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(9:19 a.m.)

CHAIRMAN:

Q. Good morning everybody, I apologize for the delay. We have no real control over traffic accidents on the Outer Ring Road. Good morning, Ms. Newman, are there any matters before we begin?

MS. NEWMAN:

Q. Good morning, Chair. Yes, I believe that counsel for Newfoundland and Labrador Hydro has one undertaking they'd like to speak to.

MR. YOUNG:

Q. Yes, we've circulated to the parties, Mr. Chair, and provided copies to the Board Secretary. It's in response to an undertaking that came up with Ms. McShane, it's a very straight forward matter, beta was asked about a particular company that was in her data. That's all, thanks.

CHAIRMAN:

Q. Thank you very much, Mr. Young. Good morning, Mr. Kelly. Could you introduce your witnesses, please?

KELLY, Q.C.:

Q. Yes, good morning, Chair, thank you. The

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witnesses this morning are Mr. Barry Perry and Mr. Lorne Henderson of Newfoundland Power. Mr. Perry is Vice-President Finance and Chief Financial Office of Newfoundland Power and Mr. Henderson is the Superintendent Rates and Operations. If the witnesses can be sworn.

CHAIRMAN:

Q. Thank you very much. Good morning, Mr. Perry, a familiar seat for you. Welcome back.

MR. PERRY:

A. Good morning.

CHAIRMAN:

Q. Mr. Henderson, good morning.

MR. BARRY PERRY (SWORN)

MR. LORNE HENDERSON (SWORN)

CHAIRMAN:

Q. Thank you very much. When you're ready, Mr. Kelly.

KELLY, Q.C.:

Q. Thank you, Chair. Mr. Perry, you had filed pre-filed evidence in this matter dated September 2, 2003. Do you adopt your pre-filed testimony as your evidence in this proceeding?

MR. PERRY:

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A. Yes, I do.

Q. And Mr. Henderson, do you adopt your pre-filed testimony as your evidence in this proceeding?

MR. HENDERSON:

A. Yes, I do.

Q. Mr. Perry, I'd like to start by looking at the demand/energy rate, would you please advise the Board of Newfoundland Power's position with respect to the demand energy wholesale rate proposed by Hydro?

MR. PERRY:

A. Yes, I can. Newfoundland Power believes that the proposed rate is flawed and should not be approved by the Board.

Q. What are Newfoundland Power's concerns with respect to the proposed demand/energy rate?

MR. PERRY:

A. Our concerns focus on two specific areas. Number one, the proposed rate will provide no measurable benefit to our customers. Number two, the proposed rate will create additional earnings volatility for Newfoundland Power which will in turn create rate instability for our customers.

Q. I'd like to get you to look at both of those

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points in turn now if we can. Why do you say that there'll be no measurable benefit to customers?

MR. PERRY:

A. The proposed rate does not provide Newfoundland Power with any new or improved information with respect to system costs that will lead us to change the retail rates that are currently in place. These rates already reflect Hydro and Newfoundland Power's total embedded system cost. Approximately 204,000 or 92 percent of Newfoundland Power's customers are domestic and small general service customers. These customers consume approximately 61 percent of the energy sold by Newfoundland Power. It is generally accepted that it is not appropriate to charge these customers on the basis of a demand energy charge. So 92 percent of our customers, it's not appropriate to charge them a demand energy charge. Therefore, introducing a demand energy wholesale rate will not result in any change in the retail rate structure for these customers. The remainder of Newfoundland Power's customers are larger general service

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MR. PERRY:

customers who are already served under a demand/energy rate. Once again, introducing a demand energy wholesale rate will not result in any change in the retail rate structure for those customers. Therefore, it seems to me that we must all ask ourselves what are we trying to achieve here, what is the objective? The current energy only rate collects Newfoundland Power's share of Hydro's Cost of Service, including the demand and energy cost. The energy only rate has done this effectively for years. It has been suggested that the proposed demand/energy rate will incent Newfoundland Power to implement DSM programs to defer the addition of new generating facilities on the system. However, neither Hydro, nor Newfoundland Power, nor the Board, have the information to even determine how much is cost effective to spend on DSM.

In Newfoundland Power's last General Rate Order on page 111 the Board stated, "The relationship between rates and electricity consumption and the impact of DSM and energy efficiency programs is complex, especially

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when overlaid with the impact on the electrical system and generation planning." The Board went on to say, "The Board finds it difficult, however, to provide specific and meaningful policy direction to the utilities on DSM and conservation issues in the absence of supporting evidence and related impacts on system overall. This matter will be most appropriately addressed in the context of a generic proceeding involving both utilities and interested parties." That was the Board's conclusion at Newfoundland Power's hearing.

Commissioners, Newfoundland Power agrees with the Board that these matters are complex and are best dealt with in a generic hearing once Hydro has completed the necessary studies.

KELLY, Q.C.:

Q. The second concern that you raise, Mr. Perry, was the issue of earnings volatility and rate stability. Would you please explain those points?

MR. PERRY:

A. Hydro faces no earnings volatility under the current energy only rate structure and RSP.

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On the other hand, Newfoundland Power is already subject to earnings volatility of approximately $900,000 under the energy only rate and that's described in my evidence.

The proposed demand/energy rate structure introduces earnings volatility for Hydro and significantly increases Newfoundland Power's earnings volatility as a result of forecast variances. For example, Newfoundland Power could face a decrease in pre-tax earnings of approximately eight million dollars under the proposed rate. This is nine times the impact felt by Newfoundland Power under the current energy only rate. This is unacceptable to Newfoundland Power.

The Rate of Return on rate base for Newfoundland Power has been set in a narrow range of plus or minus 18 basis points. This translates into a range on earnings of plus or minus two million dollars on a pre-tax basis. Our current 900,000 of earnings volatility under the energy only rate already consumes about half of that amount. Let me give the Board an idea of the impact of a demand/energy rate on Newfoundland Power's earnings. The

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resulting earnings volatility is arising from a demand charge of $12 combined with an energy charge of 5.13 cents a kilowatt hour, could consume the entire two million dollar range of return on rate base.

Now if we look at Hydro's proposal. Hydro's proposed $84 demand charge results in potential earnings volatility that is approximately four times Newfoundland Power's two million dollar range of Rate of Return on rate base. This is clearly inappropriate.

Hydro's expert, Mr. Greneman's suggestion that over time the earnings volatility will balance out completely ignores number one, the demand revenue floor proposed by Hydro; number two, the cap on Newfoundland Power's earnings; and number three, the year over year rate instability that will result. Mr. Greneman's earnings volatility solution of expanding the range of Rate on Return on rate base is contrary to Newfoundland Power's recent rate order and does not solve the earnings volatility issue. In fact, Hydro itself has acknowledged that earnings volatility for both utilities would be significantly increased as

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MR. PERRY:

a result of introducing the proposed demand/energy rate. Hydro is sufficiently concerned about this earnings volatility that it has proposed a floor for their demand revenue recovery. Last week Mr. Banfield said that the rate proposed by the Board's consultant presented significant risk to Hydro's earnings since it did not provide Hydro with down side risk protection.

Although Hydro has proposed a floor for itself, no such protection for Newfoundland Power has been proposed. Hydro simply says that this is a Newfoundland Power issue. Well, we disagree. This is a Hydro issue as well since anything that potentially impacts Newfoundland Power's customers rates also impacts the rates charged to Hydro's retail customers on the island. Earnings volatility is an issue for the Board as part of its mandate to regulate customer rates and to balance customer and utility interests.

KELLY, Q.C.:

Q. How does year-over-year rate instability arise for customers?

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MR. PERRY:

A. Under the proposed rate and in the absence of a reserve or flow through mechanism, Newfoundland Power would be required to apply to the Board for relief in the following two situations: number one; if peak demand materially exceeds the forecast or number two; if energy sales are projected to be materially below forecast. Furthermore, these events could also occur in tandem. In addition, if Newfoundland Power's peak demand were to decline in a subsequent year as has happened in the past, Newfoundland Power may then find itself in an excess earnings position. This would result in a rebate to customers and may result in a rate decrease. In the next year, the situation could again reverse itself and the company may be forced to yet again seek relief from the Board. So one can see how rate instability can result under the proposed demand/energy rate. Even with a reserve or pass through mechanism, the issue of rate stability remains without any benefit accruing to customers. In Newfoundland Power's view, creating these problems in the absence of any

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benefit for our customers is inappropriate and unnecessary.

Q. What approach does Newfoundland Power propose should be adopted?

MR. PERRY:

A. Commissioners, there should be a coordinated system-wide approach to this matter. First, Hydro and Newfoundland Power should complete long run marginal costs and retail rate design studies. Mr. Haynes has said that Hydro currently has ample capacity. Hydro's decision to discontinue the interruptible B contract with Abitibi Stephenville Newsprint Mill was based on that premise. Hydro has effectively said at $28 per kilowatt for 45 megawatts of interruptible B capacity is too much to pay to Abitibi to reduce system peak because Hydro doesn't need that capacity.

At the same time Hydro is proposing to send a signal to Newfoundland Power that we should pay up to $84 per kilowatt or about three times the cost of the interruptible B to reduce system peak. Commissioners, this does not make any economic sense. Furthermore, Newfoundland Power believes that between the

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two Abitibi mills there could be up to 90 megawatts of interruptible power available today. It is also possible that there is interruptible power available from the Kruger mill in Corner Brook. The Board should have all of the necessary information in order to evaluate any proposed change to the wholesale rate structure. This includes both the short and long run marginal costs of electrical system as well as the results of a retail rate design study.

Certain experts in Hydro take the position that a demand/energy rate is needed now to provide long-term future benefits. This is to be achieved by incenting Newfoundland Power to do DSM and to make unspecified changes to retail rates. However, they say this without any concrete evidence that effective DSM programs are available, without knowing how much to spend on cost effective DSM programs, without knowing how retail rates should be changed, without addressing any of the earnings volatility and rate stability issues that a demand/energy rate creates and without having fully

MR. PERRY:

addressed the outstanding issues identified in the Stone & Webster report.

In addition, a demand/energy rate creates timing differences between payments to Hydro and revenue received from Newfoundland Power's customers. These timing differences can result in up to an additional five million dollars being paid to Hydro by Newfoundland Power in the first year if implementation occurs other than at January 1st in the year. This will vary depending on the level of demand charge and the amount of implementation. But based on Hydro's proposal it's approximately five million dollars, up to five million dollars. Commissioners, Newfoundland Power believes that we should consider all of these issues together in a coordinated approach.

KELLY, Q.C.:

Q. What is Newfoundland Power suggesting that the Board should do now?

MR. PERRY:

A. Newfoundland Power believes that the Board should continue with the energy only wholesale

rate structure for Newfoundland Power. To ensure the correct price signals are sent to Newfoundland Power's customers, the Board should order Hydro to work with Newfoundland Power to complete long run marginal costs and retail rate design studies. As it is, Newfoundland Power's customers and Hydro's retail customers will face a significant rate increase in 2004. The resulting rate increases to our customers will provide them with a significant incentive to use electricity wisely and conserve where possible. The revised RSP will provide a more current price signal as changes in fuel prices will be quickly reflected in electricity rates. This in turn will create a degree of rate instability for our customers.

Adding further instability to customer rates by introducing a demand energy wholesale rate is unwarranted. Newfoundland Power believes that it would be prudent to allow for a settling period for customers after this rate increase. The settling period will allow time to conduct the studies required and conduct any generic hearings that the Board

considers appropriate.

Q. Mr. Perry, do you have any concluding remarks?

MR. PERRY:

A. The Board needs to consider the impact of the proposed demand/energy rate on Newfoundland Power and its 220,000 customers and Hydro's 22,000 customers for that matter. The Board should not approve a new wholesale rate structure to Newfoundland Power that creates additional earnings volatility and rate instability and is without any measurable benefit to our customers.

Q. Thank you, Mr. Perry. Chair, those are my questions. The Panel is available for cross-examination.

CHAIRMAN:

Q. Thank you, Mr. Kelly. Once again, good morning, Mr. Young, when you're ready, please.

(9:35 a.m.)

MR. YOUNG:

Q. Thank you, Mr. Chair. Good morning, Mr. Perry, Mr. Henderson. Mr. O'Reilly, I wonder if you could bring up CA-215, please, page 3 of 3. We have there at the top of the page, "Rate 2.4, General Services". This is a Hydro

rate, but I think you'll recognize this, particularly Mr. Henderson will at a glance I'm sure, as being essentially Newfoundland Power's rate. Can you confirm that, is that correct?

MR. HENDERSON:

A. Yes.

Q. I notice looking at that rate that there is a demand charge, it's--well, it's two different demand charges. It looks like a seasonal thing which is a little over $6 a kVa and there's also energy charges which are split. I'm just wondering if you can give some indication as to why you understand this rate was designed in this way for these customers?

MR. HENDERSON:

A. This rate I believe was created in 1987. Prior to that we had a general service class for everybody above 100 kVa and when we were reviewing our rates it was apparent that our largest group of customers within that rate class had very good load factors. As a result the embedded cost rates were creating certain fairness issues. To solve those fairness issues we created the separate rate and

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MR. HENDERSON:
brought those customers, you know, made this rate 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:
Q. When you say you develop the demand and energy rates to ensure their fairness is that based on a Cost of Service study?
MR. HENDERSON:
A. Yes.
Q. And based on Hydro's, Newfoundland Power's, both? How do that work?
MR. HENDERSON:
A. That's both. In our Cost of Service, we take the demand energy splits that arise from Hydro's Cost of Service and input to our Cost of Service to ensure that what our end customers would see would be similar to what they'd see if it was a vertically integrated utility.
Q. So, essentially, the costs that are sent to

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Newfoundland Power from Hydro's Cost of Service study essentially are supposed to be transparent so that the customer actually receives the costs that are reflected in the Cost of Service study that Hydro has, is that your answer, is that what I understood?
MR. HENDERSON:
A. Yes, we use that to, you know, evaluate the fairness of rates.
Q. Could you have, if you wished, used an energy only rate for this customer class in order to obtain a revenue requirement that would have been required from this class to keep them at, as we say the ratio of one, would that have been an option? I'm not suggesting it would have been a good option, but is it possible?
MR. HENDERSON:
A. Yes, it would be possible.
Q. 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?
MR. HENDERSON:
A. Yes. We very much tried to focus on system cost as opposed to any vagaries of the costs

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that show up because of the purchase power rate structure.
Q. So the Cost of Service which 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 something that can be used to determine the energy only rate appropriately and--perhaps actually I can take you to page 7 of your evidence. It's at lines 17 to 19. I'll just read a few sentences in and ask you to comment on them. "Hydro's Cost of Service study properly accounts for the demand and energy of all Hydro's customers and allocates the amount of demand related costs, energy related costs specifically assigned costs and rural deficit to Newfoundland Power." And I take it from the other comments you've made that that Cost of Service study from your perspective is quite properly passed on through an energy only rate, but that from what you just told us a few minutes ago, there were times when you take those components from the Cost of Service study and actually show

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those price signals to your larger general service customers, is that correct?
MR. HENDERSON:
A. Well it's an input into the rate design. You know, if you went through our evidence you'll know that we also 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.
Q. Hydro's Cost of Service study gets translated into rates, in Hydro's GRA's, but not in between, correct? I mean it doesn't change its rates aside from--which is an energy only rate to Newfoundland Power aside from its rate hearings.
MR. HENDERSON:
A. That's correct.
Q. There are slight subtle changes with RSPs and things like that and on some occasions they're not that subtle and they can be fairly significant, but that's essentially correct, isn't it?
MR. HENDERSON:
A. Yes.

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MR. YOUNG:

Q. Aside from that though, for example, if you were to go three years between rate hearings there wouldn't be a specific change between those rate hearings, there would be a three year break between the changes in the pricing and consent on, is that correct?

MR. HENDERSON:

A. Yes, from what I understand with the revenue required--the rates in between hearings, Hydro continues to recover basically its short run variable costs through the RSPs. So to the best of my knowledge, Hydro continues to recover a reasonable level of its cost between hearings.

Q. The sample rate which has the demand and energy component in it, would you agree that it can be or if changes in Newfoundland Power's rate structure--sorry, in their load factor, can be reflected more quickly under the sample rate, you would see a more immediate response to a change as opposed to waiting for a load factor change that might be reflected in the following GRA?

MR. HENDERSON:

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A. What you're saying is in between hearings if our load factor changes significantly that we will receive a pricing signal more quickly?

Q. Yes.

MR. HENDERSON:

A. Is that what you're trying to get at? Like, you know, from what I understand of Hydro's cost, that capacity costs are generally speaking related to long-term investments and over the short term, those costs don't vary very much. So, if you take the period in between hearings, I suspect that if there's any material capital additions, that's probably going to pull Hydro in for a rate hearing as it did this time with the addition of Granite Canal. In between hearings the demand cost don't vary very much and to the best of my knowledge, Hydro continues to get their adequate cost recovery. So, I don't know if there is any necessary signal to pass through -

MR. PERRY:

A. It's my understanding that, you know, there's no new demand expected until 2010, 2011, so really all, you know, in between hearings

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Hydro gets paid for energy as there's increases in energy supplied, so it gets paid so really there's no--I don't see any loss to Hydro between hearings.

Q. Aside from loss, just think for a moment if you can, considering how our Industrial Customers rates work though. If they have a change in their demand or a change in their load factor which changes that shift, they get that price signal fairly immediately don't they?

MR. HENDERSON:

A. Yes, they can do something with it also. For us, we supply customers who use the electricity. They're the ones who make decisions about electricity consumption. They have the appropriate signals. Providing that signal in the short term to us doesn't do anything for us because we're familiar with system costs anyway, we see it through the system. So we know those costs are coming down. In the late 1980s we knew that Newfoundland Hydro was staring at a gas turbine, you know, in the early 90s and that was a flag for us to indicate we need to get

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on the go with a bunch of DSM projects because there's a potential for deferral. So we can and we always have and we monitor Hydro's capital budgets and we're familiar with what's going on, that we know these costs are coming down. So we get a signal through, you know, what we know is coming down through the system, we don't need it in a wholesale price.

Q. When Mr. Greneman was on the stand he referred to volatility as being part and parcel, going part and parcel with the demand/energy rate structure. And I suppose your take on his next comment which I'm going to relate to you, he talked about dynamic efficiency which is what I spoke of a moment ago, of the more immediate transfer of the signal and changes that can occur in response to that within Newfoundland Power's customer groups or within Newfoundland Power's rates if they so choose to do that. Do you agree that volatility is part and parcel of the demand/energy rate structure, going from where we are presently with an energy only rate and at the RSP the way it is?

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MR. PERRY:
A. I would say yes, that's why we have a major issue. Like, you know, frankly one of the things that Mr. Greneman said which continues to bother me is, you know, he suggested that a five million dollar volatility number in his view was not a humongous number. I can tell you, the Board, that it is a humongous number for Newfoundland Power and I think even the Board considers it a humongous number in that it set our range and Rate of Return on rate base at plus or minus two million dollars. So, you know, clearly, yes, it's part and parcel with a demand/energy rate and it's one of the major reasons why we don't support a demand/energy rate.
(9:45 a.m.)
MR. YOUNG:
Q. I wonder, Mr. O'Reilly if I could go to the next page, page 8--a little further down the page, lines 18 and 19. Read the bottom of the page and go to the next page just a few sentences, ask you just a couple of questions of that. It says, "The Board has traditionally stressed stability, fairness in

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the absolute level of customer rates in its decisions. In addition, mechanisms such as Newfoundland Power's weather normalization reserve and Hydro's Rate Stabilization Plan have been established by the Board to provide rate stability and predictability to retail customers. The existence of these mechanisms also provides revenue stability to Newfoundland Power and Hydro." A couple of questions arise from that. One, the Board has traditionally stressed stability and rates. The fact that it wished to have this issue explored further in this hearing, the demand/energy rate structure, I'll ask you to comment on whether you think that that's an indication that perhaps stability is not the only attribute that they thought was important and some of the other ones perhaps are ones that they are willing to look at more closely, do you see that coming from this requirement of the Board for us to report on demand/energy rate structure?
MR. HENDERSON:
A. I cannot presuppose what the Board's motivation is beyond knowing that in 1989,

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1990 the company, for whatever--for particular reasons at that time, came forward looking for a demand/energy rate. And this issue, I suspect substantially because of this volatility issue and to some extent the rate design issue has ended up never being able to be effectively settled between negotiations between us and it's dragged on. And the Board, I'm sure is seeking resolution to this issue. As to whether they in particular are seeking resolution because they think that there's definitely certain attributes that, you know, it merits, you know, I can't really say for sure.
MR. PERRY:
A. And the other thing is I think the Board continues not to have sufficient information to resolve the issue, you know, that's our--you know, we don't have--we don't know what the long run cost of operating the system--of capacity on the system is. Asking the Board to approve $84 is like a shot in the dark to me. You know, what happens if it's not the right number? It's incenting us to go out and do programs that, you know, up to $84 when we

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know, I wish I could just go off and talk to the Industrials and say, listen, I'm getting 84, I'll pay you 28, I save the difference. You know, I think the Board needs to know what the right number should be if it's going to go down the path of setting a demand energy charge. And right now, that evidence is not before the Board.
Q. Now, Mr. Perry, that gives me some trouble because as I understand the evidence that was just given a few moments ago, the Cost of Service at Hydro, the embedded Cost of Service Hydro uses, is used by Newfoundland Power in providing rates to Newfoundland Power's customers and the same rates that Hydro uses for its customers as we've pointed out. Is it that you don't have any faith at all in what comes out of the embedded Cost of Service study because that gives the $84?
MR. HENDERSON:
A. I think this issue of using embedded cost idea with regard to rate design is--you got to go back to Bombright's principles and realize what the objective of good rate designs. You're balancing off fairness and efficiency

MR. HENDERSON:

issues. And for fairness issues, which is the allocation of costs appropriately between customers, you've got more than one customer in a particular class. When I go to set the rate to make sure this person's paying the appropriate amount versus that much, you need demand/energy rate from an embedded fairness perspective to allocate the cost between them properly. And that's the fairness issues. From an efficiency perspective to the extent to which you have good long run marginal costs, you build them into your rate designs. You know, efficiencies is a primary criteria for probably rate options and it may be weighted a lot higher when you just start developing rate options to ensure things are efficient, because customers always have the option to go on this rate if they consider themselves unfairly treated, if you want to look at it that way. With regard to the wholesale rate for Newfoundland Power, Newfoundland Power is the only person who is under this energy only rate. Hydro recovers its fair cost from the Cost of Service through

it, therefore, there's no fairness issue. Therefore the only issue with regard to the wholesale mill rate is really efficiency. And if efficiency is the only real reason which seems to be what everybody is talking about, an incentive for potentially DSM, you know, possibly a need to make sure Newfoundland Power sets its rates more efficiently in terms of rate options. These are all efficiency arguments and efficiency requires marginal costs as I believe, you know, Hydro's experts support, along with all the other Cost of Service experts. So, that's the real issue we're trying to deal with here and the Board doesn't have that.

MR. PERRY:

A. In fact, I think there's an RFI that Hydro acknowledges that DSM programs should be evaluated based on marginal costs. And, you know, sending us a signal of $84 that yes an embedded cost number is mathematically correct based on embedded costs, suggests to us that that's the number we use as a benchmark to go out and find DSM programs. You know, I guess the Board could order us after it orders the

demand/energy rate put in place, say, Newfoundland Power even though we set at $84, you can't spend the $84 to look for DSM programs and put a condition in like that. But, you know, again, what's the purpose of doing that.

MR. YOUNG:

Q. You seem to take a different perspective on that than most of the experts I'd suggest to you who have appeared here. Mr. Patrick Bowman indicated that he didn't see the link between the marginal cost study and the demand/energy rate structure. And some of the other experts have indicated, Mr. Greneman, that the marginal cost study can be used after the fact to fine tune, tweak I think is the word, the rates, but that pricing the two components; demand and energy, from a Cost of Service study, from an embedded basis is a very traditional rate making principle.

MR. HENDERSON:

A. That's right. If you look to Larry Brockman's testimony, he alluded to a study, I believe that was done by NARUC, the regulatory association in the United States and it talked

about aligning rates with integrated resource planning, trying to deal with this efficiency issue. And then he talked about, yes, a lot of jurisdictions do have rates based on embedded costs that's probably inappropriate. It's an inappropriate emphasis put on embedded costs.

MR. PERRY:

A. I just want to go to NP-178 because I think Hydro itself answers its question on this, if we could. I believe the way I understand this, anyway. If you go down to line 15 it says, "Hydro believes that the demand/energy rate structure provides an efficient pricing signal since it serves the dual purpose of collecting embedded demands costs while also providing a marginal pricing signal and thus it is in the long-term best interest of system expansion planning." So, you know, I think Hydro is saying, you know, that it is a signal that you're planning on sending to us and if that signal, if DSM is to be valued at a marginal cost, I think that if the Board in its wisdom, wants a demand/energy rate, I think the rate should reflect marginal cost

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MR. PERRY:
principles rather than embedded cost principles.
MR. YOUNG:
Q. Well, it does a bit of both doesn't it? As I read that sentence I see that the $84 per kilowatt per year is collecting the embedded demand costs, but it also does--and Mr. Banfield touched on this when he was on the stand--it also does a fairly good job of reflecting the long run marginal costs if you use a proxy as a peaker. I mean -
MR. PERRY:
A. I guess that's why we have problems -
Q. - it seems to be added comfort from our point of view. I don't know why you would take it differently.
MR. PERRY:
A. I think, Mr. Young, that's where we have problems. If we used a proxy--you know, this information can determine, the right numbers can be put in front of the Board. We do know that Hydro has discontinued an interruptible contract for $28, so that's the real evidence that's in front of the Board at this point in

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time. And to suggest that $84 is going to send us the right number, right signal, I have trouble with that. It may turn out to be that number, but I think the prudent approach is to do the work, do the study and then if the Board decides to put in a demand/energy rate, then at least it will be based on the appropriate number.
Q. Going back to the--we don't need to go back to it because I read in parts of your evidence in relation to some of the issues that the Board has stressed, the stability and things of that nature and part of that passage also referred to things the Board has looked at before for rate stability. For example, Newfoundland Power's weather normalization reserve; Hydro's Rate Stabilization Plan. I think you'd agree with me that those two measures were moves to moderate or attenuate the volatility in the past, is that correct?
MR. PERRY:
A. Sorry, Mr. Young, where are you?
Q. Well the reference I was reading from was in your evidence on page 8.
MR. PERRY:

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A. Okay, yes. Bottom of page 8.
Q. It's still on the screen, actually.
MR. PERRY:
A. Perfect.
Q. Lines 18 to--and it goes to the next page.
MR. PERRY:
A. Okay.
Q. I'm just wondering if you'd agree with me that those two measures, the Newfoundland Power's weather normalization reserve and Hydro's RSP, they're essentially means that the Board has used in the past and has approved to deal with some volatility issues that have occurred even under the energy only rate, would you agree?
MR. PERRY:
A. Yes.
Q. I'm just wondering, under the sample rate, your concern has been expressed that perhaps more volatility could occur and I think Mr. Greneman agrees that under the sample rate or a demand/energy rate structure, at least some volatility goes hand in hand with it. Have you looked at other means that may be used by Newfoundland Power, on its own side, to address these volatility issues? Have you

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canvassed other jurisdictions, have you considered what might occur where distributing utilities buy purchased power under a demand/energy rate structure to deal with an issue like this?
MR. PERRY:
A. Generally, obviously the first one you have to deal with is weather normalization and I think 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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MR. PERRY:
problems because we have this floor that Hydro has for their protection, we have our cap on Newfoundland Power's earnings so we'd have to factor all that in so it wouldn't be easy to develop this but, you know, it is I think a possible solution to the volatility problem is to put in some sort of reserve mechanism.
MR. YOUNG:
Q. Thank you, that's all my questions, thank you.
CHAIRMAN:
Q. Thank you, Mr. Young. Good morning, Mr. Browne.
BROWNE, Q.C.:
Q. Good morning, Mr. Chairman. Good morning, Mr. Perry, Mr. Henderson. Mr. Perry, let's go over some of your basic qualifications to speak to these issues. When did you join Newfoundland Power?
MR. PERRY:
A. April 2000.
Q. And upon joining Newfoundland Power where did you come from?
MR. PERRY:
A. I was with Abitibi Consolidated. I was the

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Vice President and Treasure of Abitibi Consolidated.
Q. And you were one of a number of vice-presidents?
MR. PERRY:
A. Yes.
Q. At Abitibi -
MR. PERRY:
A. Yes, that is correct.
Q. And you joined in April, 2000. And upon joining Newfoundland Power, did you take any courses in rate design?
MR. PERRY:
A. No. I went to grade school, as I said to you once before, with Mr. Alteen, but no formal courses.
Q. So you had conversations with Mr. Alteen, who was your -
MR. PERRY:
A. And Mr. Henderson.
Q. And have taken any since the time of the last hearing?
MR. PERRY:
A. No, I haven't, Mr. Browne.
Q. So you're here purporting to be a Cost of

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Service expert?
MR. PERRY:
A. Definitely not.
Q. The information you have in reference to Cost of Service issues and the like would come from others?
MR. PERRY:
A. Yeah. CFO, Mr. Browne, you know, obviously I have to take input from Mr. Henderson and other people to make decisions and, you know, to come to conclusions on how Newfoundland Power would be impacted by Hydro's proposal. So, yes, I do take input from others.
Q. And you are currently Vice-President--or you're currently CFO at Newfoundland Power, is that your position right now?
MR. PERRY:
A. That's correct.
Q. And you're a member of the executive there at Newfoundland Power?
MR. PERRY:
A. Yes, I am.
Q. And who is on the executive there at Newfoundland Power these days?
MR. PERRY:

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A. Phillip Hughs is the President; Earl Ludlow is VP Operations; I'm the Chief Financial Officer; and Michael Mulcahy is the Vice-President of Customer Service and Corporate Administration; and Peter Alteen is our Corporate Secretary.
Q. So there's a five-member executive?
MR. PERRY:
A. That is correct.
Q. I thought I had heard in the press that Mr. Hughs had gone. Is he still there?
MR. PERRY:
A. He is there until the end of this year, Mr. Browne.
Q. And are you--what's your status?
MR. PERRY:
A. I'm actually taking a new role, as well. Effective January 1st I'll be the Chief Financial Officer of Fortis.
Q. As of January 1?
MR. PERRY:
A. Yes.
Q. And is Mr. Ludlow still there?
MR. PERRY:
A. Yes, currently he's still there. He's -

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BROWNE, Q.C.:
Q. Is he going as well?
MR. PERRY:
A. He's doing some stints out west. It's possible he may move out west, but it's not finalized yet.
Q. And Mr. Mulcahy is still there and Mr. Alteen?
MR. PERRY:
A. Absolutely, yes, he is. And just to complete the picture, Mr. Browne, as the Board would be aware, Mr. Carl Smith has been appointed the President and CEO as of January 1st. And the Board would be familiar with Mr. Smith and I think you would, as well.
Q. And your concern here in coming before the Board is dealing basically with volatility in earnings, is that your major concern?
MR. PERRY:
A. As well, no benefit to customers of the Demand/Energy Rate that's being proposed.
Q. And in reference to your first concern, volatility in earnings, how are you doing with your earnings?
MR. PERRY:
A. We're doing okay this year. We're, you know,

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within the range of return that the Board has specified.
Q. Okay. And that range of return is what for 2003?
MR. PERRY:
A. I believe it's between something like 8.9 percent and 9.2 percent.
Q. And for 2004 is it the same?
MR. PERRY:
A. Yes.
Q. And what are you able to achieve on your Rate of Return on Equity in reference to the current Board order?
MR. PERRY:
A. Commissioners, the current order set rates using 9.75 percent Return on Equity. The Board also indicated to the Company that there was a range of about approximately 50 basis points above that 9.75 before a rate review could be triggered.
Q. So -
MR. PERRY:
A. Or, actually, not a rate review. That's probably not the right word. A review by the Board could be triggered.

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Q. So you can earn up to 10.25 percent?
MR. PERRY:
A. That's correct.
Q. Okay. And in reference to 2003, is that where you're headed?
MR. PERRY:
A. I hope so.
Q. Do you have any idea?
MR. PERRY:
A. No. Mr. Browne, we're, you know, we're tracing it at 9.75 to 10 range at this point in time.
Q. And in actual earnings, in actual profit that you've made up to the end of your third quarter, what had your profitability been?
MR. PERRY:
A. I don't have that number off the top, Mr. Browne, for the three quarters. It's public information available, I just don't have it on the top of my head.
Q. Does 24 million to 25 million sound familiar, perhaps?
MR. PERRY:
A. I think it does, but I would rather just, you know, if you--you know, we can give you the

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number, but if you've checked it, I'll rely that it's the right number.
Q. So you say subject to check -
MR. PERRY:
A. Yes.
Q. - it's not a bad estimate? In reference to this volatility issue, therefore, your rate right now and your rate for 2004 has been set by the Board?
MR. PERRY:
A. Customer rates are set for 2003 and 2004, absolutely.
Q. And then for 2005, 2006 and 2007 you go on the Automatic Adjustment Formula, is that correct?
MR. PERRY:
A. That is correct.
Q. Okay. In 2003 the Board set your rate in part based on the long-term Canada, is that correct?
MR. PERRY:
A. Yes, that's correct.
Q. And the long-term Canada at the time was what, do you remember that?
MR. PERRY:
A. I don't recall.

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BROWNE, Q.C.:
Q. Does 5.6, 5.65 sound familiar?
MR. PERRY:
A. Yeah. I think it's actually 5.6. I was--you know. It is 5.6 was the base.
Q. It is 5.6. And what is it today, the long-term Canada?
MR. PERRY:
A. I'd say long Canada is right now around 5.3, 5.35, something like that.
Q. So it's 5.3, 5.35. So based on that, your rates are set 25 basis points above the 5.60, is that correct?
MR. PERRY:
A. Can you repeat your question, Mr. Browne?
Q. Based on that your rates are set 25 basis points above the current long-term Canada, the long-term Canada is five, I'm sorry, 5.3, three is 30 basis points, right, to 5.6?
MR. PERRY:
A. I wouldn't answer you--I wouldn't ask the question the way you've asked it, Mr. Browne. The rates today are 25 basis points lower than when rates were set. That's a natural thing. You know, rates are set at a point in time and

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the long Canadas go up, go down after they're set. But mathematically, you're right in that the current rate is about 25 basis points lower than when rates were set.
Q. And that current rate will prevail for 2004, you rates will be set as if the long-term Canadas were at 5.6?
MR. PERRY:
A. Absolutely.
Q. Despite the fact that they might be at 5.3?
MR. PERRY:
A. Or they might be at 5.9.
Q. And also, is your--when your rates were set, they were based on your forecasting of short-term interest rates, as well?
MR. PERRY:
A. A certain part of our debt is forecasted to be short-term debt, so we would have had a short-term interest rate forecast as well, yes.
Q. And the short-term interest rate forecast that you presented the Board with in 2003 would be what?
MR. PERRY:
A. I can't recall the actual number, Mr. Browne. It was probably around four percent, I think,

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something like, I think. I think it was five percent for next year and four percent for this year, if I recall correctly.
Q. Would five--yeah, okay, five percent or 5.25 percent, in that range?
MR. PERRY:
A. For 2004, yeah.
Q. And do you have any idea of what the short-term interest rates are now?
MR. PERRY:
A. We're borrowing about, I would say, at about three and a half percent right now, three twenty-five to three and a half percent.
Q. And for 2004 your rates will be set based on the forecast, the forecast of your embedded cost of short-term debt as if it were five percent despite the fact you're getting the lower figure?
MR. PERRY:
A. That's correct. But again, it's the natural way that rates are set. I will tell you that we have--we're gaining on--we expect, I would say, to gain some on the interest side. But I can tell you we're losing a lot on pensions and insurance costs. These things go up, some

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go up, some go down and the range of Return on Rate Base is there to accommodate for those fluctuations, so that's essentially how it works. You can't set rates every day, basically. You set them for periods of time and you have a mechanism in place to monitor the returns. And obviously the Company always has the choice to come back in if things go all against it, but you know, so yes, interests, we're hopeful that we can make some gains on the short-term interest side next year because we're going to need them to offset some increases in some other areas that we have.
Q. But basically in terms of volatility you have two good numbers in your favour as we sit, you have the 5.6 rate despite the fact the long-term Canadas at 5.3 and you also have the short-term, the short-term borrowing, the cost of embedded debt which you have booked in at five despite the fact it's three or below three now?
MR. PERRY:
A. Yeah, I agree with that. But I would also add, we have a couple that are not in our

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MR. PERRY:
favour that are very similar in size, as well.
BROWNE, Q.C.:
Q. And in terms of volatility in your forecasting, how--have you been monitoring your forecasting in reference to housing starts and the like, how well have you been doing there?
MR. PERRY:
A. I think our customer growth is about point one of a percent ahead of where we had expected it to be. I think point one I think is about 200, 200 houses or something like that.
Q. So you're 200 up thus far?
MR. PERRY:
A. Yeah. I think that's--if I recall correctly, we're about point one of a percent ahead, so 220,000 customers is about 200 or so customers.
Q. And I think I just heard in the press CMHC stating that the vacancy rate for apartments in the urban areas, in particular, in St. John's, is at an all time low of two percent or three percent. Are you familiar with that?
MR. PERRY:

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A. I'm not. I hope that's the case.
Q. And if that's the case, you'd be getting the benefit of that, as well?
MR. PERRY:
A. Commissioners, you know, this year the economy of the island seems to be doing well, and obviously Newfoundland Power, you know, benefits from that and it's a positive thing. We still are seeing a real split between rural areas and the Avalon, that's still evident, but, you know, growth is tracking slightly ahead of where we had expected it to be.
Q. You're stating that the Demand/Energy Rate would not be beneficial to consumers. Is that your evidence?
MR. PERRY:
A. Yes. What we're saying is that we would--because 92 percent of all our customers are domestic and small general service customers where, you know, it's basic standard industry practice that they're not on a Demand/Energy Rate, we wouldn't change anything for those customers. And when you look at the remaining customers, we already have demand rates in place for them, so we wouldn't change anything

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there. So, we said it's no benefit from the rate for those customers. And then when you start looking at the other issues with the rate, we sort of say, why would you go ahead with this.
Q. But isn't it true that there would be a positive aspect to the introduction of the Demand/Energy Rate for consumers generally? Do you know of any positive aspect that there might be?
MR. PERRY:
A. No. One could--you know, what you keep hearing is that it will send a signal to Newfoundland Power to go out and do DSM, to control growth in demand on the system. We believe that you don't need to have a Demand/Energy Rate to do that. What we need is to know what is cost effective to spend on DSM and at this point in time we don't have that evidence; Hydro doesn't have it and the Board doesn't have it. The only piece that we do have is Hydro has said they have ample capacity, there's no capacity issue on the system and that they just turned down a--or not extended a deal with Stephenville for 428

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a kilowatt. So that's what we're staring at.
Q. We've had evidence from Mr. Greneman in this proceeding. And, Mr. O'Reilly, if we can go to the transcript of November 14, 2003 at page 21? And I asked Mr. Greneman the question at line 21, "And the rates will go down because there will not be as great a capital outlay?" And I was speaking in reference of the Demand/Energy Rate. And his answer was, "It's not necessarily in the very immediate term, but in the longer term it may defer the next plant and therefore will eventually be a lower outlay and there actually could be a present worth effect of that." And then I asked him again, "So with a Demand/Energy Rate we should see eventually reduced capital budgetary expenditures by Power and indeed by Hydro?" And he says, "That would be my expectation." And then I asked him, "And therefore, ultimately the consumers wouldn't be paying for what is not really necessary on the system?" And he said, "And that's correct." With a Demand/Energy Rate would you anticipate your capital expenditures would come down?
(10:16 a.m.)

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MR. HENDERSON:

A. With a Demand/Energy rate itself, no. As we've described, and maybe Mr. Greneman really doesn't appreciate the extent to which we do this, we focus on system cost. Or rates reflect system costs. DSM needs to be evaluated based on system costs. They don't need to be evaluated against purchased power rates. Purchased power rates signal at the best of times is not going to--is only going to be an approximation of system costs. So you need to evaluate all these things against system costs. I think Mr. Greneman alluded to Newfoundland Power might make a change in its rates. It might be incentive to do some kind of DSM. I think in light of his anticipation that maybe we will be doing something because of the Demand/Energy Rate itself that there may be some long-term benefits. What we do is we focus on system costs as if we're a vertically integrated utility, you know, as if we're all one, to make sure things are optimized with regard to our customers, so as we best optimize EPCA Act, that type of stuff, right. So as a result, I don't, you know, I

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don't agree, I suspect, with the premise by which Mr. Greneman is coming forward with those statements. And as far as I'm concerned, if the Board establishes some kind of process for evaluating DSM against system costs, which has never really gotten off the ground here and had, you know, had these marginal costs or has the necessary studies to do appropriate rate designs, we will get the benefits and it won't be attributed to the Demand/Energy Rate, it would be attributed to the studies that have been done.

Q. In reference to your testimony, Mr. Perry, can you go to page 5 of your evidence, please, of September 2, 2003? And at line 6 you state, "The use of an energy-only rate for domestic customers and small general service customers as a common billing practice among Canadian utilities." What do you mean by that?

MR. PERRY:

A. Most Canadian utilities bill their customers, domestic customers on an energy-only rate. For example, Nova Scotia Power, Maritime Electric, NB Power, Hydro Quebec, Hydro 1, Ottawa Hydro, Manitoba Hydro, Sask Power,

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ENMAX, Aquilla B.C., B.C. Hydro are all on an energy-only rate.

Q. But isn't it true that these utilities, for the most part, purchase on a Demand/Energy basis?

MR. HENDERSON:

A. Well, if you go to how people purchase their power on the mainland, I think there is multitude of methodologies by which they purchase their power. They purchase power under long-term contracts, under a mixture of terms and conditions. They may purchase their energy requirements versus their capacity requirements separately. They--you know, I'm sure some of their rates may be a Demand/Energy Rate. But there's a plethora of ways in which a lot of utilities on the mainland purchase their power. You know, it's a very much different situation than we have here in which you have one distributor and one 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.

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So they do it, I know they purchase their energy and capacity separately. And in talking to them I understand they're paying something in the order of $2 a kilowatt month for purchasing capacity during the winter. So, you know -

MR. PERRY:

A. And they also have reserves in place to mitigate volatility as well, Mr. Browne, so.

Q. Yes. Because I asked all the experts who came forward here to name for me any other jurisdiction in Canada that sells power on an energy-only rate, and they came up with two, I think, which they referred to as anomalies, the Yukon and some other place close by.

MR. PERRY:

A. Do you mean buy power at an energy-only rate or?

Q. Yes. That would be comparable to yourselves, you know. And they referred to you, I think one of the witnesses referred to Newfoundland Power as an outlier in reference to this particular matter.

MR. PERRY:

A. I guess -

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BROWNE, Q.C.:
Q. Now, Mr. Henderson, I notice you're answering here. You're not purporting to be a Cost of Service expert yourself, are you, just to clarify for the record?
MR. HENDERSON:
A. I'm quite familiar with Cost of Service. I've -
Q. And I grant you that. But are you -
MR. PERRY:
A. He's an expert in my eyes, Mr. Browne, I know that.
Q. I just want to get on the record what he's--if he's an expert, if he's purporting to be an expert. Have you been declared an expert as a Cost of Service expert in the same vein as the Mr. Bowmans and Mr. Greneman?
MR. HENDERSON:
A. I guess if some other utility wanted me to testify on their behalf in another jurisdiction, I'd be called an expert there. You know, I don't know how you develop the criteria as to what is an expert. I'm very familiar with the issues of Cost of Service. I've, you know, been involved in doing it for

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a number of years and been on courses in the States, I've read a lot of course material, I've been obviously involved with Mr. Brockman quite a bit and he's done training courses for public utility reports or whatever, so he's an expert on it. And I guess everybody gets their training and eventually becomes somewhat of an expert on it. You know, I feel I know him fairly well.
MR. PERRY:
A. We don't pay him extra, Mr. Browne.
Q. He should get a bit of an extra cheque, maybe in Mr. Brockman's style. But in any case, Mr. Brockman was asked that very question concerning other jurisdictions by Mr. Young. And if we can go to the transcript of November 18, 2003? Mr. Brockman was your own Cost of Service expert presented in this hearing, correct?
MR. HENDERSON:
A. That's correct.
Q. And previously in previous hearings he had presented himself on your behalf as in favour of the Demand/Energy Rate in hearings in 1990 and 1992. Is that correct, Mr. Henderson?

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MR. HENDERSON:
A. That's correct.
Q. But now he's come forward saying that he doesn't favour the Demand/Energy Rate but favours the energy-only rate, is that correct?
MR. HENDERSON:
A. That's correct.
Q. Okay. And he was asked by Mr. Young in a question, November 18th, 2003 to state--and I think Mr. Young begins his--it's a long question, actually, like one of mine. On page 18, line 4 he says, "Mr. Brockman, I believe you were present in the room the last few days when the rate design relationship that Hydro has with Newfoundland Power at present, being the energy-only rate has been discussed. You probably heard Mr. Patrick Bowman describe Demand/Energy Rates as the norm. You probably heard Mr. Greneman refer to energy-only rates as being an anomaly. And yesterday Mr. Doug Bowman referred to the present situation of an energy-only rate with Newfoundland Power as being an outlier, I think his term was. I'm just wondering what your sense of this is, how common are energy-only rates between

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relatively large wholesale distributing utilities such as Hydro and Newfoundland Power?" And Mr. Henderson, can you read what Mr. Brockman told us in reference to this?
MR. HENDERSON:
A. "Well, it is true that in that sense Newfoundland is an outlier. I think I even testified to that at some point in time over the last--I can't remember all the things I've said over the last 13 years, but you are a bit of an outlier." Will I go on?
Q. Sure.
MR. HENDERSON:
A. "Most very large customers are on Demand/Energy Rates. I would point out that sometimes when people start counting the number of jurisdictions that it entails in the U.S., it's really only one jurisdiction, that's the FERC. They regulate all the wholesale power rates. It's not like all 50 states say, well, we're going to have Demand/Energy Rates. They regulate the local utilities. The FERC regulates the wholesale rates and, you know, the local jurisdictions

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MR. HENDERSON:
have to deal with the volatility. This particular jurisdiction is unenviable or unenviable position to actually--of actually regulating both the wholesale rate and the retail rates. But, yes, it's fairly common. Then again, Newfoundland Power's is a lot different looking than most of the utilities in North America in terms of its hydraulic mix, as you know, in terms of being isolated, and so on. But I certainly can't argue that it doesn't--it's not an outlier."

BROWNE, Q.C.:
Q. Now, are you here telling us today it is--that that's not correct?

MR. HENDERSON:
A. No. I agree that Demand/Energy Rates, I would say probably, except for the two, distribution utilities generally purchase power under demand, a mixture of demand and energy rate. Newfoundland Power is in somewhat of a unique situation, as Mr. Brockman talks about here, and, you know, unlike a lot of jurisdictions in North America, I'd say we have much less choice in where we purchase our power, so that

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makes us unique. And the effect of which utilities on the mainland are able to deal with volatility because of their options, you know, I can't speak to. But it just goes to show that the situation in Newfoundland is considerably different than you would find, you know, on the North American grid.

Q. He mentioned in his answer there that it's on account of the hydraulic mix that that would be a distinguishing factor. Do you agree with that, that that would be a distinguishing factor that would suggest an energy-only rate would be applicable for Newfoundland Power?

MR. HENDERSON:
A. I think what he's speaking to with regard to hydraulic makes Newfoundland--the interconnected system on Newfoundland somewhat unique. You know, there's a lot of other aspects that make it unique, it being isolated from the North American grid and so on. With regard to why we have an energy-only rate, I suspect there's other unique circumstances that attribute to that being a viable option in Newfoundland and it's been viable, you know, ever since we started purchasing off

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Hydro back in the '60s, and it's still viable. On the mainland where you probably have quite a number of customers under the same rate, that energy-only rate is probably not viable because you have fairness concerns which arise which means that you're going to have one customer pitted against the other saying that I'm not being allocated the right rate, I've got a better load factor. Those things will happen necessitating Demand/Energy Rates. Newfoundland, the situation in Newfoundland is unique and as a result an energy-only rate is perfectly viable here.

Q. Now, in reference to the current situation with Newfoundland Power, it's my understanding that Fortis is in the process of purchasing two new utilities in Canada. Is that correct, Mr. Perry?

MR. PERRY:
A. Yes.

Q. And those utilities that they are purchasing, can you name those for us?

MR. PERRY:
A. They are Aquilla British Columbia and Aquilla Alberta.

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Q. And these two companies, are they in fact on a Demand/Energy Rate?

MR. PERRY:
A. I'll talk to B.C.. Maybe you can talk to Alberta. I think Alberta--B.C., sorry, they generate 50 percent of their own power. It's very much a vertically integrated company. And they purchase 25 percent under an energy-only rate from a hydroelectric operator. And then the remaining 25 percent, they purchase from B.C. Hydro under a Demand/Energy Rate. So they buy 25 percent of their power requirements under Demand/Energy Rate and there is a reserve mechanism to deal with volatility for that 25 percent as well. In Alberta, can you comment? I'm not -

MR. HENDERSON:
A. Alberta, all I know is that we are basically a poles and wire company. We aren't a retailer. Therefore, we're not responsible for the--what I understand, and Barry can correct if -

MR. PERRY:
A. You're right.

MR. HENDERSON:
A. - that we're not obligated for any of the

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MR. HENDERSON:
difference in costs between energy sales to customers and energy purchases. The utility is primarily affected by its own poles and wires costs. The rates are unbundled, as a 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 actually is obligated to purchase power and sell it to customers. It's a different kind of arrangement.

MR. PERRY:
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 transmission lines, they don't own any substations. They basically own the poles, 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 what happens.

BROWNE, Q.C.:
Q. So Fortis is out purchasing a company that has a Demand/Energy Rate, at least in British

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Columbia, and you're here telling us that a Demand/Energy Rate would not be beneficial in Newfoundland because of volatility in revenues. Do you see some inconsistency in that, perhaps?

MR. PERRY:
A. No, obviously on the face of it, it's inconsistent when you look at it, but you know, every utility is different. Every regulator has different views in most cases. You know, I think when I look at the Fortis Companies, they all have unique things that they do and you know, it's--you know, when you look at the BC company, they have 25 percent of their power on demand energy. They have a reserve in place. I don't know if they've done marginal cost studies, for example, to justify the demand charge that they're paying.

(10:30 a.m.)

What we're saying is we don't support a demand/energy rate. We think that we can do DSM, once we know the costs that we need 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

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demand/energy rate, then make sure it's put in with the right rate, first of all, and secondly, make sure that we deal with the volatility issues and you know, it could be put in place after that. 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.

Q. So in British Columbia, a company has been acquired by Fortis that has a demand/energy rate and you yourself in Newfoundland, Newfoundland Power sells to some of its own customers on demand/energy rate, does it not?

MR. HENDERSON:
A. Yes, that's correct.

Q. And how is it that it can be good for these customers, but not good for the rest?

MR. HENDERSON:
A. Because we're in the fortunate position of being--we're substantially all the--we're 90 percent of the customers in Newfoundland. We see the system costs. We don't need a demand/energy rate for a pricing signal.

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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.

Q. Now, you keep mentioning the word "volatility" but some of the experts that came here, didn't they address that very issue, how volatility can be addressed in reference to the introduction of a demand/energy rate? Have you been reading the transcripts at all?

MR. PERRY:
A. Yes. It is an amazing amount of material that's been put forward, Mr. Browne, on this

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MR. PERRY:
topic. Yes, I hope I've read just about all of it.
BROWNE, Q.C.:
Q. Because I just want to refer you to what Mr. Greneman had to say on the issue of volatility, because he was asked that very question, and if you go to his evidence of November 14, 2003, on page 14, I asked him concerning volatility and volatility issues and he stated that there was a number of ways to mitigate the volatility on line 11 and 12 on page 14, and he goes on to state, "well, number one, Hydro has gone a long way in offering to weather normalize the demand, and that goes a very large way in mitigating volatility, and that is to say it's recognized that there'll be colder winters, there'll be warmer winters. What we're proposing to use a weather normalized demand, so that goes a long distance to stabilizing volatility." And I gather there will still be weather normalization in reference to a demand/energy introduction in this jurisdiction. Is that not true?

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MR. PERRY:
A. Yes, but all the numbers we've talked about in my opening comments were after weather normalization. So we're assuming that weather normalization occurs and there's still a problem, significant problem with volatility after weather normalization.
MR. HENDERSON:
A. One of the things you need to understand is that the process of weather normalizing is a process of doing some kind of analytical exercise to figure out, within the demand, how much of it is actually related to weather. That calculation is very rough at best. The question becomes how good of a model, how much of the weather can you actually normalize out of it? Hydro has a model that probably knocks the variances down from plus or minus maybe ten percent down to five percent. That's significant, and he talks about it and I'll encourage it, you know. If and when Newfoundland Power and Hydro get together to try to improve upon that, you know, we may be able to knock it down a little bit more, but knowing that our peak is dependent on load on

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the west coast and load on the east coast and load in central Newfoundland, the weather is going to be different at different times across the province, be warm here and cold on the west coast. Trying to come up with a single calculation that somehow takes weather accounting for those huge number of variables is going--is very difficult and the success at the end of the day, from my perspective, you know, I'd be quite surprised if we're able to get that weather normalized down to a level such that the volatility on demand is comparable to volatility on energy, and from what I've seen of our numbers, even if that were the case, because you've moved from one rate form to the other, and each one has different impacts, at the end of the day, you're probably still going to have this volatility issue or concerns for that bottom line.
Q. But yet we have Mr. Greneman telling us that weather normalization would assist in reference to that volatility. Are you saying he is wrong?
MR. HENDERSON:

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A. It will assist. It will reduce what the volatility will be, but will it bring it to a level that eliminates that as being a serious concern to Newfoundland Power? I doubt it.
Q. He also goes -
MR. PERRY:
A. Mr. Browne, sorry, if I could add one comment?
Q. Sure.
MR. PERRY:
A. The perspective that Mr. Greneman is coming from, if you just go back one page, is what I mentioned earlier. Can I just go back another page please? No, the perspective is he considers getting down to a five million dollar volatility concern as being not a problem. You know, like he uses the word "that's not too humongous," and I tell the Board that it is. That's a big number, and Newfoundland Power facing a five million dollar issue because its demand, actual demand was different than forecast, you know, that's going to create issues, and you know, it has to be--mechanisms have to be put in place if a demand/energy rate is going to be implemented, to deal with that volatility.

BROWNE, Q.C.
Q. But you must have a favourable volatility now, don't you? Because you just told us previously that your rates were booked in at a long-term Canada of 5.60, even though the long-term Canada is 5.30 and your interest rates were booked in at around 5, and the short-term interest rates are below 3. So that must be giving you a couple of million dollars cushion there, wouldn't it?
MR. PERRY:
A. I don't agree with that number. Mr. Browne, you refuse to -
Q. Would you tell us what the number might be perhaps?
MR. PERRY:
A. I don't know what the number is, but you refuse to add to your statements that there are other offsetting expenses that are going against those positives. That's the way it works. There are costs that go up. There are costs that go down, and there is a mechanism in place which is called a range of return on rate base that covers that off. Rates are set at a point in time. They're not set every

day, and you know, that's how it works.
Q. Mr. Greneman also mentioned that the rate stabilization plan would assist in any initial volatility. Do you agree with that, Mr. Henderson?
MR. HENDERSON:
A. Can you take me to that in his testimony, just so as I understand the context?
Q. Sure. Same page. Well, we can go down over it all actually, what he said. It's very interesting. It's on page 14, line 20, I was reading from where he mentioned weather normalized demand, and then he begins at line 21, page 14, "in addition, the volatility that NP has shown in their evidence is based upon a plus and minus five percent deviation. That was really a rounded number. Within the recent history actually, the maximum deviation has been in the order of 3.6 percent. It was just rounded up to five percent as a whole number." Is that correct, by the way?
MR. HENDERSON:
A. With respect to--when I look back historically at our forecast versus actuals, there's a huge amount of volatility that has occurred over

the last number of years. It's up and down and up and down and as a result, it becomes very difficult to try to say what is the likelihood of it being within a certain range. The plus or minus five percent figure, I took a look at variances that suggest that the total range is somewhere around 11 percent. Taking half of that, you're talking about plus or minus five percent.
Q. So Mr. Greneman isn't correct?
MR. HENDERSON:
A. Depending on the period you take, it could possibly be as low as 3.6, but you know, from what I've seen of the volatility numbers, at 3.6 percent, you know, even if you're to try to--you know, just said that that was a reasonable interpretation of what the volatility is, it's still going to be well in excess of what, you know, our returns, our range is. So it's still going to be a problem, whether it's 3.6 or 5 percent.
Q. So are you taking exception to what Mr. Greneman has said, that you've in fact rounded up to 5 percent from 3.6 percent?
MR. HENDERSON:

A. I don't -
Q. Is Mr. Greneman wrong in informing the Board of that?
MR. HENDERSON:
A. I don't know the basis for Mr. Greneman's or Hydro's calculation of plus or minus five percent, nor the 3.6 percent that Mr. Greneman talks about. So I can't speak to it.
MR. PERRY:
A. I want to just make sure the Board understands that point, you know. This is an answer that Hydro gave, in terms of the plus or minus five percent. They calculated the number. Mr. Greneman, their expert witness, obviously came up with another number and I think even subsequent to that, Mr. Banfield discussed this issue in the range of five percent after Mr. Greneman was on the stand. So, you know, 5 percent, 3.6 percent, doesn't really matter. It's still a big number, and it's too big and has to be dealt with by the Board, in terms of if they're going to go down the path of demand energy, appropriate reserve or some other mechanism to deal with the volatility.
Q. And we were headed toward what he said about

BROWNE, Q.C.:
the rate stabilization plan, and if we can continue on there. He goes on to state, concerning the range, line 11, that "earnings range has been negotiated based upon two conditions. One of them was the fact that they would be served under an energy only rate and there was a decreased level of volatility. The other one is the fact that there was a load variation component in Hydro's rates and they had RSA as well, so when their range of allowed earnings is viewed in the context of the energy only rate and viewed in the context of the rate stabilization plan, it would, in a sense, make sense." Is he in fact suggesting that the rate stabilization plan would reduce volatility? Would you say that, Mr. Henderson?

MR. HENDERSON:
A. The rate stabilization plan, the way the mechanism works is that Hydro has this rate stabilization plan and that is an annual adjustment that flows through Newfoundland Power's RSA account to our customers. So the RSP plan itself does not affect Newfoundland

Power's income statement. So as a result, it is immaterial from that perspective. It certainly flows Hydro's costs through to our customers. There's no question about that. So the RSP in of itself doesn't stabilize volatility for Newfoundland Power. We have -
Q. But it does -

MR. HENDERSON:
A. - we have weather normalization, which stabilizes our purchase power expense to some extent, and our RSA, we flow through municipal tax adjustments. There's a couple of other little small things that tend to reduce volatility and there's no question that the range that has been set for Newfoundland Power is based in the context that all these things exist, therefore a certain level of volatility exists, therefore the range is what it is.
Q. How do you assist customers currently in reference to volatility in rates? Do you have any plans in effect that will assist customers there?

MR. HENDERSON:
A. I'm trying to understand what you mean by volatility. Customers -

Q. Well, if we look at volatility in customers' rates, you people have testified here this morning that if you allow the demand energy charge, there will be volatility in customers' rates. Haven't you told us that?

MR. HENDERSON:
A. That is correct.
Q. Okay. How do you deal with volatility in customers' rates currently? Don't you have an equal payment plan or something like that so that -

MR. PERRY:
A. No.
Q. - customers can opt in to a set rate each month?

MR. PERRY:
A. What we're saying, Mr. Browne, is the existing energy only volatility of approximately $900,000 is of a size that we can deal with it within the range of return on rate base. There's a $2 million upside and downside on that range right now. The volatility on the energy only rate could take up as much as approximately half of that. So you know, we deal with that and customer rates are not

impacted. You know, that's our position on that, but the demand rate will create much more volatility and what we're saying is it would cause us to have to apply for relief from the Board. There'd have to be a reserve mechanism, so customer rates will be impacted and will maybe go up in one year. The next year, they may go down. So you're going to have this yo-yo effect on rates.
Q. Sure, but other utilities across the country have been dealing with this for years, haven't they, they're on a demand/energy rate?

(10:45 a.m.)

MR. PERRY:
A. The ones that I--the one I have looked at in BC obviously has a reserve, so it mitigates the volatility and Maritime Electric, I think, picks up 90 percent--90 percent of the forecast variance is flowed back to customers and there's a 10 percent of it that they absorb. So you know, again, it brings the number down to a sizable number that the utility can deal with. There is no such proposal in front of the Board for the Hydro rate to do that for Newfoundland Power.

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MR. PERRY:

Essentially Hydro said we'll take care of ourselves by putting this demand floor in place, and Newfoundland Power, you do what you want to do. They sort of washed their hands of it, you know.

BROWNE, Q.C.:

Q. But they can't manage the enterprise for you. Certainly you're not suggesting Hydro should come forward and inform you how you will react to the imposition of a demand/energy rate. I could hear the screams now.

MR. PERRY:

A. Mr. Browne, I think that's absolutely incorrect. The two utilities deal with each other every day. We believe that the best approach for this would have been a coordinated approach between the two utilities to design a solution, if one needed to be designed for this. We think what needs to happen is do the long-run marginal cost studies, retail rate design studies, then there can be a discussion with the Board whether a demand/energy rate is appropriate. Our position will be that we don't think so,

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but if the Board decides to go that way, it'll have the right information on what the right rate should be and we can put the appropriate mechanisms in place to deal with volatility. We think that's a reasonable approach.

Q. Haven't you had every opportunity to work with Hydro in the past to deal with a demand/energy rate? In fact, wasn't there an existing order of this Board, stemming from previous decisions, to have the two utilities work together in reference to the introduction of demand/energy rate? Do you know of anything like that? Mr. Henderson, you recall that?

MR. HENDERSON:

A. Yes, we have looked at it in the past and the reason why it eventually, as far as I'm concerned, the reason why it faltered was because of this volatility issue and the consequence that whatever we do is not going to improve things for customers, then why do it? At the last hearing, I think we both came forward saying it's not necessary, it's not required, it's not going to achieve anything.

Q. And what was the reason you said that? Didn't you write a letter to the Board after their

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last direction telling you to get together on the demand/energy rate? Newfoundland Hydro, or Newfoundland Power, under Mr. Gerard Hayes' signature, wrote the Board stating that it was no longer necessary to pursue this because it would impact on the revenue requirements for the utilities. Do you have any recollection of that?

MR. HENDERSON:

A. I know, before the last--we wrote Hydro, we had discussions with Hydro and we wrote Hydro a letter indicating that an energy only rate was most appropriate.

Q. And now you want to come forward and you're suggesting to the Board, despite the fact we've been dealing with this issue since 1989 and you've had opportunities in the past to deal with the issue, of suggesting that you be given more opportunity to do further studies? Where is that going to get us ultimately, sir?

MR. HENDERSON:

A. I think the reality of it is that we've come through an impasse. We've come through and impasse probably, I don't know, maybe four years ago. There certainly seems to be an

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impasse at the last hearing in that--well, at the last hearing, I suspect there was not sufficient evidence presented for the Board to make a decision. Now we're at an impasse at this point in time and the Board's going to have to adjudicate as to whether they think there's sufficient benefits in a demand/energy rate to offset the impact of volatility and that it's something that's worth going ahead. We're stating our position; obviously the other parties are stating their position. There's no question that at this point in time, I'm really not sure if negotiation without any firm direction from the Board is going to achieve anything.

MR. PERRY:

A. Mr. Browne, clearly, our position, and I'll state it again, is that we still believe the Board does not have sufficient evidence before it to make a decision on this rate. It does not know what the long-run marginal cost of capacity is on the system. Hydro's asking the Board to give Newfoundland Power a signal to spend $84.00 a kilowatt on demand side management programs when it knows right now

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MR. PERRY:
that it can go and, maybe the price has gone up from the Industrials now, but it could have extended a contract with Stephenville at probably $28.00. So the logic of Newfoundland Power going out and spending $84.00 on water heater control programs when you know you can access 46 megawatts for sure, maybe another 50 at Grand Falls, maybe another 50 at Corner Brook Pulp and Paper, it's very simple there. They have refiner lines, big motors. They switch them off; they store the pulp in their pulp tanks, and off you go. At one hour's notice, you know, they can do it. It boggles my mind that there's this discussion about 84 and 28.

BROWNE, Q.C.:
Q. Isn't it true that experts have testified before this Board that there's no requirement for a marginal cost study prior to the implementation of demand/energy rate?

MR. HENDERSON:
A. I think what they all stated is that it is not necessary, you know. Newfoundland Power right now develops its rates in the absence of this

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information which we'd like to have. So I'm sure it's very possible that you could come up with a rate. Is it a good rate? Is it going to give you--can it purport to be efficient? I think there's significant problems with it purporting to be efficient. I know people say it reflects embedded costs, therefore it may be even considered fair, but as we've discussed, I don't think there's any particular fairness issues with the current energy only rate.

MR. PERRY:
A. Mr. Browne, I'll go a little further. I think it's foolhardy. I think that--I'm not an expert here, but to put a rate in willy nilly, I know it's based on embedded costs, but what is that? When you know you can do a study, come up with the right number, have the right information before the Board and the Board can say "okay, Newfoundland Power, this is the signal that you're getting. This is what you're going to be measured on, on DSM programs. We don't want you out there spending money that you don't need to spend." You know, it all ends up impacting customers.

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And I think it's a bit foolhardy, frankly, that we'd go forward without knowing what the right number is.
Q. Yet all the experts have come forward, with the exception of your own, advising the Board that it is appropriate thing to do. Are you describing them as being foolhardy?

MR. PERRY:
A. Well, that's what boggles my mind. I wouldn't say they're foolhardy. I don't want to use that word, but I interpret it, when I see what's in front of the company and what we're being asked to do, unless the Board, as soon as it writes the Order, that yes, the demand/energy rate is $84.00 and Newfoundland Power, you can't spend $84.00, unless that's the next sentence they write, they you got to ask yourself why was it put in place in the first place. You know, I think that's why I conclude it's foolhardy.

MR. HENDERSON:
A. One other comment I'd like to add on it is that Mr. Bowman at the last 2001 GRA mentioned that you need to have marginal -
Q. Which Mr. Bowman?

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MR. HENDERSON:
A. Sorry, Doug Bowman argued that you needed to have marginal cost before you did a wholesale rate. At the latest hearing, they're saying that well, you should go ahead with it anyway. Do the study, and then tweak it or adjust it afterwards, and I think pretty well every expert has said well, marginal cost is important for efficiency and you then tweak in the rate afterwards and I'm concerned that what they call tweaking is something that could be very substantial and as a result, I don't particularly see that the rate theory or anything along that line is inconsistent between the various experts, just but all the experts--a lot of the experts are saying you've got enough information that you can do a rate, but I think, in general you can foresee reading between the lines that they all acknowledge that in order for to ensure the rate's efficient, you need marginal cost and you need to reflect that in the rate.
Q. Isn't it true that Newfoundland Power likes business as usual, the energy only rate certainly in reference to the revenue

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BROWNE, Q.C.:
requirements, don't disturb what we have now? Isn't it true that you're really here advocating the comfortable pew approach?
MR. PERRY:
A. No, that's not correct. We've been--you know, obviously this demand/energy rate impacts the company, impacts our customers. We're representing our customers and the company here and clearly, if the Board decides to go down the demand/energy rate, we will work with Hydro and the Board. We would hope that there would be a reserve mechanism put in place, you know. Clearly that's how we would conduct our affairs. So Mr. Browne, you know, I think we're putting our views forward. That's all we're doing.
Q. Okay. Thank you for that. It's nearly 11:00. I'm moving into another area. Can we take a break now, Mr. Chairman?
CHAIRMAN:
Q. Sure. We'll take a half hour break now until 25 after, please.
(BREAK - 10:55 A.M.)
(RESUME - 11:28 A.M.)

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CHAIRMAN:
Q. Ready, Mr. Perry and Mr. Henderson.
MR. PERRY:
A. Yes.
CHAIRMAN:
Q. When you're ready, Mr. Browne, please.
BROWNE, Q.C.:
Q. Thank you. There's just one other area I wish to explore with the witnesses. Can we go to NLH-217 NP? There was a question posed in reference to your hydraulic generating facilities and you state that Newfoundland Power will continue to operate its hydraulic generating facilities in the best interest of the overall system, and then you state, at line 16, "it is Newfoundland Power's position that the sample rate proposed by Hydro provides an incentive for the management of generation facilities that is contrary to Section 3.B(i) of The Electrical Power Control Act and is therefore inappropriate." Now how does Newfoundland Power ensure that it is operating its generating facilities in the best interest of the overall system and in accordance with the Act? How do you do that

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now?
MR. HENDERSON:
A. Primarily through coordination with Hydro. We talk to Hydro regularly about, you know, how our generation can be utilized for the overall system benefit to minimize costs. Hydro is obviously responsible for generation dispatch and such, so they're by far the people who are managing the--keeping 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?
MR. 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?
MR. HENDERSON:
A. Newfoundland Power's concern is with the design of the sample rate. The sample rate itself contains a two-block rate in which the first block is significantly below the

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marginal cost of Holyrood and also, seeing that seasonal cost difference would encourage anyone under that charge to shift their 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 customers. So our customer is going to not benefit from it. So it's certainly not

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MR. HENDERSON:
something we are going to do to--we are not going to go out and shift our load for this purpose, but the fact that the signal is there, the fact that the signal is inconsistent with system costs, all those things make that an inappropriate signal.

BROWNE, Q.C.:
Q. You're not suggesting--I think one of the witnesses, when he answered about that, used the term "gaming the system." You're not suggesting that Newfoundland Power will be gaming the system through its generation facilities on account of the introduction of the demand energy charge?

MR. HENDERSON:
A. No, there's--you know -

MR. PERRY:
A. We don't--no, Mr. Browne, clearly not. All we're saying is that the rate that's being suggested or put forward incents generation to occur in the wintertime because that's when you'd pay more for purchased power, and that's going to cause--could cause, you know, on the face of it, to go into the winter with more

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water in reservoirs and given the nature of the weather, especially on the Avalon Peninsula, you know, winter time is when you get a lot of precipitation. It could cause-- if you're going in full reservoirs, it could cause more spillage on the system. We're saying why would you ever put a rate in place that encourages that to happen? We're not going to do it, but like, why would you go there in the first place? That's all that we're talking about here, and clearly, we've been going around in circles on this a little bit. I'll say on the record, we're not going to do it. But you know, why the Board would approve the rate in the first place that sort of suggests that's what should be done, we have some problems with.

Q. And it's true that your facilities have a relatively large amount of storage, don't they, the generation facilities, with the exception of Rose Blanche?

MR. HENDERSON:
A. I wouldn't describe them as large. We have 90 gigawatt hours relative to annual production of 400.

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MR. PERRY:
A. 400 or so, yes.

MR. HENDERSON:
A. So you're talking about production of--storage of maybe a quarter. Hang on now.

MR. PERRY:
A. Yes, about one quarter of annual production is what we could at any point in time have in storage if all the systems around the island were full at the same time, which rarely happens.

MR. HENDERSON:
A. Now Hydro's storage is probably in the order of 50 percent. That's a guess. I'm not quite sure exactly what it is, but it's substantially greater. So you know, Newfoundland Power has a mixture of run-of-rivers and plants with a certain degree of storage, but we don't have a whole lot of storage.

Q. Because Ms. Richter, when she was testifying, and we can go to her evidence on October 28th, 2003 at page 19. Do you know who Ms. Richter is, Mr. Henderson?

MR. HENDERSON:

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A. Yes, I do.

Q. And who is she?

MR. HENDERSON:
A. She is the consultant that--a consultant with Acres who did a hydrology study for Hydro and I think prior to that, did a study for Newfoundland Power also.

Q. So she's familiar with your facilities?

MR. HENDERSON:
A. She'd be familiar with our facilities, yes.

Q. October 28th, 2003, got the right date there, Mr. O'Reilly? Okay. If we can go to page 19? And there the question was asked of Ms. Richter, at line 10, "I think Newfoundland Power estimates its spillage represents less than one percent of its normalized energy requirements. Is that a high amount?" and her response was "well, that's a relatively low amount, and I think in the case of Newfoundland Power, it's attributable to the fact that many of their developments were sized to provide reliable electricity and therefore they have relatively large amounts of storage." You don't agree with her on that, Mr. Henderson?

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MR. HENDERSON:
A. She's obviously much more expert than me on this. I think she's obviously comparing ourselves to a run-of-river plant that, you know, I think Abitibi probably has a plant that has a tremendous amount of spillage associated with it, but if in her judgment she considers it a large amount of storage, she can consider it. I accept that. From my perspective, our storage is significantly less than Newfoundland Hydro's and we do have a significant number of generators that are run of the river, you know, which does attribute to a certain degree of spill, but there's no question we do have storage and the storage can be managed in a manner to minimize spill. If she wants to call it large amounts of storage, I'll accept that.
MR. PERRY:
A. Mr. Browne, it's simply our position is Bay D'Espoir is large storage, you know, that's massive storage. We're talking about Mobile, Tors Cove. These are little ponds around the Avalon Peninsula that are in no way in comparison to anything that Hydro would have

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in their large generation.
BROWNE, Q.C.:
Q. In your opinion, Mr. Perry, would it be better and more efficient if Hydro took over all the generation in the province?
MR. PERRY:
A. I don't think so. I think that, you know, most of these plants are remotely operated as they are. We coordinate with Hydro very well on the plants. I don't see a huge amount of savings in putting them under one roof at this point in time. I just don't see that.
Q. Thank you, Mr. Perry and Mr. Henderson. Thank you.
CHAIRMAN:
Q. Thank you, Mr. Browne, Mr. Perry and Henderson. We'll move now to--good morning, Mr. Hutchings.
HUTCHINGS, Q.C.:
Q. Good morning, Mr. Chair. Good morning, Mr. Perry and Mr. Henderson.
MR. PERRY:
A. Morning.
MR. HENDERSON:
A. Good morning.

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Q. I had a few questions as well on the last subject that Mr. Browne was dealing with and maybe we should look at Schedule 2 to Mr. Haynes' evidence, so we can just confirm that we're talking about the same numbers here. Okay, if we could just highlight the customer generation section there, second block on the page. Yes, okay. So that shows Newfoundland Power's hydroelectric capacity at 93. 2 megawatts and annual average energy at 424 gigawatt hours. Does that sound about right?
MR. HENDERSON:
A. Yes.
Q. Okay. And there's a firm annual energy shown of 323. What criteria do you use to determine your firm annual energy?
MR. HENDERSON:
A. From what I understand, and maybe it could be subject to check, but from what I understand, that firm criteria came out of the study that Acres recently did and was probably based on available information--was based on basically around 30 years of historical data that was available.
Q. Okay. And is this something like the three

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driest years, three consecutive driest years criteria that Hydro uses or do you know?
MR. HENDERSON:
A. I don't know.
Q. Okay. And in contrast to Hydro's facilities, I take it that essentially each and everyone of your plants are independent in the sense that none of them share a reservoir?
MR. HENDERSON:
A. We do have some that shares reservoirs. We have--down on the Southern Shore, we have a small plant at Lourdes that feeds now into, I think, it's Mobile. To the best of my knowledge, it's probably the only one.
Q. And just by way of comparison, if we were to look at Mr. Haynes' Schedule 4, the total system energy storage there, maximum operating level, the top line, just to put in context your question earlier on, is sometimes in excess of 2500 gigawatt hours?
MR. HENDERSON:
A. That's what it shows here, yes.
Q. Yes. And that's well--it's, in fact, over 50 percent of the average annual energy that Hydro produces hydroelectrically, yes, okay.

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HUTCHINGS, Q.C.:
Do you utilize anything like this system energy storage curve that Hydro uses?
MR. HENDERSON:
A. You know, I know there's certain guide curves used for hydro generation. As far as reporting storage levels on an aggregate basis like this, I'm not familiar with it.
Q. Okay.
MR. HENDERSON:
A. We may.
Q. And what are the operating guidelines for your hydraulic plants? What terms and conditions or guidelines do you follow for regulating their operation?
MR. HENDERSON:
A. I'd have to say I'm really not expert in that area. I really don't know of any formal guidelines that we have. I'm just not familiar with it.
Q. Okay. I mean, you've told us that obviously you want to minimize spillage. I mean, are there any other guidelines that you have or you're not aware?
MR. HENDERSON:

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A. From what I understand is we maximize availability of our hydraulic generation during the winter season, during the peak periods during the winter season.
MR. PERRY:
A. For example, Hydro called upon us last week during the storm and we delivered 82 megawatts of capacity during the storm, which I think is exactly what they've included in their assumptions that they would get from us in that situation. So you know, in this time of year, going into the winter time, we make sure that we can do that, if called upon by Hydro.
Q. Okay. And I'm assuming that the production from these plants is essentially year round, is it?
MR. HENDERSON:
A. Yes. You know, during the summer when there's very little water, obviously the amount of kilowatt hour production in the run of a month is less than it would be in our wet time period, but you know, they are available to run all year round.
Q. And this production is localized to your service areas, I presume?

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MR. HENDERSON:
A. All of our generation connects to Newfoundland Power's transmission or distribution line.
Q. Yes, okay.
MR. PERRY:
A. And that's essentially historically based because, you know, we were here long before Hydro was and plants were built around the service of customers in those areas.
Q. Yes, okay. In terms of your power purchases, how are your demands upon the Newfoundland and Labrador Hydro system affected by production at your own hydraulic facilities?
MR. HENDERSON:
A. Our hydraulic production, you know, reduces the demand requirements that are on Hydro's system, similar to our thermal generation being available reduces, you know, what Hydro needs to have on their system.
Q. Yes. So when you provide a forecast to Newfoundland and Labrador Hydro, how do you treat your own hydraulic production?
MR. HENDERSON:
A. Our forecast to Hydro is primarily focused on Newfoundland Power's native peak. It also

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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 thermal, but both of those, you know, elements are factored into it. In our actual forecast that we give Hydro, we have a schedule that has here's the native peak, and we would also, on that schedule, show here's available hydraulic generation which is the 82.6 that we talked about.
Q. Okay. When you say "native peak" you mean the total requirements of your customers on your system?
MR. HENDERSON:
A. Yes.
(11:45 a.m.)
Q. Okay. And if we could go back to Schedule 2 for a moment, Mr. O'Reilly? The 81, I think, that you referred to or 82, I take it that's the 93.2 that we're looking here, less the reserve. Is that correct?
MR. HENDERSON:
A. That's correct.
Q. Okay. So as regards the thermal, it would be

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HUTCHINGS, Q.C.:
54.2 less whatever reserve -
MR. HENDERSON:
A. That's correct.
Q. - number is appropriate? Okay. So I take it your forecast that you provide to Newfoundland and Labrador Hydro would assume that you're generating average annual energy from your hydraulic plants, the 424 gigawatt hours we're seeing here?
MR. HENDERSON:
A. Yes, that's correct. It's slightly higher than that, but I think it's 425 and 426 are the actual numbers that are in the forecast.
Q. Okay. And assumes that you generate nothing from your thermal?
MR. HENDERSON:
A. For energy, yes, that's correct.
Q. Yes, okay. Now can you help me with the question of dispatch of Newfoundland Power production? Because I've seen references that say that Newfoundland and Labrador Hydro has control of that dispatch when it's necessary to meet system peak. Is it implicit that other than on those occasions, Newfoundland

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Power has control of the dispatch?
MR. HENDERSON:
A. It's really a coordinated effort. Our two control centres coordinate things. So if Hydro has a need for thermal generation during the summer and requests us to put on what's available, we will do so. You know, so it's very much a coordinated perspective. So to say one person has control at one point and someone else has control at another point is not really correct. It's a coordinated effort. So during the winter, if Hydro sees a point that, well, you know, next week, we know this and this is happening and we really need to make sure that your thermal generation is on. They will contact us and we will coordinate to make sure that every possible thing is available. So it's much more of a coordination effort as opposed to one having the all encompassing role.
Q. Okay. Is there any contractual relationship between Hydro and Newfoundland Power that addresses that issue?
MR. HENDERSON:
A. I wouldn't say there's a formal contract

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arrangement. Newfoundland Power and Hydro have joint committees and through that, I'm sure they develop certain guidelines. Whether they're written or verbal or whatever, it's certainly a very clear understanding between the two as to the roles that they're playing, and it works through that. It works through that coordination effort.
Q. So all the facilities that we're talking about are owned by Newfoundland Power?
MR. HENDERSON:
A. Yes.
Q. Okay. So you know, and I don't know why it would ever come up, but it would be for Newfoundland Power to decide if Hydro requested dispatch of any amount of power from your facilities, it would be within your rights, you'd be within your rights to say "no, we just don't want to do that right now."
MR. PERRY:
A. Well, I think there are other considerations, you know, in terms of The Electrical Power Control Act and our obligation to adhere to the Act in terms of making, I guess, the best utilization of the resources available. I

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don't think Newfoundland Power could willy nilly go off and say we're going to run our generation completely different than what we're doing today, because I think what's in place today is good for the system, so you know, and I know that's not sort of clean, but there are obligations that we have and we recognize under the PCA that factor into this as well.
Q. I come back to, I guess, page 10 of your evidence, right at the top, where you say "Hydro directs the operation of Newfoundland Power's generating plants when required to ensure sufficient on-line generation on the Island Interconnected System." Is that really more of a request than a direction, a request that's almost inevitably answered, but -
MR. HENDERSON:
A. Yes, you know, it depends on how you interpret what the meaning of "direct" means, you know. Hydro will call us and say we need generation, and we will go and put it on.
Q. Okay.
MR. HENDERSON:
A. You know, as to say whether--you know, I can't

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MR. HENDERSON:
imagine a situation where Newfoundland Power is going to refuse because I don't know who that benefits.
HUTCHINGS, Q.C.:
Q. No.
MR. PERRY:
A. And again, a recent example was just a few days ago. They asked for it and we put 82 megawatts on.
Q. Okay. And that was your hydraulic generation?
MR. PERRY:
A. Yes.
Q. Okay. So what would be happening with those 82 megawatts had not Hydro requested them?
MR. HENDERSON:
A. We run them to optimize our kilowatt hour production. If for some reason the storage was such in one of those facilities that Newfoundland Power was better--felt it was better to build it up, in the event that Hydro might need to require it, we may not have had it on during peak. We may have left it off and let the water build up, so if they request it the following day, we will put it on. They

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obviously requested it and we got 82 megawatts on.
Q. Okay. In the absence of a request from Hydro, it's up to you to decide whether you're going to have it on or not have it on?
MR. HENDERSON:
A. Yes. Now Hydro has--you know, the notice that Hydro's necessarily going to give us for putting our generation on can be fairly short. As a result, in us dispatching our own generation, we're going to be dispatching it in a manner that's relatively consistent with the need to have it on during peak, okay. To say it's going to be exactly as high as what it would have been if Hydro requested it, I can't--you know, it may not necessarily be exactly the same amount, but you know, we will certainly be dispatching it so as it could go on if Hydro asked us, you know, an hour in advance or you know, whatever.
MR. PERRY:
A. Saying it another way, it would be inappropriate for us, for example, going into the winter with zero storage. We understand that we have to have so much storage going

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into the winter so that when Hydro places the call or the request that we can actually put the 82 megawatts on. So you know, that's a consideration that we have now, this time of year, that as we go into the winter months, we need to have storage so that we can deliver that 82 megawatts.
Q. But overall, the operating criteria is to maximize kilowatt hour production from your hydraulic resources? Is that -
MR. HENDERSON:
A. That would be, I'd say, the primary criteria. The secondary criteria is making sure it's available for all peak.
Q. Okay. And you rely more on Hydro in respect to the secondary criteria than on your own resources, shall we say?
MR. HENDERSON:
A. Yes. Hydro, yes.
Q. Yes, okay. All right. What are the operating guidelines for your thermal capacity?
MR. HENDERSON:
A. It would be substantially similar to hydraulic, from the perspective that their dispatch would be reflective of a coordinated

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approach between Newfoundland Hydro and Newfoundland Power. I know on the radial systems themselves, Hydro might need to maintain their line or more locally, we might have to maintain our own line and in those situations, there's a coordinated effort to get the generation on to support, you know, Hydro in maintaining their lines or in us maintaining our lines. Similarly, there's coordination on the high level to make sure that they're dispatched appropriately with respect to peak, you know, or when Hydro has problems on their system with generation, to make sure that they're on.
Q. Can you give us any indication of the amount of energy that your thermal production actually puts out in a given year?
MR. PERRY:
A. I think there was an RFI on that, but I can't recall.
MR. HENDERSON:
A. You know, if you want, we can undertake. I don't have any of those figures with me.
Q. Okay. I mean, is it fair to say it's probably a fairly small amount?

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MR. HENDERSON:
A. Yes, I would say it's fairly small. It depends on which one. I think I was reading something that was indicating our--anyway it was one of our generators that had significant amount of production. I think it may have been related to certain distribution work or you know, we may have been reconstructing a line or something, and as a result, it was utilized more so than it otherwise would have been.
HUTCHINGS, Q.C.:
Q. So essentially those generators are there to support the system in the event of a maintenance outage or an unplanned outage or, you know, for voltage support or something of that nature? Is that correct?
MR. HENDERSON:
A. It's for those and it's for system peak too.
Q. Yes.
MR. HENDERSON:
A. I think, you know, recently Hydro had a peak that was high enough, and I don't know if they had generation enough, but they requested available generation just in case.

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Q. Would Newfoundland Power be prepared to sell its thermal production capacity to Newfoundland Hydro?
MR. PERRY:
A. We haven't really considered that, Mr. Hutchings, as a business proposition, I guess, so I'm not prepared to answer that sitting here without considering all the ramifications of doing it.
Q. I suppose the implication of the question is does Newfoundland Power have a use for this generating capacity that is unrelated to the Newfoundland Hydro system?
MR. HENDERSON:
A. Yes. We use it to backup, you know, some of our own components on the system. So they provide assistance to the system and they provide assistance to the local load.
Q. I mean, you can understand our interest in this, in that if Hydro owned this plant, we'd be paying less than 20 percent of the cost and now we're paying almost 60 percent of the cost. So this is not a subject that has been discussed between yourselves and Hydro?
MR. PERRY:

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A. I have not been involved in any discussions with anyone at Hydro on that. Whether Mr. Hughes has, I'm unaware, but myself, I've not been involved in any discussions on it.
Q. Okay. Just one other area to cover with you. If we could for a moment go back to Mr. Haynes' evidence and look at Schedule 11? I need the original Schedule 11 actually, not the revision. Yes, that's the one. Looking at the comparison between the forecast for the year 2002 and the actual, specifically for Newfoundland Power, and the variance of 92. megawatts between what Newfoundland Power forecast its peak would be and what that peak actually turned out to be. Can you explain how that forecast turned out to be off by so much?
MR. HENDERSON:
A. That winter obviously all the variables lined up such that the peak that was incurred on Newfoundland Power's system was substantially higher than forecast. It shows there it's 92 megawatts. You know, what caused it to be higher, you know, I guess it depends on the wind conditions and the temperature and what

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it was like across the province and all that kind of stuff. So that's probably the reason why that variance actually occurred.
MR. PERRY:
A. This is not weather normalized. I don't see it, so this again confirms what we talked about earlier about the variance potential on demand of being 10-11 percent that, you know, when weather is factored in, we likely would have had--I think it was probably February 10th of that year, it was extremely cold right across the province, and that's a time when I think we just about had everything on to keep the lights on. I think there might have been one piece of capacity left to put on, but you know, as Lorne said, everything lined up at that point in time.
Q. You may recall that there was some debate about this in the last Hydro general rate hearing because that forecast of 1,001.2 megawatts was, in fact, a new one which was produced in the course of the hearing, which was significantly lower than the previous one. Can you explain to us why the decrease at that point in that forecast?

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MR. HENDERSON:

A. Basically, the reason why the forecast decreased is we annually do up the forecast and in 2000, we provided Hydro a forecast based on the methodology we used at the time, which involved looking at the load factors in the previous five years. So our 2000 forecast would have been based on Newfoundland Power's native peak that occurred from between the periods of 1995 and 1999. When we filed a new forecast in 2001, the five-year historic period that was covered included 1996 through to 2000 and primarily what changed with regard to the load factor was that in 1995, the load factor was considerably lower than it was in 2000, and that resulted in the projected load factor changing in the order of three and a half percent. So that resulted in the projected forecast dropping by roughly 25 megawatts.

(12:00 p.m.)

HUTCHINGS, Q.C.:

Q. Did you consider making an adjustment to your forecast to take into account the anomalous 1995 year?

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MR. HENDERSON:

A. The methodology we used was based on the actual load factors that occurred in the five-year period and that was the consistent methodology that we used in the subsequent. You know, we don't go in and start playing with the numbers so as to try to, I don't know, account for something. You know, we wouldn't have considered--we didn't go back and look at 1995 and say something weird is going on here, as a result something should be done differently. Our forecast up to that point has been tracking reasonably good. The forecasts are high some years, low other years, so that methodology was working quite well. In our forecast for 2001 or 2002, forecast that year was higher than the peaks that have occurred, I think, in the previous four or five years as it was. I would suspect whoever did the forecast at that point in time had no reason to believe that it was, you know, anywhere--any less accurate, I suppose, than what it otherwise could be.

HUTCHINGS, Q.C.:

Q. I understood from Mr. Haynes that there has been a change in your methodology of doing the forecast?

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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 focused on what they referred to as an expected peak, and our system planning, I wasn't involved with it at that time, but at that time, they reviewed it and picked the ten-year historic period and that was considered reasonable at that time as being enough of an historic period to cover off enough variances so that the forecast is close to what would be expected.

Q. Do you know how it was that you came up with the five-year period in the first place?

MR. HENDERSON:

A. No, I don't. That was used historically by the company, you know, a long time ago, probably in the 80s it may have been reviewed. So I don't know what the motivation was for the five-year historic period.

Q. It is correct, is it not, that so long as 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?

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MR. HENDERSON:

A. There's no immediate impact on our costs or whatever.

MR. PERRY:

A. It does come in though every cycle of, you know, rate setting. It would be factored into that.

MR. HENDERSON:

A. Yes, insofar as the actuals affect your forecast, so it would be reflected in the next test year, and that will increase or decrease Newfoundland Power's costs accordingly.

Q. Yes, just so that whatever you forecast for Newfoundland and Labrador Hydro's test year is going to stay in place until Newfoundland and Labrador Hydro comes back for another rate increase, correct?

MR. HENDERSON:

A. That's right, yes.

Q. Thank you, gentlemen. Thank you, Mr. Chair.

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HUTCHINGS, Q.C.:
Those are all my questions.
CHAIRMAN:
Q. Thank you very much, Mr. Hutchings. Good afternoon, Mr. Kennedy.
MR. KENNEDY:
Q. Good afternoon, Chair, Commissioners. Mr. Perry and Mr. Henderson, I wanted to mostly just focus on your pre-filed testimony and go through it. I've got some questions concerning some of the data and analysis that you complete in it. Just before we start there, I just wanted to make sure I had the correct understanding about what Newfoundland Power's concerns are with the sample rate as proposed by Hydro vis-a-vis moving from an energy only rate to the proposed wholesale demand rate, and did I gather correctly that the two concerns are earnings volatility and that there were no customer benefits that Newfoundland Power could see?
MR. PERRY:
A. Yes. The only volatility point translates also into a rate instability issue for customers. So they're somewhat linked, but I

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would agree with you.
Q. To the point where earnings volatility may cause Newfoundland Power to seek rate changes, that would be true?
MR. PERRY:
A. That is correct.
Q. And when you say "no customer benefits" you're referring specifically to your own customers, Newfoundland Power's customers?
MR. PERRY:
A. Yes, and I suppose in the way the system works here, it also extends to Hydro's customers, Rural Interconnected customers.
Q. Okay.
MR. PERRY:
A. I think there's 22,000 of those.
Q. Sure, and so Hydro's retail customers?
MR. PERRY:
A. Correct.
Q. Right. And so you recognize though that that's a different customer class than Hydro's wholesale customers?
MR. PERRY:
A. Yes.
Q. Okay. And so if we were going to implement a

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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, I guess. You know, the demand/energy rate, you know, our understanding is being put in so Newfoundland Power can do something to--you know, incent it to do something to control the demand growth on the system or, you know, and in order to do that, we got to go to our customers. So it's -
Q. Okay. Just leaving aside for the moment the intention, whether there is or isn't one in putting in a wholesale rate, so what Newfoundland Power is expected or not expected to do as a result of a wholesale rate being put in place. Would you agree with me that, just on its face, Newfoundland Power's purchasing, as has been stated several times, two products from Hydro. One's capacity and one's energy?
MR. PERRY:
A. Yes.
Q. And you'd agree with me then that normally at

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a wholesale level, Newfoundland Power would see two sets of prices for those two separate products?
MR. PERRY:
A. Normally at a wholesale level -
Q. When I say normally, I mean normal utility practice in North America, so that the distribution company would see two different prices for those two different products?
MR. HENDERSON:
A. Yes, I'd say generally that's the case.
Q. Okay.
MR. PERRY:
A. As you can see, I still express discomfort with this approach, but anyway, I will point out, the examples I've heard, and ones that I know about, you know, we buy 90 percent of our power from Hydro. The Aquilla BC example is 25 percent. So you know, I think we have to be careful with the words we choose, in terms of everyone else does it. I don't know if I've heard a name, other than Aquilla BC, of one utility that, you know, actual name of a utility. So anyway, that's -
Q. Okay. Well, I think you haven't sat through

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MR. KENNEDY:
every day like we have, which we're -
MR. PERRY:
A. But there's no name in -
Q. - all envious of, I can assure you, but -
MR. PERRY:
A. There's no name on the record anywhere.
Q. I think the only names on the record were referred to specifically the two utilities that did not have a wholesale demand rate. So I guess it would have been superfluous to then go through the exercise of naming all the utilities in North America that would have a wholesale rate.
MR. PERRY:
A. Aquilla, Alberta doesn't have one so, you know, they weren't on the list.
Q. Yes. But you just explained that they're a poles and wires company?
MR. PERRY:
A. True.
Q. Yes. So, I guess what I'm trying to understand is would Newfoundland Power recognize that the purpose of the wholesale demand rate is to send an appropriate price

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signal between Hydro and then its wholesale customer, Newfoundland Power, that that would be the intention of a wholesale demand rate?
MR. PERRY:
A. No, we don't recognize that.
Q. Okay. I wonder if we could just turn to your pre-filed evidence? And I just wanted to go through this and make sure I understood some of the tables as I alluded to. First, though, I just wanted to get a fix on the amount of money that we're dealing with or amounts of money that we're dealing with in your analysis of the potential volatility that the sample rate may have on Newfoundland Power's earnings. And at page 1 you indicate that--at line 21, that after you do your--you say, starting on line 18, "The sample rate significantly increases the potential financial impact of forecast variances." And you go, line 21, "Consequently, there is a combined risk that forecast variances under the sample rate could result in an 8.3 million decrease in pre-tax earnings." And if I'm gathering correctly, the post-tax effect is provided on page 25. I just want to make sure

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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 correct?
MR. PERRY:
A. Correct.
Q. Okay. I wonder if we could just flip to page 21 of your pre-filed? And as indicated in your pre-filed, Chart 5, I'm reading from page 20 just at the context. "Chart 5 illustrates that there is no true relationship between the annual percentage change in Newfoundland Power's normalized peak demand and the annual change in Newfoundland Power's normalized energy requirements." And just before we address that, first I wonder, this chart, the Chart 5, the annual percent change, is that the annual percent change from forecast or is that an annual percent change year over year?
MR. HENDERSON:
A. That would be year over year.
Q. This is a year over year change?
MR. HENDERSON:
A. That's right.

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Q. Oh, okay. So this isn't the percent change based on forecast data?
MR. HENDERSON:
A. No, no.
Q. I see. So right underneath the chart then you go, "Chart 5 indicates that in four of the last ten years changes in normalized peak demand and changes in normalized energy requirements moved in opposite directions. This type of experience indicates the potential for additive effects. In other words, there is a risk that in the same year energy sales could be below forecast and normalized peak demand could be above forecast." But if the chart's not dealing with forecast, if it's only dealing with year over year annual change, how can you reach the conclusion that based on this chart that energy sales could be below forecast and normalized peak demand could be above forecast? Isn't that a bit of a leap in logic?
MR. PERRY:
A. I don't think so. I think it's directly--your actual results--your forecasting and actual

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MR. PERRY:
should, they should move--you know, be based on the same concepts. And I think it's good evidence to suggest that the demand could move in opposite direction than energy.
MR. KENNEDY:
Q. So at page 22 in Chart 6, we have the annual forecast variance in energy requirements. So am I gathering correctly that Chart 6 is showing the difference between actual to forecast in energy purchase by Newfoundland Power for each of the years given in that chart? So in other words, in 1993 you were about one and a half percent less energy sales or energy purchased from Newfoundland Power from forecast?
MR. PERRY:
A. Correct.
Q. Which is it, is it sales or purchased power?
MR. PERRY:
A. I think the total energy requirement.
MR. HENDERSON:
A. That's right. So that would be purchased and produced.
Q. Okay. So is there a similar chart for demand

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in your documents?
MR. HENDERSON:
A. No, there's not.
Q. Okay.
MR. HENDERSON:
A. The evidence which we relied on for the volatility in--from forecast is based on Hydro's response to one of their questions which they talked about the plus or minus five percent volatility.
MR. PERRY:
A. And when you look at demand itself, obviously we know that our customer demand for the customers that are on demand rates does not track the actual native peak demand for Newfoundland Power, and that's shown in Chart 3 on page 18. So when you look at demand itself, there is no relation there.
MR. HENDERSON:
A. It might be helpful if you want to turn to NP-156, NLH, which Hydro has provided a comparison of historic forecast to actual. It's on the second page. And you can see there the variances that occurred between the forecast error and gigawatt hours. So let's

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pick a year like 1996. In 1996 our forecast for energy was high and our peak forecast was low. So they're in opposite directions.
(12:16 p.m.)
Similarly, in 1994 they're in opposite directions. In 1993 they're in opposite direction. 1997 they're in opposite directions. So, you know, that illustrates the fact that they can be moving in opposite directions and as a result both of the -
MR. PERRY:
A. The risks -
MR. HENDERSON:
A. - risks can be additive.
Q. Sure. And do you know if this is normalized data that we're looking at?
MR. HENDERSON:
A. That looks like actual.
Q. Right. So that weather normalized percent error from forecast would be different than the numbers we're seeing there, yes?
MR. HENDERSON:
A. They'd be different, yes.
Q. Yeah. And just going back to Chart 5 then, because I think that in a way is similar to

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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 and energy sometimes moves in opposite directions?
MR. HENDERSON:
A. Yes, that's right.
Q. Again, this isn't forecast. These are just the actual changes year over year?
MR. HENDERSON:
A. That's right.
Q. And you indicate in there that that line on Line 2 there, that Chart 5 indicates that in four of the last ten years changes in normalized peak demand and changes in normalized energy requirements moved in opposite directions. And if I'm gathering correctly, that was in '96, '97, '99 and 2002?
MR. HENDERSON:
A. Yes.
Q. Okay. And in each of those years the opposite direction that it moved was that your energy sales increased and your peak demand decreased?

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MR. HENDERSON:
A. That's correct.
MR. KENNEDY:
Q. And would that under the wholesale rate as proposed by Hydro work in Newfoundland Power's favour?
MR. HENDERSON:
A. Yes, if that was the forecast variances to--variances to forecast. This is just the year over year changes.
Q. Right. So -
MR. HENDERSON:
A. There will be years in which the two will be additive so as it will -
Q. I know you say that, but I guess I'm trying to find that information in your report where we're actually dealing with forecast.
MR. PERRY:
A. Well, I think he just took you to--he just took you to Hydro's evidence that -
Q. Yeah, but that wasn't weather normalized, so it's not much that we can do with that whether it's not--if it's not weather normalized?
MR. PERRY:
A. Well, I disagree, Mr. Kennedy, because, you

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know, we've acknowledged that demand variances have been as high as 11 percent without stripping out the weather normalization issue. And stripping out the weather normalization brings us down to about a five percent problem. So you're still--you know, when you weather normalize those numbers, you're still going to have resulting variances.
Q. Where does the five percent come from?
MR. PERRY:
A. I think that--the five percent of stripping out weather normalization?
Q. No. The five percent variance in forecast demand as a potential range of what Newfoundland Power could be off in its forecast of demand for a given year?
MR. HENDERSON:
A. That was put on the record by Newfoundland Hydro. Just a second, I'll -
Q. I think if you go to PUB-151. You actually referenced it in your -
MR. PERRY:
A. That's correct.
Q. - report. So it's, I guess, from this very first sentence, that since 1996 the difference

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between Hydro's forecast for NP native peak and the weather adjusted actual has been within a range of plus or minus five percent?
MR. PERRY:
A. That's correct.
Q. So now this is the difference between Hydro's forecast for your native peak and then your actual weather adjusted peak. So that Hydro forecast, does that come from Newfoundland Power, do you know?
MR. HENDERSON:
A. It does -
Q. Or does Hydro do its own forecast?
MR. HENDERSON:
A. No, it comes from us but Hydro, I know, applies for our native peak. I know Hydro in the past has tried to calculate an expected amount hydro production for Newfoundland Power, so as a result they came up with a component of what created Newfoundland Power's--hang on, that says native peak forecast. Yeah, I suspect we should have information that's similar to what they must have based theirs on.
Q. Yeah. So you would--Newfoundland Power--and I

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guess Mr. Hutchings asked you a question that in between rate hearings there's no financial driven incentive for Newfoundland Power to be accurate in its demand forecast?
MR. PERRY:
A. There's no financial incentive, but we do our best on forecast year by year, Mr. Kennedy.
Q. There would be a financial incentive to be accurate with your energy forecast?
MR. PERRY:
A. Clearly.
Q. And generally based on your--although, we don't have the comparison data. Could you tell us what's Newfoundland Power generally more accurate in forecasting, demand or energy?
MR. HENDERSON:
A. Oh, energy.
MR. PERRY:
A. But I think the issue is and it's, you know, been discussed, that the forecasting demand is somewhat more difficult to forecasting energy given the geography of the island and the various other issues involved with that.
Q. Now, so do we have any data before the Board

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MR. KENNEDY:
on what the variance has been for forecast demand sales for the period 1993 to 2002?
MR. HENDERSON:
A. I believe it's in that response that I took you to in Hydro's testimony.
Q. And which one was that, sorry?
MR. HENDERSON:
A. NP-156. That's on the record.
Q. Oh, yes, okay. That's the--it's not weather normalized?
MR. HENDERSON:
A. Okay, not weather normalized, okay.
Q. Okay. Just going to the next section then, the volatility, page 22, that Chart 6 again. And this we know to be the annual forecast variance in energy requirements. Do you know if this is weather normalized?
MR. HENDERSON:
A. Yes, that's weather normalized.
Q. That's weather normalized, okay. And this chart is actually representative of the data that Newfoundland Power used to calculate its energy forecast variance for the period 1993 to 2002 to be plus or minus 2.4 percent. Is

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that correct?
MR. HENDERSON:
A. Yes, that's correct.
Q. Okay. And when we look at that chart, 1993 to 1996, your forecasting seemed to be, I guess, optimistic compared to what actually occurred during that period, generally?
MR. HENDERSON:
A. Yeah. I think what you see in the slope of the curve that you're seeing here is probably business cycle effects that, you know, we use inputs from Conference Board of Canada, and I guess in the early '90s the Conference Board of Canada was probably projecting that Newfoundland Power--Newfoundland's economy was going to be better than what it actually turned out to be. Probably more recently they've probably been under forecasting it somewhat. You know, those types of effects are going through here.
Q. Sure. So I think sometimes it's been referred to the fact that we have a cod moratorium that took place in that early '90s and that had a dramatic impact on Newfoundland Power's financial results?

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MR. PERRY:
A. I'd say it's part of it.
Q. Is that a fair statement?
MR. PERRY:
A. It's part of the problem.
Q. So, do you have any idea what the plus or minus energy variance would be if we took the period 1996 to 2002?
MR. HENDERSON:
A. If you look at the graph, obviously the -
Q. It's not cumulative, right, so.
MR. HENDERSON:
A. Yeah. The low point is just under one percent and the high point on that graph is, you know, somewhere around 2.4 percent.
Q. So it would be plus two percent and a minus 0.2 percent?
MR. HENDERSON:
A. Sure. And, you know, I don't think that's necessarily going to be indicative of what's going to happen in the future. Things always turn around and I'm sure we'll be seeing variances again that are in the order of minus 2.4 percent again.
Q. Mr. Perry, you've referenced a number of times

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the fact that under Hydro's Application they-- I guess, there's been some different words used about whether the Interruptible B contract was not being renewed. And I think there was a statement that it's already discontinued prior to the GRA Application being filed, so it was just a case of it not being renewed. And you seemed to attach some significance to the fact that Hydro was not renewing that Interruptible B contract. And if I gather correctly, that significance to Newfoundland Power is the fact that if Hydro doesn't feel there's value in the Interruptible B contract at $28 kilowatt, how could it allege that the demand charge should be $84 a kilowatt. Is that a fair summary?
MR. PERRY:
A. Yes.
Q. So if the Board were to accept the Industrial Customer's position and order that the Interruptible B contract be re-instituted for the benefit of those Industrial Customers on the basis that it does have value, would that alleviate that concern?

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MR. PERRY:
A. Not as much. I think the Board needs to understand what the cost of capacity--marginal cost of capacity is on the system. $28 may be too much, you know. So I'm not saying that it's--that Hydro should go off and enter into a--or extend its contract for $28. I think we need to understand how much is this worth. And right now, we don't know, we don't know how much it's worth. So, you know, I'm just saying we have evidence before us that 28, you know, was too much, and therefore you have to wonder about 84.
MR. KENNEDY:
Q. Mr. Perry, I don't think I saw you here when EES was testifying, but I believe, Mr. Henderson, you sat in which Ms. Tabone and Mr. Chymko testified?
MR. HENDERSON:
A. Yes, I did. And I'm sure Barry has probably read over the testimony.
MR. PERRY:
A. I have, yeah.
Q. Okay. And you know that they, while on the stand, put forward an alternative proposal for

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the wholesale demand rate?
MR. HENDERSON:
A. Yes.
Q. You're aware of that?
MR. HENDERSON:
A. Yeah.
Q. And they calculated the--or proposed, at least, that another view would give a demand rate of four and a quarter a month as opposed to $7 a kilowatt per month charge?
MR. HENDERSON:
A. Yeah, they put on a different -
Q. And so the four and a quarter gives you roughly $51 annual kilowatt charge?
MR. HENDERSON:
A. Yes.
Q. And they arrived at that figure by combining the $28 portion of the demand relating costs equated to the Interruptible B contract and the balance was derived from the transmission portion of Newfoundland Power's gen credit? You understand that?
MR. HENDERSON:
A. You know, I know that they came up with a rate that's based on some numbers they pulled from

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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 two--four point two, five is necessarily correct or better than $28 or better than zero dollars.
Q. Okay. Is it you didn't follow their argument or you didn't agree with it?
(12:30 p.m.)
MR. HENDERSON:
A. I followed their argument in that they took some imbedded cost numbers and they took some Interruptible B numbers and they combined them to come up with a rate. But, you know, those costs don't have much relevance with regard to marginal costs because there's no marginal cost on the record, so, you know.
MR. PERRY:
A. We did run some numbers on what volatility would result from that rate. And $8.3 million number that we've talked about declines to 5.4 million, which is still about two and a half times the range we're allowed to work with under the Rate of Return on Rate Base, so there's clearly, even with that number,

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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. That additive effect would require a scenario where your energy sales are below forecast and your normalized peak is above forecast, correct?
MR. HENDERSON:
A. Yes, that's correct.
Q. And could you tell me if at any time in the last ten years that's occurred?
MR. HENDERSON:
A. Is your question with regard to normalized or with the actual?
Q. Normalized.
MR. HENDERSON:
A. Normalized.
Q. Your normalized peak and your normalized energy. Have you in the last ten years faced a situation where your energy sales were below forecast and your peak demand was above forecast?
MR. HENDERSON:
A. In 1995 our--I just want to make sure I got

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MR. HENDERSON:
normalized figures. In the 1995 and '96 peak looks like our forecast was--our demand forecast was low by approximately five percent. And I notice down here in 1995 our energy forecast was under by two percent, so I guess in that year they may have gone in opposite directions. One of the caveats I got to put on that is that I'm not quite sure of the timing of the peak in 1995 because we forecast based on winter season peaks while what's down below is a calendar energy variance.

MR. KENNEDY:
Q. And I think you referenced on earlier cross that, and I believe it was Mr. Hutchings questioning you, that there was something anomalous about your 1995 data so that that was partially what spurred your changing in methodology in your demand forecasting?

MR. HENDERSON:
A. No, there's nothing anomalous about the actual figures for 1995. All it was is that 1995 figures were different from 2000 figures, so as a result the five-year period contained

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load factors that were, you know, a different set of numbers that resulted in a different forecast.
Q. Okay. But you've since 2001 changed your actual forecasting methodology?

MR. HENDERSON:
A. Yes, that's correct.
Q. Okay. Did you do any kind of sensitivity analysis to see if you had applied that new forecasting methodology over the preceding ten-year period, how that may have impacted on your forecast versus actual?

MR. HENDERSON:
A. We had a look at it. The range of variances that would occur is roughly 11 percent. Therefore, you know, it's possible that plus or minus five percent could still occur on your demand forecast.
Q. I'm not sure if that gets us far. Plus or minus 11 percent of what?

MR. HENDERSON:
A. If we had used the 15 year average load factor, okay, and compared what the forecast would have been against what I refer to here as the adjusted or normalized peak, the errors

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varied by a range of 11 percent. So that would indicate that there's potential upside and down side variance in the order of plus or minus five percent.
Q. I'm not sure if I follow the logic. Maybe if we could just go to Information No. 17?

MR. PERRY:
A. Mr. Kennedy?
Q. Yes.

MR. PERRY:
A. Maybe the best thing we could do is just agree to undertake to show you a demand forecast and an energy forecast the way you are, I think, trying to piece together the information, and we could do it from '93 to 2003 and then, you know, it would be much easier, I think, for you to see the changes that occur.

MR. HENDERSON:
A. Yeah. We may need to go back prior to 1993 just from the perspective that during that period we had a lot of--generally speaking, we didn't hit severe winter peaks. As a result, in general, during that time period our forecasts were high as opposed to being low, and that's not really representative of what

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would probably happen in the future.

MR. PERRY:
A. Does that help you?
Q. Possibly. I guess what might help is Chart 5, only with using, you know, comparisons from forecast to actual in both your energy and demand for that period, 1993 to 2002, which you then used to base all your figures on.

MR. HENDERSON:
A. Okay.

MR. PERRY:
A. We can do that.
Q. And in the case of Information No. 17, just curiosity, if I'm gathering correctly, we have the five-year average chart there underneath those first rows and columns. And then there's an initial 2004 forecast and then a revised 2004 forecast. And if I'm recalling correctly, that was caused by Newfoundland Power updating its forecast in response to a request by Hydro to provide more up-to-date forecast of your demand and energy requirements for the test year?

MR. HENDERSON:
A. That's correct.

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MR. KENNEDY:
Q. All right. And initially you provided a figure of your maximum peak for 2004 to be 1084 megawatts on the nose, is that correct?
MR. HENDERSON:
A. Yes.
Q. All right. And then when you revised, you revised to 1080.7 megawatts, is that correct?
MR. HENDERSON:
A. That's correct.
Q. And so when I work that out, it constitutes 0.3 percent change in your forecast maximum peak for 2004?
MR. HENDERSON:
A. This is the maximum peak less the amount of hydraulic generation we have on. Now, part of the effects you're seeing there is the fact that Hydro changed what they consider an appropriate reserve and so that went from--well, there's a small error that I think Mr. Haynes talked about, but that accounts for roughly 3.3 megawatts of change. So the forecast after you account for that is--you know, the figures we actually gave Hydro are a very small amount higher in the revised

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forecast than in the original with regard to our native peak.
Q. Okay, I guess that's what I was trying to get at, you talk about this potential variance in your forecast demand, but when I looked at this chart, it seems like you're able to be very accurate in your forecast for demand?
MR. HENDERSON:
A. You take historical numbers and you come up with the load factor and you apply that load factor. The forecast year over year is primarily reflective of changes in your energy forecast year over year. That is no indication of how accurate it is or how much different actual is going to be from forecast.
Q. Okay, so just to close, turning over to page 25 again, in that Table 7 in your summary of potential change in earnings, that under the sample rate, that first column where you have earnings gains of a total of 3.3 million, would mean that it would be a scenario where your energy forecast was--your actual sales were higher than forecast and for your demand, your demand was lower than forecast, correct?
MR. HENDERSON:

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

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KELLY, Q.C.:
Q. No further questions, Mr. Chair.
CHAIRMAN:
Q. Thank you very much, we move to Board questions now. Commissioner Saunders?
COMMISSIONER SAUNDERS:
Q. I have no questions.
CHAIRMAN:
Q. Commissioner Whalen?
COMMISSIONER WHALEN:
Q. Let me have a minute to look at my notes. I just wanted to pose the same question to you, I guess to you, Mr. Perry, that I posed to Mr. Brockman and again, in reading your pre-filed evidence and listening to you this morning, do I understand as well that--well perhaps I should just ask you the question, are you opposed philosophically to demand/energy rate or are you just opposed to the sample rate that Hydro's proposing in this Application?
MR. PERRY:
A. I'm actually philosophically opposed to it because I don't really see the necessity of having it. The benefits that everyone is sort of putting forward for having it, can be

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MR. PERRY:
achieved by determining, you know, what the value is or what costs should be spent to defer capacity on the system. And I think that can be done by conducting a long run marginal cost studies and coming up with a number and frankly, Newfoundland Power board could say to Newfoundland Power, listen, this is your benchmark, bring forward programs, if there are any out there that you can implement to do this Demand Side Management. You know, we still need to have a demand/energy rate to do that and amplifying that is I think the rate would have to go down--the demand part would have to go down so low, absent a reserve or some mechanism to deal with volatility, that you would almost be back to the energy-only rate anyway, in terms of getting back to the $900,000.00 of volatility that we currently have under the energy-only rate, because even at $1.00 a month for demand, we still chew up--potentially chew up all the range of return on rate base. So, you know, I just believe that, do the studies and come up with the right numbers for Demand Side

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Management, you know, ask the utilities to bring forward projects that can be done and hopefully done economically, and go forward like that. I think that's where Newfoundland Power is.

COMMISSIONER WHALEN:
Q. Could you just qualify for me what this reserve mechanism that you talked about, what that might--what does that look like or what would that entail? Is that really just an account where you would bank differences and -

MR. PERRY:
A. That's essentially what it would be, Commissioner, you know, and you would have to make a choice, I guess, whether it gets cleaned out every 12 months or whether you somehow let it balance out over time and if you go to balancing out over time, I think you got to start getting into the floor that Hydro has put on and the cap that's on Newfoundland Power's earnings. Those factors all have to be looked at to figure out if that's the right approach. But I think the cleaner approach would be it goes into a reserve and then, I guess it becomes part of the July 1st

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adjustment to customer rates, so that it's cleaned out on an annual basis.
Q. I also wanted to ask you about the timing issue because--there's really two questions, I guess, the Board has to decide whether there should be demand/energy rate and then, I guess the question is what should that rate be. And if we ordered as a part of this decision that a demand/energy rate for Newfoundland Power as a wholesale customer of Hydro is appropriate, I think I did pose a question to Mr. Banfield in terms of the timing, so what has to happen. If that was the result of this proceeding, that we said yes, a demand/energy rate should--but you have to present us with one, what do you see as the things that have to happen?

MR. PERRY:
A. Well first of all, we have to deal with the volatility issue, so I think Newfoundland Power would have to come forward with a proposal to the Board to deal with the volatility issue before the rate is implemented; and the second thing is we believe the rate shouldn't be implemented at a time--any other time other than January 1st

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because as you go through the year there, it creates transition issues and we said in my pre-filed or my examination-in-chief, I said up to $5 million dollars. For instance, if the rate was implemented around April 1st, Hydro would be receiving $5 million dollars more than if it had been implemented earlier. So I don't know if you can add--the transition issue, you know, there is always transitional issues when Hydro and Newfoundland Power implement new rates, but this time, when you're moving from the energy only to the demand/energy rate, if you do it at a time other than January 1st, there are bigger issues than normal.

MR. HENDERSON:
A. Yeah, I think, I'm not sure you probably understand why it may be arising, but every month the revenue that Hydro would get under a demand/energy rate would be different from what it is under an energy only rate. During the summer they will receive more and during the winter, they will receive less. As a result, if we implemented it, you know, in April, the amount of money that Hydro is going

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MR. HENDERSON:
to be receiving is going to be--for the remainder of the year, is going to be considerably different. It's not really revenue neutral, I guess is a word you can say, between then and the end of the year, as to whether it's an energy-only rate or a demand rate. When we flow our rates through our customers, we're going to be flowing through on a 12-month annual basis, so as on a go-forward basis if the rate is appropriate. That means that, for instance, we will be getting revenue from our customers at, you know, around 6.5 percent increase, that's how we're going to be recovering money, but between April 1 and the end of the year, Hydro's increase in revenues from us would be substantially more than the 12 percent that they're looking for on an annual basis because of these timing effects. And that gives rise to this $5 million dollars that Barry was talking about. Normal transitional issues that we have to deal with which would flow through our RSA, has been in the order of, you know, a million bucks and I think our numbers

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for the type of increase Hydro's talking about now, is probably in the order of a million dollars. This $5 million is on top of it and it's related to implementing a demand-energy rate, as opposed to an energy-only rate. So that is an issue that's material, the $5 million dollars going through the customer is a much bigger issue than rolling a million dollars through, so it is an issue that's got to be considered and, you know, we could flow it through our RSA, but the other way to deal with it, is you could potentially, implement an energy-only rate immediately, implement the demand-energy rate at some point after that. Potentially in that period you could look at the volatility issue for Newfoundland Power and you could potentially, if you pick January 1, this transitional issue would disappear, I guess.

COMMISSIONER WHALEN:
Q. And I understood as well from Mr. Banfield that there would be a necessity for Newfoundland Power and Hydro to work together on the weather normalization model as well, is that -

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MR. HENDERSON:
A. Yes, if we have a reserve, the necessity of normalization is less, but I think it's a good idea that we try to minimize all to the extent possible through this normalization mechanism, to make sure that it, in of itself, does not hold up the implementation of a demand-energy rate. We can potentially take the mechanism that Hydro already uses in their long-range forecast and I think Sam Banfield alluded to that already, beyond that, it would be a good idea for us to get together and do a study to see if we can come up with some sort of better equation that will better take out weather and that will, you know, reduce volatility a little bit further.
Q. And I guess all of this, notwithstanding your philosophical fundamental objection, Mr. Perry, this would all not be predicated on a Marginal Cost Study because the timing of that is such that certainly we couldn't do that in a short term.

MR. HENDERSON:
A. That's right, you know, while we feel that if the Board decides to go ahead with a demand/

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energy rate, they should do it with all the information that should be, you know, that we feel is required to bring forward a rate that purports to be efficient. A rate could certainly be implemented without it, you know, I think all of the experts have said, you know, and we, ourselves, design rates based on what we get in the Embedded Cost Study and know about Holyrood marginal cost, you know.
Q. Thank you very much.

CHAIRMAN:
Q. Thank you, Commissioner Whalen. I believe in responding to Commissioner Whalen's question on the sort of solution side, you probably responded to my question, but I'll ask it in any events because there are a few issues, Mr. Perry, that sort of come before the Board, I guess, that are referred to if we make certain decisions that are mind boggling and foolhardy. And I've heard the arguments that 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

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CHAIRMAN:
offered by energy and demand rate. What are the two or three--is it the $5 million dollar issue that sort of puts it over the top in your view? Are there any other items, I mean, what are the two or three key issues that would bring you to describe this issue in that fashion?
MR. PERRY:
A. Okay, Mr. Chairman, number one, it's not going to cause us to do anything different with our customers, okay, we already have demand rates in place where they should be and Domestic customers, you don't charge demand to. The $5 million dollar or approximate after tax volatility issue for earnings is a big issue and I think has to be dealt with. But my comments about mind boggling and foolhardy, I think more relate to the rate, the $84.00 and not knowing whether that is an appropriate rate or not. There is just no evidence to say that that's the right signal to send to Newfoundland Power and you know, and the Board can get that evidence by asking Hydro, working with Newfoundland Power, to do a Long Run

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Marginal Cost Study, and so, I believe that that is sort of the prudent approach to say, well why should we pick something out of the air at $84.00 and go with that, rather than being prudent, you know, the Board has always made sure it had all the information in front of it to make its decision, ask for the study to be done, come back in and say, okay, now you have the information, let's decide on what the correct path forward is. Right now, the Board doesn't have the information it needs and I think that's where my disconnect, I suppose, is with the rate that's being proposed.
CHAIRMAN:
Q. Thank you, Mr. Perry. Any questions arising?
MR. YOUNG:
Q. Just one, Mr. Chair, thanks. Mr. Perry, you just mentioned just a moment ago about a disconnect and the lack of evidence on the $84.00. I'm just wondering it sounds to me, from what you're saying, that the disconnect arises because there's no Marginal Cost Study and the lack of evidence, I take it from your perspective is that the Embedded Cost Study is

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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?
MR. PERRY:
A. I think there's a balance required, Mr. Young, between the embedded and the marginal cost approach. I think for the purpose of the rate which is designed to give Newfoundland Power's signal to go out and do something with its customers or introduce programs, design Demand Management Programs, I think you're more leaning towards the marginal cost side of it and that's why we believe that we should go ahead and do the studies.
Q. Okay, that's all.
CHAIRMAN:
Q. Thank you, Mr. Young. Any others, Mr. Browne?
BROWNE, Q.C.:
Q. No questions, thank you.
HUTCHINGS, Q.C.:
Q. No thank you, Chair.
MR. KENNEDY:

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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 that, if it came in sort of mid year or a date other than January 1, it could cause some transition issues for Newfoundland Power?
MR. PERRY:
A. That's correct.
Q. And I'm just wondering because I was sort of looking at that, but then I thought that you took care of that yourselves in your report, page 16, I must be mis-reading the chart and when I looked at that, this is as it states the 2004 monthly purchase power expense for Newfoundland Power, based on the sample rate, correct?
MR. PERRY:
A. Correct.
Q. Okay, and I guess can you just explain if this rate got adopted somewhere other than January 1, it wouldn't have any impact on the amount that Newfoundland Power's expected to pay for

MR. KENNEDY:
the demand component of the wholesale charge on a month-to-month basis, based on this chart? I assume that it looked like you were going to pay the same amount every month for your demand charge to Hydro and that it would only be the energy charge under the wholesale demand sample rate that would end up changing from month-to-month, depending on how much energy you actually sell on the system?
MR. HENDERSON:
A. The transition issue arises because of the difference between the total, the top of the bar here that you see here, and what the top of the bar would have been under an energy-only rate, okay?
Q. Okay, if we -
MR. HENDERSON:
A. And that's what gives rise to this issue that we're talking about, discussing.
MR. PERRY:
A. And Mr. Kennedy, by the way, Hydro, Mr. Banfield has as well identified that this is a potential issue that has to be dealt with in the transition period.

Q. Right, okay, so it is addressable?
MR. PERRY:
A. Yeah, the easy solution is do it on January 1.
Q. But if we don't have January 1 as an option and we want to introduce a wholesale demand rate on a date other than January 1, this transition issue can be addressed financially?
MR. HENDERSON:
A. Yes, it potentially can be flowed through Newfoundland Power's RSA and it will hit our customers next summer, you know, $6 million dollars -
MR. PERRY:
A. One and a half to two percent.
MR. HENDERSON:
A. One and a half to two percent next, the following year because of this transitional -
Q. Okay, that's all the questions I had, thank you, gentlemen.
CHAIRMAN:
Q. Thank you, Mr. Kennedy. Mr. Kelly?
KELLY, Q.C.:
Q. No questions, Chair.
CHAIRMAN:
Q. Thank you very much, Mr. Henderson and Mr.

Perry. It's probably, Mr. Perry, the last time you'll appear before this Board for quite some time, if ever, and we wish you well in your new position starting in January, sir.
MR. HENDERSON:
A. Thank you, Chair.
CHAIRMAN:
Q. That brings to a conclusion today's session and I guess we have a scheduled day off tomorrow. Mr. Brushett will be taking the witness stand on Thursday at 9:00 and the schedule I have here, in any event, would look to Mr. Brushett to continue, if necessary and then the Industrial Customer's panel of witnesses on Friday and I guess the schedule calls for us to conclude at the end of the week with written and oral argument in January. So unless there's been a change, Ms. Newman, that's -
MS. NEWMAN:
Q. No, Chair, that's my understanding as well.
CHAIRMAN:
Q. Thank you everybody and we'll see you on Thursday morning at 9:00.

CERTIFICATE

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