LIST OF UNDERTAKINGS

(9:19 a.m.)

CHAIRMAN:

Q. Thank you. Good morning. It's been a long time between drinks. Hiatus, I guess, that nobody expected nor wanted, but those things happen. In any event, welcome back. Good morning, Ms. Newman. Is there anything before we start?

MS. NEWMAN:

Q. Chair, I don't have any matters, but I understand that counsel for Newfoundland and Labrador Hydro does want to address some small procedure issues, filing issues before we get started with our witness today.

CHAIRMAN:

Q. Okay. Just before we get started, I understand in discussion with Ms. Newman that indeed it's the fondest hope that we actually deal with Mr. Roberts and Mr. Haynes' testimony on the revised Application this morning, so--or the revisions to the Application. So I guess it's my understanding is that we'll take the longer day option time wise and so that there will be a break, a 15

minute break at 10:45, lunch from 12:15 to 1:30 and we'll see what happens later on in the afternoon, but a break at 3:15 or 3:00, I'm sorry, according to this new schedule that I'm looking at here. So we'll proceed on that basis in terms of today's time table and we'll see where we are later on this afternoon.

MS. NEWMAN:

Q. Excuse me, Chair. The break had been originally scheduled or proposed at 10:30, so did you want to -

CHAIRMAN:

Q. 10:30, yeah. I was looking at the end of the break, 10:45. Yeah, 10:30 then. Thank you, very much. Good morning, Mr. Roberts, how are you? I think you're sworn in as a witness, so we don't need to re-swear the witness, Ms. Newman, is that correct?

MS. NEWMAN:

Q. That would be fine.

CHAIRMAN:

Q. From a procedural standpoint?

MS. NEWMAN:

Q. I would suggest that the witness remains under oath.

CHAIRMAN:

Q. Okay. Good morning, Ms. Greene. When you're ready, please?

GREENE. Q.C.:

Q. Good morning, Mr. Chair, Commissioners. I just wanted to take a minute to point out what has been filed by Hydro since we last met. The first matter is the revised revenue requirement which was filed by Hydro on October 31, 2003. As has been recommended by Grant Thornton and as had been agreed to by the parties, Hydro agreed to update its filing to reflect more recent information from what had been used in the May filing. The October 31st revision includes actuals to the end of August, as well as the most recent forecast of relevant information such as load, foreign exchange rates, fuel prices, etcetera. Mr. Roberts has filed Supplementary Evidence to explain the revised filing and our purpose--Hydro had planned to recall Mr. Roberts to explain the revised revenue requirements. As well, we have revised the schedules to Mr. Martin's evidence, Mr. Haynes' evidence to reflect the revised revenue requirement from

GREENE, Q.C.:

this updating for recent information. The Industrial Customers have requested to reexamine Mr. Haynes with respect to the revision and Hydro has agreed to that. We have also filed revised evidence from Mr. Banfield and from Mr. Greneman who are yet to appear as witnesses and they will speak to the revised evidence when they appear in the normal course in the schedule. As well, we filed on November 7th the responses to information requests that we had received in the revised filing. So on November 7th we responded to 21 information requests received from Newfoundland Power and seven, I believe it was, that we had received from the Board. On November 7th Hydro also updated what had been undertaking No. 3 which were the key performance indicators. So on November 7th, Hydro filed a response to what is now undertaking No. 17 given to Board counsel to update the key performance indicators to reflect the most recent revision for the financial forecast for 2004. So that is the documentation that Hydro has filed since we

last sat. And of course, today we will be dealing through Mr. Roberts with the revised revenue requirement. That completes my preliminary comments. Thank you, Mr. Chair.

CHAIRMAN:

Q. Thank you, Ms. Greene. Once again, welcome back, Mr. Roberts. You can begin with any direct that you might have, Ms. Greene, when you're ready.

GREENE. Q.C.:

Q. Thank you, Mr. Chair. I do have a short direct for Mr. Roberts. Mr. Roberts, the Supplementary Evidence dated October 31 was filed in your name. Do you adopt this evidence as your evidence for the purpose of your testimony today?

A. Yes, I do.

Q. What was the purpose of the Supplementary Evidence?

A. The purpose of the Supplementary Evidence is to explain the revised revenue requirement flowing from updating information as recommended by Grant Thornton and its report on Hydro's 2003 General Rate Application. This revised information reflects actuals to

the end of August and more recent forecasts for items such as load, No. 6 fuel prices, interest rates and foreign exchange rates.

Q. I wonder, Mr. O'Reilly, if you could bring up the second revision to Schedule 2 of Mr. Roberts' evidence, please? Now, this revised Schedule 2 sets out the revised revenue requirement proposed by Hydro for 2004. Could you please explain how it was prepared?

A. Yes. Schedule 2 was prepared taking into account actuals to the end of August, 2003 and most recent forecasts and estimates for the remainder of the year. Explanations have also been provided for all changes in 2003 and 2004 that are over $100,000.

Q. And these explanations were provided as footnotes to the schedule, is that correct?

A. Yes, it is.

Q. Okay. The overall change in the revenue requirement for 2004 which the rates are based in a reduction of $4.3 million, is that correct, Mr. Roberts?

A. Yes, it is.

Q. And that can be seen from Line 35 on the schedule, is that correct?

A. Yes.

Q. I wanted to look now at some of the more significant changes with you. The first is at line 33, which is the change in the interest. And there we see for 2004 a reduction of $3.6 million, and that is the most significant change shown for 2004. Could you explain that decrease in interest expense, please?

A. Yes. The decrease in interest expense is primarily due to a decline in the short-term interest rates from an average of five percent to 2.78 percent.

Q. Then looking at No. 6 fuel, which is up in line 5, there's a decrease shown there for No. 6 fuel of $224,000. Could you explain that decrease, please?

A. Yes. The decrease in No. 6 fuel cost is due to a slight decrease in load resulting in lower production offset somewhat by an increase in the average cost of fuel from twenty-nine, forty-two per barrel to twenty-nine, fifty per barrel. The underlying weighted average U.S. fuel prices have increased from $19.23 per barrel in the previous forecast to twenty-one, fifty-eight,

MR. ROBERTS:
but a more favourable exchange rate of 75 cents as compared to 66 cents used in the previous filing has reduced this impact.
Q. Now then, next significant decrease there is in diesel fuel on line 10, 577,000. Could you explain why there is a decrease in fuel expense forecast for 2004?
A. The decrease in diesel fuel expense is primarily due to a projected decrease in diesel fuel prices from 43.3 cents a litre to 40.3 cents per litre.
Q. Those were the significant decreases. I wanted to look now at some of the increases that have arisen since Hydro's last filing. The first is the increase in other costs that is shown on line 26 of an increase of $577,000. Could you please explain this increase?
A. This increase is primarily due to the loss on disposal of capital assets which arises from the projected discontinuation of service in Davis Inlet and the increase in equipment rentals due to an increase in charges from Aliant for Hydro's mobile radio system. These

are partially offset by the decrease in professional services due to a decline in software acquisition and maintenance expenses category relative to the non-renewal of the Microsoft Enterprise agreement.
Q. The last increase that I wanted you to explain was the increase in power of purchase expenses which is shown on line 13.
A. Yes. This increase is due to higher costs for synchronous condenser maintenance and control upgrades at the Wabush Terminal Station.
Q. What impact does this reduction that we see here in the 2004 revenue requirement have on the base rates that Hydro has requested in its application?
A. As set out in Mr. Banfield's revised evidence, the base rate increase requested for Newfoundland Power is now 12 percent instead of 13.7 percent as reflected in the August revision. While for the Industrial Customers the base rate increase now is 12.2 percent instead of 13.5 percent as shown in the August filing.
Q. We just looked at Schedule 2 to your evidence. You have filed a number of other schedules as

well with your Supplementary Evidence. Could you please explain what the other schedules were and why they were updated?
A. The appropriate schedules attached to my original evidence had been amended to reflect the October 31st revision. The list of schedules as attached shows the various items that have been revised.
Q. And all of these schedules have been revised just to reflect the more recent information shown in the revised revenue requirement. Is that correct?
A. Yes, it is. And we've shown the August filing as well as the current filing on each schedule.
Q. Thank you, Mr. Roberts. That completes my direct examination.
CHAIRMAN:
Q. Thank you, Ms. Greene. Good morning, Mr. Browne. When you're ready.
(9:30 a.m.)
BROWNE, Q.C.:
Q. Good morning Chairman and members of the Board. I have a few questions for you, Mr. Roberts, on your new evidence, and Mr.

Fitzgerald has a few as well. You've stated previously to the Board that Hydro has no new borrowing plans. Is that still the case following your refiling the evidence?
A. Yes, it is.
Q. And when is the next year you anticipate you will have to borrow?
A. It will be maybe in 2005 or 2006, but nothing is planned in three or four.
Q. It's my understanding that the parties are close to agreement on various aspects of the Rate Stabilization Plan. And if that agreement falls through, are you prepared to return to speak to the Rate Stabilization Plan?
A. It will be either myself or Mr. Banfield will have to address the Rate Stabilization Plan.
Q. I read in your evidence that purchases from NUGS came on earlier than you anticipated. Is that correct?
A. Yes, that's my understanding.
Q. Is that a cheaper form of power than what you would produce at Holyrood?
A. I don't believe it is. I think there was an earlier RFI that outlined the cost that would

MR. ROBERTS:
be paid relative to the purchases of the power from the new NUGS.
Q. So as part of the additional--any additional expense in your evidence, can you point us to a line where you are agreeing that that is a more expensive form of power and that now that you are purchasing it earlier than anticipated, where in your evidence is that highlighted?
A. The only thing that's shown here in the evidence that's very specific would be the increase in power purchases that would be shown on line 13 where there are--the energy is being bought earlier than what had been originally anticipated.
Q. Who are the beneficiaries of this power contract, if in fact, you could produce electricity cheaper at Holyrood than you are buying it from NUGS, who are the beneficiaries of that contract?
A. The NUGS contract that's causing the increase here that power came on earlier is the Exploits River Partnership.
Q. And who are they?

A. I believe it's Fortis and Abitibi.
Q. And Fortis and Abitibi, that's Abitibi the -
A. Abitibi Consolidated.
Q. Abitibi Consolidated in the Grand Falls operation, is that it?
A. I believe that is the case.
Q. And what about the other NUGS producer in Corner Brook, is that--has that been factored into your evidence of this, sir?
A. Yes. Any changes in the availability of energy from those would also be reflected in that number as well.
Q. The fact that you're coming before the Board seeking a rate of return as the same as if you were in a private enterprise, do you see that as consistent with purchasing power from a more expensive source than you could produce it yourself?
A. Could you just repeat that one more time for me, please?
Q. I'll try it. The fact that you are coming before the Board seeking the same rate of return as a company in private enterprise, do you see that as consistent with purchasing power from NUGS when you could be producing it

cheaper yourselves?
A. The cost for the new power purchases are directed by government and are directed through Order in Council to be included in rates. That's the only comment that I could add on this particular item. Directions -
Q. But could you see a reasonable observer out there assessing this situation stating that here you are looking for a rate of return the same as what you would get in private business but yet you're making a decision which private business probably would not make?
A. I guess the return that Hydro is requesting is based on the risks that the enterprise is subjected to. I also believe that direction could also be provided through the Board for a private entity to be including certain costs in rates and recovered in it as well.
Q. In reference to the fuel and the fuel amounts and the changes in them as in your schedules, are you the best to speak to those or is that the bailiwick of Mr. Haynes or Mr. Banfield?
A. I may be able to answer some, so you could try, and if I find out that I can't, I can defer you to Mr. Haynes.

Q. Well, yeah, I don't know if that would be the most efficient use of our time. If Mr. Haynes would be the best one, maybe you want to defer to him rather than, say, hear my questions and they say that's better for Mr. Haynes.
GREENE. Q.C.:
Q. We had planned for Mr. Roberts to speak to all changes on costs. Mr. Haynes is being recalled at the request of the Industrial Customers only with the issue of the load forecast. So if the questions relating to No. 6 fuel are relating to the cost of No. 6 fuel in the test year, Mr. Roberts certainly can answer those questions and has been prepared to answer those questions.
BROWNE, Q.C.:
Q. Okay. Thank you, Ms. Greene. I think she may have cut you off at the pass now, Mr. Roberts. If we can go to NP-289, please? And on page 3 of 3 we see under the Labrador Isolated System various forecasts. And for 2003 we see the fuel litres for Black Tickle at 458,052 and it's increasing in 2004 to 499,688. What is the reason for that forecasted increase, do you know?

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MR. ROBERTS:
A. No, I don't.
Q. In reference to Davis Inlet and Natuashish the fuel for 2003 is 423,422 but it's going up to 1,435,294 in 2004. When exactly is Hydro taking over Natuashish?
A. The proposed date which is also being used for the purpose of this update is July the 1st, 2004.
Q. So that would only reflect half the year?
A. That's correct.
Q. In Makkovik we see the fuel consumption rising from 934,807 to 1,023,636. Is there any particular reason for that in Makkovik?
A. I'm not aware of the detailed reasons behind the changes in the litres. I would assume that it would be tied in with the change in the load forecast for Labrador.
Q. And in Nain it's going from 1,862,664 to 1,960,857. Is there any reason for the expansion in Nain?
A. The only thing that I'm aware of is that load on the Labrador coast in these isolated communities has been increasing.
Q. And in Postville and in Rigolet we see the

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same thing. So, why is it increasing in the isolated systems there in Labrador, is there any particular reason that Hydro has discovered?
A. I'm not aware of it. Maybe even Mr. Haynes when he talks with the load forecast maybe will be able to shed some more light relative to the change.
Q. Yet we see in L'Anse au Loup we have 312,771 and it's dropping to 155,342. Do you know the reason for that?
A. No, I don't.
Q. Prior to going to Labrador, can Hydro undertake to tell us what's going on in reference to these communities and why we see fuel, is it a consumption increase or it's an expansion in the system so we have the facts?
GREENE. Q.C.:
Q. Mr. Haynes speaks to the load forecast, which is what these questions are centred on and he can speak to them and he's a witness today. The answer is not an expansion, but increased load in the communities, but Mr. Haynes is a witness who can speak to it.
BROWNE, Q.C.:

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Q. So Mr. Haynes will -
GREENE. Q.C.:
Q. Mr. Haynes is responsible for the load forecast in the isolated communities as well as on the interconnected so he can speak today to -
BROWNE, Q.C.:
Q. So he'll be prepared to speak to those when he takes the stand?
GREENE. Q.C.:
Q. Yes.
BROWNE, Q.C.:
Q. Okay. Thank you. Over the last week in the media your spokesperson was on stating that the increase in baseboard electric radiation by Newfoundland Power is harmful to the system and suggesting that people use oil as a form of fuel for heating their homes as opposed to baseboard electric radiation. Are you familiar with that--those comments that your spokesperson made?
A. I haven't specifically seen the comments that she's been making in the press.
Q. Is that the position of Hydro generally, that that is the fact?

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A. I think the position of Hydro is that, yes, electric heat is contributing to an expansion of the system.
Q. If your spokesperson is being accurate with the information that she's providing, what steps is Hydro taking to curb the expansion of baseboard electric radiation on the island portion of the province?
A. To date Hydro's prime emphasis has been in its HYDROWISE Program of educating its customers and customers generally as to wise use of electricity.
Q. What is the target of the HYDROWISE Program as the target to--do you have specific. targets in mind like to reduce consumption per household and therefore reduce overall consumption at Holyrood, what are your targets there in HYDROWISE?
A. I'm not sure if specific targets have been established, but you may wish to question Mr. Banfield who's area has the direct responsibility for delivering the HYDROWISE Program when he's on the stand at a later date.
Q. Does Hydro keep transcripts of their officials

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BROWNE, Q.C.:
who are out there making comments such as that made by your spokesperson?
A. Yes, we do.
Q. Can you undertake to file the transcript that was made in reference to the comments that were made, I think, on VOCM some a week or ten days ago? (Undertaking) I'm sure it can be located.
A. Yes, we can obtain it.
Q. I notice in reference to that you claim a HYDROWISE Program, but I notice as well, in driving back and forth to work periodically, I hear a road report that is sponsored by Hydro in the public media. Is Hydro paying for that?
A. Yes, but it's an non-regulated cost.
Q. It's a non-regulated cost? How does that sit with a Company that's not private, it's non-regulated, who's paying for that?
A. It's basically falling out as part of the shareholder's cost.
Q. So the government of the province is paying for it?
A. Indirectly.

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Q. Why would Hydro be involved in a road safety program as opposed to being on telling people about something like baseboard electric radiation, something within your mandate?
A. The sponsorship of the road report was undertaken a couple of years ago and it was done as a decision to increase the awareness of Newfoundland and Labrador Hydro within the province as a whole and it also provided a safety message to all employees not necessarily specifically directed towards electricity, but an overall general safety notice to employees and to the general public as well.
Q. In terms of you're saying it's a non-regulated expense, what is the cost of that non-regulated expense?
A. For that particular item?
Q. Yes.
A. I think it's approximately $20,000 a year.
Q. Your fuel inventory is based on a 13th month average. Why is that?
A. The practice in calculating rate base is to use a 13th month average. That's the standard format that's used for determining rate base.

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Q. Just consistent with that?
A. So that's consistent with the methodology for determining rate base.
Q. You indicate in, I think it's Schedule 8, a projected increase in accounts receivable. I don't know if you want to refer to that for a moment? I'm not sure if it's Schedule 8 or not. Maybe you can point to where it is, your accounts receivable?
A. It's Schedule 8.
Q. Pardon?
A. Schedule 8.
Q. Schedule 8. Why--okay, Schedule 8. Why are the accounts receivable increasing between 2003 and 2004?
A. Well, 2003 wouldn't reflect any increase, whereas 2004 would reflect whatever the revised revision is with rate increases effective as proposed on January 1.
Q. Okay. So that all anticipates your success in getting the rate of return that you're seeking?
A. Yes.
Q. Okay. These are our questions. Mr. Fitzgerald has some questions.

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CHAIRMAN:
Q. Good morning, Mr. Fitzgerald.
(9:48 a.m.)
MR. FITZGERALD:
Q. Good morning, Mr. Chairman. Just one question, really, Mr. Roberts, and this relates to your Schedule 2, the revised October 31. And you referred to this this morning as well in your direct. I'm looking at line 33, the interest.
A. Yes.
Q. And you've indicated here that the decrease in 2004 of $3.5 million is, this relates to the decrease in short-term interest rates?
A. Yes.
Q. Is that correct?
A. That's correct.
Q. And the note there, note 26 indicates that the reduction actually goes from five percent, which was forecast as the short-term interest rate, to 2.78 percent in 2004?
A. Yes, that's correct.
Q. Which appears to us significant. The question that I have is, is this interest rate reduction specific to Hydro because of your

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MR. FITZGERALD:
level of short-term debt or is this a level of short-term interest that other utilities could expect as well?
A. The short-term interest rate that's there was based on the 91 day treasury bills and it was based on estimates that had been provided from five of our managers, being CIBC, Wood Gundy, National Bank, Bank of Montreal, RBC Dominion Securities and Scotia Capital. They provided forecasts of short-term interest rates for quarter one, two, three and four of 2004 for 91 day treasury bills, and we pay approximately point--as an example, the average rate is 2.58 percent. We pay 20 basis points higher than the 91 day treasury bill rates.
Q. And that's because of your specific situation?
A. So it would be the base rate, plus a tack on for Hydro to pay above that particular rate. We wouldn't get the government rate.
Q. And Hydro, as specific to Hydro or what other utilities -
A. Other utilities, depending on their rating, could get 20 basis points. I would suggest a

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utility that had an A rating would be considerably less than, say, 20 basis points above those 91 day treasury bill rates.
Q. That's my question, Mr. Chairman.
CHAIRMAN:
Q. Thank you, Mr. Fitzgerald. Thank you, Mr. Browne. Good morning, Mr. Kelly.
KELLY, Q.C.:
Q. Good morning, Chair.
CHAIRMAN:
Q. When you're ready.
KELLY, Q.C.:
Q. Good morning, Mr. Roberts.
A. Good morning.
Q. Mr. Roberts, I'd like to start with some high level questions before we get down into the detail of some of these numbers. And I'd like to start by getting you to explain a little further the process that you go through to do this refiled revision. And let me kind of start at this this way, we know that some variables, key variables changed and that you incorporated those into your revised forecast. For example, if we go to NP-290, the exchange rate that you used is 74.6 cents?

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A. Yes, that's correct.
Q. And that is an exchange rate roughly as of, for most of the estimates, the first week in September of 2003?
A. Yes.
Q. Okay. And then in terms of U.S. fuel prices, you had the PIRA forecast for the end of September, I think the 26th we saw that in your report?
A. Yes, the PIRA forecast was used for September.
Q. Right, okay, for the end of September. And we'll come back and talk a little more about interest costs and how that impacts later on. Now, those are some of the key variables. What I'd like to understand is you had the actuals to the end of August for your other operating costs. What sort of process review did you go through to determine what variations would now take place between the information that you had when you filed in May and now the refiling that you're doing in October for the other types of items such as salaries and equipment, maintenance and insurance, etcetera? What sort of process did you go through for those?

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A. The decision to do the update was taken and the point in time was selected as being up to the end of August. With that in mind, as you can see, interest rates were updated, fuel prices were obtained, load was updated to reflect what had incurred up to the end of August and all employees with supervisor and budgetary responsibility were asked to review all their operating costs, taking in account actuals up to the end of August and what was their best forecast for the remainder of 2003. They were also asked to have a look and see if there had been any material changes relative to 2004.
Q. How would you decide if a change is material for the project?
A. It's a judgment call on the part of each individual as to whether or not an item would be material.
Q. So for example, on salaries, would your supervisory people down the line go back and look at all the salaries that you would contemplate then for 2004 to do that process?
A. For 2004, there was not a requirement to go back and look at salaries as a total unless

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MR. ROBERTS:
they were specific programs that changed or required additional modification.
Q. So for example you didn't rebuild it from the ground up, for example, for salaries. What about for systems equipment maintenance?
A. Not for 2004. System equipment maintenance was just reviewed to see if the plans were still, in fact, valid for 2004.
Q. So you didn't necessarily go back and rebuild all these items from the ground up -
A. Not -
Q. - what you looked for, significant changes?
A. What you looked for was significant changes in plan or work loads that would impact on 2004.
Q. Okay. Well, we'll explore that a little more in terms of some of the particular items later on. Now can I take you next to page one of your evidence, to line 16 to 17, because I just want to be sure we understand what you're saying here. You have a comment that says "it should be noted that the 2004 data in Schedule 2 will not be the final data used to set the actual base rates for 2004 at the conclusion of the hearing. This data will need to be

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adjusted following receipt of direction from the Board." Other than any changes specifically directed by the Board, are you suggesting that there will be any further changes in the data used to set rates?
A. No, not at this point.
Q. Okay. So the data we have now is the data that will be used subject to any final direction from the Board?
A. Yes, unless there's further direction from the Board -
Q. Okay.
A. - this should represent how 2004 would -
Q. I just wanted to be sure we're on the same understanding on that page. Okay. Next I want to go to some high level questions with respect to 2003, and you recall in my examination-in-chief or my cross-examination with you the last time, we went through the process of how you did your budgets, and so as I will summarize it for you, in the fall of the year, you would have prepared a budget which would have been locked away. Ordinarily there'd be two review processes, but the May one did not take place, as you explained to us

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the last time, and we look then at the performance in the March and June quarterly reports and, if I just take you, let's go to the first one, which was the March report, I think it's WW-1. Tab 2, page three, I believe it is. And we saw that, in fact, your--there we go--your net operating income, your actuals as of March were 12,636 compared to 8, 322 which had been forecast, correct? So that was an improvement in the first quarter of 4. 3 million dollars. Okay. And we take you then to the June one, to the same table, Mr. O'Reilly. And in June it was 12.277 versus 5.445, so we had a net improvement of 6. 832 million. So we had an improvement of 6. 8 approximately at that point in time.
Now can I take you to PUB-187? And the discussion that we had in the cross-examination the last time was, well, how were you going to end up with a 7.8 million loss? If we go to Schedule, page two of two, and if we go down to the bottom, as of the end of August, the margin or return on equity is, in the second column over, $9 million compared to the original estimate of, for the period, of

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1.565. So as of August, Hydro's 2003 position had improved over forecast by 7.44 million? Do you agree with that?
A. Yes, that's what the numbers reflect.
Q. Okay. Now the first column that we've got there, if we could just scroll back up to the top a little bit, Mr. O'Reilly, is the May filing based upon the original budget. That was the question that the Board's people asked. When you filed in May, were all of your numbers taken from that original locked away filing or were there any revisions that had been done to that before you did your May filing?
A. What you see here in the original budget in the May filing would have been what we locked down in basically about February of 2003.
Q. Okay. And that -
A. Which is really the process that started late that fall and the updates that came through.
Q. So were there any updates in January/February?
A. Not to those numbers unless it would have been in the area of like fuel or something like that, but -
Q. So could we generally -

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MR. ROBERTS:
A. - from an operating expense, it would be locked down.
Q. Sorry. Could we generally take it that the budget that you used in the May filing was the one that was locked away then at the end of the year?
A. It was what was finally agreed upon in February of 2003. The only items that would have changed from there until the time that we fell out would have been the iterations reflecting margin and interest and revenue requirement.
Q. Okay. Well then since there's a possibility there may be some changes, could you provide the budget numbers for January to December in the original format? You've done it here for January to August, but could you provide that in a table and undertake to file that, from the original one?
A. Well, the numbers you already have, which are in the original filing.
Q. That's what I'm saying, but I'm trying to understand whether anything in them has changed at all in your original May filing -

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A. No.
Q. - from your December numbers.
A. As I said, the December numbers that were locked away would have been starting with depreciation going all the way down through to line 33 in total other costs.
Q. All the same?
A. All would be the same. The only thing that would change after that would be your interest and your revenue as you're designing your rates and running it through the process.
Q. Right, but interest shows up on line 34. That's what I'm trying to understand. Are there any changes that got incorporated from December to May, in what we would have seen, or can we take your original Schedule 2 as that was the locked away set of numbers?
(10:00 a.m.)
A. My Schedule 2 that was locked away in May is the final numbers for the initial filing.
Q. Yes, and is that the same as what you locked away in December?
A. With the exception of interest and margin, because you had to iterate to determine the revenue rate.

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Q. Okay.
A. But all your other costs would have been locked away at that point in time.
Q. Now on the January to August column that you've got here, if you come down to your column for total other costs in your original budget -
A. Yes.
Q. - which is essentially your net operating expense line, you show 89,352,000. Now that's an error, can we agree?
A. Yes, it is.
Q. Okay. So we should scratch that out.
A. It should be sixty nine seventy-five.
Q. 60,975,000?
A. Yes.
Q. Okay. So if we then compare that to the 57,696,000 in the next column over, your net operating expenses from January to August are actually down 3.279 million?
A. Yes.
Q. Okay. And in fact, if we look at some of them, for example, we look at system equipment maintenance, just by way of example here, they're down from 11.5 million to 9.4 million

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during that period?
A. Yes.
Q. Yet with--so with half--with eight months of the year over, we're still--we have the expenses down, but you're still projecting 18 million for the end of the year, which means you'd have to double your expenditure in the last four months?
A. Yes, but as has been, I guess, mentioned maybe by myself and both Mr. Haynes is that in the case of system equipment maintenance, the bulk of that variance would be a timing difference in getting the bills in and getting them recorded from our various suppliers who are a bit tardy in providing the bills for the work that's being done.
Q. If they're tardy now though, will they be tardy--like why do we assume that they will be untardy in the last quarter any more?
A. Because at year end, we're trying to complete audited financial statements and the onus is on us to ensure that if these costs are in and the work has been completed that we make an accrual, even if we don't have a particular invoice from a supplier.

KELLY, Q.C.:
Q. Because we see that same sort of issue arising in transportation. You've got--you're down 300 odd thousand dollars, but at the end of the year, you're still projecting 1,766,000, which is a substantial increase in the last half of the year. Is there any particular driver why that's in the last half of the year?
A. The 1766 reflects, you know, what our most current forecast is for 2003 and if you compare that in total to the original filing, there has been a reduction.
Q. You've only spent a million in eight months. How are you going to spend the extra 700,000 in the last four months?
A. But you're assuming that the work is uniform and additional costs won't incur in the last period of the year running from September to December.
Q. But wouldn't, for example, in transportation, especially your summer months be the ones that you would be most out doing those sort of activities?
A. Well, the summer period here is only to August. You still have your fall which is your September and your October and your November periods, plus it's also heading in towards the winter period where the continued use of equipment is still required, as well as aircraft.

Q. We see the same thing down in professional services. We've got 2.2 million in eight months. Yet you're proposing to spend almost another two million in the last four months. Can you help us with that one?
A. Well part of the difference to the end of August is related to Holyrood once again, in getting the overhauls completed at Holyrood and in the timing which the bills are receipted and the way that the items are forecasted.
Q. And is that all of it?
A. The biggest part of the increase would be--the savings up to the end of August would be related to Holyrood. If you're looking at why we're going to incur additional costs between August and December, well, just this hearing alone is going to be one of the additional costs that will be done between now and the end of December, an accrual to record those costs.

Q. Okay. Now if we go back to the top and we look at where are the main changes in that saving that we looked at at the bottom line, if you look at depreciation at the top, which is line 3, we have a $409,000 reduction in depreciation is how I make the numbers.
A. Yes.
Q. If you come down to lines 12 and 14 together, which is fuel and purchase power, because I looked at both of these together, the total is down by 476,000 for both items collectively?
A. I'll accept your math.
Q. Okay. And then if you come down to other costs, which is our net operating costs, which is the line we looked at a few minutes ago, that's the one that's down by 3,279,000, and then interest is down by 295,000 at line 34, to make up total reductions of 4,459,000. Will you accept that math?
A. Yes.
Q. Okay. Now that still leaves then, out of the reduction that we saw in--or sorry, the increase in your margin of 7.44, 2.985 or approximately 3 million which reflects extra earnings to Hydro during that period. Do you agree with that, simply the math?

A. If your math is done right.
Q. And that's consistent with what we looked at with the first quarterly report and the second quarterly report that Hydro had had increased earnings, and we still see three million in extra earnings being carried. Can you explain why that's the case? Essentially extra sales?
A. Certainly extra sales would account for some of the increase, plus you got an increase in your efficiency in that period as well.
Q. Okay. Now you remember as we went--before I leave that one, the extra efficiency you're talking about is the fuel conversion factor?
A. That's correct.
Q. Correct, okay. And we'll come back and talk about that a little bit more when we come to specifically look at fuel. Now remember in cross-examination, I talked to you about the capitalized expense variations over the years, and we looked at, for example, on your original Schedule 2, we looked at the changes in capitalized expenses that had taken place.

KELLY, Q.C.:
Perhaps we could just quickly put that up, Mr. O'Reilly, the Schedule 2 from August. And down at line 29, we had looked at the fact that the capitalized expenses as tested were 5.722 and had, by the end of the final reporting, were 8.116 and you remember the discussion that we had about the fact that that's a consistent pattern over a number of previous years, and I take you then with that in mind back to P.U. 187, and if we look at the experience in the capitalized expense from forecast to--first of all to January, it's projected to go from 4.288 up to 5. or has gone to 5.387?
A. Yes, that's correct.
Q. So your capitalized expenses have--the amount that you're taking there as the credit has increased as consistent with the past experience?
A. Well, it has increased in 2003 based on the year to date there of January to August, and that is consistent with what had materialized in 2002, but I wouldn't go back to say that it's historically kind of the same way.

Q. Well, we'll argue the history of it in final argument. And if we go to put your Schedule 2 for your second revision on the screen in your re-filed, and go to that line, by the end of the year, you're projecting it will have gone to 7.913?
A. That's correct.
Q. So from the May filing of 64-0-5, up 1.15 million, agreed?
A. Yes.
Q. Okay. Now I want to look at some of the individual numbers next, and I'd like to start with the depreciation numbers, Mr. Roberts, and we saw as we went through PUB-187 that depreciation is down by $409,000 in the eight month period. Could you just explain why that would be the case?
A. Generally it would be a function of timing when assets are placed in service.
Q. And you've had some reduction in your capital programs and some delays, as you've explained in your Note 1 in getting things into service so that what we would expect is to see a reduction in the depreciation expense, agreed?
A. For which period?

Q. Well, first of all, for the January to August period.
A. Well, January to August there is reflecting a reduction of $400,000.
Q. Okay. Now if we go to your Schedule 2 for your refile, you're projecting it to have increased by the end of the year by $281,000, but you point out in your note 1, if we put that up, that there was an error, there was an omission of $600,000?
A. Yes.
Q. And that accounts for it. So that if we put-- if we go back to the Schedule again, Schedule 2, if we take that $600,000 and we have a net increase of 281, the difference in what I'd call real depreciation, you know, the hard assets for the year is 319,000. Would you agree with that?
A. Well, I'll accept your math. You're taking the 600 against the 281 saying there's the real change.
Q. Right. And what I'm trying to understand is well, if it is down 409 to August, why will it be only down 319 by the end of the year? That doesn't seem logical to us. Can you help us

with that one?
A. Well, it would be a function of when all the assets are coming in service and whether or not things had changed from when they were contemplated.
Q. What do you see as the changes that will lead to that?
A. For instance, if you had a particular project that was scheduled to come in service in say October and it came in in September, all the small items would impact on what the final depreciation would end up being.
Q. Can you give us some examples of what you anticipate is going to be the driver for any of that?
A. No, I can't. I can just say that of the 35,000 records combined with the capital projects that are there for 2003, the timing on those, you also have the impact of the initial starting point that was used for the October filing versus what was in August. The combination of all of those things would impact as to what depreciation would end up being.
Q. Can we just put the PUB-187 back for a second?

KELLY, Q.C.:
If the 600,000 is missing, is it missing then out of the original numbers, the 21857?
A. Yes.
Q. Right.
A. That's what we said, the 600,000 was not there.
Q. Exactly. So if I were to take even just two-thirds of the 600,000 for that original budget number you've got there of twenty-one eight, I would have to add that on and I'd have 22.2 million, but you're still--your actuals are 21.4, which is 800,000 in the difference in that eight-month period? Can you help us understand that one then?
A. Just let me go back and try to enlighten you as to the very first column, as to what was used there. In the May filing that you see there, which was the original budget, the actual fixed assets that were used for completing this exercise, because of the complexity in dealing with it, were actual fixed asset balances as of December 31st, 2001, and then the most recent forecast of capital activity for 2002, which I believe was

around about the end of September 2002 was added to that, and then the proposal, the capital budget proposals for 2003 were added to that to arrive at what your fixed assets numbers would be. When you hit your actuals of course, that's using your actual balances and not a projected balances that you had used, so the combination of all of those factors would contribute to changes in depreciation.
Q. But you've told me that out of the--in the 21,857 that doesn't have the 600,000 that you left out and even just taking two-thirds of it, I'd have a number which is 22.2, but I come in at 21.4. So your depreciation from forecast is down by 800,000, yet at the end of the year, as we just saw, that number is projected to be only 319, which means you've got to lose $500,000, half a million, during that process somehow. Can you help us with that?
A. Well, as I just tried to explain, the only answers that I can provide to you are the base in which the assets were actually created, and as I mentioned, for the original filing, in

effect, that really picked up actuals at the end of 2001 in a forecast position for 2002, combined with the proposed capital budget for 2003. There were certainly changes in what the actual fixed assets were for 2002. So that would certainly impact it, as well as any other changes that would have been proposed for 2003 in delays of projects or in proposed in-service dates.
Q. Is it possible to provide any kind of written reconciliation of that item, because we're talking rather substantial amount of money? Is that possible to provide, Mr. Roberts?
(10:20 a.m.)
A. I'm not sure if we're going to be able to provide the detail to the extent that would answer it. I think, you know, what I'm trying to explain to you is that it's a timing factor of the actual numbers that were used, for instance. We actually had higher write offs in 2002 than what was originally anticipated, so a combination of all of those items would impact on what that depreciation number is represented by.
Q. But you had an original budget that you used

for your May filing. We now have worked through to the January-August actuals. There must be a mathematical reconciliation that can be provided to explain why the changes have occurred.
A. Yes, but it would have to be at a very high level, by types of assets, I believe, if that's possible to do.
Q. We'll ask you to see if you can undertake to do that, because we'd like to understand that item. (Undertaking) Can I take you to a related question which deals with this whole depreciation issue? And perhaps the best way to start at it is to take you to NP-306, and we asked, in NP-306, whether you had made any of the changes with relation to these capital items and how the depreciation impacts and you indicated, no, from Grant Thornton's recommendations or report, and you said no, and if I take you down towards the end of that, it talks about--let me back up. It says, at line 13, "as well, Hydro does not believe in allowance for potential under spending of the capital budget is warranted, since Hydro's record with respect to meeting

KELLY, Q.C.:

its capital budget is improving and the impact of any under spending that may occur is more than offset by the positive impact of Hydro's approach to forecasting asset retirements as quantified in response to NP-232 NLH." So if we could just put up NP-232 for the adjustments that we talked about or Mr. Brushett talked about, at line 16 you had an offsetting entry for increase in loss on disposal. Now can you just help us understand why those two--why there would be an increase in loss on disposals simply because of changing the depreciation expense?

A. Well, maybe I can just add some information on this. What Mr. Brushett did is he looked at capital disposals, the actual original cost of the assets that were retired, and he derived a five-year average related to total assets, which ended up being .39 percent. One of the items there is that that's not what's in rate base and that's not what's being recorded because it's net book value, not original cost. It's the net that's being earned on. If we were to follow that logic of applying

.39 percent to the total capital assets to determine what's an anticipated retirement, then what should also be looked at is what is the actual losses as a percentage, and when we did that analysis and looked at it for a period of time, the actual loss on disposal as a percentage of assets is coming out as 26.5 percent. So if we're going to start applying percentages to the same base, then we should start applying things that are similar, and what this is doing is saying that if you were to apply the average of the loss as a percentage of capital assets, then it would be 26 percent. In our calculations of what we've done, we've based it on the best known information that we had, based on the capital budget proposals that have been completed by the people who are undertaking the work and their identification of the work that's going to result in assets being retired, and it's based on that premise that we go ahead and make the adjustments for a particular loss on disposal of assets.

Q. But don't you take, in any event, a loss on disposal when it occurs? For example, in your

evidence here now, you are proposing a loss on disposal for Petites in 2003 and a loss for Davis Inlet in 2004.

A. Yes.

Q. So those things get subtracted out anyway, don't they?

A. Well, those things get added to revenue requirement and we recover the cost.

Q. Yes, but that's what I'm saying. So there's already--that item gets dealt with when it occurs, according to the existing methodology, but why does it increase simply because you got -

A. Well, if you're going to start to applying percentages and saying .39 percent of our assets are really what's ended up being retired, then we should start looking at applying a similar percentage to what has been our loss, and it's that loss then, if you're going to increase the amount of capital retirements, then the amount of the loss should be correspondingly going with it as well.

Q. Okay. We'll explore that one a little bit more with Mr. Brushett. The next area I want

to turn to--Chair, shall I proceed? I'll be about probably five or ten minutes through this area and I'm happy to continue on through this area.

CHAIRMAN:

Q. Sure, we can do that. We started a little bit late, so five or ten minutes is fine and we'll take our fifteen minute break.

KELLY, Q.C.:

Q. Sure, that will be great. The next area we want to touch on, Mr. Roberts, is the fuel issue. And we had discussed in cross-examination the change in the exchange rate and we had had the discussion that that should impact the fuel cost by some nine million dollars or so. And, in fact, at one stage in the response, you said, well, it might be eight million. But when we actually get to the bottom line on our Schedule 2, that change is down to two hundred and twenty four thousand dollars in the net result at line 5. And that, as I understand your evidence and the PIRA forecast is because the price in U.S. dollars has gone up significantly. Is that essentially correct?

MR. ROBERTS:
A. Yes, you got a change in the exchange rate, but you also have a change in the price per barrel as well.
Q. Right, and you gave those numbers to Ms. Greene in your direct examination this morning. Could you just give us those again?
GREENE, Q.C.:
Q. There's also footnote 17 on page 5 of 8 of Schedule 2.
KELLY, Q.C.:
Q. Sure, okay. The price has gone from 19.23 to 21.58 U.S. a barrel. Now, there are two areas that I wanted to explore with you on this fuel issue though. Number one relates to your Schedule 2, page 8 of 8. And if we look at the top table first, in the original filing, PIRA only provided a price per barrel for the whole of the year, the same price forecast.
A. That's correct.
Q. And when you get down to the October filing, you've got a price for the, by month, correct?
A. Yes.
Q. And in the top one you had purchases forecast for September, October, November and December

and you had 275,000 barrels in each of the four months. But in the bottom one, you've taken out the October item which would have had a price of $27.50 and added that 275,000 barrels to December at a price of $28.10. Can you help us with that one? Why would you make that move, why would you forecast that move which, in the bottom line, that difference in 60 on 275,000 barrels is $165,000.00. There's a couple of RFIs we can take you to, if you want.
A. Yes, I think there was an RFI, but just, if I may, just to explain the basic premise as to what has happened here. For 2004, this would take into account what your actual history is in 2003, which would reflect your actuals up to the end of August and then your best forecast for the remaining of the year, both on price, as well as anticipated hydrology and load. They would form the base feeding in through and forming the fuel run for 2004; whereas the initial 2004 had 2003 as being a complete forecast year, representing no actuals. So, it wouldn't be uncommon to see a shipment of fuel shift from one month to

another throughout the fuel run that's being prepared.
(10:30 a.m.)
Q. But by December you've got the same amount, but what you've done is you've moved it down the list into a higher price bracket, according to the forecast. And what I'm struggling with is this is now--what you're talking about is a move and it's the only change, there's no changes in the spring which is much closer in time, on what basis can you know now or forecast now that next October which is a year away, that 275,000 barrels won't be needed until December? That seems like an odd change, if I may suggest.
A. Well, I can only -
Q. The only item that changes.
A. I can only say it's a function of, you know, completion of the fuel run and the background as to how the fuel run was prepared.
Q. Well, since you now have a price, as a CFO, would it not make more sense to buy that 275,000 in October and save $165,000.00?
A. Well, it's not just a simple matter of buying a price; it's the function of when it's

required and what the carrying cost and whether or not the capability is actually in the tanks to be able to store the product.
Q. Has Hydro looked at any of those items?
A. In the past, they certainly have.
Q. Have you done it for this particular change, is my question?
A. I thought a particular RFI had been answered relative to that.
Q. You can go to PUB-189 which poses the question and it says CA-182 and if you go to CA-182, it gives you the short answer that it bases it on, you know--but my question is this is a year away, how do you do that a year away?
A. Well, as I said, it's based on the actual fuel run and what falls out of the fuel run as to when the shipments are ordered. And the difference between the original four and the old four, is that you now have actuals being impacted into 2003 and as to how things shift out through plus, you'll have a change in load and a change in hydrology. So, it's not an uncommon occurrence to find a fuel shift move from one month to another, it's a function of the planning for the shipments.

KELLY, Q.C.:
Q. Look at NP-295, in fact, this fall you bought that two hundred and roughly seventy five thousand barrels in equal monthly instalments, more or less? Do you know what's forecast to be purchased now in December of '03?
A. The only thing that I would know is what's included here on the various schedule. Whether or not there's been a change in that at this point, I couldn't say.
Q. Okay. Let me touch on the second of the two items I wanted to talk to you about in fuel and that is the fuel conversation factor. When we talked earlier about your '03 result, one of the points that you mentioned for your improved bottom line performance was the efficiency gains that you'd had in '03 with the fuel conversion factor. And the information, your note 2, we'll your note 2 to your revised up on the list. Your revised numbers for '03 at line 13 are currently based on 631 per barrel, kilowatt hours per barrel. And that's the conversion factor is based on performance to the end of the August of 637 and then with a forecast of 624 for four

months to the end of '03, correct?
A. Yes, that's the way the fuel run has been produced.
Q. So that's how you got your 631. But if we actually go to NP-297 and we go to line 6 and 7 at the top, as of the end of October now, because we've got two more months of data, you're actually at 636 to the end of October with only two more months left to go. And may I suggest to you that based upon historical practice, November and December would be better months than, for example, your summer months. Would you agree with that?
A. They would certainly be more activity in Holyrood in the November/December period that you would expect over the summer, yes.
Q. Right. So -
A. Whether or not the efficiency will remain high now, has yet to bet determined and only time will tell.
Q. Yes, but we are now at the end of October and your '03 projections are based on 631. Whereas, to the end of October we're still running at 636. So, if it turns out that the fuel conversion factor comes in better than

631 for the year, your '03 results will also be better for the year, won't they?
A. Yes, if the efficiency is better, it will impact our results for 2003.
Q. Okay. That's a good place to break then, Chair.

CHAIRMAN:
Q. Thank you, Mr. Kelly. Thank you, Mr. Roberts. We'll now break for 15 minutes. I realize that's sort of half the period of our normal break, but I'd like us to adhere to as best we can to maintain the schedule. Thank you.

(BREAK - 10:37 A.M.)

(RESUME - 10:57 a.m.)

CHAIRMAN:
Q. Are you ready Mr. Roberts? When you're ready, Mr. Kelly.

KELLY, Q.C.:
Q. Thank you, Mr. Chair. Mr. Roberts, I'd like to turn next to look at the salaries and fringe benefits line, which is line 15 on Schedule 2, your Revised Schedule 2. And if we look at line 15 and we go over to the 2004 column, that's projected to increase by $5,000.00 for 2004, between the August and

October filing?
A. Yes.
Q. Now, can we--in order to understand where that $5,000.00 comes from, can we look at NP-304, 2 of 2, and we asked for the update of the response to 243, NP-243, and in the 2004 forecast line, we have a breakout of what makes up that total salaries and fringe benefits line. And can I suggest to you that the changes in the overtime line, the $5,000.00, and just to help you, Mr. O'Reilly can we put 243 on the screen? NP-243, sorry. And you'll see that the, by comparing the two, that the only change is in the overtime line which has gone up by $5,000.00? Am I essentially correct?
A. That's correct.
Q. And none of the other numbers have changed. Why did you--can you just explain that, first of all, and how you determined that there'd be a $5,000.00 change in overtime?
A. The $5,000.00 change in overtime is related to taking over the community of Natuashish as of July 1, 2004. That's why the $5,000. 00 occurred.

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KELLY, Q.C.:
Q. Just help me with that, there's $5,000.00 for taking over Natuashish?
A. That's an allowance or an amount that was included in 2004 to cover some potential overtime for the operators at the plant at Natuashish.
Q. But I thought all the Natuashish costs were getting borne by the Federal government?
A. They are up to July 1st, 2004; after that, they are part of the cost for Hydro, with some sharing by the Federal government, potentially.
Q. Has Hydro then done an analysis as to what the costs will be, in terms of the impact on rural deficit from taking over Natuashish?
A. I'm sure some analysis has been done, but I just can't remember it right now, as to what the cost is.
Q. I thought I understood from the previous sessions that in fact the Federal government was going to be bearing the costs of Natuashish and I take it that that's not the case, that there is--is there some impact on the rural deficit over that?

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A. Federal government are paying for the costs right now, but it's proposed that on July 1st, Hydro will take over the operation of the community of Natuashish and operate the plant, and the Federal government will provide a contribution towards some of the operating costs.
Q. Will that contribution cover all of the operating cost?
A. No, it will not.
Q. Can I ask you to undertake to find out whether an analysis of the impact on the rural deficit of that has taken place, and if so, would you provide it? (Undertaking)
A. Yes.
Q. Now, come back to the salaries. So we've got $5,000.00 extra overtime for--in the salaries change for 2004. Now, can I take you--can you explain first of all why nothing else has changed?
A. Because at this point, there's been no material change in what's been proposed for 2004.
Q. Okay. Now, can we go at this by having first a look at NP-35 and this was the--you were

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asked to provide the number of fulltime equivalent employees by division, and if we scroll up the screen a little bit, Mr. O'Reilly, there's a note on the bottom that this reflects the reduction in permanent complement to August of '03, but does not reflect future staffing reduction. So as of August, you had 791 permanent and 131 FTEs, okay? Can we turn next to 10, NP-10, if we could just scroll up the screen to the bottom there, we've got the same information and this is FTE basis, as you've clarified in your evidence the last time. And if you go up the screen a little bit more, Mr. O'Reilly, those projections for '03, 04 are currently the same as August 2003. And then we ask in NP-301, could you update NP-10? And if we go to the table, as of the end of October, you've got the same numbers, 791 and 131?
A. That's correct.
Q. Now, let me take you to your evidence the last day, and this is Ms. Greene actually examined you, October 15th at page 12. There you go. The question is down at the bottom of page 11 and the answer at line 2, "Yes, as a matter of

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fact, just recently there were additional changes that were done that were effective basically in the first week of September, and that was in the area of closing out the cash handling procedures in the St. Anthony, Wabush area offices. So there were further reductions in temporary staff located at those two areas as well." And to give you the final reference, if I take you over to page 31 and it begins, the question begins at the bottom of 31 and I'm asking you how this would be updated and at line 5 on page 32, "Will that forecast for '04 also include the reductions from the positions that you indicated were eliminated in early September in your response this morning." And you gave the answer, "The forecast for '03 is being updated based on actuals to the end of August and forecast for the balance of the year and then whatever translates into adjustments for '04 will also be done." So, what happened to those September positions that were vacated--not vacated but eliminated?
A. They're covered in 2004 by what's included in the vacancy allowance of two and a half

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MR. ROBERTS:
million dollars.
Q. But they are in fact gone as of the end of October, aren't they?
A. Yes, the positions have been deleted, basically they were taken off the schedule actually in August.
Q. Can we go back to NP-301 for a second, if they were eliminated in September, then either the 791 or the 131 number should be lower since they're FTE positions, aren't they? Should that not be the case?
A. They're reflected in the 791.
Q. How could it be reflected in the 791?
A. Because they were actually adjusted back in NP-10 at the end of August. The positions actually disappeared the 1st of September, but from a complement perspective, they were taken out as of August.
Q. But on page 12 that we looked at, you said there were additional changes that were done, after we had all of this discussion of the ones that were eliminated, your suggestion--not your suggestion, your evidence was after we talked about all those--there were

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additional changes made in September.
A. From a staffing perspective, but the actual impact of reporting the complement, they are reflected in the information that was filed earlier and they're reflected in the number as of August. We knew a couple of months in advance as to what positions were going to be deleted. The actual physical closing of the various offices and the elimination and transfer of the work was actually done in September, but the positions themselves were actually taken from the complement back in August.
Q. I find that hard to square with the evidence that we had earlier in cross, that the $600,000.00, for example, reflected 10 FTEs that were eliminated and then you talked about these as additional positions, so are you telling me that they were not additional? What are you telling us on this score?
A. I'm not sure I understand your question. All I'm saying to you is that back in NP-10, the complement that was shown was 791, reflected the elimination of some positions in August from closing of the operations in September.

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Q. Let me ask you this question, out of--first of all, are the number of permanent and temporary FTEs still 791 and 131?
A. Well, the 791, the permanent complement, is still, as of the end of October at 791. There were still some vacancies that exist that are presently under review and discussion as to whether or not they will or will not be replaced.
Q. Let me ask you this question, how many vacancies are currently existing?
A. As of October, the end of October, there are presently 29 positions vacant of which 10 of those are backfilled.
Q. Ten are backfilled, in other words, somebody else has moved into them, but there are--then that position is vacant?
A. No, there somebody has been temporarily hired into some of these permanent positions while they are being assessed.
Q. Okay, so 29 are vacant, 10 are backfilled and out of the temporary FTEs, what is the complement of FTEs, temporary?
A. I don't have that information.
Q. Can you provide that information?

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A. Not on a temporary side. For 2003, that may be an actual number of temporaries on hand at October, not necessarily on a FTE basis.
Q. Okay, well no, the 131 you told us the last time was an FTE basis, in fact, that's what NP-35 says and Ms. Greene, in re-direct the last time, had you point out that you couldn't compare the 194 and the 131 because one is on a FTE basis and the other is not, do you remember that discussion? So the 131 -
A. You may be right, I'm just trying to recollect between all the NPs and the ICs. I know up to the end of 2002, it's definitely only the number of permanents. 2003, what may have been showing initially may have been FTEs.
Q. Well if you go back to NP-35, it specifically says that the 131 is an FTE basis, number of fulltime equivalent employees, line one? In fact, that was your explanation as to why we couldn't compare -
A. That's correct, it is FTEs.
Q. So how many FTEs temporary now do you have then? Can you tell us that?
A. No, I don't have that information.
Q. Can you undertake to provide that?

(Undertaking)

GREENE, Q.C.:

Q. I'm not sure what the question is, the answer--the 131 is the 2003 forecast of FTEs for the full year, which is remaining the same as we filed in the most recent RFI in response to Newfoundland Power's question. Is the question how many do we have on at this point in time? Because we have already answered the question of the 2003 forecast FTEs and temporaries for the year.

KELLY, Q.C.:

Q. What I'm trying to get a handle on, Mr. Roberts, and let's explain the point to you, is you've got 131 FTE positions and what I'm trying to understand is how many of those have you actually got there, versus how many are vacant out of this theoretical 131 number?

A. But there's no such thing as a vacancy with a FTE, it's number of hours for a bunch of temporary people divided by what the standard is and whatever the number falls out to be, that's it. So there's no such thing as a vacancy for a temporary.

Q. So your evidence is that number will be the

same throughout 2000--from August to the end of 2003?

A. The 131 is an annual number of FTEs and at this point, that's still the number.

GREENE, Q.C.:

Q. And maybe, for the FTEs, we could have or 400 in the summer for two months or 500 for three months, so it varies. So the FTE that's 131 is the fulltime equivalent of the various people we have on during the year. So the forecast of FTEs is the same for 2003 as we had said earlier. That doesn't mean that we may have on today 131 exactly, because when you do temporaries on a fulltime equivalency basis, there's not one FTE per temporary for 12 months. I don't know if that's helpful, but that's how FTEs work.

KELLY, Q.C.:

Q. So I take it from that, Mr. Roberts, that the FTE temporary complement has not changed and is not projected to change for 2003?

A. That's correct.

Q. Okay, all right. Now, let's have a look at Schedule 2 of your re-file and for '03, you're showing an increase in salaries and fringe

benefits of a million and eighty-four thousand?

A. Yes.

Q. And if you look at NP-304, and we look at--this is the current information, you looked at two items there to try to see what was the change in the, what I'd call the operating or the basis salaries, you've got 48,712 in the salaries' line and a reduction shown at the bottom now, a vacancy allowance of 220,000 for a net of 48,492? Okay? And if we do the corresponding--look at the corresponding numbers previously from NP-243, look at those two numbers, we had 48,877, but a million dollar factor at the end, for 47,877. So the difference, looking at it on a net basis because obviously it seems to me we've got to adjust for the vacancy allowance, the difference is an increase of $615,000 in base salaries in 2003. Can you explain why that is the case?

A. The big difference is we're not achieving the vacancy reduction.

Q. Just explain how much you expected and -

A. We had anticipated to get, achieve a million

dollars and obviously we're not achieving the vacancy reduction based on the salary numbers.

Q. And why? Do you have any explanation?

A. Part of the explanation is that you just don't have the flexibility with positions becoming vacant and being able to hold them vacant for a period of time.

Q. Has Hydro, faced with that issue, done any analysis to look at restructuring initiatives?

A. As mentioned before, Hydro is currently reviewing various processes and the results of those will be reflected, once the analysis is done and it's been determined that there can be changes in the way that the processes are operated.

(11:16 a.m.)

Q. Well, if we look at overtime, we do that same analysis we just looked at in overtime, we see that overtime has gone up from two million nine sixty nine to three million eight sixty three, for an increase in overtime of $894,000.00?

A. Yes.

Q. And would you explain why that's the case?

A. Of the increase in overtime, approximately

MR. ROBERTS:
$550,000 is related to capital projects.
Q. Now, if 550,000 relates to capital projects, the total change in capitalized expenditures that we looked at earlier is from 6.4 million to 7.9 million, which is a 1.5 million change in capitalized expenditures, but only half a million of that relates to extra overtime?
A. Yes.
Q. So do we not have the situation here again where Hydro is capitalizing a greater proportion of its base salaries by a million dollars?
A. You have more employees within the organization, have spent significantly more time on capital than what was originally anticipated.
Q. Right. So a million dollars worth?
A. Approximately a million dollars.
Q. Yeah, after I take out the overtime, approximately a million dollars. So can I suggest to you that there are a couple of ways to look at it, either you haven't properly estimated it to start out with; in other words, that's why your capitalized

expenditures are off; or the problem is not so much that you haven't achieved the productivity, but you've had those people doing capital projects, otherwise would you have needed them? Can I get you to address that issue?
A. Some of the involvement in capital is ensuring that the projects are completed and on time and you may also find the situation where how a project was going to be completed, via contracted out versus being done in house, may also impact it as well.
Q. So at the end of the day we have an increase of a million dollars in the Schedule 2 item, but that is effectively being offset by having that amount capitalized, is that not the case? Because you got about a million capitalized in base salaries and another half a million in overtime.
A. It's offsetting the increase in salaries, but the increase in salaries, excluding the overtime, as I mention is that it's getting harder and harder to achieve vacancy reductions. It's a function of the work that the employees are working on that's

contributing to the increase in the capitalized expense. So some of our fulltime people are allocating and spending more time on the various capital projects than what was originally anticipated.
Q. Now would that continue then in 2004?
A. Oh, I don't believe that it will.
Q. Okay, but then if it doesn't continue in 2004 and we go to your capitalized expense line, and in fact, you've actually provided for a further reduction in capitalized expense in 2004, you've taken another $200,000.00 out of there and you've reduced it now to--you had a credit for '03 of 7.9 million and it's going down to 5.2 million, so do you not have 2. 7 million dollars worth of time and employees that are no longer needed if they were working on capital projects?
A. You just can't make a broad-brush statement, you've got to look at the components of what makes up the capitalized expense. The capitalized expense in 2003 reflects significant increases relative to overtime, which was not anticipated in 2004. 2004 is based on the approved capital budget for 2004,

and that's why there has been a reduction of $260,000.00 based on the approved capital budget.
Q. But if you really believe that you're going to need 2.7 million dollars less of workers and even factoring out that some of that is overtime, as we just saw, a million dollars, just in the period we looked at for '03 is actual base salaries, then why would you keep those employees on?
A. Well, it's the deployment of the work at the time when 2003 was done, versus 2004. Staff that were normally involved in the operation sides of things in 2003, as an example in the case of Granite, have spent a considerable amount of time trying to get this project on schedule and on stream as anticipated. In doing that, often times there are decisions made that certain operating projects can be delayed or deferred until a future date.
Q. But you're not suggesting that your operating costs are actually going to rise in 2004 for that reason, are you?
A. No, but all I'm saying is that your operating costs, you won't have a fairly large

MR. ROBERTS:
capitalized expense down on line 28 associated with these permanent people that are now working on operating projects in 2004, versus working on a capital project in 2003.
Q. One of the other items that effects 2003, as we look at your note, is that there is a $400,000.00--this is in your note 6, a reduction in group insurance of $400,000.00?
A. Yes.
Q. Now if that occurred in 2003, should that not--that reduction also get carried through to 2004?
A. We believe that it won't. The forecast at 2003 reflects actual expense to the end of August and based on preliminary discussions with our benefits consultants, they are still advising us that there will continue to be significant increases in drug costs, and at this point there has been no indication that it will result in a reduction.
Q. Where did that reduction in $400,000.00 in '03 take place in the group insurance program, what components of it?
A. I believe it's relative to our drug and dental

plans.
Q. Okay. Then, have you gone for a particular quote in 2004?
A. I'm not sure about an actual quote, but I know consultants, our benefits consultants are reviewing the issue of our drug plans and our group insurance coverage. Whether or not an actual quote has been issued, I'm not sure.
Q. Because it would seem, on the face of it, that in the absence of an actual quote, that the 2003 numbers would give us the best indication of what those costs would be, would they not?
A. No, you're mixing history of seven or eight months worth of actuals into assuming and applying that this will continue on into 2004 and I don't think that's necessarily the case and a good assumption.
Q. What I'm trying to understand is then on what evidence do you have that it is not a good assumption?
A. Well, as I said, we just recently started discussions with our benefits consultants and the preliminary indications are that the drug costs are going to continue to rise in 2004. And at this point, we didn't feel any

reduction was warranted, if at all. As a matter of fact, there could possibly be an increase for all we know at this point. So, even though the evidence indicates a $400,000.00 reduction, you haven't factored any of that into '04?
A. We have no evidence to us at this point to warrant a reduction in 2004.
Q. Can I ask you next some questions on System Equipment Maintenance and if we look at Line 16 on your Schedule 2 for '03, we're looking at an increase of 1.149 million.
A. Yes.
Q. And if we go to Note 7 there are several items in there that explain why that is up. And we have an asbestos abatement, a major overhaul at Holyrood, some additional items there and in TRO, you got Petit Forte decommissioning and rehabilitation of burners at the Hardwood Gas Turbine. Can I suggest to you, Mr. Roberts, that some of those come back to this issue of whether some of these items should be capitalized, in particular, overhaul repairs at Holyrood and the gas burner items at Hardwoods? And would not each of those extend

the operating life of the unit?
A. I don't believe that they are. As an example, the major overhaul to unit number one in Holyrood is a thing that's done that's based on the time use of the machines. It's not uncommon to experience additional costs once a major overhaul is done versus a minor. And all it is doing is ensuring that will, at least, reach the estimated service life that has been established for the particular unit.
Q. But Holyrood is already at a stage where, from its original inception, it has potentially reached it 30 year service life for some of these ones, hasn't it? We went through this with Mr. Haynes and it's because these annual--the repairs are being done that have extended its lift. And the life of Holyrood has been extended for approximately another 20 years with, I think it's about 17 years left to go on the additions that are there. All this is doing on the overhauls, these particular units, is ensuring that you will that full 17 years out of the particular unit.
Q. Well, let me ask you this question, in 2004, you're showing a $21,000.00 increase. What

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KELLY, Q.C.:
makes up the $21,000.00?
A. The 22,000.00 that you see there is in the Production Division and unfortunately I don't know what it would be for.
Q. And can you tell us whether it is one item or the net result of multiple changes or is that better left to Mr. Haynes -
A. It would probably be better left to Mr. Haynes, but I have a feeling it may be just one item that was missed.
Q. Okay. Let me take you to NP-291 then and this deals with a change in Labrador, but it's interesting because the Wabush Terminal one in Note 2, you've got $331,000.00 of extra maintenance costs that is being added.
A. Yes.
Q. And the note says, "the Wabush Terminal Station Use cost has increased due to previously unbudgeted costs of 331,784 related to synchronous condenser maintenance and control upgrade". Now, isn't an upgrade a betterment?
A. But these aren't our assets. We just paid for the right of capacity in the Wabush Terminal

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Station, but these assets are owned by Twin Falls Power Corporation. And the cost of the synchronous condenser and the control upgrades are part of the third and fourth expansion that's paid for and used by IOC. We acquire right to use that capacity and we pay a proportionate share of the cost associated with any repairs that are done on that facility.
Q. But to the extent that you pay a cost that is capital driven, if it is, in fact, an upgrade, a betterment, why would it not get capitalized?
A. It's not an asset, we have no right to anything. It's not a desk, it's not a chair. We're only sharing--adding a contribution, if you want to call it to some repairs costs that are owned by another third party.
Q. Okay. Let's look at Transportation and take you to PUB-187. Now, in Transportation, that item is down in the period January to August by $258,000.00, but when we go to your Schedule 2, it will be down for the year by only $189,000.00. That means that you've got seventy extra thousand dollars in round

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figures that you'll have to spend, sorry, more than that. But you've got extra money that's going to have to be spent in the second half to achieve that. Can you explain how that is going to happen?
(11:31 a.m.)
A. I think you got to understand as to how the forecast is done, is that you're not just looking at just actuals, but you're also looking at what costs may be incurred up to that point in time, whether or not all your costs are in and what do you anticipate for your usage between now and the end of the year. So, because you may have a particular savings that shown here at a point in time, it may not be representing true savings, it may be just a timing variance and when costs are recorded, and the emphasis is towards what is your year end results, not necessarily what your actuals are to the end of August because you're looking out for the forecast period to the end of the year. So that, if a particular cost is not in, in your January to actual August, then you just forecast it to arrive between the September to December period, so

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that your emphasis is towards what is your end result, not necessarily so much at a particular point in time.
Q. Look at Note 8 to your Schedule 2 and you've got a reduction--this is the 189 now, your net reduction at the end of the year--you're going to have aircraft down 150,000 thousand and vehicle fuel down by 42,000. Let's talk, first of all, about the aircraft reductions. Can you explain the reduction?
A. I think Mr. Martin addressed then when he was on the stand. I think he had stated that there was less usage anticipated in the first part of the year, but what will happen in the end, we still don't know at this point.
Q. But this is your projection, that you're going to be down 150,000.
A. We anticipate that aircraft would be down overall for the year by $150,000.00.
Q. Right. And you've got 42,000 in vehicle fuel. Have you retired some vehicles since we last went through this?
A. I honestly don't know if there's been any retired since or not.
Q. Can you explain why 42,000 is down in fuel?

MR. ROBERTS:
A. Well, I'm just saying, is that somebody looked at the area of transportation and looked at the aircraft cost, what we had incurred to date, what was our fuel cost incurred to date. What we did, we anticipate that we're going to incur for the remainder of the year and the difference between that and what was in the original forecast is the anticipated savings reflected here. It's just a simple matter of assessing what's actually been incurred and what you see for the balance of the year.
Q. The reason I'm asking why the change is because when I go back to Schedule and I look at 2004, there's no change in transportation budgeted for 2004. So, you've now got a reduction of 189,000 in 2003, but none of that seems to be getting carried through to 2004. Can you explain why that's the case?
A. It's the way that you're looking at the forecast. In your 2003 update, you actually have seven or eight months of actual history.
Q. Yes.
A. And if we had anticipated using aircraft and we didn't, then you'd normally--you're fairly

safe in saying, well, those costs will be realized for 2003. We don't have the level of experience and background in the case of 2004. 2004 is based on what's anticipated to be spent based on normal occurrences of utilizing helicopter time and vehicles.
Q. But when you filed in May, you were looking ahead some 18 months to 2004 and so you didn't have the 2003 experience. Now that you've got the 2003 experience and you've discovered in 2003 that oh, I'm not going to need to spend $189,000.00 for my operations, for my ongoing regular everyday maintenance operations, why does that not impact on your assessment for 2004?
A. Because we have no basis to determine that the reduction, as an example in aircraft costs that we experienced in the first part of 2003 will continue into 2004.
Q. So, the fact that you've had--the fact that you've determined in 2003 you don't need it in this years' operations doesn't impact on your assessment for next year?
A. Well, it's based on what you anticipate is going to happen in 2004 in your workload. In

the case of 2003, you never had to use the aircraft as often as you had originally planned.
Q. Okay. Let's look at--let's go down through some of the next items here. In Building Equipment, for '03, if we look at PUB-187, you're down by $66,000.00 for this stage in the year, but on Schedule 2, you'll be up by about $81,000.00 by year end. Can you help us understand that one?
A. Well, again, some of these things happen to be timings between what was originally provided in the budget versus what the actual costs are to a particular point in time.
Q. Okay. Let me take you to the next one, PUB-187 on Professional Services, shows you're down 769,000 by August, but you'll be down 503,000 by year end which is two items, the Microsoft and the Business Continuity Project as explained in your notes. What about the other 266, can you tell us what's happening with that?
A. All I can suggest to you is that back in this early period of January to August, timing differences would come into play.

Q. Have you specifically looked at, in these type of items, whether they are, in fact, timing or whether there are any further reductions?
A. Individuals were asked when they were asked to do their update, they were asked to look at what had actually happened up to the end of August, taking into account your actuals and then going forward from there, what was the forecast and best estimate for the balance of the year. So, I have no reason to disbelieve that the individuals responsible for preparing the budgets and the update would not take into account what's actually been incurred and recorded up to the end of August, and whether or not things will be required between then and the end of the year.
Q. Okay. Well let's take equipment rentals. In PUB-187, we see that down $114,000, and the--or that will be down $114,000 on Schedule 2 rather, and the explanation for that, in Note 10, is that it's a decrease in equipment rentals due to lower costs related to the rental of the offsite storage/disk space. Okay. Do you have that one?
A. Yes.

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KELLY, Q.C.:
Q. Does that get carried through to 2004? In other words, if you're saving $114,000 in disk storage space, that's something you would expect to be a continuous improvement?
A. The offsite storage in 2003 is a one-time item. For 2004, we had anticipated still having storage space available, but available locally rather than outside the province.
Q. Can you just explain how that's intended to work then?
A. This is for disaster recovery, and what we presently have is an arrangement with a company in the United States that can store information for us and of course, we're heading to the point that additional storage space is going to be required. We have decided for 2003 not to acquire that space and the intent had been, in 2004, with the upgrade of the main frame computer that we would utilize one of the AS-400s for our own purposes and provide the offsite storage space that way rather than through an outside source.
Q. And has an analysis been done to determine the

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cost and benefits of that?
A. I'm not aware of it having been completed at this point.
Q. If no analysis has been done, on what basis has Hydro determined that that's an appropriate way to proceed?
A. I guess it's a judgment call as to whether or not you want to incur the additional offsite storage space on a rental basis or utilize a piece of equipment that we presently have now.
Q. Okay. In 2004, you're showing $120, 000 increase on equipment rentals, and note 22 says that that is increased--"the increase in equipment rentals is due to an increase in charges from Aliant for the mobile radio system."
A. Yes.
Q. Is that--is the entire increase related to Aliant?
A. Yes, it's related to rental fees associated with the VHF repeater tower power and accommodation site at third party sites.
Q. Okay. Now the next two that I wanted to look at are travel expense and miscellaneous expense, and there seems to be a bit of back

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and forth here in the transfer of the allocation, and maybe the best way we can go at this is to have you explain how that works, how that worked in 2003 and how it has changed in 2004, and what are the numbers that we're talking about.
A. To go back, in the preparation of the initial budget back in 2002 for 2003 and 2004, it was based on the way that things had already been done. One of the business processes that were reviewed was the utilization of our purchasing credit card, and by utilizing that card, we have now streamlined the processing and recording of information by having it automated. So that, for instance, if an individual goes on a training course, their airline and their hotel bill in the past would have been coded to training. Now with the automation on the corporate purchasing card, the airline ticket, as an example, is hard coded now to be to travel and that has facilitated the coding.
Q. Can I just stop you there? I don't want to cut off your answer, but is that in effect in 2003 already or is that a change coming in

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'04?
A. That is in effect now in 2003, but the data that was done in the initial filing was not done on that basis. It's only in the reforecast now for October that some allocation has been done between training to travel and the same thing has been done in 2004. There's an amount of $300,000 has been moved from training costs up into travel costs to reflect the way that the new coding is going through on an actual basis.
Q. Well, let's look at '03 first, and on Schedule 2, you show under "miscellaneous" a reduction of $301,000?
A. Yes.
Q. And the note at Note 11 is that "the decrease in miscellaneous expenses is primarily due to a reduction in training." Is that in actual training or in travel?
A. That's a reduction in the cost of training because the travel costs are now reflected up into travel.
Q. How much of that is a reduction in training and how much is transferred to travel? Because when I go to travel, travel has only

KELLY, Q.C.:
changed by--is up by $30,000.
A. Yes.
Q. There's no note or explanation but -
A. There's no physical way to tell other than the fact that based on what had been there for the original for training costs and what have been incurred to date that training was reduced by the $300,000 and there was no corresponding increase at this point in the travel costs. We're able to obtain savings within the travel expense grouping.
(11:45 a.m.)
Q. Does it seem on the face of it that the bulk of it then is a reduction in training itself as opposed to travel, since there's not a corresponding increase in '03 in the travel expense?
A. Well, it may be a combination of both, and it's because of the way that the transactions are being recorded, you can't pinpoint one to the other now.
Q. Well, if you go to NP-251, this was the original answer for the 2003 and 2004 training budget. I take it from your answers to date

that travel, in this answer, is included in both aspects of the item, both in '03 and '04?
A. Anticipated, yes, costs of travel would have been reflected in three and four here in this answer.
Q. Okay. So in '04, 300,000 has gone to--out of the training budget into travel?
A. Yes.
Q. And some amount which looks like approximately 300,000, is gone out in '03 as well?
A. Both numbers have been reduced by approximately $300,000.
Q. Okay. And if we go to NP-305, we have a training budget for '03 now of 632 and for '04 of 712,000.
A. That's correct.
Q. Now, but just go up to line 6. As of the end of October, actual training expenditures are only 379,000?
A. Yes.
Q. So with only two months left to go, you're roughly 250,000 odd dollars away from full expenditure, with ten-twelfths of the year gone.
A. Yes.

Q. Will we not see further reductions then, since we've already--in this 632, we've already taken out the 300,000?
A. It's my understanding that a significant portion of some of this training is not done into the fall, so at this point, we have no basis in which to say it will be less than the 600.
Q. Well, if training is down according to the note to your answer, why would not training also be down in '04?
A. I guess it's the combination of the training and travel costs within 2003 as to why you have reduction in training based on our experience and the costs that are going through, and we were able to cover that by the amount of dollars that were continued in training.
Q. Let me move to a different subject. In Note 7, we have a look at your Note 7, you have some items related to Petites. You have a decommissioning cost in Petites in '03 of $120,000.
A. Yes.
Q. And if I take you over to Note 12, you're

going to have a loss on disposal in Petites of $103,000?
A. Yes.
Q. And if I go to Note 24, you have a loss of $725,000 for loss on disposal at Davis Inlet now that you've added in 2004, correct?
A. That's what's driving the increase on the loss on disposal for 2004, yes.
Q. $725,000?
A. Yes.
Q. Are there also decommissioning costs on Davis Inlet? Just as we've seen in Petites, there's both items.
A. There will be decommissioning costs for Davis Inlet, but I don't believe they are reflected in the 2004 numbers.
Q. Can you tell us what the decommissioning costs will be and whether they're in 2004 or anticipated for a future year?
A. I don't know if they've been quantified yet, and maybe I can explain a little bit there. When the initial application was filed, we still didn't know, and we still don't, as to what circumstances and what the arrangements are going to be on an ongoing basis between

MR. ROBERTS:
the Federal Government and Hydro, relative to the operation of Sheshatshiu. Negotiations are still ongoing and there are still issues to be resolved relative to operating the diesel plant in the community of Natuashish and as well as to what arrangements, if any, will be on cost sharing of costs. So at this point, I don't know if there's any included in 2004 or not.
Q. Well, let me take you to NP-46 and the question is, what are the plans for decommissioning the service to Davis Inlet and the answer at Line 11 is, "decommissioning to be completed by the end of 2004".
A. Um-hm.
Q. So, that would sound like somewhere in the budget, there must be a number for decommissioning for 2004?
A. I'm sorry, but I honestly don't know if there's anything in there or not.
Q. No, and in fairness, it might be information that you can obtain from, you know, Mr. Martin or someone else, but what we'd like to know is how much is in -

A. If any.
Q. - for the decommissioning costs--we know the loss on disposal, but how much is in for decommissioning costs for Davis Inlet, what that number is, that's question one. And question two is, is it in 2004 or not and if not, what year will it be in? Okay. Now, let's just carry on this discussion a little bit further. Can I take you to NP-45? Now, the question that was posed in NP-45 is, "provide details on the cost of the electrical system", et cetera, I'll skip through it, "put in place to serve the customers of Shango Bay, et cetera. The electrical system at the new community of Natuashish Shango Bay is being totally funded by the Federal Department of Indian and Northern Affairs on behalf of the Mushua Innu of Davis Inlet and Hydro does not have the details on the cost." Now in the costs of Shango Bay and putting that system in place, is there any money in there for the decommissioning of Davis Inlet and the disposal of the assets of Davis Inlet?
A. I'm afraid I don't follow your question.
Q. Well, the answer here says that the Federal

Government is funding Shango Bay or Natuashish.
A. Yes, and Davis Inlet is Hydro's.
Q. Okay, but Hydro is--these are people who are moving from one community to another. Has Hydro asked the Federal Government for the costs associated with decommissioning and loss on disposal at Davis Inlet?
A. I'm not directly involved in the negotiations with the Federal Government, so I don't know at this point whether or not the Federal Government is going to be prepared to undertake to fund some of the decommissioning costs or not.
Q. Well, let me take you to NP-53 and this refers to the report on the Isolated Diesel System Task Force in 1995 and it's attached, and if we go over to that document to page 34, and the top of the page, it says "on a more specific level, should the proposed relocation of Davis Inlet go ahead, Hydro will insist on infrastructure capital through Federal funding to fully defray any incremental capital expenditures forced on Hydro's customers should Hydro continue to be the operating

utility for the relocated community." And can you tell us whether that is being done?
A. As I say, there's been no agreement reached with the Federal Government at this point. Discussions are still ongoing. There is some consideration of sharing on capital as well as operating costs, but other than that, I can't shed any more information at this point.
Q. Well, yes, that troubles me though, because in the application which you now have brought forward in the refile, you are proposing to put into the expenses for 2004, an item of $725,000 and possible for loss on disposal, and possibly an additional amount for decommissioning of Davis Inlet. And the question really becomes, well, first of all, why is that cost getting passed on to Hydro's customers when this is part of a Federal program to relocate these people?
A. I can't answer your question. I can't relay any more information than what I've already done. I'm not intimately involved in the discussions with the Federal Government. All I can say is that they are ongoing. The intent is Hydro, at this point, to assume

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MR. ROBERTS:
operation of the Sheshatshiu facility. Proposed date is July 1st of 2004. Prior to that, Hydro would be required to file for an abandonment with the Board and go through that full process before that can be done. And there is some discussion ongoing with the Federal Government relative to contributing towards both capital and operating and there is a reflection in the budget now of, I think, approximately $100,000 for the Federal Government contributing to some of the operating costs associated with Natuashish.
Q. But the other part of this is this is a one-time loss on disposal that if you are proposing to put in a test year and that means that cost would get carried through in rates to all of the customers on a continuous basis, until the next rate hearing. Given all the qualifications that you've just given as to the lack of what's happening with this, can I suggest to you that that's not appropriate and have you comment on that?
A. Well, I guess my comment would be is that it is normal to have losses on disposal of fixed

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assets utilizing our present methodology, and that's a function. This year it may be $725,000 extra in there for Davis Inlet. Next year it could be something else. That, unfortunately, is the way that this revenue requirement is calculated, and the methodology and the way that Hydro records its fixed assets and depreciates that.
Q. Well, Mr. Martin was here and I can take you to the reference, if you want, but Mr. Browne, the Consumer Advocate, asked him if in fact Hydro was going to make money on the relocation and Mr. Martin said "no, we weren't going to do to make money but we were essentially doing it at cost." Now it appears that there is at least a three-quarter of a million dollar loss that is being asked to be passed on to Hydro's customers and possibly some additional amount with commissioning. I mean, that sounds inappropriate in the circumstances.
A. Well, I can't shed any more light than what's already here. We filed this application based on the premise that we will be assuming ownership of the operation of Natuashish in

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July. Going with that, there are certain costs. Hydro has to clean up and dismantle the Davis Inlet site. We are acquiring assets that are fully contributed by the Federal Government at a new community and discussions are ongoing relative to their contribution towards future capital as well as operating.
(12:00 p.m.)
Q. But on the basis of this now, Hydro will be essentially doing that transfer not at a profit, as Mr. Browne asked, but in fact at a loss? Is that not the net result of what is being proposed with this $725,000 loss on disposal?
A. The $725,000 certainly represents an additional cost in 2004 relative to the disposal of the assets at Davis Inlet.
GREENE, Q.C.:
Q. And I think if Mr. Kelly is going to pursue this, he should take Mr. Roberts to the reference in the transcript. I believe Mr. Martin was talking about the operating costs.
KELLY, Q.C.:
Q. Well, we can go there, if you like. It's October 24th.

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GREENE, Q.C.:
Q. Mr. Martin wasn't talking about the decommissioning or he was talking about what services Hydro was providing to the Federal Government at this time.
KELLY, Q.C.:
Q. Yes, but nobody came forward to tell us that these decommissioning costs and this loss on disposal were there. Let's go to October 24th, page 140, actually begins on page 139. It begins down at the bottom of the page, about line 20, and -
GREENE, Q.C.:
Q. And I think you need to read the answer before that, where it is clear what is the operating issues in Davis Mr. Martin was speaking to.
KELLY, Q.C.:
Q. Sure, okay. Let's go back as far as you want to go. Line 13. "Hydro still is responsible for and provides services in Davis Inlet. That community is not decommissioned yet. There are still customers there. We operate the Natuashish under an agreement with the Federal Government, but it is still their facilities. We are operating them for them.

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KELLY, Q.C.:
So can you give us details of that? How exactly does that work? Are you making money on that, for instance? Answer: No, I'm sure we're not making money on it. We're doing it. We provide operators and maintenance people as required. They provide all the fuel. We provide some engineering services to them, et cetera. We assisted them with commissioning activities and all of those costs are recovered at cost."
A. Yes, that is correct. We're running two communities.
Q. Yes.
A. We still had Davis Inlet where we still had customers and we still had operators and we still had a plant and the facilities. We were also operating Natuashish for the Federal Government, for which they were picking up, and still are, funding it 100 percent to us.
Q. Right, and the loss on disposal, is that not an incremental capital expenditure that is being forced on Hydro's customers should Hydro do this transfer as we looked at in NP-53 in the report, isn't that what it is?

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A. Well, I wouldn't categorize it that way. If the community happens to decide that it's going to relocate, and Hydro has facilities in the communities that it's left, no different than in Petites or Harbour Deep, then we have an obligation to remove our facilities and clean up the site as best as we can. So, there's another community that's being created for which the cost was borne by somebody else, and now we are being asked to operate that on behalf of the Federal Government for which we'll enter into an agreement. In doing that we're endeavouring to get the best possible deal that we can and hopefully there will be some sharing both on future capital as well as sharing on the operating costs that are associated with that new community.
Q. When do you expect those negotiations to be concluded?
A. Negotiations are presently under way. I have no idea when they are anticipated to be concluded. From some of my involvement over the last seven or eight months things in negotiations seem to be going at a fast pace and then it slowed down and in the last short

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period of time it appears it has started to be more active. As I say, this Application has been filed based on the premise that it would be a July 1st, 2004 takeover date. There are, besides the actual agreement between Hydro and the Feds relative to how the operation will be going and what costs will be shared, there are also other things that have to be done such as the applying for the abandonment order in the community and other things that will have to be done before things can be finalized.
Q. Can you confirm for us that Hydro is seeking the Federal Government to pay the decommissioning costs at Davis and the loss as part of the move, can you confirm that?
A. I don't know.
Q. Sorry?
A. I don't know.
Q. No, but will you undertake then to confirm whether that is in fact the case? (Undertaking)
A. I certainly can ask as to whether or not that is part of the discussions.
Q. I'd appreciate it if you'd do that. Okay. Let me move to another item which is interest.

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And this is one that you have shown a 3.55 million reduction, but is one that troubles us because we are concerned that the number should be higher, and I say that to you as we start. You may recall when we discussed this in cross-examination to start off with we had looked at two information documents which I think were collectively marked 10 on short-term and long-term interest. And just to refresh your mind, the short-term reduction which we had projected which you said seemed reasonable was about 3.474 million and the reduction because of the long-term bond issue you said was about another 800 to 870 thousand dollars. So the total number would have been a number in the range of about 4.3 million. Do you recall that discussion?
A. No, but I'll take your word that you're repeating it.
Q. Okay. If you like, you could have a look at Information items 10. We've got it on the screen there for the long-term one. And your reply, as we took you through this, was that, well, that number seemed a bit high for various explanations you gave about how the

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KELLY, Q.C.:
bond was issued, etcetera, and you suggested that the final number would be something in the 800 to 870 thousand dollar range. Do you recall that discussion now?
A. Yes, because of the fact that the initial issue was being sold at a premium.
Q. Exactly.
A. And you had an amortization of that premium cost that was to be going against the change in the interest.
Q. And if Mr. O'Reilly puts up the other piece of Information 12, you had looked at this and said, yes, this seems in the right order of magnitude for the short-term changes, 3.47?
A. But you will also recall at that point I also advised you that this was using the balances that were in the initial application for the short-term promissory notes outstanding and that they would change once a revision was done, so the amount may be different at the end.
Q. Right. And that's the issue I want to explore with you, Mr. Roberts, because that's where we're troubled. And let's start this by going

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to PUB 191. And in PUB 191 there was a question from the Board which said, "Please explain the change in promissory notes as at December 31st, 2003 and December 31st, 2004 from the August to October filing?" And before we get to the answer, the question is in relation to Schedule 5 of your evidence. And so just to get us focused here, let's go to Schedule 5. And you can just take us to the lines that we're talking about, it's ones down under "promissory notes". And there's a $22 million increase?
A. That's correct.
Q. Okay. Now, if we go back to PUB 191, the explanation is increased fuel of 10 million, lower proceeds from planned debt issue, 14 million, other factors, which I take it is just an adjustment entry, negative one, for a change of 23? Correct?
A. Yes.
Q. Okay. Now, if we look at some of those and we start with fuel and we go to your Schedule 2, page 7 of 8, and we look at the cost item, we go to the total at the end of December--or sorry, the end of 03, we got 121.6 million and

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we go down to a hundred and twenty-nine, one thirty-eight, the difference is 7.478, 47.5 million as opposed to 10 million. So the difference in the fuel that you're purchasing is 7.5 million as opposed to 10 million which you've got in the answer to PUB 191. Will you agree with that?
A. Yes, that one there shows 7.4.
Q. Right. And okay, so we got 7.4, 7.5 there. So, if we then go over to your Schedule 10 and we go down to the deferred charges, reductions, additions, that would give us the changes from the planned debt issue. And we've got the August one, 7632 and now we've got in October a negative 2782, one is the premium versus the discount. So we put them together, we got 10.4 million? You agree with that?
A. Yes, that's the net change between the two in deferred charges.
Q. Right. So if I go back to PUB 191, the answer for increase fuel is 7.5 and the change in the debt issue is 10.4 as opposed to 14. So there are other factors which come into play here. And the other factors, some of them are

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positive and some of them are negative. And I'll take you to some of the big ones. You've got a change in your net cash position because of your improved performance that we talked about earlier. If we go back to Schedule 10, we go to the line where it nets out under "other" after "operating activities", the change there is 7.1 to 9.5 million. So you've got actually a credit or a--of 2.4 million there. Do you agree with that? In other words, that's cash you don't need because you've got better performance, agreed?
A. That's the net change, yes.
Q. Yes. And if you go down to long-term debt retired, you've got another credit there of 1.2 million because you now have less long-term debt outstanding. Do you agree with that?
A. Yes.
Q. Yes. Okay. And so the question is, when you do that math, you've still got about another $9 million which affects the mathematics here. And that is changes in working capital balances. If we go back up to the line which is--there you go, Mr. O'Reilly has got it on

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KELLY, Q.C.:
the screen, of approximately $9 million in the change there. So one of the big factors that drives this interest issue is the change in the working capital balances. Would you agree with me?
A. That's what's one of the factors that's impacting the statement of cash flows, yes.
Q. Right. Now, just explain that briefly to the Board? Like, why--what's working capital, why do you need it and how does it affect your short-term borrowing?
A. Well, that change in working capital balances would be the differences between the receivables and the payables and other items on the balance sheet.
Q. Right.
A. Some of which you can finance by utilizing other sources, some you finance by collections.
Q. Right. So if, in fact, your payables go down, in other words, if you pay your bills, you got to borrow money to do it, correct?
A. Yes, if you're not carrying your out date (phonetic) and that would entail additional

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funds.
(12:15 p.m.)
Q. Okay. So if we go over to Schedule 8 and we look at the line under current liabilities, "Accounts payable and accrued liabilities", in 03 your accounts payable and accrued liabilities show a reduction from August to October of approximately 7.5 million for 03. And when you come over to August to October 04, it's 12.8 million. So you've got--you're purporting to carry lower payables, to have your bills paid faster, correct?
A. Well, that's what this is showing, that's all based on the premise of how this particular balance sheet is prepared.
Q. Okay. Well, and just explain that answer, what does that mean, it depends on the premise of how the balance sheet is prepared?
A. The forecasted balance sheet is the accounts payable is the last balancing number of all the knowns that are known throughout the balance sheet, so that's the self-balancing number that you need. As you go through preparing the financial statements, your fixed assets you fairly well know what they are,

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your accounts receivable you know what they are, they're based on what your sales are for your last month and the same thing with your inventories, your prepaids, your Rate Stabilization Plan, all of these are knows, so to make your balance sheet balance, the balancing number is your accounts payable and they include liabilities.
Q. Okay. And in fact, if you go over to NP-308, we asked you that question. And the question is, "Please explain the change in accounts payable and accrued liabilities as at December 31st, 2003 and December 31st, 2004 from the August to October filing?" In other words, why are you projecting now that the bills that you'll be paying next year will be down by that amount of money on an average basis. And the answer which comes back is, "Accounts payable and accrued liabilities is a balancing account after all other required changes." So that, as we understand it, that's what the accountants would call a plugged number?
A. Well, that's your balancing number to make your balance sheet balance.
Q. So it's not necessarily a real driver, is it?

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In other words, if it isn't down that much, you won't have to borrow the amount of money that is required to reflect it here, which is in average about $12.8 million for 04?
A. If at the end of the day that number is higher.
Q. Yes.
A. You have less short-term borrowings and you have a greater cost.
Q. Right. And so if it was based on the same number, if we try to get at what are the changes between the May filing and the October filing, between 10 and 12 million dollars of that change is driven simply by that accounting plug number, agreed?
A. It's certainly impacting it. But you got to recognize is that in the updates you're now starting to factor in the impact of actuals taking place as well. So that also impacts on what your balance is going to be at the end of the day, as well.
Q. But you can't give us any basis in kind of saying, well, here's how we forecasted how our payables are going to be different in 04, why they will be 10 to 12 million dollars lower,

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KELLY, Q.C.:
can you?
A. As you've said, the accounts payable is the balancing number. If you go through all of your knowns on your balance sheet and your balance sheet has to balance, then the difference happens to be accounts payable.
Q. Right. So if we -
A. So, you know, your promissory notes, your long-term debt are all calculated and ran--and determined based on an interest run and the parameters that feed that. You know what most of your other knowns are, and the other number that's still there is your accounts payable, and that's fairly normal and standard.
Q. But if you carry your accounts payable at the same rate as projected in May, you'll have approximately 10 to 12 million outstanding at an interest rate, according to your documents, of 2.78 percent, so roughly 278,000 less will be required in short--in interest, short-term interest? That would essentially be the mathematics, wouldn't it?
A. But that's math, but that's not in fact what has actually happened. It's a function here

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of what your actual numbers have dictated and what your interests run and your calculations have determined. And this accounts payable happened to have be fallout number that's needed to balance it.
Q. Okay. Well, we're going to explore that issue a little further with Mr. Brushett when we get him to--let me just take you to a couple of other -
CHAIRMAN:
Q. Excuse me, Mr. Kelly, 12:15 is the schedule.
KELLY, Q.C.:
Q. Oh, sorry, Chair.
CHAIRMAN:
Q. Lunch.
KELLY, Q.C.:
Q. In my enthusiasm I've run over.
CHAIRMAN:
Q. Do you have any idea of how much longer you might be?
KELLY, Q.C.:
Q. I'm very close to the end. I have three short areas to cover. I will be 15, 20 minutes more, tops.
CHAIRMAN:

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Q. Mr. Hutchings, do you have any notion or Mr. Seviour do you have any notion at this time?
MR. SEVIOUR:
Q. Mr. Chairman, Mr. Kelly has covered quite a number of points that I wish to go through. I think that it would be in the range of a half hour to--I'll have a chance to refine my examination through the lunch break.
CHAIRMAN:
Q. Mr. Kennedy, do you have any idea?
MR. KENNEDY:
Q. I was crossing out as we go, Chair, so -
CHAIRMAN:
Q. Okay. So there's a reasonable expectation-- I'm just trying to get an expectation of Mr. Haynes and if we might start and--don't know if complete, but certainly start. There appears to be, based on our schedule in any event, time that would be available this afternoon. I don't know how quickly we might get through Mr. Haynes, but it sounds like it has possibilities, in any event. We'll see. We'll reconvene at 1:30. Thank you.
(BREAK - 12:20 p.m.)
(RESUME - 1:34 p.m.)

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CHAIRMAN:
Q. Thank you. I must say, I subscribe to the other schedule more than this, but anyway, we'll push on. Mr. Kelly, when you're ready, please?
MS. NEWMAN:
Q. Excuse me, Chair, I believe that counsel for Newfoundland and Labrador Hydro would like to address some filings that they have.
CHAIRMAN:
Q. Oh, I'm sorry. Ms. Greene.
GREENE. Q.C.:
Q. Yes, Mr. Chair, there were a number of undertakings this morning, and we're in a position to respond to some of them now so that, for example, if Newfoundland Power wanted to follow-up on cross-examination, they may. The first undertaking was an undertaking given to Mr. Browne, and it was to file a copy of the transcript of the comments of Hydro's Manager of Communications on VOCM radio recently with respect to electric heating. And we do have a copy of that transcript. I have provided a copy to the parties. It's a transcript of an interview with Audrey Whalen

GREENE, Q.C.:
and then with Mr. Browne and with Dawn Dalley, who is Hydro's Manager of Communications, and it was on November 3rd. So copies of that transcript have been distributed to the parties, and the clerk has copies as well for the Commissioners. So that was the first undertaking that was given this morning. I guess that would be Undertaking No. -

MS. NEWMAN:
Q. Undertaking No. 23.

GREENE. Q.C.:
Q. The next topic relates to Davis Inlet and Natuashish and there were a couple of undertakings given to counsel for Newfoundland Power with respect to that. And I propose to ask Mr. Roberts the questions, because over the break we have had the opportunity to review the current information with respect to it. So, Mr. Roberts, the first question that you were asked to provide an answer to was whether the decommissioning costs for the Davis Inlet plant has been included in the revised 2004 revenue requirement. And were decommissioning costs included in the revised

filing?
A. No, there are no decommissioning costs included in the 2004 revenue requirement.
Q. Has an estimate been prepared of the decommissioning costs for the Davis Inlet plant?
A. Yes. The estimated cost is approximately $565,000. And at this point in the negotiations the Federal Government have agreed to pay for all of those costs. It is anticipated that the decommissioning will be completed by the end of 2004.
Q. So the reason there were no decommissioning costs in the revised 2004 revenue requirement is that the Federal Government had agreed to pay those costs, is that correct?
A. Yes, it is.
Q. The next question was with respect to the environmental remediation costs for Davis Inlet. No amount was included in the 2004 revised revenue requirement to cover the environmental site cleanup, is that correct?
A. Yes, it is.
Q. And why was that the case?
A. Well, the actual decommissioning of the plant

won't be completed until the end of 2004 and then in early 2005 a phase 1 environmental site assessment will have to be completed in order to determine what's going to have to be required to be done.
Q. Have there been any discussions with the Federal Government with respect to the costs associated with any environmental cleanup work that may be required?
A. Yes. This issue was raised with the Federal Government. However, they have decided they will not make any contribution towards the environmental cleanup of the site. Their rational is that they consider this be a Hydro cost that would have to incur in any regard and they were not going to contribute towards any of the cost.
Q. And as you've indicated already, any environmental cleanup costs will not be incurred in the test year, is that correct?
A. That's correct.
Q. The next issue was with respect to the loss on the disposal of assets arising from the decommissioning of the Davis Inlet plant. And that has been included in the revenue

requirement, is that correct?
A. Yes, it is.
Q. Has the issue of recovery from the Federal Government of the losses that Hydro expects to incur on the disposal of the Davis Inlet plant been discussed with the Federal Government?
A. Yes, it was. And the Federal Government have advised Hydro that they are not prepared to make any contribution towards the loss on disposal of the old plant.
Q. And are you aware of the rational for their position for that?
A. The rational is that Hydro will be getting a brand new plant with all the bells and whistles that go with it, and consequently, they weren't prepared to undertake sharing some of the costs on disposal of the old facility.
Q. The agreement with the Federal Government, I believe you mentioned already today that that has not been finalized. Is that correct?
A. Yes, it is.
Q. Are you in a position today to advise the Board as to whether the Federal Government will be making a contribution towards the

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GREENE, Q.C.:
operating and capital costs in Natuashish?
A. Discussions are presently under way with the Federal Government and they are entertaining the proposal that they will share some of the costs on the capital as well on operating, but negotiations haven't reached the stage yet where they are finalized.
Q. Does the Federal Government or did the Federal Government in the past contribute at all to any of the operating or capital costs for Davis Inlet?
A. No, it did not.
Q. The last questioning in this area relates to the impact on the rural deficit. Has Hydro undertaking an analysis of the impact on the rural deficit of its taking over operations in Natuashish and abandoning its operations in Davis Inlet?
A. No, to date Hydro has not. As I had mentioned earlier, negotiations are still ongoing with the Federal Government as to what the cost sharing arrangements will be relative to capital and operating, and until such time as that's done it would be difficult to determine

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it. However, it should have a positive impact on the rural deficit as we are receiving a fully modernized plant at no cost, so automatically there's no depreciation and interest being associated with that plant, together with the new equipment which one would expect to be more efficient than the existing equipment that's in the oil plant today.
Q. Thank you, Mr. Roberts. That concludes our responses to undertakings at this time. I believe there's only one outstanding and that relates to the reconciliation of the depreciation expense which was asked for by Mr. Kelly. That will be filed later. Thank you.
CHAIRMAN:
Q. Thank you, Ms. Greene. Good afternoon, Mr. Kelly.
KELLY, Q.C.:
Q. Thank you, Chair.
CHAIRMAN:
Q. When you're ready, please?
KELLY, Q.C.:
Q. Mr. Roberts, I'd like to follow-up with a

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couple of questions on the Davis Inlet situation. As I understand from the answers that you've just given, the new plant that you're going to get at Natuashish is going to be fully funded and effectively donated to Hydro by the Federal Government, given to Hydro?
A. There will be no cost to Hydro. Now, legalities as to whether or not the ownership will be transferred to us, I really don't know. I'm not in that -
Q. I didn't mean -
A. - all I can say is that there is no cost for the actual capital cost of the plant and the related distribution around the new community of Natuashish.
Q. So you're not going to have depreciation and interest expense going forward related to Natuashish?
A. Not on that new facility. Now, there may be depreciation and interest on future additions. And as I have mentioned, at this point there is discussions with the Federal Government to help cost share some of those future additions.

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Q. Okay. But if you hadn't, if you hadn't closed out Davis Inlet, then you wouldn't have this loss on disposal, (unintelligible), in other words, it's automatic, isn't it?
A. Well, it comes hand in hand as eventually the community, if there's no people in the community to serve, then we have an obligation to discontinue and apply for abandonment of the community.
Q. Right. And that's because the move is taking place to Natuashish?
A. The move is taking place to Natuashish and I think the majority of the residents of Davis Inlet have already moved.
Q. Keeping in mind the circumstances of that and the fact that there is a move which is taking place to a new community and keeping in mind the fact that Hydro is going to be provided with new plant facilities in that new community, has Hydro looked at requesting an order to amortize that loss, that remaining capital value over a period of time?
A. You're referring to the $725,000?
Q. Exactly.
A. No, we have not.

KELLY, Q.C.:
Q. Okay. And do you not think that that would be appropriate in the circumstances?
A. If the Board so desires to spread that particular loss over a period of time, then I'm sure it can be accommodated.
Q. Okay. And let me take you back to NP-291 for a second. Because we had this discussion this morning over Wabush. And the point that you made in response was that, well, Hydro doesn't own the Wabush terminal station itself. But if you accept the premise that it is a improvement of a capital nature, there is--whether you accept it or not, there's nothing to stop Hydro from asking the Board to amortize that expense, especially if it's of a capital nature over a period of years, is there?
A. If the Board so decided to order these costs to be recovered over a period of years, then that would provide the premise and the go forward for Hydro to amortize it over future period. From the strictly pure accounting perspective, that would be the only basis upon which these costs could be deferred and

amortized that they're matched in future rates.
Q. Right. And the example here is a good one, because we've talked about this capital issue on a number of fronts throughout all of the examination here. But here's an example of one which has a major impact on rate stability in Labrador, doesn't it?
(1:45 p.m.)
A. It certainly impacts the rates in Labrador. But once again I'll go back is that the bulk of these costs aren't necessarily extending a life of a particular asset, it's only ensuring that the actual estimated service life that's presently there is being and will be achieved.
Q. It's interesting the language you use at line 10, or 10 to 12 is that it's a control upgrade, which sounds very much like betterment, does it not?
A. Well, I don't know the inside workings of what's underneath the controlled upgrades. I can only suggest to you the synchronous condenser maintenance, the repairs that are being done on that particular unit will ensure that they get the service life out of it for

the period that's original set.
Q. Okay. Let's come back and look at a couple of points from where we broke off. We were looking at interest. And the next issue that I want to take you to, if you just bear with me for a second, is a question dealing with your sinking fund activities. And can I take you for that to NP-300? And if we go to page 3 of 5 the piece we need to focus on, Mr. O'Reilly, is the block down at the bottom, if you can make that as legible as you can? Under "Interest on sinking fund assets", first of all, a sinking fund is money that is put aside by Hydro pursuant to bond requirements to retire that indebtedness at a future point in time, correct?
A. That's correct.
Q. And in the meantime Hydro earns interest on that money?
A. Yes.
Q. And that interest is used to, in effect, offset Hydro's other interest costs for the year, it's a deduction, reduction?
A. Yes.
Q. Okay. So if you look at--we can go at this a

couple of ways, but let's just take the first line under "sinking fund" and we have the 10.5 percent bond, okay. So we have an opening balance in the sinking fund of approximately $50 million. A little hard to read on the screen, but I think that's the number. And under "Estimated annual earnings", and this is on the 2003 now, you're going to make $4.491 million, correct?
A. Yes.
Q. For an estimated average earning rate of 8. 79 percent. And if we look at the average balance on all of the funds in 2003, it's $ 99 million, correct? With me so far?
A. That's the estimated average balance, at the end of -
Q. The amount in the fund, okay. Now, let's just go over to page 5 of 5, which is your projection for 2004. We go down the table, we'll get the same part. Towards the bottom, Mr. O'Reilly. Now, if you go across that top line first, the 10.50 line, the earnings that you're going to get in 2004 are projected to be only 4,426,000 even though the balance has gone up, the opening balance, by $6 million

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KELLY, Q.C.:
and similar increase in the average balance. And just to give you the previous '03 number, the earnings were 4.491 million. So that even though you have more money in the fund the amount of earnings that you're going to make have been reduced. First of all, are you aware that that's the case?
A. I can see where there is a reduction from what's on the two schedules.
Q. Well, and here's the problem as we understand it, when you're dealing with a sinking fund ordinarily you'd take that annual amount and you'd invest it in a bond which would have a maturity date consistent with the ultimate retirement, so at every year the previous earnings should be essentially locked in. So we're puzzled as to how Hydro manages its sinking fund and why, for example, the earnings, just using that line as an example, in fact, have gone down even though the balance is up by six or seven million dollars for that bond? And we just use that as an example.
A. Well, Hydro wouldn't necessarily be buying

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just one bond with its annual contribution, it would be a function of what was available at the time together with the rates. And these are based on average projections in the case of 2004. In the case of 2003 when this was being updated, it's reflecting what actually happened up to the end of August so that if rates were different in that first opening period, then that would cause why you're getting a difference in the rates.
Q. But -
A. But it's a function of managing a portfolio of investments within that fund for which we will buy and sell within that particular fund in order to achieve a higher return.
Q. So you actively trade within your sinking fund as opposed to buying a bond and locking it in to maturity?
A. We would actually buy some of our own bonds if they were associated and available, and we would also buy bonds of, say, the Province of Ontario or other locations. All that would be government guaranteed bonds.
Q. But are you trading those -
A. They may be bought--if the opportunity arises

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and the price is right, then we would dispose of it and reinvest into another issue.
Q. But here's another way of going at it, if you look at the estimated annual earnings, for example, in 2004, which is what we have up there, the total for all your sinking funds is 8.520 million and on the previous one, I'll just give you the number so you don't have to go back on the screen, it's 8.367. So you made 150,000 more from '03 to '04. But that is on an estimated average balance which is up from 99 million to 117 million. And so the difference is 17.7 million additional and an additional return of 153,000 which nets out to 0.86 percent on that new money in your sinking fund. Sounds like something is not working right here.
A. Well, as I say, I can only outline the process is that in accordance with the debt indentures we have this money that's put aside into a sinking fund and we buy and sell investments that are within the fund. And these would be the average earnings that are anticipated to be received on the various sinking funds that are established.

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Q. My understanding, though, is that ordinarily you don't buy and sell within the sinking fund. When you get the new money in at the year, you buy a bond out to the end of the maturity that you're going to need. So are you telling me that's not what Hydro does?
A. I'm saying Hydro's, some of its investments that it has may not necessarily go out to the maturity of that date.
Q. Um-hm.
A. We can actually buy and sell within that sinking fund that's created. If the opportunity arises to sell some of the investments in that particular fund and realize a gain on that particular asset, then we do that.
Q. Have you looked at the life of the maturity of the bonds in your sinking fund relative to the point at which those funds will be required?
A. Well, our treasury department would be looking at what's required in the investments that are required to go in there on an annual basis and projecting out towards the end to ensure that the agreement that we're bound to adhere to would be there.

KELLY, Q.C.:
Q. Yes. But you could do that by having--if you needed 20 years out, you could have that money in a five-year bond or a ten-year bond or a 20-year bond. And what I'm trying to get a handle on is, is there an analysis of the bond maturities relative to the period of time that you're going to need them, if you need them 20 years out?
A. Well, I think what's looked at is the bonds that are in the particular fund, and as you say, looking, what do you need in the year that the maturity comes up and will this provide you with sufficient funds in which to do it. But I'm also saying to you is that if we happen to have a particular bond in there that may be out close to when the maturity arises and we have an opportunity to sell that and make a gain and then reinvest again, then we will do that.
Q. And where does that gain go?
A. So the gain would go into the sinking fund. And the other side of the entry is to interest. So it would be a reduction in our interest expense.

Q. So if you trade the bonds, then you increase the amount of capital in your sinking fund?
A. Yes. And the other side is into a reduction in interest -
Q. Because that reduces--that increases the amount in the sinking fund -
A. That's right.
Q. - raising it above what it would otherwise need to be at the expense of taking interest out that would reduce operating expense?
A. No. You're just increasing the capital that you have and the amount of earnings that you'll earn in your sinking fund and being absolutely sure that you'll have the required amount at the end.
Q. If you trade at the trigger again and you keep that gain in the fund as opposed to having an entry that offsets your interest, then is that not the net result?
A. On the gain that you end up in the fund ensures that you're going to have the correct amount at the end.
Q. Oh, yes. But it costs us -
A. Yeah, but you got to remember, every -
Q. - costs ratepayers now.

A. Every year you're going to add new money to that plan. You may not be able to reinvest all that money and accumulate what you need by the end of the maturity.
Q. Let me to go another topic. This deals with your Schedule 8. Now, let me deal with this one by starting off, as I understand it, your new series bond was predicated on the May filing to be at 6.5 percent? In other words, it hadn't yet been done?
A. What was in the initial filing was an issue at 6.65 percent being sold at a premium plus accrued interest.
Q. Right. And at the end of it, it turned out to be, I believe, 5.7 percent?
A. At the end the actual issue was done for 5. 7 percent.
Q. Right, okay. And if we go to NP-309, the interest payment on that new bond are on July 14th and January 14th of each year?
A. That's correct.
Q. Okay. Now, if we go over to your Schedule 8 and you go down to your accrued interest line, you'll see your accrued interest from the August filing to the October filing is exactly

the same, hasn't change, 27,955 and 27,955. And when you come over to 2004, it hasn't changed from August to October either, you have 29,705 in each case. And can I suggest to you, sir, that that can't be the case because if your interest payment date is the 14th of January, at the end of December in every year you will have five and a half months of accrued interest for that bond series? Do you agree with that?
A. Your question why the accrued interest is the same amount?
Q. Well, let me go at this way. At the end of December you'd have five and a half months of interest in hand that you would have--or accrued to meet that obligation, would you not?
A. That accrued interest that you're referring to is on all of Hydro's bonds, not just on this issue.
Q. Yes. But this--all the other ones have not changed, have they? This is the only one that is changed between the August to October filing?
A. Yes.

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KELLY, Q.C.:
Q. Yes. So since all the others are the same, the only one that's changed is this one. So on this bond you would have five and a half months interest accrued as of the end of December, and that interest in your original filing was at 6.65 whereas it's now at 5.70. So those numbers ought to have changed by approximately $500,000, should they not?
A. The only explanation that I could give right now is that it may be the impact of the premium that was on the issue may be impacting it and that may be why the number hasn't changed.
Q. Do you need time to reflect on that further? Because if you had the interest rate reduced, the interest which is what would be on that line as accrued interest ought to be reduced by the difference between 6.65 and 6.70?
A. As I say, unless the impact of the issue being sold out of premium is causing it to be the same as the 5.7.
Q. Do you want to reflect on that one and you can -
A. You'll have to leave it with us.

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Q. Now, the next area I want to go to is a question that deals with this depreciation issue again, from a different angle, and this goes to your Schedule 3, here we go, accumulated depreciation, the third line down. In your August filing for '03, now we'll just give the round numbers here, we got 465 million, but that's now reduced to 464 million, okay? So there's a million dollars less in accumulated depreciation?
A. Yes.
Q. But yet, when we looked at it this morning, we saw that it was going to be down by, the depreciation in '03 is down by $319,000.00. And so the question is, in '03 how come your depreciation for the year is down by 319, but your accumulated depreciation is down by a million?
A. Because here you're also dealing and taking into account the impact of disposals as well, so you would start off your opening balance, add in your depreciation, take out your disposals and here's your new ending balance. Whereas your depreciation expense that you saw this morning on Schedule 2 and on some of the

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other schedules, that's on the actual depreciation to be calculated based on the actual additions in service for the whole year.
Q. And if I take you across to '04, your depreciation, accumulated depreciation there is down from 497 to 494, so you've got a 2.6 million reduction in depreciation.
A. Yes.
Q. Even though as we saw this morning there's a decrease in depreciation for '04 of only $260,000.00, so 2.6 million versus $260,000.00?
A. Yes, but it's the same answer. Don't forget now that this is the total accumulated depreciation. For inception on all of those assets -
Q. Yes.
A. It started off and any assets, like for instance Davis Inlet, okay, there may be a million or a million and a half worth of accumulated depreciation that came out of that number when we wrote out those assets.
Q. But at the end of the day, your plant in service is essentially the same.

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A. For different reasons.
Q. We can go to NP-302 to have a look at that.
A. What you've got to recognize is that in the August filing of 2004, there were additions that were going to be recorded in 2004 that were reflected in our 2004 capital budget that were not approved. So they account for, approximately about four million dollars in total, just on those assets alone that are not in rate base in the October filing, but they were in the August filing.
Q. Right, so that would affect the amount of depreciation in the year -
A. That would affect the accumulated depreciation.
Q. And the net amount of that, as we saw, is $260,000.00.
A. But I'm trying to explain to you that that's only one aspect of what's happening. Any assets that we dispose of in the in between period that has now come to light, also impact that accumulated depreciation.
Q. And what we'd like to ask you to do is, we'd like you to undertake to provide us a written reconciliation as part of this depreciation

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KELLY, Q.C.:
item as to how these numbers get reconciled; in other words, the depreciation in the year versus the accumulated depreciation for each of these years. (Undertaking).
A. Less the losses.
Q. I would like to see how that works.
A. If you want to reconcile that accumulated depreciation, you know, we'll start with the opening and take you through the additions and deletions.
Q. Could you do that?
A. Because there is in both. Yes, we should be able to do that for you.
Q. Thank you. If you could put that on paper, we'd appreciate it. And, Mr. Roberts, those are my questions. Thank you very much.
CHAIRMAN:
Q. Thank you, Mr. Kelly. Thank you, Mr. Roberts. We'll move now, good afternoon, Mr. Seviour.
MR. SEVIOUR:
Q. Thank you, Mr. Chairman. Hello, Mr. Roberts. I was going to take you first to Schedule 8, I think we looked at it a couple of times this morning and early this afternoon. And this

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relates to the discussion you had with Mr. Kelly about promissory note and accounts payable and accrued liabilities. Do you recall that discussion this morning?
A. Yes, I do.
(2:05 p.m.)
Q. And the issue of the balancing account. My first question related to the promissory notes for next year, 2004, and my question is simply how is that figure achieved, what process is undertaken to get to that figure?
A. Maybe I can just back up a little bit for you, in the August 2003--October 2003 update, that started off with an actual promissory note balance as of the end of August, the real number. Then based on our forecast of operating and capital and expenses, together with revenue, you run forward to arrive at your balance at the end of 2003. Then the same process goes on into 2004, that is that you forecast your revenue and expenditures streams for cash-flow purposes and the end result at the end of December is the promissory note balance that you see here.
Q. And I guess that's somehow how I expected your

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answer to come, and my confusion related to the discussion about the accounts payable and accrued liabilities account being the balancing account, because intuitively, it would have seemed to me that the promissory notes account would have been the appropriate account for balancing.
A. Well unfortunately in this case, it's the reverse because you end up going through and identifying all your knowns, and then you've gone through and you've done your cash-flow model which has picked up your promissory note balance at a point in time and forecasted your operating and capital and that's your number that comes out, and then you're balancing numbers back to the accounts payable.
Q. Let me take you to Schedule 10 where I had a question. This is your new Schedule 10, and about six lines down, under the 2004 numbers, we see a reference in the category "other" from a change of $708,000 to $1,378,000 and I simply wanted clarification as to what that increase related to?
A. That line, if memory serves me correctly, would be related to the proceeds and disposal

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of fixed assets.
Q. And what particular fixed assets are you referencing there?
A. That would have taken into account the activity for 2003 once we update and moved away from (inaudible - power failure).
Q. Perhaps as a supplementary, I'm wondering if that's impacted by the Davis Inlet circumstance?
A. Davis Inlet would be in 2004, it would certainly be contributing to it. Yes, Davis Inlet would certainly be changing in the other column, cost of increase from the 7 to 13.
Q. And can you add anything more to what you've just told us?
A. Well the other column, as I just outlined, represents the gain or loss on disposal, net of proceeds that may be received from disposal of assets. So based on redoing the 2004 numbers to reflect--and not only Davis Inlet, but what may also be there from the 2004 approved capital budget where certain projects were not approved, so consequently, that would impact on some of the disposal as well, so -
Q. Thank you. I wonder, Mr. O'Reilly, if you

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MR. SEVIOUR:
could turn up NP-298, NLH. And page 2, please. Mr. Roberts, this is an update of the system energy storage multi-coloured graph and I think, as I read it, it reflects that since the August filing things have improved, is that how you read it in the sense that the 2003 storage level, shown as the pink line, is it?
A. Magenta.
Q. Magenta line, apologies.
A. Mr. Haynes would be the better one to answer it, but what the pink line is representing is that in October, there was a significant amount of water that we received into our system.
Q. Uh-hm. And the material considerations, I guess, is the green line is the minimum energy storage target line, as I understand it, on the graph, and the pink line is the actual system and energy storage line. Is that how you understand it as well.
A. Yes, but once again, you're heading into Mr. Haynes' territory who has the responsibility for production and water management, so -

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Q. My question really does relate to fuel management and the implications, if any, of this change from the potential purchases of fuel by Hydro in the current or early 2004 time frame. Do you know if the improvement in the hydrology situation, the reservoir storage situation, is going to have an impact on fuel purchases by Hydro?
A. I would anticipate that it will, but whether or not it would change the total purchases for the remainder of 2003 or just shift them, that would certainly happen, you may find that we had one or two shipments scheduled--as a matter of fact, I think it came up this morning in a question with Mr. Kelly of why we only had one shipment in October, versus the initial filing that we filed in October had it shown as two. Because when the update was done, of course, we didn't have this water that was available, so I'm not sure if it would delay a shipment now out to 2004, but it would certainly impact what it would be and I think Mr. Haynes would probably be maybe the better one that may be able to answer if it has done that.

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Q. Thank you. I wanted to take you to your note one in Schedule 2, you're at page 2 of 8, I think, and in note 1, there's a brief reference in the last line to the delayed in-service dates in 2002 and 2003, and I wondered what that related to?
A. Well I'll just give you one example that comes to mind is in the case of vehicles, which is a good example to use, we would have a budget proposal in to replace so many vehicles in a run of a year. Often times when we go to place the order, because of the speciality of the line trucks and the amount of time that's involved, you may find that we're not able to acquire the truck when required or when we had originally anticipated, so the service date could be moved out a month or two months or hopefully not past the end of the year, but it can happen that the projects may not get completed and end up being a carry over and, of course, that's where the change on the in-service date arises.
Q. That's helpful, I was trying in my mind to understand in part was this related to your note 13 on page 4, which describes in the last

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sentence an extended commissioning period for Granite Canal. Does that have any bearing on the reference to delayed in-service dates in your note 1?
A. Well Granite Canal was still brought in basically on service at the in-service date. As with all these projects, you will find that the project is up and running, but there's always decommissioning and clean up that goes on after the project is up and running. And that's a fairly common occurrence in a project such of this magnitude.
Q. Let me take you to note 6, please, which is on page 3, which refers to increased overtime of $898,000.00 of which $553,000.00 was related to capital projects and fewer vacancies. First of all, the capital projects, that we understand that the lion's share of $553,000.00 overtime related to capital projects, this is attributable to Granite Canal?
A. Granite Canal would certainly be a substantial portion of that.
Q. I wanted also to ask you about the fewer vacancies that you talked a bit about with Mr.

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MR. SEVIOUR:
Kelly this morning, and I wanted to talk about in relation to your own department, Schedule 13, I think, has your budget or your net operating expenses, I'm sorry. In line 10 of the budget, we see an adjustment to the vacancy allowance for the finance and corporate services department of $179,000.00. Do I have that correctly?
A. $179,000, yes.
Q. And that reflects that of the original vacancy adjustment that was budgeted of just over two hundred thousand dollars, $22,000 is now anticipated to be achieved for year 2003?
A. That's what anticipated may be achieved between the end of August and the end of December of 2003.
Q. Okay, but is that an annual figure, the 22,000?
A. No, that would be the amount between August and now because the actual vacancy adjustment or the actual vacancies between January and August are reflected up in Line 4 in your actual salary number now.
(2:16 p.m.)

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Q. Okay, that was my next question. I was trying to relate this to, between the two different categories and I was trying to come to the discussion you may recall we had when you were cross-examined the first time around and Mr. Kelly and myself asked you questions about the $600,000.00 figure that was going to be the savings achieved from the elimination of ten Fulltime Equivalents this year, and I'm trying to relate that $143,000.00 figure in the salaries line, Line number 4, to the $600,000.00 you told us about before. And the question is, is this part of the 600,000 or is this an additional amount or can you tell us?
A. I'm not sure of the 600,000 that you're referring to.
Q. Well, perhaps, I can give you the reference in fairness, I'll pull up the reference, it's October 15, page 154 of the transcript. I think that if you look at the answer that appears at the top of page 154, that's the $600,000 figure that I'm referring to, and in your answer at line 10, you indicated "it would be, yes, primarily through the elimination of full-time equivalents" and I

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think if you scroll down, please, Mr. O'Reilly, to page--I think there is a reference to an aggregate of ten full-time equivalent positions that's in the record. I don't see it precisely in that figure but I think you can accept that--perhaps up on page 153, Mr. O'Reilly.
A. The ten positions in the approximately $600,000 would be the annualized savings that you would achieve from eliminating these positions. That would form part of the 2 1/2 million dollars worth of vacancy allowance that we have created for 2004, and within 2003, what you'll find in most cases is that the savings will be very small because of the fact that you end up having to pay out a severance or a retirement allowance related to these particular positions. To actually do a comparison of are you or are you not achieving the vacancy reduction, you really need to take the salaries and the vacancy adjustment together as one number and then do the comparison and then that will dictate as to whether or not you're really achieving your vacancy or not.

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Q. Yes, I think you've explained that, and just for the record, Mr. Roberts, at lines 19 to 25, at page 153, I think you do see the reference to ten full-time equivalents in that discussion that I think you and I had. But coming back to the line 4 on Schedule 13 of your new evidence, the salaries figure that's reflected there, can you tell me how that relates to the $600,000 figure that we discussed earlier?
A. Well, the 600,000 is an annual number, as I just mentioned, and it would be more appropriate against 2004.
Q. Okay.
A. And it would form part of your vacancy adjustment. The 600,000, I should enlighten you, is not just finance and corporate services at that point in time. The ten positions were scattered throughout the organization, not just in finance and corporate services area.
Q. I appreciate that.
A. So on a company-wide basis, with the two and a half million dollars there, there's 600,000 that will be achieved now into 2004 and form

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MR. ROBERTS:
part of that 2.5 million.
Q. Just next going to take you to your Schedule 2, page 7 of 8. Mr. Roberts, I understand that these are updated 2003 projections for fuel costs and 2004 projections on page 8 of 8?
A. Yes.
Q. And they contain the updated price of fuel, effective September of this year?
A. Yes, that's correct.
Q. Okay. I had a confusion with respect to the second table on page 7 of 8, and it began with my inability to reconcile in the post purchase inventory price dollars per barrel column, that's the third from the right of the page, in say the months of January with the beginning pre purchase inventory price, that's the very second column, for February and the confusion here is if you look at it for the bottom table, the October 31 filing table for 2003, you see that for January it's an inventory price of $42.00 and--42.3588 dollars per barrel as a post purchase inventory price for January, and the opening pre purchase inventory price for February was 43. 9198 dollars, and if I look at the other tables, there is a concordance, if you perform the same analysis. In other words, if you look from January for the 2003 August filing to the opening pre purchase inventory price as against the post purchase inventory price for--the post purchase for January and pre purchase for February, there's a concordance. There's equivalents and you can follow it through as the prices progress, and that's true also of the 2004 tables, as I read them. So I was having some difficulty understanding why that wouldn't be the case for the 2003 October 31 filing and I was hoping you could help me out with that.

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A. Well, if I may, 2004 you should find it flows back and forth. The issue in 2003 is that the initial filing had absolutely no actuals into it whatsoever. What you now have in the October 31 filing is you now have what actually happened from the actual purchases, and those ending inventory adjustment amounts get adjusted for such things as the BTU adjustments, water content, and it would also take into account the settlement for the final shipment price, which is normally not known until after the month end, but it would be adjusted in the opening figures that's brought forward.

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Q. So the first filing for '03 was -
A. The first filing that was -
Q. - purely projections?
A. - there is August '03, was a complete forecast basis. There were absolutely no actuals mixed in with this, whereas what you have in the October filing, you have actual results from January to August, and as I said, you get the blending of the prices and you get BTU adjustments. You get water content. You're getting the average price that will not be resolved until after the month end being adjusted into your opening inventories that comes forward.
Q. And I was--do I understand then that there is a monthly adjustment that's done respecting the inventory?
A. At the end of the month, you would also have to factor in, as I said, the BTU adjustments and any other final price adjustments. They would all affect your opening inventory valuation that you would have. They're only on a price basis.

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Q. So of all of these tables, the one that I've focused on is the only one that has actual for costs figured into it?
A. That's correct. All the rest are pure forecast.
Q. Okay. And I was struggling with the cost projections that you see in that table as well, because I couldn't get the numbers to work when I multiplied the inventory price times the volumes.
A. I'm not sure I understand. Are you saying like in September the shipment of 275,000 times 31.25 is not -
Q. Well, you got the columns in costs in January, for example, on the production side, you've got an inventory price of 42.3588 dollars a barrel. Volume of 518,710 barrels, and when I compute those figures, I don't get the figure that's there, the cost figure.
A. The 518,710 times the 42?
Q. That's right. I get a figure of, for that cost example I've given you, of 21,971,933.

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MR. SEVIOUR:
I've got my decimals in the wrong places. So I'm really just trying to get to an understanding of where the cost figures come from in that table, because I couldn't get them half to work.
A. So the 42.3588 times the 518,710 is not giving you the twenty-five five four?
Q. It doesn't give you that. It doesn't give my computer that--or calculator, that figure.
A. Well, as I said, the only thing--well, I can't answer it for you. The only thing that you would have when you start dealing with actuals, what you would have is you would start off with an opening inventory and matter of fact, it's illustrated in the RSPs, if you ever wanted to see it, but you would start off with an opening inventory or the value and then if we had a shipment, you would add a shipment and take off your consumption. So what you end up happening, in the case of the actuals, you've got a mix of the things and somebody's tried to put in an average price here of what's happened. So I think the best illustration for me to say is that if you

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looked at the rate stabilization in the fuel cost section, you would see we say here's the consumption and a price and then we have a shipment and you get a new price for your consumption. So it's the subtotal of all of those on an actual basis is what's being used here.
Q. So you're saying really that--and the volume is what it is, but the price that's used may be -
A. It may be different by the way that the shipments are received and what the new price is as it's gone through. So somebody has tried to simplify the process rather than have 15 or 20 individual lines here because every time you have a new shipment, you'd have a new calculation coming across.
Q. And your explanation is that the cost here would be the actual -
A. Should be the actual -
Q. - based on the variable costs during a particular month.
A. - based on here's the quantity that's consumed prior to receiving a shipment and here's the new price after a shipment and here's the

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consumption then until the end of the month. So, somebody has added these numbers together to give you what you're seeing here.
Q. I have a couple of more questions, one related to your Note 2 page 2 of 8 and you refer there to the reason for the adjustment on fuel price and it's partly ascribed to lower energy requirements of 13 gigawatt hours, and I was wondering what was the basis for that reduced energy requirements? Where was that arising?
A. I believe that information is flowing from Mr. Haynes' update on his load forecast and actual sales.
(2:30 p.m.)
Q. Fair enough. That's the extent of my questions, Mr. Chairman.
CHAIRMAN:
Q. Thank you, Mr. Seviour. Thank you, Mr. Roberts. We'll move now, good afternoon, Mr. Kennedy.
MR. KENNEDY:
Q. Good afternoon, Chair and Commissioners. They left me with one question to ask; it's not even a very good one, but I'll ask it anyways. Mr. Roberts, I just had a question about your

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accounting principles that you're employing in relation to maintenance materials related to the decommissioning costs of plants.
A. Um-hm.
Q. You refer in Schedule 5 to the revised, your second revision, which is actually, for the TRO division, this is a section from Mr. Martin, but in there there's a note and you've been asked about it previously, about the note number four on the--Schedule 5, second revision, October 31, FH Martin I have on mine, Schedule 5, yes.
GREENE, Q.C.:
Q. Mr. Martin's Schedule 5.
MR. KENNEDY:
Q. Yes, sorry, Mr. Martin's Schedule 5. And has been noted in previous questions, Mr. Roberts, there was an adjustment made in the amount booked for maintenance materials showing a variance of an extra $600,000.00 from the August filing to the October filing, correct?
A. Yes.
Q. And then over on the next page at Item number 4, the explanation is that this increase in maintenance materials is primarily due to

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MR. KENNEDY:
unanticipated expenses related to the environmental mediation of Petit Forte, the decommissioning of Petites, or Petit Forte sorry, and the rehabilitation of burners at the Hardwoods Gas turbine. So, I'm wondering, in relation to Petit Forte and the Petites, is it normally the case the Hydro books that as a maintenance expense and operating expense? And if so, why wouldn't you treat that as in relation to your capital cost as part of the decommissioning?
A. Historically, we have been expensing these costs as incurred and have not decided to request permission from the Board to defer and amortize.
Q. Okay, that was the next question, obviously, that in the case of something like the loss on disposal of your assets at Davis Inlet, for instance, and that was any thought given by Hydro to amortizing that loss on disposal over a number of years instead of having it all show up in the test year.
A. Hydro didn't consider amortizing it over a period of time. It certainly could be done,

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but I guess the other point I'd just like to make is that over time, it's, I guess, a normal practice that you would have an element of loss on disposal of fixed assets because you're turning over your fixed assets continuously, some of them more regular than others, if they're, sort of, like vehicles or small tools and equipment. Just on the method of depreciation and the amortization that Hydro uses dictates that that's the way we go, but to defer and amortize over a longer period of time would require approval of the Board in which to do that. With that approval then, we still meet generally accepted accounting principles and allow that to continue on, but yes, it can be done.
Q. And would that be more--if it was done, would you agree that it would make sense to do that in a case where there's an extra ordinary disposal as opposed to just your normal disposal, as you've described it.
A. Well, we already have a policy that's been approved by the Board that puts a limit of anything over half a million dollars, that we can come back to the Board with a request to

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defer and amortize. And I guess the half million dollar limit is, yes, just there arbitrary and the Board accepted what was in the report at the time. And to date, we haven't, on an individual instance, basically exceeded the half a million dollars that would warrant coming back to the Board and requesting permission to defer and amortize.
Q. Just one quick question in addition to those. In your revised filings, I couldn't see any note concerning how your revised revenue calculation may have affected your forecast energy sales. Has Hydro made any adjustments to its forecast energy sales for 2004 as a result of the reduction in revenue requirement?
A. The best person to speak to on load forecast would be Mr. Haynes.
Q. Okay.
A. Because the information would have been fed through to him.
Q. So, if there were, for instance, elasticity effects as a result of the increases being lower than originally contemplated, would that be Mr. Haynes' responsibility then?

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A. Yes, it would.
Q. Okay. Thank you, that's all the questions I have, Chair. Thank you, Mr. Roberts.

CHAIRMAN:
Q. Thank you, Mr. Kennedy. Do you have any re-direct, Ms. Greene? It looks like you're undecided.

GREENE, Q.C.:
Q. I was just wondering if the back the room has gotten ready our reconciliation and depreciation yet and if I thought they did, I might ask for a break now and we would deal with that, but--no.

KELLY, Q.C.:
Q. Takes longer than that.

GREENE, Q.C.:
Q. I did have one question, you mentioned the policy just then to Mr. Kennedy, if an amount is over $500,000.00. Now, that policy deals with extraordinary repairs, is that correct?
A. That's correct.
Q. It doesn't deal with the issue of losses on disposals?
A. No, it does not.
Q. That's the only question I have at this time

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GREENE, Q.C.:
until we see, I guess we do have an outstanding undertaking with respect to the reconciliation and depreciation expenses.
CHAIRMAN:
Q. No questions, Commissioner Saunders.
COMMISSIONER SAUNDERS:
Q. No questions, Mr. Chair.
CHAIRMAN:
Q. I don't have any questions. Thank you very much, Mr. Roberts. It's twenty to three now, we need to take ordinarily five minutes. What I'm proposing is we take our fifteen minute break now and we'll come back, we'll proceed on. If we need a little break later on in the cross-examination, we'll consider that five minute break later on. It will give us a chance to clear the table and that. So, we'll reconvene at five to three, if we can, please?
(BREAK - 2:40 P.M.)
(RESUME - 3:00 p.m.)
CHAIRMAN:
Q. Thank you. Ms. Newman, is there anything before we begin?
MS. NEWMAN:

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Q. Yes, Chair and Commissioners, I wanted to advise that there appeared to have been a small technical difficulty in the last session with the transcription service. There was a power surge and I think we lost a five second or so portion of the transcript. It was under cross-examination by the Industrial Customers in relation to Schedule 10 of the revised evidence, and in particular the other category of 708,000 and how that changed up to 1,378,000. It's a very brief section. It doesn't appear as though there was a lot of substance of the conversation around that time. It was a lot of document exchange and stuff. So hopefully it wasn't too much, but can the parties please have a look out for that and if they have any ability to fill in the record, or feel that it might be necessary, I guess we can work towards that.
CHAIRMAN:
Q. Five seconds would probably be three or four lines. If it all hangs on that, I think we're probably all in trouble. Thank you, Ms. Newman. Good afternoon, Mr. Haynes and welcome back, sir. I think you've been sworn

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in, so we can proceed right to direct when Ms. Greene is ready.
(MR. JIM HAYNES, PREVIOUSLY SWORN)
GREENE, Q.C.:
Q. Thank you, Mr. Chair. Mr. Haynes, with Hydro's revised filing on October 31, 2003, there were a number of revised schedules to your evidence submitted. Is that correct?
A. That's correct.
Q. And I believe these were revised Schedule 6 to 13 inclusive, and there they are there on the screen. Those revised schedules are within your area of responsibility? Is that correct?
A. That's correct.
Q. Do you adopt the revised schedules as your evidence for the purpose of your testimony today?
A. I do.
Q. Thank you, Mr. Chair. Those are all the questions that I have in direct.
CHAIRMAN:
Q. Thank you, Ms. Greene. We'll move now and good afternoon, Mr. Browne.
MS. NEWMAN:
Q. Excuse me, Chair, I neglected to mention

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earlier. It seems as though none of the parties, other than the Industrial Customers, have questions of the first instance for this witness, so what I propose, and it seems people are fine with this, is if we proceed directly to the questions of the Industrial Customers and then we can revert back to our usual order, rather than go through the motions of circulating around to everybody.
CHAIRMAN:
Q. Sounds fine with me, if there's agreement on that. Good afternoon, Mr. Hutchings.
HUTCHINGS Q.C.:
Q. Yes, thank you, Mr. Chair. We're following the same order. It's just that nobody has any questions until they get to me in this particular instance. Mr. Haynes, want to deal quickly first of all with a couple of matters that were deferred to you. If you could look for a moment at the reply to NP-298, page 2 of 2. This is the notorious magenta curve.
A. Yes.
Q. Mr. Roberts was asked some questions about this and deferred them to you. I take it that Mr. Roberts was correct in indicating that the

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HUTCHINGS, Q.C.:
magenta curve does reflect an increase in water inflows since the last information was filed and that's what brings the magenta curve up above the green one at the present time?
A. Yes, that's correct.
Q. Okay. And has that circumstance been factored into the forecast for fuel purchases for the end of 2003?
A. No. The forecast was done on the best available information at the time and basically it was done basically prior to the end of September when the rain started in Bay D'Espoir, but I would add that since that time, when the magenta curve was actually below the green curve, we had initiated the three machines at Holyrood and had them based at the full load, and since the rain came, we do try to operate just, you know, around the green line if you will. And since that time, we've shut down one machine at Holyrood and we have also the other two machines are basically at less than, you know, the maximum continuing rating of load. So we would anticipate that by year end, we will be down closer to the

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green minimum storage number at that time.
Q. Okay. And I take it that that green minimum storage curve does reflect the fact that Cat Arm or Granite Canal rather is on the system now?
A. Yes, that should reflect all things known today.
Q. Okay. So is there an identifiable point on the curve where Granite Canal starts to affect this curve?
A. I don't think you would find an identifiable point. It's just that we have a bit more capacity, but no significant change in storage per se, you know, there's a little bit more of a managed storage at Granite Lake, but it's not very big.
Q. No, I understand that, but when Granite Canal comes into service, the amount of water that's there suddenly represents a significant -
A. Yes, and -
Q. - significantly greater amount of energy, does it not?
A. - and all that is represented in the green curve, but I can't point you to a specific, you know, change in slope on that particular

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graph that would indicate that.
Q. All right. So given that the additional precipitation in the October period is not reflected in the proposed or forecast fuel purchases for 2003, can we say whether or not it will be still necessary to purchase the quantities of fuel that are reflected in the table on the bottom of page 7 of Mr. Roberts' Schedule 2? Schedule 2, page 7 of 8.
A. At the moment, we are forecasting, I believe there are no deliveries in November and there are two deliveries forecast for December, December 11th and one at the very end of the year. It may even be in the new year when it actually arrives. So there has been some change in that 2003 since then because of the water situation.
Q. Okay. I thought I had seen a reply that indicated that there was a purchase in November, but your suggestion now is that there is nothing in November?
A. I should maybe retract. What I did check there based on the discussion this morning was how many deliveries for December. I didn't specifically ask about November.

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Q. Okay. If we look at NP-295, this purports to show purchases since August 3rd and there's one shown for November 4th.
A. Yes, November the 4th.
Q. Okay.
A. I don't believe there are any more during November.
Q. Okay. So one of the two that was forecast for November is gone and there will probably-- there'd be just one in December?
A. Likely two, but one is towards the end of the month.
Q. Okay. Are we able to determine, on the basis of those revised plans, what the effect will be on the weighted average price and the inventory value going into 2004?
A. I don't know that impact offhand. That would have to be calculated by our operations people.
Q. Okay.
A. Operations department.
Q. Is it possible for us to have that done?
A. Yes.
Q. Yes, okay.

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GREENE, Q.C.:
Q. I guess the question becomes at what point do we stop revising. Will we revise again for interest? This is a moving target. We will have interest rate changes as well, I guess.
HUTCHINGS Q.C.:
Q. I understand it's a moving target, Mr. Chair, but you know, we're talking potentially--if we're in fact dealing with two shipments, we're talking $15 million cost here, and you know, and we've seen the impact that the 2003 closing inventory has on the 2004 test year. So I mean, this is not a small item that we're dealing with. So I think we should, to the best of our ability, get the best available information.
GREENE, Q.C.:
Q. And that applies to other issues as well, whether it's interest rates or exchange rates. There has to come a point in time where there is a forecast filed and rates are based on that, and if you want to pick one to change it now, well, I guess Hydro will supply the information as we have for all the other information requests, but there has to be some

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point in time where there's a cut off because fuel affects the interest as well, purchases and every other thing. It's quite a feat to run all of this through a cost of service. It takes us approximately six weeks.
CHAIRMAN:
Q. I understand. I respect Mr. Hutchings point. If we could on this, Ms. Greene, have to hear--I don't know ultimately if there are any principles that would apply to this. That would likely be a case by case basis and we'd have to decide on the merits of each individual issue. That may be what it will come down to, but if you could undertake to do this. I respect the Industrial Customers' need for the information, and so I'd ask if you could undertake for that information please.
HUTCHINGS Q.C.:
Q. Thank you, Mr. Chair.
MS. NEWMAN:
Q. Could we clarify for the record, the clerk was out of the room, for what the undertaking is?
GREENE, Q.C.:
Q. It's to update the impact of the changes in

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fuel purchases for the remaining two months of the year from what was filed on October 31, is my understanding. (Undertaking)
HUTCHINGS Q.C.:
Q. Yes, that's an accurate representation, Mr. Chair. Okay. There are some other--there were some other items that we were going to pursue on that, but I think those, once that information comes, they will likely clarify the other questions that I had.
The other point, Mr. Haynes, that was deferred to you from Mr. Roberts related to the comment on page 2 of 8 of his Schedule 2, which related to lower energy requirements of 13 gigawatt hours, which were experienced and that would presumably relate to the 2003 projections. Can we assign a cause to those lower energy requirements?
A. In 2003, the primary reason is that the generation generated at the Holyrood thermal plant was higher than anticipated in the original filing, so there's less system losses, which is evident on my revised Schedule 11, where there's actually a decrease in the losses of 24 and other changes, I

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guess, have a net over all of the 12, 12.5.
Q. Okay.
A. The entry on transmission losses.
Q. Yes. Okay. I was going to take you next to your Schedule 11 in the event. First of all, and this may be a matter that we need to deal with the cost of service people on. Looking at the Hydro Island Requirement, comparing the August filing for 2004 with the October filing for 2004, we're showing a slight decrease in the megawatts projected to be required. Is that correct?
A. Yes, that's correct.
Q. Okay. In the cost of service study itself, there is a function which is served by the coincident peak. Can you explain to us what the difference would be between the coincident peak for cost of service purposes and the Hydro Island Requirement?
A. The Hydro Island Requirement would be--that should be the coincident peak for the total Island load, which would incorporate, you know, Newfoundland Power customers and the Industrial Customers and the Rural Customers of Newfoundland Hydro. That would be the

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MR. HAYNES:
maximum anticipated peak that Newfoundland and Labrador--that the system would actually see.
(3:15 p.m.)
Q. Right, okay. If we could bring up RDG-1, Revision 2, at page 105 of 107. Yes, that's it. Okay. May be able to make that a little bit bigger? Good. You can see there, Mr. Haynes, that the Coincident Peak--and this is at generation, so I presume that leaves out the consideration of losses. The Coincident Peak at Generation is 1.324 or 1.325, I guess, if you round it, megawatts for Island Interconnected?
A. Yes, that's what's there.
Q. Okay. I'm just wondering what the difference between that number and your 1334.2 for total sales and bulk deliveries would be?
A. I don't know the specific difference.
Q. Okay.
A. It may be -
Q. One reason for my question is that--and we don't need to bring it up now. If we looked at Revision No. 1, which was the August filing, the Coincident Peak at Generation

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shown there is 1324.720, so the Coincident Peak at Generation between August and October for cost of service purposes is going up, whereas the total Island Requirement, whether or not you leave in the transmission losses, seems to be going down.
A. I do not know the--I can't explain the difference between the cost of service numbers and the load forecast numbers.
Q. Okay. So would that be something that we'd better address with Mr. Greneman?
A. Greneman, yes.
Q. Okay. That's fine. The revisions to your evidence, I don't think specifically address changes in the non firm demand forecast. Was there, in fact, a change reflecting the change in requirements by the Industrial Customers on non firm?
A. There was a--on the Industrial Customers, there was--for 2003, there was some changes. For 2004, there were no changes. That's on Schedule 10 actually, secondary, I refer to the second there.
Q. No, I'm not talking about purchases by Hydro. I'm talking about sales of non firm power by

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Hydro.
A. I'm sorry. I don't believe there were any changes, but I -
Q. There seem to be an allowance for it in Mr. Greneman's earlier cost of service study, which doesn't show up in the later cost of service study, and I was wondering whether or not you actually had a change and there'd be information from the customers to reflect that.
A. I'm not aware of it, any change.
Q. Okay. Now if we go then to your Schedule 11 and specifically with respect to the load forecast for Newfoundland Power and comparing the August filing to the October filing, as I understand this, Newfoundland Power is now projected to have a lesser demand, by about 3.3 megawatts, but an increased energy requirement in the range of 31 gigawatt hours. Is that correct?
A. That's correct.
Q. Okay. And how did you become aware of this?
A. There were--well, I guess we had a revised forecast from Newfoundland Power, but there were a couple of factors actually. In the

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change in the demand forecast of 3.3, in the original forecast, there were two things that changed that impacted that. One was that the original numbers were done on the 18 percent reserve factor, instead of a 16 percent which should have been used, and as well, there was a slight error in math, if you will. The total effect, which was 3.3. If those errors had been--if those things had not happened, the actual demand in the original filing, instead of being 1,084, I think would have been 1,083, I believe. So part of it was an error that caused that.
Q. Okay. So you believe that those two factors account for one megawatt?
A. Yes, if those factors had been considered in the original submission instead of--I'm sorry, just give me one second. I got to find the number. If those factors had been picked up or had been corrected in the first time through, it would have been 1,081 instead of 1,084, and so with the revisions that were done now, that was picked up, so really I guess when you get down to a decimal place, there was approximately a .6 megawatt change

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MR. HAYNES:
from the original filing to this filing in the demand, you know, once you consider those corrections.
Q. Okay. I want to try to make sure I'm getting the correct numbers here. Is it 1-0-8-1.0 that it should have been initially?
A. It would have been--well, the decimal place, it would have been 1-0-8-1.2 is what I have, instead of 1-0-8-3.8 but most of these numbers are rounded.
Q. Okay. So the number on your schedule for August, which is 1084.0 actually should be 1083.8?
A. 1081.2
Q. No. Without making any change, okay?
A. Oh, without making any change--well, other than correcting the error?
Q. No, no.
A. 1084 stands as being the original filing.
Q. Okay. But the number you just used was 1083.8
A. Okay.
Q. Okay, so I mean, if you put the decimal point in there, I'm assuming it's accurate to the decimal point, but I just want to make sure

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that we're talking about the same numbers here.
A. Well, let's stick to the schedule then, Schedule 10, because I may have not used a quarter of a day for a leap year or something like that when I was doing my math, but 1084 would have been--had the error been corrected at that time, would have been 1081.
Q. 1081.2 you say?
A. .2, yes.
Q. All right. So aside from those errors then, the difference is .5 megawatts?
A. Yes.
Q. Okay. And when Newfoundland Power provides that information to you and it provided the initial forecast which showed 1084.0, did it provide any background material that would allow you to check to see whether they'd used the 18 percent or the 16 percent?
A. I didn't go down through the actual specific notes there. I believe that was actually picked up by our cost of service people who actually identified that error and then we notified Newfoundland Power and they made the appropriate correction.

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Q. Okay. So that was done after the August filing?
A. Yes, that's correct.
Q. That was found after the August filing?
A. Yes.
Q. But before the August filing, what, if any, analysis did Hydro do in order to determine whether or not this was a figure that Hydro could put forward to this Board as being the appropriate load forecast for Newfoundland Power?
A. We accepted their forecast as being the appropriate load forecast at the time.
Q. Okay. So they just give you the numbers -
A. There was nothing that--there was no major change that would kind of jump off the page and say there's something wrong with this number. That was not apparent.
Q. All right. So do they just give you the number or do they give you some manner in which the number was derived?
A. They give us a monthly schedule of the actual energy distribution through the year and the monthly demands, I believe.
Q. Okay. And do they show a calculation of the

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reserve?
A. I don't know if they actually show the calculation on paper. I'm not sure.
Q. Okay.
A. I don't know.
Q. Could you tell from the initial filing that the reserve had been improperly calculated?
A. It was not identified by our people when we were reviewing the forecast. It was only identified when it got down to the nuts and bolts of the cost of service by the cost of service people, who actually picked it up.
Q. Okay. And is that equally the case with the mathematical error that you mentioned?
A. Yes, I believe so.
Q. Okay. Do you know how the difference was split between the mathematical error and the reserve issue?
A. I didn't calculate those numbers separately. I believe in one case they took 16 percent of their name plate rating and--I'm sorry, 18 percent, and multiplied it by that to get a number, whereas the standard would be to divide by 1.16, which is the reserve.
Q. Okay.

MR.HAYNES:
A. But I didn't actually calculate how much was attributable to the mathematical error and how much was attributable to the--I didn't calculate the individual numbers.
Q. Okay. It appears to be part of a case of Newfoundland Power, which they put forward in connection with the resistance to the two-part rate, that their peak demands are hard to predict and are unstable. Do you agree with that?
A. I guess you don't really know until the month is over. You know, you expect that you're going to have a peak sometime in January typically or even December, possibly, but I mean, you may be prepared for a peak on January 5th. That may be it, and if it gets a colder day later on--so there's no--nobody knows exactly the day or the hour that the peak will occur.
Q. No, but more with respect to the amount of the peak. Is that a difficult value to predict?
A. Well, yes, because you have to take into consideration the actual weather. If it's a very, very cold day with no wind, that's one

number. If it's a cold day with a lot of wind, it increases dramatically or significantly, I should say.
Q. Okay.
A. Because it's not a--the actual peak is not "a normalized peak." It is what it is.
Q. So this number that Newfoundland Power produces, which is admittedly a difficult number to predict, you simply take and use, for the purpose of cost of service and for other purposes within your operations? Is that correct?
A. Yes, we do, but I should go back to the building blocks of the load forecast by Newfoundland Power. You have to go back to the, you know, when they started to put together their load forecast, you basically---you have to, initially disregard their own generation megawatts and megawatt hours and the purchases from Newfoundland and Labrador Hydro. And they would go and they would produce an energy forecast and then they would basically apply the load factor to come up with the actual megawatts on their native peak. And I guess, you know, they have made

some changes to that methodology in the last little while which we fully agree with and the actual load factor for Newfoundland Power's native peak is basically, I understand now, a 15-year average which is 49 1/2 percent and there was some discussion on that last time through. And so, Newfoundland and Labrador Hydro reviewed that and we fully agreed with using the 15, the long term load factor because it looks after some of these, you know, some of the other--the cold winters and the mild winters, it's an average load factor and I guess at one point in time, they were using a shorter period and now it's a longer period which we fully endorse and agree with.
Q. Okay. When did that change take place?
A. It occurred for this particular filing, they went from, I think in the last, our last rate hearing, I think they were using, I believe a ten-year, you know, average. Now, they've gone to a 15-year average which we think is most appropriate and should reflect the best available guess at the demand.
Q. Okay. So, Newfoundland Power's method, as you understand it then, simply involves a

projection of energy requirements and the use of the load factor?
A. That's pretty typical. And we have never--I mean, most times the energy forecast is, we're quite happy with that and we think is a credible number. And on the application of the load factor, it's a matter of what load factor do you apply. And we did have discussions with them a few years ago about that particular motion and they have changed now to be a 15-year average which we fully concur with. We think it's the best number available.
Q. In that connection, have you looked at the relative amount of electric space heating on Newfoundland Power's system today as opposed to 15 years ago?
(3:30 p.m.)
A. Not for the purposes of generating the load forecast. I mean, the information is available somewhere, I've seen it some place.
Q. Okay.
A. The penetration of electric heat, I guess, Newfoundland Power would know their customers best as to what the amount of space heating

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MR. HAYNES:
penetration there is.
Q. Yes. Would you agree that the electric space heating is a relatively low load factor load?
A. Yes, certainly in the summer time, it's a very, very low and on the coldest day of the year, it would be a very significant component of load.
Q. Um-hm, okay. So, would you agree that the proportion of electric space heating in Newfoundland Power's load will impact its load factor in a negative way?
A. I'm not sure on the overall. You have to consider all the general service customers and everybody else, but on a residential housing aspect, if you were to look at only the residential housing, obviously the load factor between an all electric home versus a, where hot water and space heating is provided by oil, the load factor would be different. I mean, I don't remember the term they use for a non-electric heat, non-electric hot water house, but I mean, their load factor would be fairly high.
Q. Yes.

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A. It's basically whatever, the lights would go up as the daylight disappears and so on, as the number of daylight hours et cetera change.
Q. So, if the growth in the residential load has been in space heating, then Newfoundland Power is adding low load factor load, correct?
A. In theory, but if you go back over the last 15 years, I mean, the load factor that Newfoundland Power had on their native peak, I mean, varies from a high of 52, 53 percent down to 46 and the last few years, it's been 51, 46, 52, 51, those sorts of numbers. So, it's not terrible, but it's -
Q. No, what I'm asking you now is in connection with this change in methodology to go to a longer period which presumably takes in earlier years wherein there would be less space heating proportionally, isn't the correct?
A. Well, if we're only going back 15 years, we're not going back to--so, I really don't know the specific numbers of housing starts that were electric and so on. So, it's--I'm reluctant to guess because that's all I would be doing.
Q. Why did Hydro agree with Newfoundland Power

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that the 15-year average was better than the 10-year average?
A. Because it covers off the--it's the best compromise or best proxy, if you will. I mean, the actual load that we're going to see in 2003 or 2004 is going to be dependent on the weather and it will never be right. It's the best guess and based on our experience and the experience of our forecasting people, that the 15-year average looks pretty good. It's the best compromise, best proxy.
Q. Have you done statistical tests on that?
A. I can't speak to that, I do not know if they've done statistical tests on that, but it does decrease from the--it does decrease right now on their native load to 49 1/2 percent, is the load factor which we think is a reasonable number to assume.
Q. And just explain to me how Hydro reached the conclusion that that is, in fact, a reasonable forecast?
A. When you do look at it, you look at the history, you look at the numbers, you know, I wouldn't say you've gone down and done a statistical analysis of where it is, but

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you'll never be spot on, you know, you're ahead a few years, you're below a few years, but on a 15-year basis and the--on a 15-year average, it is our economist view that is a good number.
Q. If the nature of the system has changed within that 15-year period in terms of a significant addition to low, of low load factor load, would you not agree with me that the shorter period is, in fact, going to give you a better picture of what the load factor is likely to be?
A. If you go with a shorter view, the load factor would increase.
Q. If you go with the views that you have shown on -
A. If you were to go with a five-year load forecast for determining Newfoundland Power's native peak, their actual load factor of their native load, not what they buy from Newfoundland and Labrador Hydro, of their native load which is the building block of a forecast, then their load factor would actually likely increase. In the last six year there were five which were actually over

MR. HAYNES:
50 percent and one was 52 percent. So, you actually increased the load factor.
Q. Okay, but I mean, we're not so much concerned with their native load as their purchases from Hydro, are we, because that's what you use for your cost of service?
A. Yes, you're correct. Well, I'm sorry, we use a native load and then there are credits supplied for the average energy which they will generate from their hydraulic resources. There's no energy for the thermal resources. And then on the capacity credit, there's a change there over the last number of years, as well. At one point in time they were given a capacity credit for the total main plate rating of their generation. And for some period of time prior to our last rate hearing, we were using average, but that was inappropriate. And what we do right now is we take their hydraulic generation and we apply the reserve criteria which is now 16 percent. And in fact--and they have done a very good job of actually making that generation available during the peak period. For

instance, in the winter of 2001/2002 they actually had 82 megawatts of generation available during the peak, you know. And there were other times obviously in the periods running up to the peak or after that actual peak where they would have had the same thing done. So, you know, so we are actually--in the Cost Of Service, we are, I guess, proposing in the, that they be given a credit now for, I believe, it is 82 or 81.6 megawatts that expect them to have available during the peak and which they can do and have done.
Q. The effect of the change from 18 percent reserve to 16 percent, what effect does that have upon the credit given to Newfoundland Power for its generation?
A. I think it will increase it slightly.
Q. So -
A. Because you've actually decreased the reserve by two percent. So, there would be a slight increase. But they have met that number -
Q. No, no, I understand that, but I'm just focusing on the change for the time being, okay. So, they're getting more credit for the generation now with the 16 percent reserve

than they were with the 18 percent reserve, correct?
A. Yes.
Q. Now, they haven't changed their available generation at all, have they?
A. No, but the calculation of the reserve factor is a calculation done by Newfoundland Hydro.
Q. Yes.
A. And there's a report filed on that.
Q. Yes. Because Newfoundland Hydro now has more generation of its own, Newfoundland Power is getting more money for its generation, that's what is happening, correct?
A. No, it's a mix of things. It is a combination of--a few factors actually change that reserve criteria. One is the available mix of generation, Granite Canal would contribute to that. You're right from that point of view. The reliability of the equipment, in other words, its forced outage rate would equate to that. As well as the load shape. So, the actual load shape during the year also influences that. And that's why there was a study done to go back and try to equate the 2.8 hours loss of load hours to what reserve

does that, you know, what is the equivalent reserve to make that happen.
Q. Mr. Haynes, the major factor in the change from 18 to 16 was the addition of Granite Canal, was it not?
A. It was a factor, one of three specific factors. I can't tell the proportion of each factor. I don't know offhand.
Q. Well, I'd like you to undertake to determine those numbers for me and provide them to us. (Undertaking). I've provided to your counsel on Monday, a short exhibit and I've provided copies to the Clerk and perhaps we could ask that those be distributed now.
MS. NEWMAN:
Q. So, we'll label this Information Item number 17.
HUTCHINGS, Q.C.:
Q. That's fine. Just before we get to the particulars of that, just make sure the loop is closed here, Mr. Haynes. In the Cost-of-Service study, the peak demand is the basis for the allocation of demand related production and transmission costs, is that correct?

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MR. HAYNES:
A. You're probably better to ask Mr. Banfield and Mr. Greneman when you actually get into the mechanics of the cost of service and how that works.
Q. But you're aware that peak demand is an input into the cost of service.
A. Certainly it is, yes.
Q. And it does determine how certain costs within the Cost of Service are divided, allocated between customers.
A. Yes, certainly.
Q. Yes, okay. So, if we look now at Information number 17 and you've had a chance to look at this, the information in lines A and B as noted, comes from the IC-272 and the 2002 actuals are taken from your evidence. Have you reviewed these amounts for accuracy? Do you agree that the five-year averages for sales, maximum peak demand and load factor are, as shown on this schedule?
A. They are the sales by Newfoundland Hydro to Newfoundland Power and the peak at that time, yes, for those years.
Q. Okay. And using those numbers would produce

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these load factors in Line C?
A. Yes.
Q. Okay. And the five and ten-year averages in columns 11 and 12 are accurately calculated?
A. I believe the way that we would have normally done it, we would just average the actual load factor as opposed to averaging the megawatts, that only make a slight difference in the meantime.
Q. Okay. Now, the initial forecast for 2004 is shown in the second column on Line D as 4741.4?
A. Yes.
Q. And that is shown on your Schedule 11 as well. And the revised amount is shown in the next column.
A. Yes.
Q. What Hydro has done, for the purpose of your presentation in Schedule 11, I take it, is simply to use the load factor that Newfoundland Power has provided to you, is that correct?
A. For our sales at that particular time, yes, but their basic building block for the load forecast is 49 1/2 percent for their native

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load. But for what they anticipate seeing from us, is 47.72 and 1080.7 which is after the capacity credit for their hydraulic generation.
Q. Yes, but the revised forecast 2004 column here, shows a load factor on purchases from Newfoundland Hydro of 50.28 percent, correct?
A. That's correct.
Q. Okay, is it your evidence that this 50.28 percent is the 15 year average of the load factor on sales to Newfoundland Power from Newfoundland Hydro?
A. It's based on 15 year average of the load factor on their native peak and then you have to, then the capacity credit is treated separately and added after the--or subtracted, if you will, after the fact, to get your 1080.7.
Q. And the load factor on the native peak, you said, was?
A. 49.5 percent.
Q. 49.5 percent, okay. If in fact the overall load factor on the native peak for Newfoundland Power is 49.5 percent, why should the cost of service reflect a 50.28 load

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factor?
A. The 49.5 percent is within their system, they do provide their own, they have their own generating capability and the energy number which is four hundred and some odd, I believe, which they net off as well, so I don't know if that's apples and apples, and it's a, basically the basic building block of the native load and then basically they credit themselves with their hydraulic average generation and the amount of generation--the capacity they would have on during peak, which we've accepted there.
Q. But what this shows is in fact the marginal energy that they are taking from Newfoundland Hydro is assumed to be taken at 50.28 percent load factor, is that correct?
A. That's the math, yes.
Q. And why should the load factor on the marginal energy be higher than the basic load factor on the whole of the purchases or the whole of the native peak, as far as that goes?
A. I'm not sure.
Q. One would ordinarily expect it to be opposite, would one not, that the marginal energy should

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HUTCHINGS, Q.C.:
probably be at a lower load factor?
A. I don't know if it's done on a marginal way, basically there's a credit applied to their average generation and there's a credit of the 80 whatever megawatts for their capacity during peak, and the math is there. I didn't actually dig in and try to dissect which way once you go up or down, depending on how it's done, but from the point of view of the methodology, that was reviewed, I guess, applying the reserve factor was approved by the Board the last time through and is consistent in that application. The changes have been that Newfoundland Power has used a lower native load factor as a basic building block for their load forecast. But now, Mr. Henderson may be able to explain more in the details inside their forecast methodology.
Q. Okay, but this is what you are putting forward as part of Hydro's application -
A. Yes.
Q. To input into the cost of service to allocate costs.
A. Yes, we think this is appropriate.

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Q. Okay. And if you agree that a longer term average of the native peak, the load factor related to the native peak is correct, why would you not use a longer term average of the sales from Hydro or the load factor associated with the sales from Hydro?
A. The numbers that you have presented in, you know, lines A and B of your information item No. 17, are basically at similar points in time, they are actually--and for purposes of the megawatts, are actually at the point of the maximum system peak. At that particular time, Newfoundland Power may not have had 82 megawatts on, it may have had 82 megawatts on three hours before, so, you know, the peak number is a snapshot in time when we actually hit the system peak. And Newfoundland Power will make their best endeavours to have that generation available and in the last few years, they've done a great job at that and we're quite confident they will do in the future.
Q. I'm not addressing the generation credits specifically now, I'm addressing the load factor.

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A. But it is--the generation that is on during that particular time is a significant element in your calculation of 49.53 percent load factor and 48.96 percent load factor.
Q. But these are the actual numbers that have been experienced over the past 10 years, we've agreed on that?
A. Yes, well I agree with that, but what is not in there is the actual generation that Newfoundland Power had on. They may be 20 megawatts shy of having the 82 megawatts or 77 megawatts or whatever.
Q. Okay, so if, as you agree, I think, the average 10 year load factor of purchases by Newfoundland Power from Newfoundland Hydro is 48.96 percent, why do you feel that it is appropriate for 2004 to use a load factor on those purchases of 50.28 percent?
A. Because I think when you put in the generation credit of the 81.6, I believe, or 81.5 which they can have available and they plan to have available during system peak, that that number would be appropriate. The 49 or 48 is an instant in time. And if, for instance, Newfoundland Power actually did have 82

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megawatts on for that whole period of time in the 1993 to 2002 period, then a load factor would be different.
Q. But, I mean, what you're introducing here is the issue of the load factor on Newfoundland Power's own generation, correct?
A. Of their native load, yes.
Q. Yes, but what you're trying to use this number for is a determination of a rate to be applied to sales, from Hydro to Newfoundland Power?
A. Yes, that's correct.
Q. And we do not agree that it's more appropriate to use the load factor with respect to those sales, rather than the overall load factor?
A. No, I don't agree.
Q. You don't agree, okay. We can agree to differ. Would you agree with me that as things stand now, there's no impact on Newfoundland Power of its getting its maximum or its peak demand forecast wrong?
A. No, there is no impact. They don't have a demand energy rate, so you're correct.
Q. Thank you, Mr. Haynes. Those are all my questions, Mr. Chair.

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CHAIRMAN:
Q. Thank you, Mr. Hutchings. Good afternoon, Mr. Browne, do you have any questions?
BROWNE, Q.C.:
Q. I think we're going to pass.
HUTCHINGS, Q.C.:
Q. I think we'd go to Mr. Kennedy first.
CHAIRMAN:
Q. Pardon?
HUTCHINGS, Q.C.:
Q. I think in the ordinary course we'd go to Mr. Kennedy next.
CHAIRMAN:
Q. Oh, okay.
HUTCHINGS, Q.C.:
Q. We're following the usual course, but these two gentlemen didn't have any questions the first time around.
CHAIRMAN:
Q. My error, I guess if that's what was agreed to.
MS. NEWMAN:
Q. No, I'd actually say it would be appropriate for Board hearing counsel to go last, as is usually the course in these matters.

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CHAIRMAN:
Q. Does anybody have any problem, any issue with that?
HUTCHINGS, Q.C.:
Q. Well, I mean, if Board hearing counsel doesn't have any questions at this point, that's fine.
KELLY, Q.C.:
Q. I have two small -
HUTCHINGS, Q.C.:
Q. The issue then becomes whether or not -
CHAIRMAN:
Q. And I guess the issue then becomes the opportunity for them to ask questions later.
HUTCHINGS, Q.C.:
Q. Yes.
MR. KENNEDY:
Q. I have no questions at the moment, Chair.
BROWNE, Q.C.:
Q. We have no questions at the moment either.
CHAIRMAN:
Q. Thank you.
KELLY, Q.C.:
Q. I have two small points to touch on, Mr. Chair. Mr. Haynes, the forecast provided by the Industrial Customers, if you look at your

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Schedule 11 there, does Hydro accept those forecasts? Do you do any analysis to get behind the Industrial Customer's forecasts?
A. By and large we accept the Industrial forecast. There is one that we have discussion sometimes with, but basically I guess our--we go back on the forecast that have been given in the past and how accurate they were and so on, and Newfoundland Power have, you know, people on staff who do this on a day-to-day basis; the Industrial Customers may or may not. We sometimes have some of the dialogue on the Abitibi Grand Falls Forecast, but other than that, they're pretty well accepted.
Q. Pretty well accepted, okay. And the second question that I had comes from a point that Mr. Roberts left to you, and that is with respect to your Schedule 6 to systems equipment maintenance. There's a small amount, an additional $31,000.00 in '04. Are you able to explain what that relates to?
A. Yes, when we were looking again in our budgets for 2004, just again, you know, for this filing, there was a representation made by our

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IS&T group to put in a few dollars for some additional maintenance anticipated because some of the capital budgets we did not get approved and that's a minor adjustment based on some anticipated power supplies, I believe in fact, that would -
Q. It's a one item as opposed to a net result of much -
A. I think there may be one or two items, but it's not, I think maybe two, at the most three small items.
Q. In IS&T?
A. In IS&T related to the capital budgets that we had not gotten approval.
Q. Fine, that's sufficient for my purposes. Thank you, Chair.
CHAIRMAN:
Q. Thank you, Mr. Kelly. Do you have any re-direct, Ms. Greene?
GREENE, Q.C.:
Q. I have one in re-direct and it relates to the longer period of 15 years now being used to determine the forecast for the demand and the load factor. You didn't mention weather in that, was there any impact of weather taken

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GREENE, Q.C.:
into account and going with the longer period?
A. Well the longer term load forecast and the average would actually incorporate those, you know, high degree days, low degree days or whatever.
Q. And isn't it correct that the previous five years that have been used originally, say in the forecast, have been unusually mild winters with respect to -
A. Yes, the late 90's were an unusually mild period, that's correct.
Q. So it was Hydro's view that the use of a shorter five-year period was not representative of what the peak would be on average, is that correct?
A. That's correct.
Q. And that's why Hydro was satisfied with the use of the longer period, is that correct?
A. Yes.
Q. Thank you. Those are all the questions I have.
CHAIRMAN:
Q. Thank you, Ms. Greene. Moving to Board questions, do you have any Mr. Commissioner

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Saunders?
COMMISSIONER SAUNDERS:
Q. Just one question I had, Mr. Haynes, nothing to do with anything that you talked about up to now. Shango Bay or the new community -
A. Natuashish.
Q. Yes, what is the method of heating in the buildings there, including the residences?
A. All electric.
Q. All electric.
A. As I understand--I'm sorry, no, my mistake, it's not all electric, no, it's basically oil fired.
Q. All of it, there's no electric heating -
A. I'm not sure about the arena that's under construction or something like that, but the houses are oil.
Q. Okay, thank you. That's all, Mr. Chair.
CHAIRMAN:
Q. Thank you, are there any questions arising from--I have no questions. Thank you very much, Mr. Haynes. Tomorrow we'll begin at 9:00 and it's the Industrial Customer's experts and Mr. Osler and Mr. Bowman. Do you know who will be going first, Mr. Hutchings?

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HUTCHINGS, Q.C.:
Q. We intend to put them on as a panel, Mr. Chair.
CHAIRMAN:
Q. Put them on together, I see. Okay, thank you very much and we'll see you at 9:00 in the morning.
Upon concluding at 3:56 p.m.

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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 12th day of November, 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 12th day of November, A.D., 2003

Judy Moss Lauzon