at
8 need to understand how much is this worth.	least, that another view would give a demand
9 And right now, we don't know, we don't know	9 rate of four and a quarter a month as opposed
10 how much it's worth. So, you know, I'm just	to \$7 a kilowatt per month charge?
saying we have evidence before us that 28, you	11 MR. HENDERSON:
know, was too much, and therefore you have to	12 A. Yeah, they put on a different -
wonder about 84.	13 Q. And so the four and a quarter gives you
14 MR. KENNEDY:	roughly \$51 annual kilowatt charge?
15 Q. Mr. Perry, I don't think I saw you here when	15 MR. HENDERSON:
16 EES was testifying, but I believe, Mr.	16 A. Yes.
17 Henderson, you sat in which Ms. Tabone and Mr.	Q. And they arrived at that figure by combining
18 Chymko testified?	the \$28 portion of the demand relating costs
19 MR. HENDERSON:	equated to the Interruptible B contract and
20 A. Yes, I did. And I'm sure Barry has probably	the balance was derived from the transmission
21 read over the testimony.	portion of Newfoundland Power's gen credit?
22 MR. PERRY:	You understand that?
23 A. I have, yeah.	23 MR. HENDERSON:
Q. Okay. And you know that they, while on the	A. You know, I know that they came up with a rate
stand, put forward an alternative proposal for	that's based on some numbers they pulled from
*	• •
	+
Page	e 143 Page 144
Page 1 here and some numbers they pulled from there.	Page 144 s. 1 substantial volatility.
Page 1 here and some numbers they pulled from there 2 You know, the numbers they're basing it on is	Page 144 substantial volatility. 2 Q. Okay. So just going back to Chart 5, or at
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Page here and some numbers they pulled from there You know, the numbers they're basing it on is not based on the marginal cost to the system, so I don't know if eight point twofour point	Page 144 substantial volatility. Q. Okay. So just going back to Chart 5, or at least page 21 again. And just dealing with these additive effects as you described them.
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December 9, 2003	Multi-Page	Verbatim Court Reporters
F	age 145	Page 146
1 MR. HENDERSON:	1	load factors that were, you know, a different
2 normalized figures. In the 1995 and '96 pe	ak 2	set of numbers that resulted in a different
3 looks like our forecast wasour demand	1 3	forecast.
4 forecast was low by approximately five	e 4 Q.	Okay. But you've since 2001 changed your
5 percent. And I notice down here in 1995 o	ur 5	actual forecasting methodology?
6 energy forecast was under by two percent,	so I 6 MR. H	HENDERSON:
7 guess in that year they may have gone in	1 7 A.	Yes, that's correct.
8 opposite directions. One of the caveats I go	ot 8 Q.	Okay. Did you do any kind of sensitivity
9 to put on that is that I'm not quite sure of	9	analysis to see if you had applied that new
the timing of the peak in 1995 because w		forecasting methodology over the preceding
forecast based on winter season peaks whi		ten-year period, how that may have impacted on
what's down below is a calendar energ	y 12	your forecast versus actual?
13 variance.	13 MR. H	HENDERSON:
14 MR. KENNEDY:		We had a look at it. The range of variances
15 Q. And I think you referenced on earlier cros		that would occur is roughly 11 percent.
that, and I believe it was Mr. Hutchings		Therefore, you know, it's possible that plus
questioning you, that there was somethin	~	or minus five percent could still occur on
anomalous about your 1995 data so that th		your demand forecast.
was partially what spurred your changing		I'm not sure if that gets us far. Plus or
20 methodology in your demand forecasting?		minus 11 percent of what?
21 MR. HENDERSON:		HENDERSON:
A. No, there's nothing anomalous about the ac		If we had used the 15 year average load
figures for 1995. All it was is that 1995		factor, okay, and compared what the forecast
figures were different from 2000 figures, s		would have been against what I refer to here
as a result the five-year period contained	25	as the adjusted or normalized peak, the errors
F	age 147	Page 148
1 varied by a range of 11 percent. So that		would probably happen in the future.
2 would indicate that there's potential upside		
and down side variance in the order of plus		Does that help you?
4 minus five percent.		Possibly. I guess what might help is Chart 5,
5 Q. I'm not sure if I follow the logic. Maybe if		only with using, you know, comparisons from
6 we could just go to Information No. 17?		forecast to actual in both your energy and
7 MR. PERRY:		demand for that period, 1993 to 2002, which
8 A. Mr. Kennedy?		you then used to base all your figures on.
9 Q. Yes.		HENDERSON:
10 MR. PERRY:		Okay.
11 A. Maybe the best thing we could do is just ag		
to undertake to show you a demand forecas		We can do that.
an energy forecast the way you are, I think		And in the case of Information No. 17, just
trying to piece together the information, and		curiosity, if I'm gathering correctly, we have
we could do it from '93 to 2003 and then, y		the five-year average chart there underneath those first rows and columns. And then
know, it would be much easier, I think, for you to see the changes that occur.		there's an initial 2004 forecast and then a
17 you to see the changes that occur. 18 MR. HENDERSON:		revised 2004 forecast. And if I'm recalling
19 A. Yeah. We may need to go back prior to 1 20 just from the perspective that during that		correctly, that was caused by Newfoundland Power updating its forecast in response to a
just from the perspective that during that period we had a lot ofgenerally speaking,		request by Hydro to provide more up-to-date
22 didn't hit severe winter peaks. As a result,		forecast of your demand and energy
in general, during that time period our		requirements for the test year?
24 forecasts were high as opposed to being lo		HENDERSON:
		That's correct.
and that's not really representative of what	25 A.	I hat's correct

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Page 152

Page 149 1 MR. KENNEDY: Q. All right. And initially you provided a figure of your maximum peak for 2004 to be 3 1084 megawatts on the nose, is that correct? 4 5 MR. HENDERSON: A. Yes. Q. All right. And then when you revised, you 7 revised to 1080.7 megawatts, is that correct? 8

- 9 MR. HENDERSON: 10 A. That's correct.
- O. And so when I work that out, it constitutes 11 12 0.3 percent change in your forecast maximum peak for 2004? 13
- 14 MR. HENDERSON:
- A. This is the maximum peak less the amount of 15 16 hydraulic generation we have on. Now, part of the effects you're seeing there is the fact 17 that Hydro changed what they consider an 18 appropriate reserve and so that went from--19 well, there's a small error that I think Mr. 20 Haynes talked about, but that accounts for 21 22 roughly 3.3 megawatts of change. So the forecast after you account for that is--you 23 know, the figures we actually gave Hydro are a 24 very small amount higher in the revised 25

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- A. Yes, and the demand is reflective of the 98 1 2 percent rachet, let's call it.
- Q. Right, right, there's a floor there, so that's 3 why it only comes to 1.2 million. 4
- 5 MR. HENDERSON:
- A. That's correct. 6
- 7 Q. That's right. And in the second column is the opposite that would require that additive 8
- 9 effect where you have a situation where your
- energy sales were lower than forecast and your 10
- 11 demand was higher than forecast?
- 12 MR. HENDERSON:
- 13 A. Yes.
- O. To the maximum? 14
- 15 MR. HENDERSON:
- A. Thereabouts, the 2.4 is somewhat extreme, 16
- we've had years that have been worse than 17
- that, plus or minus five percent, you know, 18
- 19 that can potentially be exceeded, but I think
- more the norm it's probably within that range. 20
- Q. That's all the questions I have, Chair. Thank 21 you, Mr. Henderson, Mr. Perry. 22
- 23 CHAIRMAN:
- Q. Thank you, Mr. Kennedy. Good afternoon, Mr. 24 Kelly, do you have any re-direct? 25

- forecast than in the original with regard to
 - 2 our native peak.
 - Q. Okay, I guess that's what I was trying to get 3 at, you talk about this potential variance in 4
 - your forecast demand, but when I looked at 5
 - this chart, it seems like you're able to be 6
 - very accurate in your forecast for demand?

8 MR. HENDERSON:

- A. You take historical numbers and you come up with the load factor and you apply that load 10 factor. The forecast year over year is 11 primarily reflective of changes in your energy 12 forecast year over year. That is no 13 indication of how accurate it is or how much 14 different actual is going to be from forecast. 15
- 16 Q. Okay, so just to close, turning over to page 25 again, in that Table 7 in your summary of 17 potential change in earnings, that under the 18 sample rate, that first column where you have 19 earnings gains of a total of 3.3 million, 20 would mean that it would be a scenario where 21 22 your energy forecast was--your actual sales were higher than forecast and for your demand, 23 your demand was lower than forecast, correct? 24 25 MR. HENDERSON:

1 KELLY, Q.C.:

Q. No further questions, Mr. Chair.

3 CHAIRMAN:

- Q. Thank you very much, we move to Board 4
- 5 questions now. Commissioner Saunders?
- 6 COMMISSIONER SAUNDERS:
- Q. I have no questions. 7
- 8 CHAIRMAN:
- Q. Commissioner Whalen?
- 10 COMMISSIONER WHALEN:
- 11 Q. Let me have a minute to look at my notes. I
- just wanted to pose the same question to you, 12
- I guess to you, Mr. Perry, that I posed to Mr. 13
- Brockman and again, in reading your pre-filed 14
- evidence and listening to you this morning, do 15
 - I understand as well that--well perhaps I
- 16
- should just ask you the question, are you 17
- opposed philosophically to demand/energy rate 18
- 19 or are you just opposed to the sample rate
- that Hydro's proposing in this Application? 20
- 21 MR. PERRY:
- A. I'm actually philosophically opposed to it 22
- because I don't really see the necessity of 23
- having it. The benefits that everyone is sort 24 25
 - of putting forward for having it, can be

Page 154 1 MR PERRY: 2 achieved by determining, you know, what the 3 value is or what costs should be spent to 4 defer capacity on the system. And I think 5 that can be done by conducting a long run 6 margiand cost studies and conting up with a 7 mumber and frankly. Newfoundland Power board 8 could say to Newfoundland Power hoard 9 is your benchmark, bring furward programs, if 10 there are any out there that you can implement 11 to do this Dermad Side Management. You know, 12 we still need to have a dermandlemergy rate to 13 do that and amplifying that is I think the 14 rate would have to go down—the demand part 15 would have to go down—the demand part 16 on some mechanism to deal with volatility, 17 that you would almost be back to the energy- 18 only rate anyway, in terms of getting back to 19 the \$900,000.00 of volatility that we 20 currently have under the energy-mly rate, 21 because even at \$1.00 a month for demand, we 22 still chew up-potentially chew up all the 23 range of return on rate base. So, you know, I 24 just believe that, do the studies and conne up 25 vith the right numbers for Demand Side Page 155 Page 156 Page 157 Page 158 Page 159 Page 159 Page 159 Page 159 Page 150 Page 150 Page 150 Page 150 Page 150 Page 150 Page 151 Page 150 Page 150 Page 150 Page 150 Page 151 Page 150 Page 150 Page 150 Page 150 Page 151 Page 150	_		1 8 1	
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3 value is or what costs should be spent to 4 defer capacity on the system. And I think 5 that cam be done by conducting a long run 6 marginal cost studies and coming up with a 1 number and frankly, NewYoundland Power board 8 could say to NewYoundland Power, listen, this 9 is your benchmark, bring forward programs, if 10 there are any out there that you can implement 11 to do this Demand Side Management. You know, 12 we still need to have a demand/energy rate to 13 do that and amplifying that is I think the 14 rate would have to go down—the demand part 15 would have to go down—the demand part 16 or some mechanism to deal with volatility, 17 that you would almost be back to the energy— 18 only rate anyway, in terms of getting back to 20 currently have under the energy—only rate, 21 because even at \$1.00 a month for demand, we 22 still chew up—potentially chew up all the 23 range of return on rate base. So, you know, I 24 just believe that, do the studies and come up 25 with the right mumbers for Demand Side Page 155 1 adjustment to customer rates, so that it's 2 cleaned out on an annual basis. 3 Q. I also wanted to ask you about the timing 3 disustment to customer rates, so that it's 2 cleaned out on an annual basis. 5 guess, the Board has to decide whether there 6 should be demand-energy rate should— 15 that full dip ose a question to Mr. Banfield 16 in terms of the timing, so what has to happen. 17 MR. PCERY: 18 A. Well first of all, we have to deal with the 2 volatility issue, so I think Newfoundland 20 Power would have to come forward with a 21 proposal to the Board to deal with the 22 volatility issue so I think Newfoundland 22 Power sould have to go down the iming 23 volatility issue so I think Newfoundland 24 power sould have to go down the proceeding, 25 the event are should— 26 the wind the right mumbers for Demand Side Page 156 Page 157 Page 158 Page 159 Page 159 Page 159 Page 159 Page 150 Pag	1	MR. PERRY:	1	Management, you know, ask the utilities to
4 defer capacity on the system. And I think 5 that can be done by conducting a long run 6 marginal cost studies and coming up with a 7 number and frankly, Newfoundland Power board 8 could say to Newfoundland Power beard 10 to do this Demand Side Management. You know, 11 to do this Demand Side Management. You know, 12 we still need to have a demand/energy rate to 13 do that and amplifying that is I think the 14 rate would have to go down—the demand part 15 would have to go down—the demand part 16 or some mechanism to deal with votalitity, 17 that you would almost be back to the energy—that you would have to go down—the demand, we still be would almost be back to the energy—that you would almost be back to the energy—that you would have to go down—that we will you would have to go down—the demand, we still be would almost be back to the energy—that you would back till be cleaned out cvery 12 months or whether you go to balancing out over time, I think you got to sturing eting into the floor that Hydro 22 still chew up—potentially chew up all the 23 range of return on rate base. So, you know, 1 24 just believe that, do the studies and come up 25 with the right numbers for Demand Side 26 should be demand-energy rate and then, I guess 27 the question is what should that rate be. And 28 if we cordered as a part of this decision that 29 a demand-energy rate and then, I guess 30 to lats own and to ask you about the	2	achieved by determining, you know, what the	2	
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Page 155 1 adjustment to customer rates, so that it's 2 cleaned out on an annual basis. 3 Q. I also wanted to ask you about the timing 4 issue because-there's really two questions, I 5 guess, the Board has to decide whether there 6 should be demand/energy rate and then, I guess 7 the question is what should that rate be. And 8 if we ordered as a part of this decision that 9 a demand/energy rate for Newfoundland Power as 10 a wholesale customer of Hydro is appropriate, 11 I think I did pose a question to Mr. Banfield 11 in terms of the timing, so what has to happen. 13 If that was the result of this proceeding, 14 that we said yes, a demand/energy rate should- 15 -but you have to present us with one, what do 16 you see as the things that have to happen? 17 MR. PERRY: 18 A. Well first of all, we have to deal with the 19 volatility issue, so I think Newfoundland 20 Power would have to come forward with a 21 proposal to the Board to deal with the 22 volatility issue before the rate is 23 implemented; and the second thing is we 24 believe the rate shouldn't be implemented at a Page 156 because as you go through the year there, it creates transition issues and we said in my 3 pre-filed or my examination-in-chief, I said 4 up to \$5 million dollars. For instance, if 4 the rate was implemented around April 1st, 4 the rate was implemented around April 1st, 4 the rate was implemented around April 1st, 4 up to \$5 million dollars. For instance, if 5 the rate was implemented around April 1st, 4 up to \$5 million dollars. For instance, if 5 the rate was implemented around April 1st, 4 up to \$5 million dollars. 5 Di vid voll oblars for instance, if 5 the rate was implemented around April 1st, 4 up to \$5 million dollars. 6 Hydro would be receiving \$5 million dollars. 7 more than if it had been implemented earlier. 8 So I don't know if you can addthe transition 9 pre-filed or my examination-in-chief, 1said 4 up to \$5 million dollars. 7 the rate was implemented around April 1st, 8 Up to \$5 million dollars. 8 I dup to \$5 milli	24	just believe that, do the studies and come up	24	would be it goes into a reserve and then, I
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	23	implemented; and the second thing is we	23	the winter, they will receive less. As a
25 timeany other time other than January 1st 25 April, the amount of money that Hydro is going	24	believe the rate shouldn't be implemented at a	24	_ · · · · · · · · · · · · · · · · · · ·
	25	timeany other time other than January 1st	25	April, the amount of money that Hydro is going

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	Page 157		Page 158
1	MR. HENDERSON:	1	
2	to be receiving is going to befor the	2	
3	remainder of the year, is going to be	3	
4	considerably different. It's not really	4	
5	revenue neutral, I guess is a word you can	5	
6	say, between then and the end of the year, as	6	
7	to whether it's an energy-only rate or a	7	
8	demand rate. When we flow our rates through	8	
9	our customers, we're going to be flowing	9	
10	through on a 12-month annual basis, so as on a	10	
11	go-forward basis if the rate is appropriate.	11	
12	That means that, for instance, we will be	12	
13	getting revenue from our customers at, you	13	
14	know, around 6.5 percent increase, that's how	14	
15	we're going to be recovering money, but	15	
16	between April 1 and the end of the year,	16	
17	Hydro's increase in revenues from us would be	17	-
18	substantially more than the 12 percent that	18	
19	they're looking for on an annual basis because	19	
20	of these timing effects. And that gives rise		20 COMMISSIONER WHALEN:
21	to this \$5 million dollars that Barry was	21	
22	talking about. Normal transitional issues	22	-
23	that we have to deal with which would flow	23	•
24	through our RSA, has been in the order of, you	24	
25	know, a million bucks and I think our numbers	25	
23		+	
١,	Page 159 MR. HENDERSON:	1	Page 160 energy rate, they should do it with all the
2	A. Yes, if we have a reserve, the necessity of	2	
3	normalization is less, but I think it's a good	3	
$\begin{vmatrix} 3 \\ 4 \end{vmatrix}$	idea that we try to minimize all to the extent	4	
5	possible through this normalization mechanism,	5	
6	to make sure that it, in of itself, does not	6	
1	hold up the implementation of a demand-energy	7	
7	rate. We can potentially take the mechanism	8	
8	that Hydro already uses in their long-range		
9	forecast and I think Sam Banfield alluded to	9	
10	that already, beyond that, it would be a good	10	1 CHAIRMAN:
11	idea for us to get together and do a study to		
12		12	
13	see if we can come up with some sort of better	13	1 0
14	equation that will better take out weather and that will, you know, reduce volatility a	14	
15	· · · · · · · · · · · · · · · · · · ·	15	1 7 1
16	little bit further.	16	•
17	Q. And I guess all of this, notwithstanding your	17	• · · · · · · · · · · · · · · · · · · ·
18	philosophical fundamental objection, Mr.	18	e ·
19	Perry, this would all not be predicated on a	19	
20	Marginal Cost Study because the timing of that	20	foolhardy. And I've heard the arguments that

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have been put forward in terms of the

volatility, the rate stability, no meaningful benefit to customers and the price signals in

relation to the decision that we have before

us in terms of looking at potential that is

is such that certainly we couldn't do that in

A. That's right, you know, while we feel that if

the Board decides to go ahead with a demand/

21

22

24

25

a short term.

23 MR. HENDERSON:

	telliper 9, 2000		
	Page 161		Page 162
1	CHAIRMAN:	1	Marginal Cost Study, and so, I believe that
2	offered by energy and demand rate. What are	2	that is sort of the prudent approach to say,
3	the two or threeis it the \$5 million dollar	3	well why should we pick something out of the
4	issue that sort of puts it over the top in	4	air at \$84.00 and go with that, rather than
5	your view? Are there any other items, I mean,	5	being prudent, you know, the Board has always
6	what are the two or three key issues that	6	made sure it had all the information in front
7	would bring you to describe this issue in that	7	of it to make its decision, ask for the study
8	fashion?	8	to be done, come back in and say, okay, now
9	MR. PERRY:	9	
10	A. Okay, Mr. Chairman, number one, it's not going	10	
11	to cause us to do anything different with our	11	Board doesn't have the information it needs
12	customers, okay, we already have demand rates	12	and I think that's where my disconnect, I
13	in place where they should be and Domestic	13	•
14	customers, you don't charge demand to. The \$5	14	
15	million dollar or approximate after tax	1	CHAIRMAN:
16	volatility issue for earnings is a big issue	16	
17	and I think has to be dealt with. But my	1	MR. YOUNG:
18	comments about mind boggling and foolhardy, I	18	
19	think more relate to the rate, the \$84.00 and	19	
20	not knowing whether that is an appropriate	20	
21	rate or not. There is just no evidence to say	21	\$84.00. I'm just wondering it sounds to me,
22	that that's the right signal to send to	22	
23	Newfoundland Power and you know, and the Board	23	
24	can get that evidence by asking Hydro, working	24	- · · · · · · · · · · · · · · · · · · ·
1		1	•
125	with Newfolingland Power, to do a Long Kiln	125	perspective is that the Embedded Cost Study is
25	with Newfoundland Power, to do a Long Run	25	1 1
	Page 163		Page 164
1	Page 163 of no value at all or no value in that	1	Page 164 Q. Chair, just one arising from a question of
1 2	Page 163 of no value at all or no value in that relation or are you suggesting that we can	1 2	Page 164 Q. Chair, just one arising from a question of Commissioner Whalen and it just has to do with
1 2 3	Page 163 of no value at all or no value in that relation or are you suggesting that we can only do this on a marginal cost basis and	1 2 3	Page 164 Q. Chair, just one arising from a question of Commissioner Whalen and it just has to do with the transition issue in the event that the
1 2 3 4	Page 163 of no value at all or no value in that relation or are you suggesting that we can only do this on a marginal cost basis and there's no other means of doing it that are,	1 2 3 4	Page 164 Q. Chair, just one arising from a question of Commissioner Whalen and it just has to do with the transition issue in the event that the Board was to proceed with the ordering of
1 2 3 4 5	Page 163 of no value at all or no value in that relation or are you suggesting that we can only do this on a marginal cost basis and there's no other means of doing it that are, you know, considered appropriate and proper by	1 2 3 4 5	Page 164 Q. Chair, just one arising from a question of Commissioner Whalen and it just has to do with the transition issue in the event that the Board was to proceed with the ordering of adoption of wholesale demand rate that, as I
1 2 3 4 5 6	Page 163 of no value at all or no value in that relation or are you suggesting that we can only do this on a marginal cost basis and there's no other means of doing it that are, you know, considered appropriate and proper by rate designers?	1 2 3 4 5 6	Page 164 Q. Chair, just one arising from a question of Commissioner Whalen and it just has to do with the transition issue in the event that the Board was to proceed with the ordering of adoption of wholesale demand rate that, as I understood it, Mr. Perry, you indicated that
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December 9, 2003 Mu	lti-Page TM Verbatim Court Reporters
Page 16	Page 166
1 MR. KENNEDY:	1 Q. Right, okay, so it is addressable?
2 the demand component of the wholesale charge	2 MR. PERRY:
on a month-to-month basis, based on this	3 A. Yeah, the easy solution is do it on January 1.
4 chart? I assume that it looked like you were	4 Q. But if we don't have January 1 as an option
5 going to pay the same amount every month for	5 and we want to introduce a wholesale demand
6 your demand charge to Hydro and that it would	6 rate on a date other than January 1, this
7 only be the energy charge under the wholesale	7 transition issue can be addressed financially?
8 demand sample rate that would end up changing	8 MR. HENDERSON:
9 from month-to-month, depending on how much	9 A. Yes, it potentially can be flowed through
energy you actually sell on the system?	Newfoundland Power's RSA and it will hit our
11 MR. HENDERSON:	11 customers next summer, you know, \$6 million
12 A. The transition issue arises because of the	12 dollars -
difference between the total, the top of the	13 MR. PERRY:
bar here that you see here, and what the top	14 A. One and a half to two percent.
of the bar would have been under an energy-	15 MR. HENDERSON:
only rate, okay?	16 A. One and a half to two percent next, the
17 Q. Okay, if we -	following year because of this transitional -
18 MR. HENDERSON:	18 Q. Okay, that's all the questions I had, thank
19 A. And that's what gives rise to this issue that	19 you, gentlemen.
we're talking about, discussing.	20 CHAIRMAN:
21 MR. PERRY:	21 Q. Thank you, Mr. Kennedy. Mr. Kelly?
22 A. And Mr. Kennedy, by the way, Hydro, Mr.	22 KELLY, Q.C.:
Banfield has as well identified that this is a	23 Q. No questions, Chair.
potential issue that has to be dealt with in	24 CHAIRMAN:
25 the transition period.	25 Q. Thank you very much, Mr. Henderson and Mr.
Page 16	77 Page 168
Perry. It's probably, Mr. Perry, the last	1 CERTIFICATE
time you'll appear before this Board for quite	2 I, Judy Moss Lauzon, hereby certify that the
some time, if ever, and we wish you well in	3 foregoing is a true and correct transcript in the
4 your new position starting in January, sir.	4 matter of Newfoundland and Labrador Hydro's 2003
5 MR. HENDERSON:	5 General Rate Application for approval of, among
6 A. Thank you, Chair.	6 other things, its rates commencing January, 2004
7 CHAIRMAN:	7 heard on the 9th day of December, A.D., 2003 before
8 Q. That brings to a conclusion today's session	8 the Board of Commissioners of Public Utilities,
9 and I guess we have a scheduled day off	9 Prince Charles Building, St. John's, Newfoundland
tomorrow. Mr. Brushett will be taking the	and Labrador and was transcribed by me to the best
witness stand on Thursday at 9:00 and the	of my ability by means of a sound apparatus.
schedule I have here, in any event, would look	Dated at St. John's, Newfoundland and Labrador
to Mr. Brushett to continue, if necessary and	this 9th day of November, A.D., 2003

then the Industrial Customer's panel of 14

15 witnesses on Friday and I guess the schedule

calls for us to conclude at the end of the 16

17 week with written and oral argument in

18 January. So unless there's been a change, Ms.

19 Newman, that's -

20 MS. NEWMAN:

21 Q. No, Chair, that's my understanding as well.

22 CHAIRMAN:

Q. Thank you everybody and we'll see you on 23

Thursday morning at 9:00. 24

14 Judy Moss Lauzon