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| P | ge 1 | Page 2 |
| 1 (9:05 a.m.) | 1 Q. V | Welcome. |
| 2 CHAIRMAN: | 2 MR. G | RENEMAN: |
| 3 Q. Thank you. Good morning. It's a fall day out | 3 Q. V | Very good, thank you. |
| 4 there, but anyway, it beats the alternative, I | 4 MR. R | OBERT GRENEMAN (SWORN) |
| 5 suppose, this time of the year. Good morning, | 5 CHAIF | MAN: |
| 6 Ms. Newman. Are there any items before we | | Thank you, sir, and welcome once again. When |
| 7 begin? | 1 | ou're ready, Ms. Greene, you can begin your |
| 8 MS. NEWMAN: | 8 0 | oh, Mr., good morning, Mr. Young. |
| 9 Q. No, Chair. | 9 MR. Y | |
| 10 CHAIRMAN: | | Γhank you, Mr. Chair. It'll be just a very, |
| 11 Q. Okay. Thank you. Welcome back, Ms. Greene. | | very brief direct evidence this morning or |
| Good to see you. | | lirect testimony. Mr. Greneman, evidence has |
| 13 GREENE. Q.C.: | | been pre-filed with Hydro's Application in |
| 14 Q. I didn't realize I was going to be noted, that | | his matter, from you. This evidence includes |
| 15 I was missed by so many people. It was a | | a witness profile, a discussion of the Cost of |
| 16 commitment that I couldn't avoid. | | Service that's been filed and a brief |
| 17 CHAIRMAN: | | liscussion of the review of the rate design |
| 18 Q. I'm sure, yeah. | | for Newfoundland and LabradorI'm sorry, |
| 19 GREENE. Q.C.: | 1 | Newfoundland Power, correct? |
| 20 Q. For work purposes. | | Right. |
| 21 CHAIRMAN: | | And there are two exhibits to your pre-filed |
| 22 Q. Good morning, Mr. Greneman. How are you, sir? | | estimony? |
| 23 MR. GRENEMAN: | | Yeah. |
| 24 Q. Good morning. | | Γhat's the 2004 Cost of Service Study which is |
| 25 CHAIRMAN: | 25 r | referred to as RDG-1, correct? |
| P | ge 3 | Page 4 |
| 1 A. Correct. | 1 Q. 1 | 10:30? |
| 2 Q. And RDG-2 is the exhibit which is the report I | 2 CHAIR | MAN: |
| 3 mentioned a moment ago that you prepared for | | 10:30, yes. That's what I have here. That |
| 4 Hydro titled "The Review of Rate Design for | | was the, what I thought was agreed to, in any |
| 5 Newfoundland Power", correct? | | event, 10:30 to 10:45 and we break at 12:15 |
| 4 TD1-42 | 6 f | |
| 6 A. That's correct. | 0 1 | for lunch, so if that's satisfactory to |
| 7 Q. And this evidence has been revised on two | 1 | or lunch, so if that's satisfactory to everybody, we'll proceed on that basis. Okay. |
| 7 Q. And this evidence has been revised on two occasions, it was revised as an update on | 7 6 8 BROW | everybody, we'll proceed on that basis. Okay. |
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| | , | 3.2.4.6 | 50 112 Hydro 5 2000 General Rate Application |
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| | Page 5 | | Page 6 |
| 1 1 | MR. GRENEMAN: | 1 | Q. You used the word "anomaly" there. We heard |
| 2 | A. That's my understanding. | 2 | yesterday in evidence that there were two |
| 3 1 | BROWNE, Q.C.: | 3 | exceptions, I guess, from the evidence |
| 4 | Q. You are here testifying on behalf of Stone and | 4 | provided by the Industrial Customers' experts |
| 5 | Webster as well? | 5 | where they could point to situations where the |
| 6 | A. It dependsright, I'm here on behalf of Stone | 6 | energy only rate was also in practice. Can |
| 7 | and Webster, yes. | 7 | you tell us from your own experience if the |
| 8 | Q. Okay. In reference to the report that was | 8 | energy only rate is indeed an exception? |
| 9 | filed? | 9 | A. As I mentioned, I do believe it's an |
| 10 | A. That's correct. | 10 | exception. And I think the two examples that |
| 11 | Q. Okay. And in that report you advocate or you | 11 | were mentioned yesterday referred to the upper |
| 12 | state in part of your recommendations, if we | 12 | northwest of Canada and the surplus of hydro |
| 13 | can go there for a moment? That's on page 17. | 13 | related to surplus of hydro. I think those |
| 14 | And the first bullet there you state, "An | 14 | are two unique situations that were brought |
| 15 | energy only rate to a wholesale customer the | 15 | up. |
| 16 | size of Newfoundland Power is an anomaly in | 16 | Q. Now, have you had an opportunity to review Mr. |
| 17 | terms of current industry practice." Can you | 17 | Brockman's Supplementary Evidence of November |
| 18 | expand upon that, please? | 18 | 6th, 2003? |
| 19 | A. Yes. I think it's, in my observation it's | 19 | A. Yes, I have. |
| 20 | very unusual to observe an entity the size | 20 | Q. Can we just go to that, please, on page 2, |
| 21 | such as Newfoundland and Labrador Hydro | 21 | lines 14 to 16? And there on page 2, lines 14 |
| 22 | selling to an entity as large as Newfoundland | 22 | to 16 he states that "A Marginal Cost Study |
| 23 | Power on an energy only rate. And within | 23 | and Retail Rate Design Study would be useful |
| | Stone and Webster, whoever we mention this to | | in evaluating retail rates on the Island |
| 24 | finds it surprising asequally surprising. | 24 25 | Interconnected System." Does Hydro agree that |
| 25 | | 1 | |
| | Page 7 | | $\mathbf{D}_{\alpha = \alpha} 0$ |
| | | | Page 8 |
| 1 | such a study should be undertaken? | 1 | Q. Are you aware that the following the |
| 1 2 | such a study should be undertaken? A. Lines 14 and 15 say, refer to two separate and | 1 2 | Q. Are you aware that the following the completion of thator are you aware in |
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| Noven | November 14, 2003 Multi-Page [™] NL Hydro's 2003 General Rate Application | | |
|-------|------------------------------------------------------------------------------------|----|---------------------------------------------------|
| | Page 9 | | Page 10 |
| 1 MR. | GRENEMAN: | 1 | A. With respect to the direction of the study and |
| 2 | any further. I think the actual conducting of | 2 | the mechanics of the study andmarginal cost |
| 3 | a Margin Cost Study for Hydro shouldthat is | 3 | studies can be quite controversial and I think |
| 4 | to say, the mechanicswell, we'll be careful- | 4 | it needs to be handled by one entity. That's |
| 5 | -I thinkI don't think Hydro really needs | 5 | my opinion. |
| 6 | input from other entities other than load | 6 | Q. And it's your opinion in this instance if the |
| 7 | growth projections. It needs to rely upon its | 7 | Marginal Cost Study is to be conducted and |
| 8 | internal cost. So, perhaps other entities can | 8 | ordered by the Board, it be conducted by |
| 9 | participate with respect to the terms of | 9 | Hydro? |
| 10 | reference, but I don'tit's not clear to me | 10 | A. That's my opinion. |
| 11 | how they would participate other than | 11 | Q. Is it your opinion that the Marginal Cost |
| 12 | providing a load forecast. | 12 | Study is required prior to the implementation |
| | DWNE, Q.C.: | 13 | of a Demand Energy Rate? |
| 1 | . Would there be any proprietary information or | 14 | A. Absolutely not. |
| 15 | the like that to which Newfoundland Power | 15 | Q. Why not? |
| 16 | could be violating by getting itself involved | 16 | A. Demand Energy Rate has been accepted for |
| 17 | on the recommendation that's made by Mr. | 17 | decades now. It's in virtually everythe |
| 18 | Brockman here that the Marginal Cost Study be | 18 | support for Demand Energy Rate is in virtually |
| 19 | a Hydro and Newfoundland Power joint effort? | 19 | every rate textbook that exists. I don't see |
| 1 | . Well, there's confidential information on both | 20 | any reason why a Demand Energy Rate should not |
| 21 | sides and so, yes, those issues can arise. | 21 | be implemented within the context in this |
| | So for that reason alone Newfoundland Power | 22 | proceeding. Marginal cost studies are a |
| 23 | should not be involved as part of a joint | 23 | different animal in a sense. They'reokay. |
| 24 | effort in Hydro's enterprise for a Marginal | 24 | This jurisdiction is an embedded cost |
| 25 | Cost Study, in your opinion? | 25 | jurisdiction, that is, we make rates based |
| | Page 11 | | Page 12 |
| 1 | upon costs that have been incurred and current | 1 | They're not a determining factor. They're, if |
| 2 | costs as well, and we derive a revenue | 2 | you will, sort of a modifier to embedded or |
| 3 | requirement based upon accounting costs, if | 3 | accounting cost. In addition, I observed that |
| 4 | you will. There are few jurisdictions, very, | 4 | this Board has, and the parties have |
| 5 | very few and they're dwindling, that determine | 5 | contemplated a Demand Energy Rate since as far |
| 6 | revenue requirement based on marginal cost and | 6 | back as I know about 1989 and really have not |
| 7 | those that doI'm sorry. Those that | 7 | come to any consensus on how to implement a |
| 8 | determine what rate should be paid based upon | 8 | demand and energy rate. And this is really a |
| 9 | marginal cost ultimately reconciles to an | 9 | pretty straightforward process among parties |
| 10 | accounting based revenue requirement. So, if | 10 | that are willing to agree. When one |
| 11 | I can, for example, take as an example, the | 11 | introduces the concept of marginal costs, |
| 12 | State of Illinois in the U.S., what they had | 12 | which is extremely controversial and is |
| 13 | done is they didn't even do fully allocated | 13 | really, I mean, it's always controversial, |
| 14 | studies, they did marginal cost studies and | 14 | then you're adding layers of complexity and, |
| 15 | then they scaled down all the costs to meet | 15 | in my view, delaying the implementation of a |
| 16 | the accounting cost revenue requirements, and | 16 | demand energy rate. So it's my view that a |
| 17 | then they walked away from that about a year | 17 | demand and energy rate should be implemented |
| 18 | ago. So, we're not making rates, per se, on | 18 | first and could certainly be modified with the |
| 19 | marginal cost, we're stilland as well as | 19 | Marginal Cost Study as a guideline, or |
| 20 | what's being done throughout the rest of North | 20 | tweaked, if you will, using the Marginal Cost |
| 21 | America, rates are being made on embedded | 21 | Study as a guideline. |
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Q. But the first step would be to implement the

A. Absolutely. I think it would be a mistake to

wait for the Marginal Cost Study.

Demand Energy Rate?

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cost. Marginal costs are used to provide

price signals or to provide a guide as to on

and off peak pricing, what the relative level

of demand should be with respect to energy.

| No | vember 14, 2003 Multi | i-Pag | -Page [™] NL Hydro's 2003 General Rate Application | | | |
|----|---------------------------------------------------|-------|-------------------------------------------------------------|--|--|--|
| | Page 13 | | Page 14 | | | |
| 1 | BROWNE, Q.C.: | 1 | intrinsically means demand goes up, someone | | | |
| 2 | Q. Why do you thinkyou use the word "a | 2 | pays, someone doesn't collect. There's a one- | | | |
| 3 | mistake". Why do you say that it would be a | 3 | to-one relationship there, in a sense | | | |
| 4 | mistake to wait? | 4 | inseparable. The environment that existed was | | | |
| 5 | A. It's my feeling that it wouldwe would never | 5 | one ofwell, it was, if I may say, it was an | | | |
| 6 | have a demand and energy rate because if we | 6 | energy only rate when in conjunction with | | | |
| 7 | can't agree on something so simple as a demand | 7 | Hydro's Revenue Stabilization Plan and Hydro's | | | |
| 8 | and energy rate, with the added complexity of | 8 | RSA tended to levelize or stabilize NP's | | | |
| 9 | marginal cost, it just becomes too involved, | 9 | purchases and its annual cost. So in moving | | | |
| 10 | in my view. | 10 | away from that there is some volatility | | | |
| 11 | Q. We heard yesterday in questions put by Mr. Ian | 11 | introduced. Now, there are a number of ways | | | |
| 12 | Kelly of Newfoundland Power to the experts | 12 | to mitigate the volatility. | | | |
| 13 | from the Industrial Customers that a Demand | 13 | Q. Can you tell us about those? | | | |
| 14 | Energy Rate, if implemented in this | 14 | A. Well, No. 1, Hydro has gone a long way in | | | |
| 15 | jurisdiction, would lead to certain | 15 | offering to weather normalize the demand, and | | | |
| 16 | volatilities, I think he used the word | 16 | that goes a very large way in mitigating | | | |
| 17 | "volatilities". You were here and heard that | 17 | volatility. That is to say, it's recognized | | | |
| 18 | evidence. What is your view on that? | 18 | that there'll be colder winters and there'll | | | |
| 19 | A. My view is that a demand rate and volatility | 19 | be warmer winters, but we're proposing to use | | | |
| 20 | go hand in hand, they're part and parcel, the | 20 | a weather normalized demand. So that goes a | | | |
| 21 | same thing. And they're intrinsically the | 21 | long distance to stabilizing volatility. In | | | |
| 22 | same because when you give someone an | 22 | addition, the volatility that NP has shown in | | | |
| 23 | opportunity to lower their demand, then | 23 | their evidence is based upon a plus and minus | | | |
| 24 | they're going to say the other party is going | 24 | five percent deviation. That was really a | | | |
| 25 | to lose and vice versa. So demand | 25 | rounded number. Within recent history, | | | |
| | Page 15 | | Page 16 | | | |
| 1 | actually, the maximum deviation has been in | 1 | triggers occur in order toso we can operate | | | |
| 2 | the order of 3.6 percent. It was just rounded | 2 | more normally, in a more normal range. In | | | |
| 3 | up to five percent as a whole number. And | 3 | addition, there are mechanisms that NP can | | | |
| 4 | even considering that 3.6 percent, that's a | 4 | implement, for example, one similar to what | | | |
| 5 | before tax effect. Now, what NP has shown in | 5 | B.C. Hydro has done to stabilize earnings | | | |
| 6 | their evidence is that they have ahow do I | 6 | internally. So there is that type of | | | |
| 7 | say this? It's allowed return on rate base | 7 | mechanism that could be done. And in a sense, | | | |
| 8 | range. I'm not sure if I'm stating that | 8 | finally, the plus and minus variations in | | | |
| 9 | right. But it's a sense an earnings range | 9 | earnings over time hopefully tend to cancel | | | |
| 10 | that they're allowed to earn between. That | 10 | each other out. So, I don't view it as | | | |
| 11 | earnings range has been negotiated based upon | 11 | anything more than any other utility having a | | | |
| 12 | two conditions that existed. One of them was | 12 | Demand Energy Rate needsitself lives with. | | | |

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two conditions that existed. One of them was the fact that they would be served under an energy only rate and there was a decreased level of volatility. The other one is the fact that there was a load variation component in Hydro's rates and they had RSA as well. So, when their range of allowed earnings is viewed in the context of the energy only rate and viewed in the context of the Rate Stabilization Plan, it would in a sense make sense. Under a Demand Energy Rate where there's a greater level of volatility, it would only make sense, in my view, to ask the Board to expand that earnings range at which

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Demand Energy Rate needs--itself lives with. And in fact, I think it's a little more modest than that in view of the fact that we have weather normalization and so on. Q. Okay. So you say the weather normalization will assist. What about the Rate Stabilization Plan, would that assist in this? A. You mean--the rate--the range--the Rate Stabilization Plan with respect to their own earnings or to implement a new -Q. Well, the new one is about to be implemented, the fact that it allows for a certain stability in the -

A. I'd have to study that little more, it might

| N | ovember 14, 2003 Multi | -Pa | ge [™] NL Hydro's 2003 General Rate Application |
|-----|----------------------------------------------|---------------|----------------------------------------------------------|
| | Page 17 | | Page 18 |
| 1 | MR. GRENEMAN: | 1 | A. Absolutely not. |
| 2 | help. I'd need to study that. | 2 | Q. And other utilities deal with it in the ways |
| 3 | B BROWNE, Q.C.: | 3 | that you're espousing now? |
| 4 | | 4 | A. Some utilities just accept the volatility. I |
| 5 | | 5 | mean, it's just an increase or decrease in |
| 6 | on Rate Base is expressed and a range, as | 6 | earnings. And according to NP's evidence, |
| 1 7 | | 7 | it's only plus or minus \$5 million over their |
| 8 | | 8 | total earnings, and it's not a humongous |
| 9 | | 9 | number. |
| 10 | _ | 10 | Q. In terms of the end user, by going to a Demand |
| 11 | | 11 | Energy Rate, how will the end user, the |
| 12 | | 12 | ultimate consumer be affected? |
| 13 | | 13 | A. It's my view that a Demand Energy Rate |
| 14 | | 14 | ultimately trickles down to the end user. I |
| 15 | | 15 | think it provides for relevant pricing. You |
| 16 | | 16 | see, Hydro is really selling two products to |
| 17 | , 55 , | 17 | Newfoundland Power. They're selling capacity |
| 18 | | 18 | and they're selling energy. And in order for, |
| 19 | • | 19 | in order to enable the sales Hydro had to make |
| 20 | | 20 | a long-term financial commitment of capacity |
| 21 | | 21 | to construct generating facilities and it |
| 22 | | 22 | needs to pay back its bankers and it can't pay |
| 23 | - | 23 | back its banker on how many kilowatt hours is |
| 24 | | 24 | sold, it needs to pay back a fixed amount. So |
| 25 | | 25 | what's done in the industry is it structures |
| | Page 19 | | Page 20 |
| 1 | | 1 | resource price signal and there's a capital |
| 2 | | $\frac{1}{2}$ | resource price signal. And right now there's |
| 3 | | 3 | only an energy price signal and it doesn't |
| 4 | | 4 | differentiate between what's capital intensive |
| 5 | | 5 | and what's natural resource intensive. So I |
| 6 | | 6 | think there's a definite virtue in separating |
| 7 | | 7 | the two, and in fact, that's what the industry |
| 8 | | 8 | does do. |
| 9 | | 9 | Q. Okay. That's well and good. But if you were |
| 10 | | 10 | to go on CBC tomorrow morning to explain it to |
| 11 | | 11 | their interviewer by moving to a demand energy |
| 12 | • | 12 | charge consumers will benefit, he will want to |
| 13 | | 13 | know the nuts and bolts of how that benefit |
| 14 | | 14 | would derive right down to a person in their |
| 15 | | 15 | home. Can you tell us that? |
| 16 | | 16 | A. Well, some of the responses are very subtle, |
| 17 | | 17 | some could be very direct in the form of, for |
| 18 | | 18 | example, water heating control or water |
| 19 | • • | 19 | heating in range interlocks or seasonal rates. |
| 20 | | 20 | And I know that in a sense could be done right |
| 120 | price signar which is demand, the other is a | 120 | and I know that in a sense could be done right |

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Page 17 - Page 20

now, but what it really takes is actually a

price--I think it's Hydro's responsibility to

consumer, NP, and for NP in a sense to try to

pass on its costs to its customer and

reflect that to its customers. The phrase

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natural resource price signal which is energy.

ultimate customers and NP itself as a customer

will recognize that there's a variable natural

Energy is gas, oil, water and the capital is

labour and steel. So hopefully the NP's

| Page 21 | 1101 | vember 14, 2005 Mult | 1-Pag | e NL Hydro's 2003 General Rate Application |
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| that necessity is the mother of invention has been brought out by an often quoted author. James Bonbright, who identified ten attributes of a sound rate structure. And one of the attributes is what's known as dynamic efficiency, and that is that a rate has to be able to respond to invasion and changes in supply and demand. And as a demand and energy only rate it cannot respond to that. And it lakes the two components to be able to instill upon the end use customers that if they lower only rate it cannot respond to that. And it to NP, so their costs will ultimately go down. It is to NP, so their costs will ultimately go down. It is to NP, so their costs will ultimately go down. It is to NP, so their costs will ultimately go down. It is down next week or next year, but ultimately it will be lower. So a lot of the effects are subtle. But it takes an actually view. It is down the control of the self-cets are subtle. But it takes an actually view. It is down the control of the effects are subtle. But it takes an actually view. It is not not be as great a capital outlay, is that term, but in the longer term it may defer the next plant and therefore there will eventually reduced capital budgetary expenditures by Power and indeed, by Hydro, is that two difference, and therefore ultimately the consumers would get the—wouldn't be paying for what is not really necessary on the system? A. That would be my expectation. A. That's correct. A. That's correct. A. That's correct. A. That would be my expectation. A. That's correct. A. That would he my expectation. A. That's correct. A. That would he my expectation. A. That's correct. A. That's correct. A. That's correct. A. That's could a demand energy where he able to get into other variations such as seasonal rates and time of use rates and so on? A. It would definitely give you more flexibility. You could artibute seasonality to the enhanced of the enhanced of the enhanced of the enhance | | Page 21 | | Page 22 |
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| 4 James Bonbright, who identified ten attributes 5 of a sound rate structure. And one of the 6 attributes is what's known as dynamic 7 efficiency, and that is that a rate has to be 8 able to respond to invasion and changes in 9 supply and demand. And as a demand and energy 10 only rate it cannot respond to that. And it 11 takes the two components to be able to instill 12 upon the end use customers that if they lower 13 demand, there'll be a direct lowering of cost 14 to NP, so their costs will ultimately go down. 15 It may not go down next week or next year, but 16 ultimately it will be lower. So a lot of the 17 effects are subtle. But it takes an actually 18 demanded energy price signal to do that, in my 19 view. 10 BROWNE, O.C. 20 And the rates will go down because there will 21 Q. And the rates will go down because there will 22 not be as great a capital outlay, is that- 23 A. It's not necessarily in the very immediate 24 term, but in the longer term it may defer the 25 next plant and therefore there will eventually 26 brought on Granite Canal, Hydro did, for the 37 only hydrology project left on the island 38 cont of \$150 million. In terms of the 49 necessities for these projects and for the 50 nohy hydrology project left on the island 51 Control of the users of the province and we 52 do nohy drawned ferror, that would be increasingly over years, and that's it, that'll give us 36 megawatts at a cost of \$150 million. In terms of the 51 possand Demy Rate assist here? 52 A. It will assist in two ways. It will assist in deferring the need for new capacity, and there's a present worth effect of that. 52 So over the long run it will save existion and the respond to the province and we have of the province and we have laid the province and we have laid to the users of the province and we have laid to the users of the province and we have laid to the users of the province and w | 2 | that necessity is the mother of invention has | 2 | a present worth effect of that. |
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| | 23 | | 23 | |
| 25 again, if we can take you back there? If we 25 Q. Yes. | 24 | | 24 | - |
| | 25 | again, if we can take you back there? If we | 25 | Q. Yes. |

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| | Page 25 | | Page 26 |
| 1 1 | MR. GRENEMAN: | 1 | it's necessarily necessary. |
| 2 | A. Perhaps. Not of T and D, not of transmission | 2 | Q. Does Hydro have a model capable of undertaking |
| 3 | and distribution. | 3 | such a study, do you know? |
| 4 | BROWNE, Q.C.: | 4 | A. I don't know offhand. |
| 5 | Q. Not of transmission. What would be the cost | 5 | Q. When Newfoundland Power completed its Marginal |
| 6 | of such a study? | 6 | Cost Study, was that an in-house completion, |
| 7 | A. I would assume that a lot of it would be done | 7 | to your knowledge? |
| 8 | in-house byI would need to discuss it with | 8 | A. I looked at the study and I didn'tmy |
| 9 | the Company, honestly, and I - | 9 | understanding it was, but that's just my |
| 10 | Q. But they could do it in-house? | 10 | initial understanding. I'd need to check it. |
| 11 | A. I would suggest they get some outside | 11 | I don't recall. I think it was in-house, I'm |
| 12 | guidance. But it coulda lot of itwell, | 12 | not sure. |
| 13 | it's their own internal costs and they know | 13 | Q. You think it was in-house. I guess Mr. |
| 14 | their cost better than anyone else, so I think | 14 | Brockman will be able to apprise us of that |
| 15 | it would be my view is that it should be done | 15 | when he gets on the stand. On page 14 of your |
| 16 | in-house with the guidance of an outside | 16 | pre-filed evidence I'm going to go to now, |
| 17 | consultant. | 17 | lines 16 to 18. Just bear with me a moment |
| 18 | Q. And - | 18 | now, please. So we're looking at lines 16 to |
| 19 | A. There are different possibilities. | 19 | 18 on page 14 of your own evidence. Some of |
| 20 | Q. And is it necessary to undertake such a | 20 | this you have already answered now, you |
| 21 | modelling effort in order to determine | 21 | referred to discussions surrounding the |
| 22 | marginal costs? | 22 | propriety of the current energy only rate form |
| 23 | A. Not always. I don'tHydro doesn't have a lot | 23 | for sales of other electricity can be traced |
| 24 | of different types of stack units. I would | 24 | back at least to 1989. That seems like a long |
| 25 | need to discuss it with them. I don't think | 25 | time to be discussing this particular issue, |
| | need to disease it with them. I don't think | | time to be diseasing time particular issue, |
| 1 | P. 25 | | D 20 |
| | Page 27 | | Page 28 |
| 1 | it goes right back to 1989. Do you have any | 1 | that time? |
| 2 | it goes right back to 1989. Do you have any views on that, reading between the lines what | 2 | that time? A. Apparently, correct. |
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| 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 | it goes right back to 1989. Do you have any views on that, reading between the lines what transpired from 1989 'til now? A. Well, it just seemed that parties, you know, took up the issue when they were nudged to do so. I reallyit was punctuated over time and I, you know, was not here and I really - Q. And the record indicated as well at one point Newfoundland Power feltadvocated a demand energy rate, is that correct? A. That's correct. Q. And Mr. Brockman, as an expert, came forward to the Board and advocated that. You make reference to this in your evidence. Have you looked at the transcripts or have you looked at the history of what went on after that period of time? A. I have, I don't know if I can recall in detail. Q. You make reference in line 22 and 23 that the most recent proposals and discussions between Hydro and Newfoundland Power to develop a | 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 | that time? A. Apparently, correct. Q. And then I think we went intoafter 1992 I don't believe there were any hearings until 1996. And I think the Board may have ordered something in 1996 and time passes and here we are since 1989 and what are we, fifteen years, fourteen years later and there's still nothing been done. Do you have any comment on that, as to how we could have been waiting for so long for something to happen that was recommended to begin with? A. Well, my understanding is at certain points in time, both Hydro and NP, you know, I guess, mutually happy with the energy only rates. It seemed to allow them to dispatch, for NP to dispatch their hydro in a manner that they've been doing without any constraints. It doesn't mean it's the right rate, it just means that the right amount of revenuesno one contested the amount of revenue that was being transferred. |

| | , a | | P 20 |
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| | Page 29 | | Page 30 |
| l | BROWNE, Q.C.: | 1 | A. It's difficult to say if they would have been |
| 2 | in 1990, 1991? | 2 | lower now or next year or three years ago. |
| 3 | A. I think that's a valid point. Had it been put | 3 | But I think there would have been a more, at |
| 4 | in earlier, I think efforts could have been | 4 | least conceptually a more efficient rationing |
| 5 | made earlier on to change, applyto put in | 5 | of products, capacity and energy. Capacity |
| 6 | plans and road management techniques to lower | 6 | for the overall efficiency of utilization of |
| 7 | the demand at this point in time. I think | 7 | demand on the Island and energy for the |
| 8 | that's - | 8 | conservation of natural resources, but - |
| 9 | Q. And, of course, we would have seenwhat, in | 9 | (9:45 a.m.) |
| 10 | your view would have been the result in the | 10 | Q. Given that that's the fact, why would |
| 11 | intervening years? | 11 | Newfoundland Power be coming forward to this |
| 12 | A. It would have instilled the need to conserve | 12 | Board opposing the introduction of a demand |
| 13 | capital and demand, hopefully, at least there | 13 | energy rate, in your view? |
| 14 | would have been an intellectual recognition of | 14 | A. It's, you know, it's really not clear to me. |
| 15 | the fact that there are two components of | 15 | Q. Do you have any opinion on it at all? |
| 16 | supply; namely capacity and energy. | 16 | A. I don't think the volatility issue in and of |
| 17 | Q. Well, we would have been using our resources | 17 | itself is sufficient to oppose it, in my view |
| 18 | wiser, in your view, by now? | 18 | and that's the only evidence I've seen put |
| 19 | A. That would be the hope. | 19 | forth. It's not clear to me why they would be |
| 20 | Q. So there's been a lot lost over the | 20 | opposing it. |
| 21 | intervening period? | 21 | Q. I guess that's something we'll have to wait |
| 22 | A. It could have been. | 22 | for Mr. Brockman to come on the stand and |
| 23 | Q. Would consumer rates have been lower in your | 23 | maybe he can explain it to us. In terms of |
| 24 | view if we had to have introduced this back | 24 | your own evidence, if we go back to page 15 |
| 25 | when Newfoundland Power first advocated it? | 25 | and continuing with this theme and on line 26, |
| | Page 31 | | Page 32 |
| 1 | you say, "The energy price signals the need to | 1 | done, but I don't think it stands solely on |
| 2 | either use or conserve natural resources, | 2 | the merits of whether NP can reflectI don't |
| 3 | while the demand price signals the need to | 3 | think the need for an NP rate is solely |
| 4 | conserve capital resources and the energy only | 4 | predicated on whetherI don't think the need |
| 5 | rate is therefore seen as giving an incomplete | 5 | for NP demand energy rate is solely predicated |
| 6 | price signal." Now in reference to that | 6 | on whether NP can reflect that price signal |
| 7 | incomplete price signal, to whom does that go? | 7 | down to their end-use customers. I think it |
| 8 | A. That price signal is a price signal to NP and | 8 | has merits on its own just that Hydro be able |
| 9 | it could trickle down to its retail customers, | 9 | to charge NP based on the cost structure that |
| 10 | depending upon the extent to which NP | 10 | it lives and dies by. I don't think in that |
| 11 | demonstrates to its retail customers what the | 11 | regard an energy only rate is appropriate. It |
| 12 | components of cost are. | 12 | has a financial commitment, it needs to |
| 13 | Q. And why would NP not want that price signal | 13 | reflect that in a demand energy rate. |
| 14 | that is now not going to the customers, why | 14 | Q. Is the fact that there's no demand component |
| 15 | would they not want a demand energy in place | 15 | in the wholesale power rate unfair to Hydro's |
| 16 | so that their end customers could get that | 16 | other customers? |
| 17 | price signal? | 17 | A. If I can just reinterpret what you said, there |
| 18 | A. Ideally, I think they would like to fully | 18 | is a demand component in it, but it's not |
| 19 | reflect that price signal in some fashion to | 19 | being properly charged and by virtue of the |
| 20 | their retail customers, to their end-use | 20 | fact that it's not being properly charged, I |
| ı – Ŭ | customers. I think they claim that they don't | 21 | do see it as being unfair to its other |
| 21 | | | The state of the s |
| 21 22 | · · · · · · · · · · · · · · · · · · · | 2.2 | customers. |
| 22 | know of any way of doingwhatever they are | 22 23 | customers. O. So it's unfair to the Industrial Customers, do |
| 22 23 | know of any way of doingwhatever they are doing now is the most they can do. | 23 | Q. So it's unfair to the Industrial Customers, do |
| 22 | know of any way of doingwhatever they are | | |

| 110101111111111111111111111111111111111 | Tuge 1(12 11) 410 5 2000 General Rate 11ppnearion |
|-----------------------------------------------------|-----------------------------------------------------|
| Page 33 | Page 34 |
| 1 BROWNE, Q.C.: | 1 ability to in fact make more money. Would |
| 2 Q. And can you expand upon that and tell us how | 2 thathow do you see that in terms of |
| 3 it is unfair? | 3 introducing demand energy only rate where we |
| 4 A. Well as it was brought out in testimony | 4 wouldn't see so much capital expenditure, |
| 5 yesterday, NP makes a forecast and if they're | 5 according to what you're saying? |
| 6 off by the forecast, if their forecast is | 6 A. Right, that was IR, an information request |
| 7 different than the actual, it's just simply an | 7 actually and the anticipation is that over the |
| 8 academic fact. I mean, they just pay the | 8 long term, the effect of a demand energy rate |
| 9 forecast and there's no reconciliation with | 9 would be to reduce Hydro's rate base. |
| actual and I don't mean to say that there | 10 Q. Would it have the same effect on Newfoundland |
| should be a reconciliation with actual, but | Power of over the term reducing Newfoundland |
| Industrial Customers, on the other hand, if | Power's rate base? |
| they forecast wrong have tothey can incur a | 13 A. It would reduceit would have the effect of |
| lot of additional costs, so - | reducing, hopefully it would have the effect |
| 15 Q. So NP is home free, but the Industrial | of reducing Newfoundland Power's costs to |
| 16 Customers aren't, according to the system | 16 Hydro for purchase power and hopefully it |
| 17 we're - | would also have the effect of reducingto the |
| 18 A. Well, I'd be careful about using the phrase | extent that they can pass it on to their |
| "home free", but - | customers and their customers can respond, of |
| 20 Q. Yeah, okay. When you stated that a demand | 20 reducing NP's rate base as well. So there can |
| energy rate would conserve capital resources, | be that double effect. |
| indeed reserve natural resources, because in | 22 Q. Is the primary reason for including a demand |
| this jurisdiction we are on a rate-base system | component in the rate to reflect costs that |
| and therefore, the more capital expended to | Newfoundland Power imposes on the system, |
| build plant, in fact gives the proponent an | 25 rather than to promote demand energydemand |
| Page 35 | Page 36 |
| 1 management, I'm sorry, the primary reason for | saying we need no additional capacity until |
| including a demand component in the rate to | 2 2008 or 2010 or whatever they're saying, that |
| reflect costs that Newfoundland Power imposes | makes no difference in your view to the - |
| on the system, rather than to promote demand | 4 A. With respect to implementing a demand energy |
| 5 management? | 5 rate? |
| 6 A. I think, in my view, they could be equal or | 6 Q. Yes. |
| anyone could be greater, depending upon the | 7 A. No. |
| 8 circumstances at the time. I could see | 8 Q. So we should do that now regardless? |
| 9 circumstances that either one could be more | 9 A. I totally agree. |
| important, so I think they're both important. | 10 Q. What if Hydro doesn't undertake a marginal |
| 11 Q. Should a demand energy rate be introduced | cost study? Should a demand energy rate be |
| regardless of whether Hydro forecast a need | introduced regardless of that? |
| for additional capacity? | 13 A. By all means. |
| 14 A. Absolutely, because these are the costs they | 14 Q. So these two events are, in your view, no way |
| live and die by. They made financial | 15 connected? |
| 16 commitments and they need toa demand rate, | 16 A. Well, they're not in no way connected. |
| Hydro can't say I'm going to paysay to their | 17 Marginal cost can serve as a guide on how to |
| bankers, I'm going to pay you back if I sell | 18 tweak demand energy rate. There's a |
| enough kilowatt hours. They have to pay their | 19 connection, but certainly a marginal cost does |
| 20 financial commitment, and the introduction of | 20 not in any way serve as a prerequisite to |
| 21 a demand component represents that financial | 21 implementing a demand energy rate. |
| 22 commitment and passes it on to its customer, | 22 Q. Okay. Some particulars now along these |
| namely NP. So yes, it stands on its own | themes, this theme that we have. On page 16, |
| 24 merits. | line 6 to 8 of your pre-filed evidence, you |
| 25 O Co the feet that Hydro is before the Doord new | 25 at that "an additional advantage of a |

state that "an additional advantage of a

Q. So the fact that Hydro is before the Board now

Page 38

Page 40

| 110 | ivember 14, 2005 Iviuiu | I-Fage | e NL flyuro 8 2005 General Kate Application |
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| | Page 37 | | Page 38 |
| 1 | BROWNE, Q.C.: | 1 | A. It'll be a more efficient allocation of |
| 2 | demand energy rate form is that attracts cost | 2 | capital and natural resources, yes. |
| 3 | causality and changes in customer load | 3 | Efficiency will result. I don't think it |
| 4 | profiles much more closely than an energy only | 4 | could be argued that an energy only rate is in |
| 5 | rate," and why is this important, in your | 5 | any way more efficient than a demanded energy |
| 6 | view? | 6 | rate. |
| 7 | A. Well, if customer load factor changes, a | 7 | Q. That's not your view? |
| 8 | demand and energy rate should concepta | 8 | A. Demand and energy rate, in my view, is more |
| 9 | demand and energy rate will track the cost | 9 | efficient than an energy only rate, and it |
| 10 | changes in accordance with the changes in the | 10 | would only add to increase system efficiency |
| 11 | load profile. That is to say, if customers, | 11 | and it's more efficient in allocating |
| 12 | for example, cut their energy use in half, | 12 | society's resources. |
| 13 | then NP has to, for example, burn less | 13 | Q. Because it tracks costs more closely, is a |
| 14 | kilowatt hours and there'll be a matching of | 14 | demand energy rate a more fair rate structure |
| 15 | cost and revenues. So the cost and revenues | 15 | ultimately? |
| 16 | tend to follow each other for each of the | 16 | A. Absolutely. That's the whole point. |
| 17 | products, one product being capacity and the | 17 | Q. So it's more fair to the end user, to the |
| 18 | other product being energy. I would note that | 18 | consumer ultimately? |
| 19 | the capacity product, the change does not | 19 | A. To represent the costs as they are incurred by |
| 20 | follow immediately. It could take years, but | 20 | society is, in my view, more fair. |
| 21 | there is a correlation, and that correlation | 21 | Q. On page 16 of your evidence, lines 10 to 18, |
| 22 | doesn't exist accurately in an energy only | 22 | you mention seasonal rates and load management |
| 23 | rate. | 23 | such as water heating control as ways |
| 24 | Q. So ultimately, is efficiencywill efficiency | 24 | utilities such as Newfoundland Power can pass |
| 25 | or greater efficiency be the result? | 25 | a demand signal on to their customers, and of |
| | Page 39 | | Page 40 |
| 1 | course, Newfoundland Power does not currently | 1 | can't say with certainty, but it's possible. |
| 2 | have seasonal rates or water heating control | 2 | Q. On page 16 to 18 of your evidence, you discuss |
| 3 | rates. Do you expect this might be because it | 3 | issues such as revenue stability and the |
| 4 | has an energy only wholesale rate? So in | 4 | treatment of Newfoundland Power's generation |
| 5 | fact, has no incentive to implement such | 5 | and other demand rate considerations. In |
| 6 | retail rate programs. | 6 | terms of coming before this Board, you're now |
| 7 | A. That could be very likely. I personally | 7 | coming before advocating a demand energy rate |
| 8 | believe in the saying "necessity is the mother | 8 | and some of these you've viewed as problems. |
| 9 | of invention." If you're presented with a | 9 | When can we anticipate or when should we |
| i | * * | 1 | - |

nce, you discuss y and the wer's generation erations. In ard, you're now mand energy rate ed as problems. When can we anticipate or when should we anticipate a demand energy rate could be implemented? What is a realistic date for implementing a demand energy rate in the province?

14 (10:00 a.m.)

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15 A. I can't speak fully for Hydro, but it's my understanding that if this Board orders in 16 this proceeding that Hydro implement a demand 17 energy rate, it will do so expeditiously and I 18 can't speak with respect to for Hydro on this, 19 but that's my understanding that it would be 20 in a relatively short, very short time frame. 21 Q. And how do you define relatively short time 22 frame? 23

A. And once again, I'm not speaking on behalf of 24 25 Hydro, and I would think it would be within a

A. It could be true.

rate structure, you have more incentive to

react to it. I mean, that's my feeling.

Q. I guess if customers ultimately had the

benefit of seasonal rates or water heating

control rates, the electricity consumers in

the province, if we had had this back in

advocated it, the people, consumers of the

for reducing their bills. Would that be true?

jurisdictions, water heating rates, ceramic

variations have already been put into effect.

It might be that they haven't been put into

effect here because of an energy only rate. I

storage rates, heater rates and other

1989/1991 when Newfoundland Power first

province have missed out on a potential means

In many other

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|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Page 41 1 MR. GRENEMAN: | 1 | That's the summary of evidence, September 2, |
| 2 month or so, but I'd have to consult with them | 2 | 2003. He makes certain comments here, and I'm |
| and I'm not speaking for them. | 3 | just going to ask you in reference to these. |
| 4 BROWNE, Q.C.: | 4 | He says "after reviewing the energy only rate |
| 5 Q. So effectively, I guess we would have to wait | 5 | compared to the sample rate, using generally |
| for the Board's order in reference to this, | 6 | accepted principles of good rate design, I |
| but a month after that order, these things | 7 | make the following conclusions," and then he |
| 8 could be implemented? That's a possibility? | 8 | uses a bullet, "the energy only rate is |
| 9 A. Subject to Hydro. | 9 | superior to the sample rate in collecting |
| 10 Q. So we could see a demand energy rate in effect | 10 | revenue requirements for a fair return." What |
| what, April-May? | 11 | is your view of that? |
| 12 A. I would really need to confer with Hydro on | 12 | A. I don't agree with it. |
| that. I would think - | 13 | Q. Why do you not agree with that? |
| 14 Q. But we're not talking about a long period of | 14 | A. Okay. If we takeit's superiorokay, if you |
| time in any case. We're talking - | 15 | take your sentence and look at it, "it's |
| 16 A. We're not talking about years. | 16 | superior to collecting revenue requirements," |
| 17 Q about some time in 2004, this demand energy | 17 | can you read it? |
| rate could be implemented? | 18 | Q. Yes, do you have it there on the screen? |
| 19 A. That's my understanding. | 19 | You're havingit says "the energy only rate |
| 20 Q. Okay. If we can just go to Mr. Brockman's | 20 | is superior - |
| evidence again, I just want to get your views | 21 | A. What line is that? |
| on some of these comments that he has made in | 22 | Q. It's page one of the pre-filed evidence of |
| reference to this particular issue, and we go | 23 | September 2, 2003. Sorry, Terry, I probably |
| to page one and two of his pre-filed evidence. | 24 | should have explained it there. See page one |
| 25 I think there's a summary of some sort there. | 25 | down below, September 2, 2003. You might have |
| • | 23 | |
| Page 43 | | Page 44 |
| I I it on a different termet Koon coince I | 1 D | DOWNE O.C. |
| 1 it on a different format. Keep going, I | | ROWNE, Q.C.: O. Okay Thank you Mr. O'Reilly Okay It |
| think, Mr. O'Reilly. | 2 | Q. Okay. Thank you, Mr. O'Reilly. Okay. It |
| think, Mr. O'Reilly. A. I could answer the question without it. | 2 3 | Q. Okay. Thank you, Mr. O'Reilly. Okay. It says here - |
| think, Mr. O'Reilly. A. I could answer the question without it. Q. Maybe if your counsel there gave you the page, | 2 3 4 | Q. Okay. Thank you, Mr. O'Reilly. Okay. It says here - A. I see it, okay. |
| think, Mr. O'Reilly. A. I could answer the question without it. Q. Maybe if your counsel there gave you the page, so you'd - | 2 3 4 5 | Q. Okay. Thank you, Mr. O'Reilly. Okay. It says here -A. I see it, okay.Q. Okay. "The energy only rate is superior to |
| think, Mr. O'Reilly. A. I could answer the question without it. Q. Maybe if your counsel there gave you the page, so you'd - MR. YOUNG: | 2 3 4 5 6 | Q. Okay. Thank you, Mr. O'Reilly. Okay. It says here - A. I see it, okay. Q. Okay. "The energy only rate is superior to the sample rate in collecting revenue |
| think, Mr. O'Reilly. A. I could answer the question without it. Q. Maybe if your counsel there gave you the page, so you'd - MR. YOUNG: Q. I'm looking for it. | 2 3 4 5 6 7 | Q. Okay. Thank you, Mr. O'Reilly. Okay. It says here - A. I see it, okay. Q. Okay. "The energy only rate is superior to the sample rate in collecting revenue requirements for a fair return." That's the |
| think, Mr. O'Reilly. A. I could answer the question without it. Q. Maybe if your counsel there gave you the page, so you'd - MR. YOUNG: Q. I'm looking for it. BROWNE, Q.C.: | 2 3 4 5 6 7 8 | Q. Okay. Thank you, Mr. O'Reilly. Okay. It says here - A. I see it, okay. Q. Okay. "The energy only rate is superior to the sample rate in collecting revenue requirements for a fair return." That's the conclusion Mr. Brockman makes. What is your |
| think, Mr. O'Reilly. A. I could answer the question without it. Q. Maybe if your counsel there gave you the page, so you'd - MR. YOUNG: Q. I'm looking for it. BROWNE, Q.C.: Q. Oh, you're looking for it as well. It's the | 2 3 4 5 6 7 8 9 | Q. Okay. Thank you, Mr. O'Reilly. Okay. It says here - A. I see it, okay. Q. Okay. "The energy only rate is superior to the sample rate in collecting revenue requirements for a fair return." That's the conclusion Mr. Brockman makes. What is your view of that? |
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| | Page 45 | | Page 46 |
| 1 | MR. GRENEMAN: | 1 | identity in that sense. So in this very, |
| 2 | resources ability to respond to changing | 2 | , , |
| 3 | supply and demand conditions, ability to | 3 | that statement and I don't think it should be |
| 4 | result in innovation. It's ignoring what I | 4 | relied upon in any fashion as to whether or |
| 5 | consider to be very, very important | 5 | not to implement a demand and energy rate. |
| 6 | attributes, but focusing narrowly on this one | | BROWNE, Q.C.: |
| 7 | attribute, the ability to collect the revenue | 7 | Q. He also says that "the energy only rate fairly |
| 8 | requirement, it does that very well because | 8 | ž |
| 9 | not only is it an energy only rate, but it's | 9 | requirement from Newfoundland Power." Do you |
| 10 | an energy only rate in the context of a rate | 10 | · |
| 11 | stabilization plan and its own RSNP's RSA. | 11 | comparing it to the sample rate? |
| 12 | So even if it doesn't collect the revenue | 12 | |
| 13 | requirement, the rate stabilization plan will | 13 | |
| 14 | force it to collect the revenue requirement. | 14 | • |
| 15 | So it does that, and it does it well. | 15 | ž |
| 16 | But it's a very simplistic measure and | 16 | • |
| 17 | onceand as this was discussed many times in | 17 | A. If youokay. |
| 18 | the demand energy report, once you unstabilize | 18 | |
| 19 | any component of that, meaning if you take | 19 | · • |
| 20 | some of the costs away from energy and put | 20 | Q. So bullet one and two are the same |
| 21 | them in demand, by identity, they become at | 21 | effectively, in your view? |
| 22 | risk to one party or another and by virtue of | 22 | A. I think they're very similar. |
| 23 | the fact that they're at risk for one party or | 23 | Q. The third bullet, he says "a demand energy |
| 24 | another, collecting the revenue requirement | 24 | • 11 |
| 25 | for that component is at risk. So it's an | 25 | Industrial Customers, but is not needed for |
| | Page 47 | | Page 48 |
| 1 | Newfoundland Power since it is the only | 1 | an information request, my recollection is |
| 2 | customer in its class." What is your view of | 2 | they responded that there were two customers |
| 3 | that? | 3 | in class, they stillbut I totally don't |
| 4 | A. While I agree that it's an absolute necessity | 4 | understand that. |
| 5 | for two customers in a classif there were | 5 | Q. So, they just don't want it, period. |
| 6 | two customers, there would have to be a demand | 6 | A. Yeah. |
| 7 | and energy rate, in my view, or else two | 7 | Q. The fourth bullet, he says, "the current |
| 8 | special contracts. | 8 | energy only rate is superior to the sample |
| 9 | A. But as I mentioned before, a demand energy | 9 | rate in promoting energy efficiency". What is |
| 10 | rate, even with one customer class is fully | 10 | • |
| 11 | justified based upon the fact that I believe | 11 | A. Well, I think the thrust of that statement is |
| 12 | it's Hydro's responsibility to pass on its | 12 | • |
| 13 | cost as it incurs its financial obligations. | 13 | • |
| 14 | And also to encourage load management on the | 14 | |
| 15 | Island to increase the overall efficiency of | 15 | |
| 16 | capital resource utilization on the Island and | 16 | ; |
| 17 | to lower the use of natural resources when | 17 | basis. And I think that the thrust of that |
| 18 | that can be done. | 18 | · • |
| 19 | Q. So, their reliance upon the fact that they're | 19 | |
| 20 | the only customer in their class, that doesn't | 20 | <i>C:</i> |
| 21 | give validity to his comment that the energy | 21 | don't agree with that. I think the right |
| 22 | only rate is, in fact, better, I guess, is | 22 | price signal is the price signal that reflects |
| 23 | what he's trying to tell us, than the sample | 23 | |
| 1 | | | at a state of the state of |
| 24 | rate? | 24 | the way, to the extent that it promotes, may |

| November 14, 2005 Muli | 1-Page | NL Hydro's 2005 General Rate Application |
|--------------------------------------------------------------------|----------|--------------------------------------------------------------------------------------|
| Page 49 |) | Page 50 |
| 1 MR. GRENEMAN: | 1 | Power indicates that the storage modification |
| 2 not address conservation of capital resources. | 2 | would increase the likelihood of spillage and |
| 3 BROWNE, Q.C.: | 3 | result in a less than optimal use of |
| 4 Q. And they say as part of that bullet as well, | 4 | generation resources". |
| 5 "an inappropriate emphasis on demand charges | 5 . | A. My understanding is that there'son point, |
| 6 in the sample rate design contributes to | 6 | not a lot of potential to actually move water |
| 7 inefficiency in the same rate energy charges". | 7 | from one period to other andI don't think it |
| 8 A. I disagree with that. | 8 | would result in a large amount of dollars. |
| 9 Q. Why do you disagree with that? | 9 | That's my initial understanding. And I don't |
| 10 A. Because it's the right signal for efficiency. | 10 | think they should be permitted to do that, to |
| In my view, it's the correct signal and it has | 11 | increase overall system costs for the benefit |
| to be the correct signal because it replicates | 12 | of arbitraging summer, winter kilowatt hours. |
| how Hydro incurs its cost, therefore it must | | Q. I'm not certain what you mean by that, can you |
| be the correct signal. | 14 | expand upon that a little more? |
| 15 Q. So, the energy only rate is an incorrect | | A. Well, it may put a few extra dollars in their |
| 16 signal? | 16 | pockets. |
| 17 A. In my view, yes. | | Q. In whose pockets? |
| 18 Q. Then the next bullet, it states, "the energy | | A. In NP's pocket, but I think it would be to the |
| only rate allows Hydro and Newfoundland Power | 19 | detriment of the island system. |
| to optimise the use of their hydraulic and | | Q. I'm sorry, how - |
| thermal generation resources, the proposed | | A. Because - |
| sample rate would send an inappropriate | | Q would they get a few extra dollars put in |
| 23 pricing signal that would encourage | 23 | their pocket? I'm notthat's caught my |
| Newfoundland Power to modify its hydraulic | 24 | attention, can you explain that? |
| 25 storage patterns to reduce cost. Newfoundland | | A. I'm not sure it would put any more money in |
| | | * ' ' |
| Page 51 | | Page 52 |
| their pocket, but the theory is that if they | | Q. Then the next bullet they state, "Newfoundland |
| 2 canthey can use more water, sorry, if they | 2 | Power's current rate designs reasonably |
| 3 can move the water that they would normally | 3 | reflect the Island Interconnected system cost |
| 4 use from the fall to the winter, it wouldif | 4 | of demand on energy and the sample rate will |
| 5 they could store more water in the winter, | 5 | not change Newfoundland Power's rate designs". |
| 6 then it would displace purchasers from | 6 | Can you comment on that? |
| 7 Holyrood at the incremental cost of Holyrood. | | A. Reasonably is broad term. It may reasonably |
| 8 Q. So, is this whatthe witnesses yesterday were | 8 | reflect it right now, but that's not to say |
| 9 referring to an ability to gain the system. | 9 | that there are other measures or more than can |
| 10 A. That'syes. The RSP enters into this and I'm | 10 | be done. The fact that it won't change their |
| not sure how that enters into it, so I can't | 11 | rate design is their own initiative. |
| say with certainty how they would gain or not | 1 | Q. That waspardon? |
| gain, but yes, it ties into that conversation, | | A. Is their initiative, that may be their |
| 14 yesterday. | 14 | choosing, but they're perhapsmy |
| Q. Well, what safeguards could we put in place to | 15 | understanding is there are things that can be |
| ensure they didn't do that? | 16 | done. |
| 17 A. One would be prohibition on doing it by this | | Q. So, they could attempt to change their own |
| 18 Board. | 18 | rate designs if they so chose? |
| 19 Q. So, the Board itself could address that. | | A. Yes. |
| 20 A. I believe so. | 1 | Q. Under the sample rate, the so-called - |
| Q. And give them an order in reference to that | 1 | A. Under the sample rate, yes. |
| 22 particular ability that they may or may not | | Q. Then we have four more bullets to go, by that |
| have. | 23 | time, it would be the break, I would surmise. |
| 104 A I haliana and I and that another and | | |
| 24 A. I believe so; I say that cautiously, yes. 25 (10:15 a.m.) | 24 25 | And it says, the next bullet and it's on the top of page 2, "there is no evidence to |

Page 54

Page 56

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| | | Page 53 | | Pag |
| | 1 | BROWNE, Q.C.: | 1 | kilowatt is too much to pay for peak demand |
| | 2 | support additional cost effective demand | 2 | reduction through interruptible rates". Do |
| | 3 | management on Newfoundland Power's system. | 3 | you have any comment on that or can you |
| | 4 | The available evidence indicates that demand | 4 | explain what they're attempting to say here? |
| | 5 | management would have little effect on Hydro's | 5 | A. Yes. I think that statement is, in a sense, |
| | 6 | future generation plans". Can you comment on | 6 | slight of hand. I think it's a confusing |
| | 7 | that, please? | 7 | statement, but if I can, I'd like to try to |
| | 8 | A. There's always an effect on Hydro's, even | 8 | clarify it. |
| | 9 | several kilowatts saved have an effect, you | 9 | Q. Please do. |
| | 10 | know, the degree of to which its measurable, | 10 | A. The \$84.00 per kilowatt year is Hydro's fully |
| | 11 | but there is a one-to-one effect, but its | 11 | allocated Cost of Service for capacity. The |
| | 12 | plans happen in quantum steps, if you will, | 12 | \$28.20 is not something that stands next to it |
| | 13 | and not in a continuous fashion. And if | 13 | and that could be compared to it, but rather, |
| | 14 | Hydro's plans were in a continuum, you would | 14 | it's a component of the \$84.00 per kilowatt |
| | 15 | be able to observe it, but there are changes. | 15 | year. I don't know how to explain this |
| | 16 | It would affect Hydro's plant. | 16 | visually, but the full \$84.00 per kilowatt |
| | 17 | Q. For the better or for the worse when you | 17 | year is, if you will, a fulla commitment, a |
| | 18 | affect - | 18 | firmwe will serve you on a firm basis. The |
| | 19 | A. Well, if they conserve, they would be for the | 19 | \$28.20 is a subtraction from the \$84.00 to |
| | 20 | better. If NP conserved, it would lower the | 20 | make the \$84.00 less firm. It's perhapsmy |
| | 21 | need for capital additions in the future. | 21 | understanding is its based on, I think it was |
| | 22 | Q. The next, it says, "the sample rate will | 22 | a diesel rate and then it was cut in half. |
| | 23 | encourage Newfoundland Power to spend up to | 23 | Ultimately, it was a negotiated number to |
| | 24 | \$84.00 per kilowatt to reduce peak demand when | 24 | lower the \$84.00 firm such as to make it |
| | 25 | Hydro has provided evidence of \$28.20 per | 25 | interruptible. So, it's not comparingit |
| ĺ | | Page 55 | | Pag |
| | 1 | reads as though you're comparing \$84.00 versus | 1 | guess that's what it's all about. Can you - |
| | 2 | \$28.20, but it's really \$84.00 in a sense next | 2 | A. Yes, this goes back to bullets number one and |
| - 1 | | | 1 | |

ber one and two. It's not the energy only rate per se. 3 Let me put this on an equal basis, if I could, 4 5 if there were no revenue stabilization plan and I'm in no way suggesting that we eliminate 6 7 the revenue stabilization plan, but let's just 8 take another jurisdiction. In another jurisdiction, if there were any energy only 9 rate versus a demand and energy only rate, 10 11 this statement could not be made with any degree of certainty, in my view. It depends 12 upon what the weather is in the jurisdiction. 13 It depends upon a lot of variables, but on the 14 face of it, in a jurisdiction, one could not 15 say that an energy only rate provides more 16 stable revenues than a demand and energy rate. 17 And demand and energy rate provides a more 18 19 stable and proper matching of cost recovery with cost incurrence. That's not what's being 20 21 said here. What's being said here or implied here is that once a revenue requirement is 22 determined, then it goes on year after year in 23

the absence of a rate case and an energy only

rate will recover more reliably that target

24

25

sample rate. And the energy only rate

additional revenue volatility, there are no

therefore avoids the costs of dealing with the

benefits to customers of imposing additional

revenue volatility on Newfoundland Power". I

to \$84.00 minus \$28.20. The \$84.00 being firm

and the \$84.00 minus \$28.20 being non-firm

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| | Page 57 | | Page 58 |
| 1 | MR. GRENEMAN: | 1 | Q. Yes, isn't there a certain risk here in any |
| 2 | revenue requirement. That's a small | 2 | case? How are they guaranteed their rate? |
| 3 | attribute. But that's in this jurisdiction. | 3 | What if everyone decides, as I advocate, to |
| 4 | In any other jurisdiction a demand and energy | 4 | move from baseboard radiation to other forms |
| 5 | rate versus an energy rate, it cannot be said | 5 | of spacing for their homes? What if somehow |
| 6 | that the energy rate will fulfil this virtue. | 6 | the government decided to give grants for that |
| 7 | It's only in conjunction with the revenue | 7 | or something like that? That would create |
| 8 | stabilization plan that this is true. And | 8 | volatility for the energy only rate in this |
| 9 | once again, when you take cost out of energy | 9 | particular jurisdiction, wouldn't it? |
| 10 | and put it in demand, by nature it becomesit | 10 | A. Well, but then there'd be an effect of the |
| 11 | is a risk associated with that. So, it's not | 11 | rate stabilization plan. |
| 12 | the intrinsic nature of an energy only rate | 12 | Q. In any case, this bullet here, in your view, |
| 13 | that makes this true. It's in this | 13 | is not accurate? |
| 14 | jurisdiction in conjunction with the rate | 14 | A. It's accurate, I think it's accurate in this |
| 15 | stabilization plan. | 15 | jurisdiction. I don't think it's the main |
| 16 | Q. And the weather normalization, as well? | 16 | virtue that's up for consideration. I don't |
| 17 | A. Welldoes it saysample rate. | 17 | think it's a major - |
| 18 | Q. Well, what we have, the benefits in this | 18 | Q. It's not an impediment? |
| 19 | jurisdiction. | 19 | A. I don't think it's a major issue, I think it's |
| 20 | A. Yeah, because the sample rate, even with | 20 | a very minor issue. I think there are more |
| 21 | weather normalization, there is somethere | 21 | overriding issues at hand than this. |
| 22 | has to be some degree of risk to one party or | 22 | Q. Can you think of any other jurisdiction where |
| 23 | another. | 23 | they'd have just an energy only rate for a |
| 24 | Q. But that there's now, as well, isn't it? | 24 | customer the size of Newfoundland Power? Does |
| 25 | A. Under an energy only rate? | 25 | anything come to mind at all? |
| | Page 59 | | Page 60 |
| 1 | A. Other than what was brought out yesterday, I | 1 | using generally accepted, but generally |
| 2 | know of none. | 2 | accepted principles of good rate design and a |
| 3 | Q. And you worked extensively in the United | 3 | sample rate should not be implemented". Now, |
| 4 | States? | 4 | what generally accepted principles of good |
| 5 | A. Yes, reasonably extensively in the United | 5 | rate design are being referred to here? Do |
| 6 | States. | 6 | you have any idea? |
| 7 | Q. In the energy fields? | 7 | A. I assume they're referring to Doctor James |
| 8 | A. Yes. | 8 | Bonbright, I assume they're referring to |
| 9 | Q. And there's no jurisdiction in Canada that | 9 | Bonbright. Is there a part that goes further |
| 10 | you're familiar with in reference in making - | 10 | and states that or - |
| 11 | A. Other than what was brought out yesterday, no. | 11 | Q. No, it doesn't - |
| 12 | Q. Then they say, "both the sample rate and the | 12 | A. It's not enough toif they are referring to |
| 13 | energy only rate are understandable for a | 13 | Doctor Bonbright, Doctor Bonbright has |
| 14 | large customer such as Newfoundland Power. | 14 | gathered up from other sources, attributes of |
| 15 | However, the energy only rate is more | 15 | a sound rate structure and he's combined them |
| 16 | practical to administer because it is less | 16 | into what he considers the 10 attributes of |
| 17 | complicated". What kind of reason is that? | 17 | the sound rate structure and he's very often |
| 1 | A Those are piece things to say, shout a mote to | 18 | quoted on these 10 attributes, as well as his |
| 18 | A. These are nice things to say about a rate to | 10 | 1 |
| 18 19 | domestic customers, but for sophisticated | 19 | other ideas on rate design and public utility |
| 1 | | | other ideas on rate design and public utility economics. And in my view, it's not proper |
| 19 | domestic customers, but for sophisticated customers such as NP, I think it's a meaningless or next to meaningless measure of | 19 | other ideas on rate design and public utility economics. And in my view, it's not proper for a customer with the sophistication of NP |
| 19 20 | domestic customers, but for sophisticated customers such as NP, I think it's a meaningless or next to meaningless measure of what rationale for keeping the rate. | 19 20 21 22 | other ideas on rate design and public utility economics. And in my view, it's not proper for a customer with the sophistication of NP to say, well, gee, I satisfy 1, 3, 5 and 7, |
| 19 20 21 | domestic customers, but for sophisticated customers such as NP, I think it's a meaningless or next to meaningless measure of | 19 20 21 | other ideas on rate design and public utility economics. And in my view, it's not proper for a customer with the sophistication of NP |

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important than other attributes and I think

what's being cited here are, by far, the least

"overall, the current energy only rate out

performs the sample rate when evaluating,

24

| Page 61 Page 62 Page 63 Page 63 Page 63 Page 64 Page 65 Page | Nov | vember 14, 2003 Mult | ı-Pag | ge "NL Hydro's 2003 General Rate Application |
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| 2 important of the attributes afor customers such as NP. Hibin attributes such as static and dynamic efficiency which NP says nothings about, are very, very important and those attributes are key to, I think, it acomomics of generation on the Island. They think they should be implemented not based upon whether if 's a simplistic rate schedule. I don't think that's an important attribute. If BROWNE, OC: 10 | | Page 61 | | Page 62 |
| 3 as NP. I think attributes such as static and dynamic efficiency which NP says nothings about, are very, very important and those attributes are key to, I think, it acconomics of of generation on the Island. They think they should be implemented not based upon whether it's a simplistic rate schedule. I don't builthink that's an important attribute. 11 BROWNE, Q.C.: 12 Q. Then they say on the next page, "In conclusion, the current Hydro rate designs fairly allocate the Cost of Service revenue requirements to Newfoundland Power and the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial calass, but is not needed for Newfoundland Power since it's the only customer in its class. But is not needed for Newfoundland Power since it's the only customer in its class." Well, they're already dealt with 21 that, haven't they? 22 A. I believe so, yes. 23 Q. Okay. It's 10:30, can we have a break there now? Page 63 1 A. Yes, I believe they overwhelmingly outweigh the disadvantages of a demand energy rate outweigh the stated disadvantages of the disadvantages of the admand energy rate outweigh the stated disadvantages of the admand energy rate outweigh the stated disadvantages of the admand energy rate outweigh the stated disadvantages of the mechanics of the implementation? Page 63 2 A. Yes, it does, in my view. 9 Q. In your view, have there beenNewfoundland Power came forward in 1989-1990 in support of a demand energy rate. Is there anything you see, changes in the industry or in the economy, over the past decade that would sugard signal to Newfoundland Power came forward in 1989-1990 in support of a demand energy rate. Is there anything you see, changes in the industry or in the economy, over the past decade that would sugard signated to the would and province? A. Not at all. In fact, throughout the rest of North America, if anything, a demand energy rate outweigh the disadvantages of deniand energy rate, if it saw fit, a demand energy rate with the province? A. No at all. In fac | 1 N | MR. GRENEMAN: | 1 C | HAIRMAN: |
| dynamic efficiency which NP says nothings about, are very, very important and those attributes are key to, I think, it economics of generation on the Island. They think they should be implemented not based upon whether it's a simplistic rate schedule. I don't think that's an important attribute. 10 think that's an important attribute. 11 BROWNE, Q.C.: 12 Q. Then they say on the next page, "In conclusion, the current Hydro rate designs I fairly allocate the Cost of Service revenue requirements to Newfoundland Power and the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial class, but is not needed for Newfoundland Power since it's the only customer in its class.' Well, they're already dealt with that, haven't they? 22 A. I believe so, yes. 3 Q. Okay. It's 10:30, can we have a break there now? Page 63 1 A. Yes, I believe they overwhelmingly outweigh the disadvantages. I think the advantages of a demand energy rate to utweigh the stated disadvantages of a demand energy rate to utweigh the stated disadvantages of a demand energy rate to utweigh the stated disadvantages of a demand energy rate to utweigh the stated disadvantages of a demand energy rate to inglement a rate. What would happen then? Page 63 1 A. Yes, it does, in my view. 9 Q. In your view, have there beenNewfoundland Power came forward in 1989-1990 in support of a demand energy rate as should no longer be pursued in this province? 8 A. Yes, it does, in my view. 9 Q. In your view, have there beenNewfoundland Power came forward in 1989-1990 in support of a demand energy rate should no longer be pursued in this province? 12 A. Rot at all. In fact, throughout the rest of 17 North America, if anything, a demand energy rate should no that an energy only rate is more appropriate. 15 There's no dynamics or movement to indicate, the recommendation of the medicate that a demand-energy rate is not would be more safety. The province proving the province province province province province province province p | 2 | - | 2 | · · · · · · · · · · · · · · · · · · · |
| 5 about, are very, very important and those 6 attributes are key to, I think, it economics 7 of generation on the Island. They think they 8 should be implemented not based upon whether 9 if 'a s implistic rate schedule. I don't 10 think that's an important attribute. 11 BROWNE, Q.C.: 12 Q. Then they say on the next page, "In 13 conclusion, the current Hydro rate designs 14 fairly allocate the Cost of Service revenue 15 requirements to Newfoundland Power and the 16 Industrial Customers, the demand energy rate 16 fairly apportions cost within the Industrial 18 class, but is not needed for Newfoundland 19 Power since it's the only customer in its 20 class.' Well, they'e already dealt with 21 that, haven't they? 22 A. I believe so, yes. 23 Q. Okay. It's 10:30, can we have a break there 24 now? 25 A. Yes, I believe they overwhelmingly outweigh 26 the disadvantages of a demand energy rate, stated 27 by Mr. Brockman had put forward, a summary of his evidence, and in your view, do signal? 28 A. Yes, I believe they overwhelmingly outweigh 29 Q. In your view, have there been-Newfoundland 19 Power came forward in 1989-1990 in support of a demand energy rate. Is there anything you see, changes in the industry or in the seen, changes in the industry or in the seen support ate than ever before, but nothing in the other direction 29 that an energy only rate is more appropriate. 20 There's no dynamics or movement to indicate, that a demand energy rate would be more appropriate. 21 There's no dynamics or movement to indicate, in my view, that over the last ten years, that an energy only rate to word appropriate. 20 There's no dynamics or movement to indicate, in my view, that over the last ten years, that an energy only rate to word appropriate. 22 There's no dynamics or movement to indicate, | 3 | | 3 | Greneman, we'll reconvene at 10:45 a.m |
| 6 CHAIRMAN: 7 Of generation on the Island. They think they 8 should be implemented not based upon whether 9 it's a simplistic rate schedule. I don't 10 think that's an important attribute. 11 BROWNE, Q.C.: 12 Q. Then they say on the next page, "In 13 conclasion, the current Hydro rate designs 14 fairly allocate the Cost of Service revenue 15 requirements to Newfoundland Power and the 16 Industrial Customers, the demand energy rate 17 fairly apportions cost within the Industrial 18 class, but is not needed for Newfoundland 19 Power since it's the only customer in its 20 class". Well, they're already dealt with 21 that, haven't they? 22 A. I believe so, yes. 23 Q. Okay. It's 10:30, can we have a break there 24 now? 25 mand energy rate outweigh the stated 26 disadvantages. I think the advantages of 27 a demand energy rate outweigh the stated 28 disadvantages of a demand energy rate, stated 29 by Mr. Brockman. 20 Q. Dos, Ms. Newman, before we begin? 21 Ms. N.R.WMAN: 22 Q. Okay. Thank you. Mr. Browne, when you're 23 ready please. 24 Por the benefit of the Board, I think we'll 25 have about 15 more minutes and then we'll give 26 life to yet of Mr. Kelly. 27 C.HARMAN: 28 MS. N.R.WMAN: 29 Q. No. 29 Okay. Thank you. Mr. Browne, when you're 20 Conclude on Mr. Kelly. 20 Okay. Thank you. 20 Okay. Thank you. 21 SROWNE, Q.C.: 22 A. I believe so, yes. 23 Q. Okay. Thank you. 24 SROWNE, Q.C.: 25 (Okay. Thank you. 26 Okay. Thank you. 27 C.HARMAN: 28 N. N.R.WMAN: 29 Q. No. 29 Okay. Thank you. 39 ROWNE, Q.C.: 30 Q. Okay. Thank you. 39 ROWNE, Q.C.: 30 Q. Okay. Thank you. 30 ROWNE, Q.C.: 30 Q. Okay. Thank you. 30 ROWNE, Q.C.: 30 Q. Okay. Thank you. 30 ROWNE, Q.C.: 30 ROWNE, Q.C.: 30 Q. Okay. Thank you. 41 OcHAIRMAN: 42 Okay Thank you. 43 Rowne dout 15 more minutes and then we'll give in tower to Mr. Kelly. 45 CHARMAN: 46 Okayantages of the industrial 47 Ocharmanian that the devel was a devel of the fired the dout of the board. I think | 4 | · | 4 | (BREAK - 10:30 A.M.) |
| of generation on the Island. They think they should be implemented not based upon whether it's a simplistic rate schedule. I don't think that's an important attribute. 10 think that's an important attribute. 11 BROWNE, Q.C.: 12 Q. Then they say on the next page, "In conclusion, the current Hydro rate designs fairly apportions cost within the Industrial fairly allocate the Cost of Service revenue requirements to Newfoundland Power and the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial class, but is not needed for Newfoundland Power since it's the only customer in its class". Well, they're already dealt with that, haven't they? 20 A. I believe so, yes. 21 Q. Okay. It's 10:30, can we have a break there now? 22 A. I believe so, yes. 23 Q. Okay. It's 10:30, can we have a break there now? 24 A. Yes, I believe they overwhelmingly outweigh the disadvantages. I think the advantages of a demand energy rate toutweigh the stated disadvantages of a demand energy rate, stated by by Mr. Brockman. 24 Q. Does the sample rate send an efficient price signal? 25 yes. 26 Q. Does the sample rate send an efficient price signal? 27 A. Pes, it does, in my view. 28 Q. Does the sample rate send an efficient price see, changes in the industry or in the economy, over the past decade that would a suggest that a demand energy rate. Is there anything you see, changes in the industry or in the economy, over the past decade that would a suggest that a demand energy rate should no longer be pursued in this province? 28 A. Not at all. In fact, throughout the rest of 17 North America, if anything, a demand energy rate should no longer be pursued in this province? 29 Line they overwhelming in the other direction that an energy only rate is more appropriate than ever the last ten years, that an energy only rate would be more appropriate. 29 There's no dynamics or movement to indicate, in my view, that over the last ten years, that an energy only rate would be more appropriate. | 5 | · · · · · · · · · · · · · · · · · · · | 5 | (RESUME - 10:50 A.M.) |
| should be implemented not based upon whether it's a simplistic rate schedule. I don't 10 think that's an important attribute. 11 BROWNE, Q.C.: 12 Q. Then they say on the next page, "In 13 conclusion, the current Hydro rate designs 14 fairly allocate the Cost of Service revenue 15 requirements to Newfoundland Power and the 16 Industrial Customers, the demand energy rate 17 fairly apportions cost within the Industrial 18 class, but is not needed for Newfoundland 19 Power since it's the only customer in its 20 class". Well, they're already dealt with 21 that, haven't they? 22 A. I believe so, yes. 23 Q. Okay. It's 10:30, can we have a break there 24 now? 25 A. Yes, I believe they overwhelmingly outweigh 2 the disadvantages. I think the advantages of 3 a demand energy rate outweigh the stated 4 disadvantages. I demand energy rate, stated 5 by Mr. Brockman. 6 Q. Does the sample rate send an efficient price 7 signal? 8 A. Yes, it does, in my view. 9 Q. In your view, have there been–Newfoundland 10 Power came forward in 1989-1990 in support of 11 a demand energy rate. Is there anything you 12 see, changes in the industry or in the 13 cconomy, over the past decade that would 14 suggest that a demand energy rate should no 15 longer be pursued in this province? 16 A. Not at all. In fact, throughout the rest of 17 North America, if anything, a demand energy 18 rate becomes more appropriate than ever 19 before, but nothing in the other direction 20 that an energy only rate is more appropriate. 21 There's nothing to indicate that a demand- 22 there's no dynamics or movement to indicate, 23 in my view, that over the last ten years, that 24 an energy only rate would be more appropriate. 25 the sample ratea and energy rate, there's no dynamics or movement to indicate, 26 the disadvantages of the introduction of a demand energy rate, 27 the mechanics of the implementation? 28 the disadvantages of the introduction of a demand energy rate, 39 the wash time and the life in the bear of the province of the introduction of a demand e | 6 | | 6 C | |
| 9 it's a simplistic rate schedule. I don't to think that's an important attribute. 10 BROWNE, Q.C.: 12 Q. Then they say on the next page, "In conclusion, the current Hydro rate designs fairly allocate the Cost of Service revenue requirements to Newfoundland Power and the Industrial Classenser, the demand energy rate class", but is not needed for Newfoundland Power since it's the only customer in its class.", Well, they're already dealt with class. But is not needed for Newfoundland Power since it's the only customer in its class." Well, they're already dealt with class. Well, they're already dealt with class with they? 21 that, haven't they? 22 A. I believe so, yes. 23 Q. Okay. It's 10:30, can we have a break there now? 24 now? 25 with the disadvantages of a demand energy rate outweigh the stated disadvantages of a demand energy rate, stated is disadvantages of a demand energy rate, stated 4 disadvantages of a demand energy rate, stated 5 by Mr. Brockman. 2 conclude on this particular topic, the way it could be envisaged is this: the Board would order, if it saw fit, a demand energy rate would happen then? 4 What would send a signal to Newfoundland Hydro to implement a rate. What would happen then? 4 What would the mechanics of the implementation? 4 North America, if anything, a demand energy rate is now, appropriate than ever to there's no dynamics or movement to indicate, a demand energy rate, as adjusted to meet the revenue requirement as originally filed is an implementable rate. But the final word rests with Hydro and not with me. | 7 | • | 7 | Q. Anything, Ms. Newman, before we begin? |
| think that's an important attribute. Il BROWNE, Q.C. Then they say on the next page, "In conclusion, the current Hydro rate designs fairly allocate the Cost of Service revenue requirements to Newfoundland Power and the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial Customers, the demand energy rate, as adjusted to more appropriate. Page 63 1 A. Yes, I believe they overwhelmingly outweigh the disadvantages of a demand energy rate, stated disadvantages of a demand energy rate should no Power came forward in 1989-1990 in support of a demand energy rate should no Power came forward in 1989-1990 in support of a demand energy rate should no long proper particuse in this pro | 8 | • | 8 N | |
| 11 BROWNE, Q.C.: 12 Q. Then they say on the next page, "In 3 conclusion, the current Hydro rate designs 14 fairly allocate the Cost of Service revenue 15 requirements to Newfoundland Power and the 16 Industrial Customers, the demand energy rate 17 fairly apportions cost within the Industrial 18 class, but is not needed for Newfoundland 18 Power since it's the only customer in its 20 class". Well, they're already dealt with 21 that, haven't they? 21 summary that Mr. Brockman had put forward, a 22 summary of his evidence, and in your view, do the advantages of the introduction of a demand energy rate outweigh the stated 4 disadvantages. I think the advantages of 5 by Mr. Brockman. 24 | 9 | - | 9 | Q. No. |
| 12 Q. Then they say on the next page, "In conclusion, the current Hydro rate designs fair fairly allocate the Cost of Service revenue requirements to Newfoundland Power and the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial class, but is not needed for Newfoundland Power in its class. Description of the color of | | - | 10 C | |
| conclusion, the current Hydro rate designs fairly allocate the Cost of Service revenue requirements to Newfoundland Power and the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial class, but is not needed for Newfoundland Power since it's the only customer in its class'. Well, they're already dealt with that, haven't they? 20 | 11 I | | 11 | • |
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| 15 requirements to Newfoundland Power and the Industrial Customers, the demand energy rate fairly apportions cost within the Industrial class, but is not needed for Newfoundland Power since it's the only customer in its class. Well, they're already dealt with that, haven't they? 22 A. I believe so, yes. 23 Q. Okay. It's 10:30, can we have a break there now? 24 now? 25 New Fresh and Page 63 a demand energy rate outweigh the disadvantages. I think the advantages of a demand energy rate outweigh the disadvantages of the industrious of the devantages of the industrial could be envisaged is this: the Board would envisaged is this: the Board would order, if it saw fit, a demand energy rate should no longer be pursued in this province? 15 North America, if anything, a demand-energy rate should no longer be pursued in this province? 16 A. Not at all. In fact, throughout the rest of North America, if anything, a demand-energy rate, should no longer be pursued in this province? 16 There's nothing to indicate that a demand-energy rate, an energy only rate would be more appropriate. 26 no ever sum of ordinal province province in the summary that Mr. Brockman had put forward, a summary of his evidence, and in your view, do the advantages of the industry of his evidence, and in your view, do the advantages of the industry of his evidence, and in your view, do the advantages of the industry of his evidence, and in your view, do the advantages of the industry of his evidence, and in your view, do the advantages of the industry of his evidence, and in your view, do the advantages of the industry of his exidence, and in your view, do the advantages of the industry of his evidence, and in your view, do the advantages of the industry of his evidence, and in your view, do the advantages of the industry of his evidence, and in your view, do the advantages | 13 | • | 13 B | ROWNE, Q.C.: |
| Industrial Customers, the demand energy rate fairly apportions cost within the Industrial 18 class, but is not needed for Newfoundland 19 Power since it's the only customer in its class". Well, they're already dealt with 22 A. I believe so, yes. 22 A. I believe so, yes. 23 Q. Okay. It's 10:30, can we have a break there now? 25 now? 26 New Page 63 1 A. Yes, I believe they overwhelmingly outweigh 24 disadvantages. I think the advantages of 3 a demand energy rate outweigh the disadvantages of 3 a demand energy rate outweigh the disadvantages of 3 demand energy rate, stated 4 disadvantages of a demand energy rate, stated 4 disadvantages of a demand energy rate, stated 4 disadvantages of a demand energy rate should 10 Power came forward in 1989-1990 in support of 11 a demand energy rate. Is there anything you see, changes in the industry or in the 21 suggest that a demand energy rate should no longer be pursued in this province? 16 A. Not at all. In fact, throughout the rest of 17 North America, if anything, a demand energy rate before, but nothing in the other direction that an energy only rate is more appropriate. 25 discovers the sample demand energy rate, as adjusted to meet the revenue requirement as originally 5 filed is an implementate rate. But the final 24 an energy only rate would be more appropriate. 25 discovers with hydro and not with me. | 14 | • | 14 | |
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| las class, but is not needed for Newfoundland Power since it's the only customer in its class". Well, they're already dealt with that, haven't they? 22 A. I believe so, yes. 23 Q. Okay. It's 10:30, can we have a break there 24 now? Page 63 1 A. Yes, I believe they overwhelmingly outweigh 25 the disadvantages. I think the advantages of 3 a demand energy rate outweigh the stated 4 disadvantages of a demand energy rate, stated 5 by Mr. Brockman. Page 63 A. Yes, it does, in my view. Q. In your view, have there been—Newfoundland 10 Power came forward in 1989-1990 in support of 11 a demand energy rate. Is there anything you 12 see, changes in the industry or in the 13 economy, over the past decade that would 14 suggest that a demand energy rate should no 15 longer be pursued in this province? A. Not at all. In fact, throughout the rest of 16 A. Not at all. In fact, throughout the rest of 17 North America, if anything, a demand energy 18 rate becomes more appropriate than ever 19 before, but nothing in the other direction 10 that an energy only rate is more appropriate. 21 There's nothing to indicate that a demand— 22 the rive in the indicate, in my view, that over the last ten years, that 23 an energy only rate would be more appropriate. 24 | 16 | • | 16 | it over to Mr. Kelly. |
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| 25 Q. In terms of the implementation, just to 25 Q. And from Newfoundland Power's perspective, | 24 | | | * |
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| Nov | vember 14, 2003 Multi | -Pa | ge [™] NL Hydro's 2003 General Rate Application |
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| | Page 65 | | Page 66 |
| 1 I | BROWNE, Q.C.: | 1 | arises in part out of the need to allocate |
| 2 | they would deal with their own customers as | 2 | joint costs or costs that are used by two or |
| 3 | they saw fit? | 3 | more customer classes, such as generating |
| 4 | A. And I think that's appropriate. | 4 | plant and transmission plant, but as well, |
| 5 | Q. That's the appropriate way, so obviously | 5 | there arethere's always some degree of |
| 6 | they're not going to scare all their customers | 6 | controversy associated with were there any |
| 7 | off because of a demand energy rate? | 7 | facilities put into place that are above and |
| 8 | A. Right. | 8 | beyond what would normally be put into place |
| 9 | Q. Or say there's confusion or tell the public at | 9 | for customers. I would recognize that not |
| 10 | large. That would have an adverse effect, | 10 | everything, not every customer has the same |
| 11 | wouldn't it? | 11 | length of line going to their premises, so |
| 12 | A. Right. | 12 | some customers may have ten feet of line. |
| 13 | Q. Okay. That completes my evidence on that | 13 | Other customers may have a thousand feet of |
| 14 | topic. Just a number of questions on theon | 14 | line. So there are normal variations. In |
| 15 | page 10 of your pre-filed evidence, you | 15 | certain instances, substations might be |
| 16 | summarize the cost of service assignment of | 16 | assigned to a specific customer, for certain |
| 17 | the Great Northern Peninsula and the Doyles- | 17 | reasons. One reason might be that they |
| 18 | Port aux Basques and the Burin Peninsula, and | 18 | request a very high reliability of service. |
| 19 | you indicate that principles relied on are | 19 | Things that are inordinate, in a sense, normal |
| 20 | consistent with those commonly used in the | 20 | cost of service, might be specifically |
| 21 | industry. What principles are you referring | 21 | assigned. |
| 22 | to? | 22 | Now what's happening right now with |
| 23 | A. Yes. There are actually two sets of | 23 | restructuring and deregulation in the United |
| 24 | typically in cost of service, a lot of the | 24 | States, the United States has the Federal |
| 25 | controversy, if you will, in cost of service | 25 | Energy Regulatory Commission, the FERC, and in |
| | Page 67 | | Page 68 |
| 1 | an attempt to foster open access to all | 1 | A. I stand by system planning's recommendations. |
| 2 | customers, they have derived what's called a | 2 | Q. Did you undertake any analysis of the |
| 3 | FERC 7-factor test and these are seven | 3 | appropriateness of terminating the |
| 4 | guidelines to determine whether a line is | 4 | Interruptible B program to Abitibi |
| 5 | common, transmission or common, serving all | 5 | Stephenville? |
| 6 | customers, wholesale and retail, and hence | 6 | A. I have not personally undertaken that. |
| 7 | under Federal jurisdiction versus whether it's | 7 | Q. With regard to the treatment of Newfoundland |
| 8 | local and under state jurisdiction. So in | 8 | Power's thermal generation and the cost of |
| 9 | reviewing system planning's study of the GNP, | 9 | service study and the rates charged to |
| 10 | the Burin Peninsula and the three points, it's | 10 | Newfoundland Power, what's your position |
| 11 | been my observation that the guidelines that | 11 | regarding treatment of Newfoundland Power's |
| 12 | they have relied on are consistent with those | 12 | thermal generation? |
| 13 | that have been applied for decades in cost of | 13 | A. I observe that there's some controversy |
| 14 | service and also follow the same principles as | 14 | associated with it. I believe that their |
| 15 | were followed in the FERC 7-factor test, not | 15 | thermal generation needs to be recognized and |
| 16 | the same, but the similar line of reasoning. | 16 | I also note the IC's concern with the manner |

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I also note the IC's concern with the manner in which it's recognized. So I observe that there's controversy with respect to it. On one hand, I believe it needs to be recognized, and in my view, question of how it's recognize.

Q. Do you see any change in the treatment of Newfoundland Power's generation in reference to the thermal generation, if there was a change in the wholesale power rate to a demand

reference to those?

Peninsula and the Burin Peninsula?

A. I have relied upon system planning's

with those that are used in the industry.

conclusions, but I have noted that the

principles they've relied on are consistent

Q. And you stand by your recommendations in

Q. And based upon these principles, you came to

certain conclusions about the Great Northern

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| 110 | vember 14, 2005 Mulu | 1-1 | rage NL Hydro's 2005 General Rate Application |
|-----|--------------------------------------------------|-----|-----------------------------------------------------|
| | Page 69 | | Page 70 |
| 1 | BROWNE, Q.C.: | 1 | 1 CHAIRMAN: |
| 2 | energy rate? | 2 | 2 Q. Thank you, Mr. Brown. Thank you, Mr. |
| 3 | A. There conceivably could be. | 3 | Greneman. Good morning, Mr. Kelly. |
| 4 | Q. How so? | 4 | 4 KELLY, Q.C.: |
| 5 | (11:00 a.m) | 5 | 5 Q. Good morning, Chair. Good morning, Mr. |
| 6 | A. We've identified three options in the demand | 6 | 6 Greneman. |
| 7 | energy rate. They were titled option A, B and | 7 | 5 |
| 8 | C, and under Option Athe difference between | 8 | 8 Q. Mr. Greneman, just a couple of questions first |
| 9 | Option A, B and C are, if you will, decreasing | 9 | of all on your background. I understand that |
| 10 | levels of recognition of NP's generation. | 10 | you're a licensed engineer? |
| 11 | Under Option A, NP gets recognition for both | 11 | 11 A. Right. |
| 12 | their hydraulic and their thermal generation. | 12 | • 1 |
| 13 | Option B, we'd need to refer to it again, | 13 | 13 A. That's correct. |
| 14 | under Option B, they get credit for their | 14 | Q. Okay. Before we get into the details of your |
| 15 | hydraulic, but I don't recallI don't think | 15 | report, what I'd like to do is look at a |
| 16 | it's their thermal, but I'd need to refer to | 16 | number of matters to be sure that we are in |
| 17 | it again. Under Option C, they don't get | 17 | the same understanding on certain basic |
| 18 | credit for either one of them. So there is | 18 | principles, and the first area that I'd like |
| 19 | some relationship. | 19 | to look at with that is the system operating |
| 20 | Q. So it depends which option is - | 20 | characteristics here of the Island |
| 21 | A. That's right. | 21 | Interconnected System. Let me give you a |
| 22 | Q results? | 22 | number of points and see whether we're in |
| 23 | A. Yes. | 23 | agreement on it. First of all, the |
| 24 | Q. These are our questions. Thank you very much, | 24 | Newfoundland Island Interconnected System, |
| 25 | Mr. Greneman. | 25 | unlike other jurisdictions in Canada and North |
| | Page 71 | | Page 72 |
| 1 | America, is not connected to the North | 1 | 1 Q. Okay. The next point is that Holyrood is |
| 2 | American grid. I take it you accept that? | 2 | 2 usually operated in a base loaded mode with |
| 3 | A. That's my understanding. | 3 | 3 the hydraulic units then being used to cover |
| 4 | Q. Okay. Number two, that the system that we | 4 | 4 peak variations. Do you accept that? |
| 5 | have in Newfoundland for generation is | 5 | 5 A. To a degree, and I would need to confirm that |
| 6 | primarily hydraulic? | 6 | 6 with someone, but I would confirm that to a |
| 7 | A. At this moment in time, that's my | 7 | 7 degree. |
| 8 | understanding. | 8 | 8 Q. Well, if you like, I can take you to NP-172. |
| 9 | Q. Right. And in fact, if we went toand we had | 9 | 9 A. Are you saying that hydraulic covers all |
| 10 | this discussion with Mr. Haynes, if we look at | 10 | variations? |
| 11 | it in terms of capacity, 65 percent of it is | 11 | Q. No, I'm saying that in the normal type of |
| 12 | hydraulic capacity and in terms of energy | 12 | operation, we go toNP-172 is on the screen |
| 13 | production, 68 percent of it is energy | 13 | there. |
| 14 | production. Would you - | 14 | 14 A. Yes. |
| 15 | A. I'll accept that, subject to. | 15 | Q. I'll take you down through it. During an |
| 16 | Q. Okay. The third point is that we have | 16 | average daily peak - |
| 17 | hydraulic production. We also have thermal | 17 | A. May I just read - |
| 18 | production from Holyrood. | 18 | • |
| 19 | A. Um-hm. | 19 | A may I just read the question first? |
| 20 | Q. And you can run more water now and save oil, | 20 | Q. Sure, by all means. |
| 21 | but then you have less water to use later on | 21 | A. Okay. Where are you taking me to? |
| 22 | in the year. So there's ait's one or the | 22 | • |
| 23 | other and you can conserve one at the expense | 23 | |
| 24 | of the other. Do you accept that? | 24 | |
| 25 | A. I accept that. | 25 | base loaded." |

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|-------------------------|---------------------------------------------------|-------|------------------------------------------------------------------------------------|
| | Page 73 | | Page 74 |
| 1 | MR. GRENEMAN: | 1 | variation with a trade off between water and |
| 2 | A. Okay. Within the constraints of the way this | 2 | fuel, Holyrood is the marginal cost of |
| 3 | is framed, I accept what it says. | 3 | production all year round, accept that? |
| 4 | KELLY, Q.C.: | 4 | A. Yes. |
| 5 | Q. Okay. And we had this discussion with Mr. | 5 | Q. Okay. Next point is the marginal cost of |
| 6 | Haynes. I can also take you, if you like, to | 6 | production at Holyrood is the same all year |
| 7 | IC-294, and if you go down to - | 7 | round. Do you accept that? |
| 8 | A. Can I refer back to that other one once again? | 8 | A. Subject to seasonal variation in purchases or |
| 9 | | 9 | however it's expended. I would say generally, |
| 10 | | 10 | yes. |
| 11 | Q. Okay. If you wanted to look further, we can | 11 | Q. Yes, and we had that discussion with Mr. |
| 12 | | 12 | Haynes as well, so I won't bother to take you |
| 13 | • | 13 | to the references. The next point, number |
| 14 | | 14 | seven I think it is, the marginal cost of |
| 15 | | 15 | production at Holyrood is \$5.00sorryyes, |
| 16 | | 16 | 5.13 cents per kilowatt hour. And I can take |
| 17 | | 17 | you to NP-130 if you'd like to have a look at |
| 18 | | 18 | that. |
| 19 | · · · · · · · · · · · · · · · · · · · | | A. My recollection is that's the cost of fuel |
| 20 | _ | 20 | cost plus variable O&M. |
| 21 | A. As you had pointed out to me, this is what's | | Q. Exactly, and we can put up NP-130 perhaps. |
| 22 | • | 22 | There's your 5.13 cents. |
| 23 | | | A. Okay. |
| 24 | - | | Q. Okay? |
| 25 | | | A. Yes. |
| | | 23 | |
| | Page 75 | | Page 76 |
| 1 | Q. And the last point is Hydro has dispatched | 1 | you aware of that? |
| 2 | <i>3</i> | | A. Yes. |
| 3 | 1 | | Q. Okay. Now can I take you next then to Mr. |
| 4 | system peak and it directs dispatch at system | 4 | Brockman's initial evidence at page three? We |
| 5 | peak for both hydraulic and thermal plants of | 5 | have to go to page three, that should be page |
| 6 | <i>, E</i> | 6 | three at the bottom, I think. I'm not sure |
| 7 | ı | 7 | wherethere we go, okay. Now Mr. Brockman |
| 8 | , e | 8 | sets out there a number of principles that |
| 9 | | 9 | accepted rate making principles, and he |
| 10 | | 10 | summarizes them in lines 17 and onto the next |
| 11 | , | 11 | page. Number one is that it is effective in |
| 12 | • | 12 | collecting revenue requirements. Do you agree |
| 13 | e | 13 | with that principle? |
| 14 | | | A. I do. |
| 15 | 1 | 15 | Q. Okay. The next one, that the rate is fair in |
| 16 | 3 | 16 | the apportionment of costs, both between and |
| 17 | | 17 | within rate classes. Do you accept that one? |
| 18 | , | | A. Not wholly. |
| 19 | | 1 | Q. Okay. Tell me in what manner that you don't. |
| 20 | • | 20 | A. It may bewell, it maythe words have been |
| 21 | | 21 | carefully chosen here. It may be fair in the |
| 22 | • | 22 | apportionment of costs, but I don't believe it |
| 23 | A. Yes. | 23 | to be fair in the collection of costs. |
| 1 | | | |
| 24 | | 24 | Q. I just want to stay at, in terms of principles |
| 1 | | | Q. I just want to stay at, in terms of principles first of all. Let's forget the - |

| | , | 1.8 | 112 Hydro 5 2000 General Rate Application |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Page 77 | | Page 78 |
| 1 | MR. GRENEMAN: | 1 | allocates the cost of service between |
| 2 | A. Right, but I'd like to put it in the broader | 2 | Newfoundland Power and the Industrial |
| 3 | context whenever I havewhenever youokay, | 3 | Customers. Would you agree with that? |
| 4 | go ahead. | 4 | A. Just give me one moment. The words are |
| 5 | KELLY, Q.C.: | 5 | confusing actually. You say the rate is |
| 6 | Q. But in terms of, let's just go back to one for | 6 | effective in collecting the revenue |
| 7 | a second. In terms of one, effectively, | 7 | requirements for a fair return. I think the |
| 8 | effective in collecting the revenue | 8 | word "fair return" is redundant. It's |
| 9 | requirement, the principle there is, is Hydro | 9 | effective in collectingthe rate in |
| 10 | going to recover its cost of service. That's | 10 | conjunction with the - |
| 11 | the point, isn't it? | 11 | Q. I'll accept that qualification. |
| 12 | A. That's a consideration. | 1 | A RSP is effective in collecting the revenue |
| 13 | Q. That's a consideration, okay. And all I want | 13 | requirements. The rate without the RSP is not |
| 14 | to do, I don't want to get into the rates at | 14 | necessarily any more effective in collecting |
| 15 | this stage. I want to talk about principles. | 15 | the revenue requirement than is a demand |
| 16 | The second one then is that whatever rate | 16 | energy rate without an RSP. |
| 17 | structure is chosen, whether its demand energy | | Q. But any rate structure you choose, this is the |
| 18 | or energy only, it should be fair in | 18 | principle that should be applied or principles |
| 19 | apportioning the cost both between and within | 19 | that should be applied? Number one, it should |
| 20 | rate classes. So you would agree with that? | 20 | be - |
| 21 | A. By virtue of the fact that there's a rate | | A. These are some principles that should be |
| 22 | class consisting of one entity between rate | 22 | applied. |
| 23 | classes and within rate classes. | | Q. Okay. Let's take them one at a time. Do you |
| 24 | Q. So let me give you a couple of examples. | 24 | agree that that is one principle that should |
| 25 | First of all, it should be fair in how it | 25 | be applied? It should be effective? |
| \vdash | | 1 | ** |
| 1 | Paga 70 | | $\mathbf{p}_{\mathbf{q},\mathbf{q}}$ |
| 1 | Page 79 | 1 | Page 80 |
| 1 2 | A. It's not a necessary principle. | 1 2 | rate to Newfoundland Power and there's a rate |
| 2 | A. It's not a necessary principle. Q. Okay. Then I'll - | 2 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same |
| 2 3 | A. It's not a necessary principle.Q. Okay. Then I'll -A. There are other necessaryI'm sorry, I don't | 2 3 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. |
| 2 3 4 | A. It's not a necessary principle.Q. Okay. Then I'll -A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - | 2 3 4 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it |
| 2 3 4 5 | A. It's not a necessary principle. Q. Okay. Then I'll - A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - Q. Is it a generally accepted principle that is | 2 3 4 5 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it should fairly apportion Hydro's cost of |
| 2 3 4 5 6 | A. It's not a necessary principle. Q. Okay. Then I'll - A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - Q. Is it a generally accepted principle that is applied? | 2 3 4 5 6 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it should fairly apportion Hydro's cost of service between these two classes? That's |
| 2 3 4 5 6 7 | A. It's not a necessary principle. Q. Okay. Then I'll - A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - Q. Is it a generally accepted principle that is applied? A. Okay. | 2 3 4 5 6 7 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it should fairly apportion Hydro's cost of service between these two classes? That's self evident. Surely that's an accepted |
| 2 3 4 5 6 7 8 | A. It's not a necessary principle. Q. Okay. Then I'll - A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - Q. Is it a generally accepted principle that is applied? A. Okay. Q. Do you accept that? | 2 3 4 5 6 7 8 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it should fairly apportion Hydro's cost of service between these two classes? That's self evident. Surely that's an accepted principle we'd have to achieve. |
| 2 3 4 5 6 7 8 9 | A. It's not a necessary principle. Q. Okay. Then I'll - A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - Q. Is it a generally accepted principle that is applied? A. Okay. Q. Do you accept that? A. Yes. | 2 3 4 5 6 7 8 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it should fairly apportion Hydro's cost of service between these two classes? That's self evident. Surely that's an accepted principle we'd have to achieve. A. But you say the rate, singular, is fair in the |
| 2 3 4 5 6 7 8 9 10 | A. It's not a necessary principle. Q. Okay. Then I'll - A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - Q. Is it a generally accepted principle that is applied? A. Okay. Q. Do you accept that? A. Yes. Q. Okay. Number two, a fair apportionment of | 2 3 4 5 6 7 8 9 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it should fairly apportion Hydro's cost of service between these two classes? That's self evident. Surely that's an accepted principle we'd have to achieve. A. But you say the rate, singular, is fair in the apportionment of costs betweenthere's only |
| 2 3 4 5 6 7 8 9 10 11 | A. It's not a necessary principle. Q. Okay. Then I'll - A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - Q. Is it a generally accepted principle that is applied? A. Okay. Q. Do you accept that? A. Yes. Q. Okay. Number two, a fair apportionment of costs, is that a generally accepted principle | 2 3 4 5 6 7 8 9 10 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it should fairly apportion Hydro's cost of service between these two classes? That's self evident. Surely that's an accepted principle we'd have to achieve. A. But you say the rate, singular, is fair in the apportionment of costs betweenthere's only one rate class. The rate, I assume you're |
| 2 3 4 5 6 7 8 9 10 11 12 | A. It's not a necessary principle. Q. Okay. Then I'll - A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - Q. Is it a generally accepted principle that is applied? A. Okay. Q. Do you accept that? A. Yes. Q. Okay. Number two, a fair apportionment of costs, is that a generally accepted principle that is applied? | 2 3 4 5 6 7 8 9 10 11 12 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it should fairly apportion Hydro's cost of service between these two classes? That's self evident. Surely that's an accepted principle we'd have to achieve. A. But you say the rate, singular, is fair in the apportionment of costs betweenthere's only one rate class. The rate, I assume you're referring to the NP energy only rate? |
| 2 3 4 5 6 7 8 9 10 11 12 13 | A. It's not a necessary principle. Q. Okay. Then I'll - A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - Q. Is it a generally accepted principle that is applied? A. Okay. Q. Do you accept that? A. Yes. Q. Okay. Number two, a fair apportionment of costs, is that a generally accepted principle that is applied? A. I don't understand the logic of this point. | 2 3 4 5 6 7 8 9 10 11 12 13 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it should fairly apportion Hydro's cost of service between these two classes? That's self evident. Surely that's an accepted principle we'd have to achieve. A. But you say the rate, singular, is fair in the apportionment of costs betweenthere's only one rate class. The rate, I assume you're referring to the NP energy only rate? Q. High level, Mr. Greneman. |
| 2 3 4 5 6 7 8 9 10 11 12 13 14 | A. It's not a necessary principle. Q. Okay. Then I'll - A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - Q. Is it a generally accepted principle that is applied? A. Okay. Q. Do you accept that? A. Yes. Q. Okay. Number two, a fair apportionment of costs, is that a generally accepted principle that is applied? A. I don't understand the logic of this point. The rate is fair in the apportionment of | 2 3 4 5 6 7 8 9 10 11 12 13 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it should fairly apportion Hydro's cost of service between these two classes? That's self evident. Surely that's an accepted principle we'd have to achieve. A. But you say the rate, singular, is fair in the apportionment of costs betweenthere's only one rate class. The rate, I assume you're referring to the NP energy only rate? Q. High level, Mr. Greneman. A. Well, I'm trying to answer at a level. |
| 2 3 4 5 6 7 8 9 10 11 12 13 14 15 | A. It's not a necessary principle. Q. Okay. Then I'll - A. There are other necessaryI'm sorry, I don't mean to be argumentative. I'm trying to - Q. Is it a generally accepted principle that is applied? A. Okay. Q. Do you accept that? A. Yes. Q. Okay. Number two, a fair apportionment of costs, is that a generally accepted principle that is applied? A. I don't understand the logic of this point. The rate is fair in the apportionment of costs. The rate doesn't apportion costs | 2 3 4 5 6 7 8 9 10 11 12 13 14 | rate to Newfoundland Power and there's a rate to Industrial Customers. It's not the same rate. Q. No, but whatever rate structure is used, it should fairly apportion Hydro's cost of service between these two classes? That's self evident. Surely that's an accepted principle we'd have to achieve. A. But you say the rate, singular, is fair in the apportionment of costs betweenthere's only one rate class. The rate, I assume you're referring to the NP energy only rate? Q. High level, Mr. Greneman. A. Well, I'm trying to answer at a level. Q. Okay. Maybe - |
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| No | ovember 14, 2003 Multi | i-Pa | age [™] NL Hydro's 2003 General Rate Application |
|----|--------------------------------------------------|------|-----------------------------------------------------------|
| | Page 81 | | Page 82 |
| 1 | KELLY, Q.C.: | 1 | sense to me that revenues should change in |
| 2 | alsowhatever rate structure is used at the | 2 | accordance with conditions. So the word |
| 3 | retail level should fairly apportion costs at | 3 | "stable" in isolation, I can't necessarily |
| 4 | the retail level. Fairness is an element of | 4 | agree with. |
| 5 | rate design. Do you agree? | 5 | Q. Okay. |
| 6 | A. Okay, in generalities, yes. | 6 | A. What I think is the rate should follow the |
| 7 | Q. Okay. Now item three is that "a rate | 7 | changing economic conditions and circumstances |
| 8 | structure should encourage efficient use of | 8 | of cost and supply and demand. |
| 9 | society's resources and discourage inefficient | 9 | Q. Right, but we should - |
| 10 | use." Do you agree with that principle? | 10 | A. Which are not necessarily stable. |
| 11 | A. Yes, I do. | 11 | Q. Right, but we should try to avoid what I would |
| 12 | Q. Okay. So that in that particular case, would | 12 | call unnecessary volatility movements up and |
| 13 | you agree with me that what is important is | 13 | down in rates? That we should try to ensure a |
| 14 | the end user of the electricity? In other | 14 | degree of stability over the long term, would |
| 15 | words, we needwhatever you want to do, the | 15 | you agree with that, to the extent possible? |
| 16 | end user, that's where efficiency is going to | 16 | A. I can agree with that under some conditions. |
| 17 | be achieved? | 17 | (11:15 a.m.) |
| 18 | A. The end user can influence the overall | 18 | Q. Okay. Let's leave that one, because we're |
| 19 | efficiency. | 19 | going to come back to that. The last two |
| 20 | Q. Okay. The next item that Mr. Brockman is that | 20 | points, I think we can touch on very quickly. |
| 21 | "rate design should try to create stable rates | 21 | "Rates should be both understandable and |
| 22 | and stable revenues." Do you agree with that | 22 | practical." Do you accept those? |
| 23 | principle or those two principles, if you want | 23 | A. Particularly for domestic type customers, I |
| 24 | to call them two? | 24 | accept that. |
| 25 | A. The wordif conditions are changing, it makes | 25 | Q. Right, and as you indicated earlier, when |
| | Page 83 | | Page 84 |
| 1 | we're talking about Hydro and Newfoundland | 1 | one. |
| 2 | Power, we're talking about more sophisticated | 2 | Q. Well, that's essentially Mr. Brockman's number |
| 3 | entities, and I'll accept that - | 3 | two. So any others? |
| 4 | A. Right. | 4 | A. Okay. And very importantly, dynamic |
| 5 | Q as an observation. Now are there any other | 5 | efficiency in promoting innovation and |
| 6 | principles than the six stated there by Mr. | 6 | responding economically to changing demand and |
| 7 | Brockman that you think are important? | 7 | supply conditions. |
| 8 | A. If I can read perhaps some of Bonbright's, | 8 | Q. I'll accept that one. That's essentially part |
| 9 | some of them may coincide, some of them may | 9 | of Mr. Brockman's number three. So dynamic |
| 10 | not. | 10 | and static efficiency. Do you want to just |
| 11 | Q. I want you to tell us any other principles | 11 | explain in a little more detail what dynamic |
| 12 | that you think are applicable. | 12 | efficiency is? |
| 13 | A. Okay. Okay, one is called static efficiency | 13 | A. I think it's fairly self explanatory. It's |
| 14 | | 14 | promoting innovation and responding to, as it |
| 15 | discouraging wasteful use of service while | 15 | says, changing supply and demand patterns. |
| 16 | promoting all justified types and amounts of | 16 | Q. Okay. All right. Now with thoseare there |
| 17 | use. | 17 | any other principles you want to add, first of |
| 18 | 1 | 18 | all? |
| 19 | • | 19 | A. Well, there are numerous ones, but the most |
| 20 | · | 20 | often cited are the ones that have been |
| 21 | specific rates and the apportionment of total | 21 | summarized here by Dr. Bonbright. |

23

24

25

Q. And the ones, essentially the ones Mr.

your report RDG-2, because I think it's

Brockman has already got in his report. Now

with that as the background then, let's go to

22

23

24

25

cost of service among the different rate

payers so as to avoid arbitrariness and

capriciousness and to attain equity in three

dimensions. Then he talks--let's skip that

| | chibel 11, 2000 | - 48 | c 1(12 Hydro 5 2000 General Rate Hyprication |
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| | Page 85 | | Page 86 |
| 1 F | XELLY, Q.C.: | 1 | end user, but each has its own purpose. |
| 2 | important we all understand exactly what | 2 | Q. Okay. But ultimately, at the end of the day, |
| 3 | you're proposing here, and I want to go | 3 | it's the end users who are going to effect |
| 4 | through a number of sections in this. We'll | 4 | energy consumption, whether that's load or |
| 5 | start at page three of your report, in the | 5 | demand or energy. Would you agree? |
| 6 | section dealing with key issues, and you set | 6 | A. Largely. |
| 7 | forth there four issues to be addressed, and | 7 | Q. Okay. Now DSM that you talk about, which are |
| 8 | the first is to send a correct price signal to | 8 | matters of energy efficiency or conservation, |
| 9 | all parties. And you go on to say "from the | 9 | the words you use there, that will also be |
| 10 | inception, a continuing concern has been the | 10 | influenced and, in fact, happen at the end-use |
| 11 | ability to encourage DSM and DSM is viewed in | 11 | customer, would you agree? |
| 12 | a broad all encompassing sense," and I'll | 12 | A. Yes. |
| 13 | paraphrase here, not only energy efficiency | 13 | Q. Okay. Now you talk about peak demand control |
| 14 | and energy conservation but also peak demand | 14 | programs. Could you just explain what peak |
| 15 | control programs and therefore you refer to it | 15 | demand control programs are, and give us some |
| 16 | as load management. Now a couple of questions | 16 | examples? |
| 17 | come out of that. First of all, you talk | 17 | A. These are programs that can be implemented by |
| 18 | about the price signal to all parties. Does | 18 | domestic as well as commercial or industrial |
| 19 | that also include end users? Is it important | 19 | customers in an attempt to try to limit their |
| 20 | that the price signal get down to the end | 20 | peak demand imposed on Hydro's system and by |
| 21 | user? | 21 | lowering the peak demand, there will be a |
| 22 | A. It could be important or it may not be | 22 | lower allocation of cost ultimately. These |
| 23 | important. I think it's important if it gets | 23 | programs can include various types of load |
| 24 | to the purchaser, Newfoundland Power as an | 24 | management at the commercial or industrial |
| 25 | entity, and it's also important it get to the | 25 | level. It could be improvements in lighting. |
| 23 | J ? | 1 | F |
| 23 | | | |
| | Page 87 | | Page 88 |
| 1 | Page 87 It could be motor control. At the domestic | 1 | |
| 1 2 | Page 87 It could be motor control. At the domestic level, it could be water heating control. It | | Page 88 could be long term, but there's no guarantee that conditions will exist. I think it's much |
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| Nov | rember 14, 2003 Mult | 1-Page | e "NL Hydro's 2003 General Rate Application |
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| | Page 89 | | Page 90 |
| 1 F | KELLY, Q.C.: | 1 | answering and responding to an information |
| 2 | avoid earnings revenue volatility. So, I take | 2 | request. |
| 3 | it you agree that that is an important | 3 | Q. Okay. In terms of the impact on Hydro, what |
| 4 | component of what needs to be addressed? | 4 | proposal did you come up with to address the |
| 5 | A. Yes, relatively revenue neutral. | 5 | impact on Hydro? |
| 6 | Q. Did you do any analysis yourself in terms of | 6 | A. Our proposal towhat we actually did is Hydro |
| 7 | impact on volatility with Newfoundland Power? | 7 | stepped forward and put two percent of their |
| 8 | Did Stone and Webster look at that at all? | 8 | revenues at risk for this. |
| 9 | A. Well yes, we did, qualitatively, definitewe | 9 | Q. Okay. So, the - |
| 10 | looked at it qualitatively, for sure. | 10 | A. Their demand revenues. |
| 11 | Q. And what did you do and how did you do that? | 11 | Q demand revenue, the down side is, in your |
| 12 | A. Well, we noted that there wasas I had | 12 | proposal limited at 98 percent? In other |
| 13 | mentioned earlier, that a demand energy rate | 13 | words, you can only go down two percent? |
| 14 | intrinsically has some at risk revenues to | 14 | A. Yes, subject to where I think you're going, it |
| 15 | either party, depending upon what the level of | 15 | may be more. |
| 16 | demand is. And Hydro's case, we looked the | 16 | Q. Well, don't try to guess where I'm going, just |
| 17 | volatility that, as it would affect them, in | 17 | deal with the question. |
| 18 | moving out of the fully stabilized environment | 18 | A. Okay. Initially, yes, it's two percent. |
| 19 | through the RSP. And we also looked, at | 19 | Q. Okay. And we're going to come to that in a |
| 20 | least, qualitatively at the other side, what | 20 | second. Now, while we're in this, you say |
| 21 | would happen toqualitatively what would | 21 | that one of the things is to avoid a windfall |
| 22 | happen - | 22 | or penalty to either utility due to abnormal |
| 23 | Q. Did you look quantitatively in terms of the | 23 | weather. So, there's going to be some weather |
| 24 | impact on Newfoundland Power? | 24 | normalization function that has to take place. |
| 25 | A. We looked quantitatively in relation to | 25 | A. Right, and Hydro is proposing to weather |
| | Page 91 | | Page 92 |
| 1 | normalize which goes a long way to reducing | 1 | minimizing revenue volatility which may |
| 2 | volatility. | 2 | result, if a demand rate is established and a |
| 3 | Q. And the proposal that Hydro has put forward, | 3 | portion of the revenues removed from the |
| 4 | we can see this in an information request, | 4 | stabilizing influence of the RSP. And that's |
| 5 | necessary, is that a joint committee be struck | 5 | the discussion we just had about the two |
| 6 | to look at that process, correct? | 6 | percent. |
| 7 | A. That's correct. | 7 | A. Right. |
| 8 | Q. And that has not happened yet? | 8 | Q. Now, let's go to number three next which is, |
| 9 | A. I don't know. | 9 | what you want to do it provide NP an incentive |
| 10 | Q. Okay. To your knowledge, it hasn't happened? | 10 | to minimize the island peak, okay. Now, if I |
| 11 | A. I'm not aware of it. | 11 | stop there first of all, what is the island |
| 12 | Q. Okay. Now, the next bullet that you got is | 12 | peak that you want Newfoundland Power to have |
| 13 | protecting rate payers from artificial or | 13 | an incentive to minimize? |
| 14 | short term cost increases. Now, isn't that | 14 | A. Can youwhat is the island peak? |
| 15 | the same type of proposition put forward by | 15 | Q. What is the island peak that you want |
| 16 | Mr. Brockman that as we're looking at what our | 16 | Newfoundland Power to have an incentive to |
| 17 | options here, we need to look at protecting | 17 | minimize? |
| 18 | rate payers from artificial or short term cost | 18 | A. The island peak is the diversified coincident, |
| 19 | increases? In other words, isn't that a rate | 19 | that diversified and coincident, the same |
| 20 | stability issue? | 20 | peak, which is the basisa principle basis |
| 21 | A. That could be a rate stability issue, yes. | 21 | for which generation is planned. And if that |
| 22 | Q. Well, these are your words, is it a rate | 22 | peak is minimized, then generation can be |
| 23 | stability issue? | 23 | deferred at an overall cost to island |
| 24 | A. Yes, it is. | 24 | consumers and the Province. |
| 25 | Q. Yes, it is, okay. Now, then the next one is | 25 | Q. Now, that answer that you just gave, as I |
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| | Page 93 | | Page 94 |
| 1 | KELLY, Q.C.: | 1 | Q. That is true, is it not, sir, only if |
| 2 | understand it, is that the peak that needs to | 2 | Newfoundland Power's peak happens to occur at |
| 3 | be addressed to achieve that objective is the | 3 | the same time as the overall system peak? |
| 4 | overall island system peak. | 4 | A. Absolutely. |
| 5 | A. Right, and the components that comprise that | 5 | Q. Right, but that doesn't always occur, does it? |
| 6 | peak. | 6 | A. No, it doesn't always occur. |
| 7 | Q. Right, but the ultimately objective is to | 7 | Q. No, it doesn't, okay. Let's go tonow, under |
| 8 | influence the overall island system peak, not | 8 | this heading, you've gotthe first sentence |
| 9 | merely Newfoundland Power's peak, correct? | 9 | is a demand rate can provide NP with a direct |
| 10 | A. Newfoundland Power's peak to the extent that | 10 | incentive to reduce peak - |
| 11 | it's a principle component of the overall | 11 | A. I'm not seeing that here. |
| 12 | island peak. | 12 | Q. Sorry, your item 3, carrying on - |
| 13 | Q. Okay. | 13 | A. Yes, okay. |
| 14 | A. So, it's inferred that, yes, it is | 14 | Q. The first sentence, in other words, you make a |
| 15 | Newfoundland Power's peak. | 15 | couple of points here and I want to take them |
| 16 | Q. Yes, but which is more important to meet in | 16 | one by one. |
| 17 | order to minimize and to maximize the | 17 | A. Okay. |
| 18 | efficiency and keep the lowest cost generation | 18 | Q. "And demand rate can provide NP with a direct |
| 19 | for the island as mandated by the Electrical | 19 | incentive to reduce peak through the use of |
| 20 | Control Power Act. Is it not the overall | 20 | its own generation during peak". So, which is |
| 21 | system peak? | 21 | the peak that you want Newfoundland Power to |
| 22 | A. To the extent that there's a one kilowatt | 22 | use its generation on? |
| 23 | reduction in your contribution, there is the | 23 (1 | 1:30 a.m.) |
| 24 | corresponding one kilowatt hour reduction in | 24 | A. It would be either one of them actually. |
| 25 | the overall system peak. | 25 | Q. Either one? |
| | Page 95 | | Page 96 |
| 1 | A. Either NP's individual peak or the island | 1 | table here, sir, and that is, you say, you |
| 2 | system peak. | 2 | want us to have a direct incentive to reduce |
| 3 | | 3 | peak through the use of its own generation |
| 4 | we are getting to a Newfoundland Power peak, | 4 | during peak. And my question to you is, are |
| 5 | we should run our facilities to minimize that | 5 | you proposing to this Board that Newfoundland |
| 6 | 1 | 6 | Power should be incentived when it thinks it |
| 7 | , , , | 7 | is coming to a peak on its system to run its |
| 8 | Q. Well, what would we do to minimize our peak? | 8 | system? |
| 9 | 777 | | |
| - 1 | 1 1 1 | 9 | A. That was not the intent of what was said, no, |
| 10 | author of this report. One thing we left out | 10 | I'm not suggesting that. |
| 10 11 | author of this report. One thing we left out is there's a major virtue of a demand energy | | I'm not suggesting that. Q. What is the intent then of what you have in |
| - 1 | author of this report. One thing we left out is there's a major virtue of a demand energy rate. This report is sort of biased to, sort | 10 | I'm not suggesting that. Q. What is the intent then of what you have in this sentence? |
| 11 | author of this report. One thing we left out is there's a major virtue of a demand energy rate. This report is sort of biased to, sort of slanted to encouraging the reduction of | 10 11 | I'm not suggesting that. Q. What is the intent then of what you have in this sentence? A. Okay. What that actually was intended to say |
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| 11 12 13 | author of this report. One thing we left out is there's a major virtue of a demand energy rate. This report is sort of biased to, sort of slanted to encouraging the reduction of island peak which is definitely very important, but whether or not NP can respond | 10 11 12 13 | I'm not suggesting that. Q. What is the intent then of what you have in this sentence? A. Okay. What that actually was intended to say is, if one just arbitrarily implements a demand rate, it could provide an incentive for |
| 11 12 13 14 | author of this report. One thing we left out is there's a major virtue of a demand energy rate. This report is sort of biased to, sort of slanted to encouraging the reduction of island peak which is definitely very important, but whether or not NP can respond to that is almost academic because it's | 10 11 12 13 14 | I'm not suggesting that. Q. What is the intent then of what you have in this sentence? A. Okay. What that actually was intended to say is, if one just arbitrarily implements a demand rate, it could provide an incentive for NP to run their generation. We're trying to |
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| 11 12 13 14 15 16 17 18 | author of this report. One thing we left out is there's a major virtue of a demand energy rate. This report is sort of biased to, sort of slanted to encouraging the reduction of island peak which is definitely very important, but whether or not NP can respond to that is almost academic because it's equality meritorious, if that's the correct word, to reflect Hydro's rate structure to NP in the same fashion that it has incurred its financial commitments. | 10 11 12 13 14 15 16 17 18 19 20 | I'm not suggesting that. Q. What is the intent then of what you have in this sentence? A. Okay. What that actually was intended to say is, if one just arbitrarily implements a demand rate, it could provide an incentive for NP to run their generation. We're trying to guard against that. Q. So, you don't want us to run our generation at our peak? A. Not in an inefficient fashion. |
| 11 12 13 14 15 16 17 18 19 20 21 | author of this report. One thing we left out is there's a major virtue of a demand energy rate. This report is sort of biased to, sort of slanted to encouraging the reduction of island peak which is definitely very important, but whether or not NP can respond to that is almost academic because it's equality meritorious, if that's the correct word, to reflect Hydro's rate structure to NP in the same fashion that it has incurred its financial commitments. Q. Yes, but that's a different issue. We're | 10 11 12 13 14 15 16 17 18 19 20 21 | I'm not suggesting that. Q. What is the intent then of what you have in this sentence? A. Okay. What that actually was intended to say is, if one just arbitrarily implements a demand rate, it could provide an incentive for NP to run their generation. We're trying to guard against that. Q. So, you don't want us to run our generation at our peak? A. Not in an inefficient fashion. Q. No. So, the way it works now is we run our |
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| 11 12 13 14 15 16 17 18 19 20 21 | author of this report. One thing we left out is there's a major virtue of a demand energy rate. This report is sort of biased to, sort of slanted to encouraging the reduction of island peak which is definitely very important, but whether or not NP can respond to that is almost academic because it's equality meritorious, if that's the correct word, to reflect Hydro's rate structure to NP in the same fashion that it has incurred its financial commitments. Q. Yes, but that's a different issue. We're going to come to that issue. | 10 11 12 13 14 15 16 17 18 19 20 21 | I'm not suggesting that. Q. What is the intent then of what you have in this sentence? A. Okay. What that actually was intended to say is, if one just arbitrarily implements a demand rate, it could provide an incentive for NP to run their generation. We're trying to guard against that. Q. So, you don't want us to run our generation at our peak? A. Not in an inefficient fashion. Q. No. So, the way it works now is we run our |

25

capability available when Hydro calls on it to meet overall island system peak. Do you agree

Q. We're going to come to that issue. I want to

focus on the issue which you've put on the

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| | Page 97 | | Page 98 |
|--------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 K | ELLY, Q.C.: | 1 | capacity costs. |
| 2 | that that is the efficient way to run it? | 2 | Q. But in terms of using rates to do something, |
| 3 | A. I would agree. | 3 | would you not agree that the peak that we are |
| 4 | Q. And so you do not want that changed, do you? | 4 | going to impact, if any, will be Newfoundland |
| 5 | A. No. | 5 | Power's peak? |
| 6 | Q. You do not want us to run it to meet some | 6 | A. It can be the island peak as well, could it |
| 7 | Newfoundland Power peak? | 7 | not? |
| 8 | A. By no means. | 8 | Q. Well, only to the extent that they happen to |
| 9 | Q. By no means, okay. So, we don't need an | 9 | be co-incidents, agreed? |
| 10 | incentive to do that because that's what's | 10 | A. Well, but can you predict exactly that you're |
| 11 | already happening, isn't it? | 11 | not going tothat any measures you put into |
| 12 | A. Right. | 12 | effect will not reduce overall island peak? |
| 13 | Q. Right, okay. Now, let's go to the next | 13 | Q. Mr. Haynes said in evidence, we know not the |
| 14 | sentence. "Through the use of a demand rate, | 14 | hour or the day at which the peak will arise. |
| 15 | Newfoundland Power, in turn, can provide | 15 | A. So, you would agree it is possible? |
| 16 | incentives to its customers to reduce peak | 16 | Q. Oh, certainly. And I'm sure you will agree |
| 17 | through rates or other cost effective means". | 17 | that equally it is possible that they will |
| 18 | So, you got two components, you want us to | 18 | happen at other times? |
| 19 | reduce peak, first of all, which peak do you | 19 | A. Okay. |
| 20 | want us to reduce, system or Newfoundland | 20 | Q. But my point is, my question is, that if we |
| 21 | Power? | 21 | are going to reduce peak through rates, the |
| 22 | A. Well, if you reduce your own peak, you can | 22 | peak which will initially be impacted has to |
| 23 | have lower cost allocated to you in the Cost | 23 | be a Newfoundland Power peak, by definition. |
| 24 | of Service Study. If you reduce the system | 24 | A. I don't know. I mean, why can't it be the |
| 25 | peak, you can help reduce overall island | 25 | why can't you reduce load at the time of the |
| | | - | |
| | Page 99 | | Page 100 |
| 1 | system peak and not reduce load, not figure on | 1 | ago, Newfoundland Hydro, nor yourself did not |
| 1 2 | system peak and not reduce load, not figure on doing, but just because of the way things | 1 2 | ago, Newfoundland Hydro, nor yourself did not come in and propose any changes to |
| l | system peak and not reduce load, not figure on doing, but just because of the way things happen, why can't you reduce the load for the | | ago, Newfoundland Hydro, nor yourself did not come in and propose any changes to Newfoundland Power's retail rate structure, |
| 2 | system peak and not reduce load, not figure on doing, but just because of the way things happen, why can't you reduce the load for the Island and not affect your own system peak? | 2 | ago, Newfoundland Hydro, nor yourself did not come in and propose any changes to Newfoundland Power's retail rate structure, did you? |
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November 14, 2003 Page 101 1 KELLY, O.C.: Q. Okay. Now, let's just take that a step 2 further then. So, we need to know, in order 3 3 to be cost effective, what is worth spending 4 4 money on, do you agree with that? 5 5 6 A. Okay. 6 7 Q. And when it is worth spending the money, would 7 you agree with that? 8 8 A. Okay. 9 9 10 Q. Do you agree with that? 10 11 A. Yes. 11 Q. Okay. Now, would you also agree that to the 12 12 extent that things should be done, if we going 13 13 to engage in cost effective demand side 14 14 management to reduce peak demand, that 15 15 16 Newfoundland Hydro itself should also follow 16 appropriate load management, cost effective 17 17 load management processes? Would you agree 18 18 with that proposition? 19 19 A. In what context, other than -20 20 Q. Well, if you say that Newfoundland Power 21 21 should have an incentive to do things that 22 22 23 reduce the peak and we talked about that, 23 that's the island peak. 24 24 A. Right. 25 25 Page 103 Q. Go back to your first point that you made as a Q. That to the extent that you think that it is 1 1 2 key issue, you wanted to encourage demand side 2 appropriate on a cost effective basis--we 3 management, load control. 3 don't want anybody doing anything that's not A. Right. cost effective. 4 4 5 Q. And my question to you is, and we looked, 5 well, we should do it on a cost effective 6 6 7 basis, my question is simple, if, in fact, you 7

Page 102 Q. Ultimately you want to impact, would you also agree that Newfoundland Power should do what is cost effective to reduce island peak? A. Newfoundland Power -Q. Newfoundland Hydro should also do what is -A. In proposing a demand energy rate, they are doing that. Q. But in terms of any demand side management load control programs, if we are asked to do things which are cost effective, would it not also make sense for Hydro to do things which are cost effective? A. Okay, on Hydro's side, there's nothing that's stemming out, to my knowledge, as I sit here, that's inappropriate. What does stand out as being inappropriate is the energy only rate and that's why we're discussing it because it's not that--how do I say this? The energy only rate, at this point in time, stands out as not being proper. I don't see anything in Hydro's side that's--and maybe there is--I don't see anything standing out that's being improper on the way of not promoting conservation of natural and capital resources for the island. Page 104

A. I would generally agree with that actually.

Q. Sure.

25

A. Okay.

Q. Logical thing.

A. It sounds like a virtue.

Q. Okay. If it's cost effective, then we should have--whoever it can be cost effective for. Now, let's go to page 9 of your report next under the potential impact of load management. So, this is your demand side management issue. And if we come down to just before the bullets there, the sentence reads, "the potential for a customer to utilize this price signal involved the interaction of and consideration of" and then you've got four bullets, "the level of the demand rate, the potential for load management in the customers end use equipment profile, cost of procuring the load management potential, and customers receptiveness to utility sponsored load

management programs". And if we kind of go at

want to encourage demand side management, 8 8 9 would you also agree that Hydro itself should 9 perform cost effective demand side management. 10 10 11 A. For who? 11 12 Q. For the benefit of the Island Interconnected 12 System and for society as a whole. 13 13 A. Cost effective demand side management on 14 14 15 behalf of someone? 15 Q. On behalf of Hydro with its customers. Do you 16 16 not understand that Hydro has customers 17 17 independent of Newfoundland Power? 18 18 19 A. Yes, I'm trying to understand what you're 19 getting at, its rural customers, its 20 20 21 Industrial customers. 21 22 Q. Exactly. 22 A. Okay. 23 23 Q. Would you agree with that proposition then? 24 24

A. That they be required to do so?

| | Page 105 | | Page 106 |
|----------------|--------------------------------------------------------------------------------------------------------|----------------|----------------------------------------------------------------------------------------|
| ₁ , | KELLY, Q.C.: | 1 | hasn't been a lot of experience necessarily |
| 2 | those, let's take them, kind of backwards, | 2 | with electric heat. We're not sure of the |
| 3 | "the customers receptiveness to utility | 3 | elasticity of customers willing to respond to |
| 4 | sponsored load management programs". Would | 4 | electric heat and the cost of electric heat |
| 5 | you agree with me that that must be the end | 5 | storage. |
| 6 | use customer that you're trying to impact? | 6 | Q. So it tends to be a relatively inelastic |
| 7 | A. Yes. | 7 | demand, from an economic's point of view? |
| 8 | Q. So we need to know how responsive they would | 8 | A. I would think so. |
| 9 | be, we need-going back the next bullet, we | 9 | Q. Now, in your bullet there, your four bullets, |
| 10 | need to know the cost of procuring it, the | 10 | and as we looked at them, three of them were |
| 11 | previous bullet, the potential is affected by | 11 | clearly directed to the end-use customer and |
| 12 | the load management in the customer's end-use | 12 | the first one talked about the level of the |
| 13 | equipment profile. So again, we're talking | 13 | demand rate. Should I take it then, from what |
| 14 | about end-use impact, correct? | 14 | you've got here, that you believe it is |
| 15 | A. Yes. | 15 | important that demand rates be reflected in |
| 16 | Q. Okay, so all of these things are going to | 16 | the end-use customer's retail rate design? |
| 17 | interact, but they interact, as you suggest | 17 | A. No, I don't think that's a requirement. |
| 18 | here, at the end-use customer? | 18 | Q. Okay, could you explain why then? |
| 19 | A. Yes. | | (11:45 a.m.) |
| 20 | Q. Now, the next paragraph you touch on electric | 20 | A. The reason is, is because if NP as the utility |
| 21 | heat and you close with the comment, "However, | 21 | serving its end-use customers, understands |
| 22 | electric heat can be a problematic end-use | 22 | that it can achieve a savings, it can instill |
| 23 | load for utilities to manage." Could you just | 23 | that to its customers without a demand rate |
| 24 | explain what you mean? | 24 | per se. |
| 25 | A. Well, I think it refers to the fact that there | 25 | Q. So you don't need a demand rate where, at |
| | Page 107 | | Page 108 |
| 1 | Newfoundland Power's level to impact the end- | 1 | influence it through rates, and this is the |
| 2 | use customer? | 2 | point you made earlier, that we have rates or |
| 3 | A. No, I'm saying that you do need a demand rate | 3 | other cost-effective measure, at the rate |
| 4 | tofrom Newfoundland and Labrador Hydro to | 4 | level, is it not the message getting |
| 5 | Newfoundland Power without the necessity of | 5 | translated through in some sort of demand rate |
| 6 | having a demand rate at the end-use level. | 6 | signal? |
| 7 | Q. But if in fact what you believe is that the | 7 | A. Yes, it could be that. |
| 8 | end-use customer knowing the demand costs that | 8 | Q. Yes, okay, so those are the two dichotomies |
| 9 | the customer is placing on the system and is | 9 | we've got to look at, at the end-use consumer. |
| 10 | it not the end-use customer that needs to have | 10 | Now, let's go to your next paragraph which |
| 11 | that price signal to achieve whatever quotes | 11 | talks about water heater controls because |
| 12 | efficiency you believe you want to achieve? | 12 | we're very interested in what you've got here. |
| 13 | A. It doesn't haveit does not have to have a | 13 | As you get towards the end of the page, you |
| 14 | price signal per se, it can have some | 14 | say "Approximately 150 megawatts of load that |
| 15 | representation of savings, for example on if | 15 | is available for control in total", and your |
| 16 | you installed an off-peak waterif you have | 16 | sentence goes on, "with controls or cycling of |
| 17 | water heating, you can save so much. They can | 17 | water heaters, achievable load management |
| l | - · · · · · · · · · · · · · · · · · · · | 18 | potential would be significantly lower than |
| 18 | realize the savings and the virtue of not | | - · · · · · · · · · · · · · · · · · · · |
| 18 19 | consuming on peak, without having knowledge of | 19 | the technical potential reflecting the |
| 1 | _ | | the technical potential reflecting the interaction of economic and market factors |
| 19 | consuming on peak, without having knowledge of | 19 | |
| 19 20 | consuming on peak, without having knowledge of the peak. | 19 20 | interaction of economic and market factors |
| 19 20 21 | consuming on peak, without having knowledge of the peak. Q. So if we break what we just said into two | 19 20 21 | interaction of economic and market factors noted above." Now, can we break that into a |

25

would see being envisaged?

A. I've not personally undertaken a study of the

24

25

side management issue, like water heater

controls, or alternatively, if we're trying t

| 110 | veinber 14, 2005 | i-i ag | ,c | NL Hydro 8 2003 General Kate Application |
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| | Page 109 | | | Page 110 |
| 1 | MR. GRENEMAN: | 1 | | So, you get diversity between refrigerators |
| 2 | exact types of controls, but I do know that | 2 | | or, in this case, water heaters. |
| 3 | utilities do install these types of controls | 3 | Q | . Okay. Now, let's look into water heater. A |
| 4 | and they are workable in a number of | 4 | | water heater, if we looked across all of |
| 5 | jurisdictions and they do indeed reduce peak. | 5 | | Newfoundland Power's system, they go off and |
| 6 | Q. What type of controls? Because I appreciate | 6 | | on at a relatively random timing. |
| 7 | then you haven't studied the issue, but what | 7 | A | . Right. |
| 8 | type of water heater controls? | 8 | Q | . Do you agree with that? |
| 9 | A. It could be water heater cycling controls. | 9 | A | . Yes. |
| 10 | Q. Explain that to the Board, what's a water | 10 | Q | . Okay. So, how will this control do anything |
| 11 | heater cycling control? | 11 | | different? Help the Board understand that. |
| 12 | A. Well, there's an intrinsic and this is subject | 12 | A | . Well, perhaps if, take it off the system, off |
| 13 | to check, there's an intrinsic storage, you | 13 | | the anticipated system peak. |
| 14 | can't changeexchange heat in zero time. | 14 | | . When would that be, sir? |
| 15 | When you shut the power going to a water | 15 | A | . My understanding is that that could beI'd |
| 16 | heater, there's a residual heat that decays | 16 | | have to check, but I think that could be |
| 17 | over time. So if consumers are willing to, | 17 | | relatively known within a reasonable period of |
| 18 | for example, live for some period of time, | 18 | | time, I would think, but I'd need to check on |
| 19 | fifteen minutes, thirty minutes, forty-five | 19 | | that. |
| 20 | minutes with the residual amount of hot water, | 20 | Q. | . Well, let me help you with that because here's |
| 21 | then what that allows the utility to do is | 21 | | the evidence in NewfoundlandMr. Haynes told |
| 22 | cycle water heaters in segments and reduce the | 22 | | us just the other day, you know not when the |
| 23 | peak overall. It's like refrigerators | 23 | | hour or the day of the system peak. Now, |
| 24 | running, a refrigerators cycle, but not all | 24 | | let's forget the day for a minute, you don't |
| 25 | refrigerators cycle at the same exact times. | 25 | | know the hour and the reason you don't know |
| ١. | Page 111 | | | Page 112 |
| | the hour in this jurisdiction is because the | 1 | | going to do their dishes, or it's 8:00 in the |
| 2 | main driver of system peak is temperature, but | 2 | | morning when they're going to do their |
| 3 | not absolute temperature, wind chill. That's the historical context. So, if we don't know | 3 | | showers, are you proposing then that we should |
| 4 | when that's coming, when do you want us to | 4 | | have an automatic control that would prevent people from having their shows at 8:00 in the |
| 5 | have these water heaters cycle off? | 5 | | morning because that's a potential time of |
| 6 7 | A. Well, another thing you could do is put more | 7 | | system peak? |
| 8 | insulation on the water heaters, I mean, that | 8 | ٨ | . Well, there are two things: number one, it |
| 9 | would lower the system peak - | 9 | A | would only be those that subscribe to it and |
| 10 | Q. That's a program that's generally out there | 10 | | are willing to do it; number two, you don't |
| 11 | now and water heaters have generally been | 11 | | have to necessarily prevent them from having a |
| 12 | upgraded by industry, but on the cycling | 12 | | shower, but you can delay the increase, the |
| 13 | issue, when do you want us to have it cycle | 13 | | cycling time, for example and that would, tend |
| 14 | off? | 14 | | to lower the system peak as well. |
| 15 | A. Well, it's my understanding that there would | 15 | 0 | So now, have you done any study to figure out |
| 16 | be pretty good estimates as to when the system | 16 | | what the, number one, the cost of doing that |
| 17 | peak would be. You point out that's not | 17 | | would be; and number two, what the uptake on |
| 18 | necessarily the case. | 18 | | the program would be? |
| 19 | Q. Yes, okay, but can you point us to that | 19 | A | . No, I have not and my impression was that it |
| 20 | estimate? | 20 | | was NP'sit was in NP's arena to do that. |
| 21 | A. No, it was just my impression. | 21 | Q | . That's right, so you haven't looked at that? |
| 22 | Q. Just your impression, okay. So let us assume | 22 | | . No, I have not. |
| 23 | that the key timethat you could know the key | 23 | Q | . Now let me give you another scenario for water |
| 24 | time and it was 6:00 in the afternoon, after | 24 | | heater controls because there's another way to |
| 10- | 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 | 1 | | 4 (1) 4 1 |

go at this water heater problem or issue if

people come home and they get their--they're

| trection of the third shapes when targeted at large users. Now, 12 shapes when targeted at large users. Now, 22 first of all, are you aware that in Newfoundland the large users are directly dealt with by Newfoundland Hydro, principle ones, we have the paper mills, we have the oil 18 Interruptible B, so approximately the same 2 value. Now, Hydro has proposed to terminate 3 in centive to do things that would be improper for me to comment on it without having complete knowledge and study of it. 10 Q. But one of the things that you have indicated in inyour report is you want us to have an incentive to do things that would minimize the 18 indicatties falland peak, that's the whole premise of your report, so we have a curtailable rate that in impacts the Island peak, that's the whole premise of your report, so we have a curtailable rate that impacts the Island peak, that's the whole premise of your report, so we have a curtailable rate that impacts the Island peak, that's the whole premise of your report, so we have a curtailable rate that impacts the Island peak, that's the whole premise of your report, so we have a curtailable rate that impacts the Island peak, that's the whole premise of your report, so we have a curtailable rate that impacts the Island peak, that's the whole premise of your report, so we have a curtailable rate that impacts the Island peak, the will be any of the province with a covery water theater in the Province with a covery water theater in the Province with a covery water that in you want to to hot knew in the radial that at the moment. A Power on that at the moment. A Power on that at the moment. A Labye not studied that and I'm not prepared to comment on that at the moment. A Labye not studied that and I'm not prepared to comment on that at the moment. A Labye not studied that and I'm not prepared to comment on that at the moment. A Power having a look at the basic rate structure, and the value power is a curtailable rate option? A Labye not studied that and I'm not prepared to comment a | November 14, 2003 Multi-Page [™] NL Hydro's 2003 General | | | ge [™] NL Hydro's 2003 General Rate Application |
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| 2 A. Yes, I'm aware of that. 3 Another way you can go at it is you can outfit 4 every water heater in the Province with a 5 radial controlled device, so that when Hydro 6 says the system is reaching peak, we'll shut 7 them all off. Now, do you have any idea what 8 the cost of doing that is? 9 A. There are a number of technologies around that 10 can accomplish that, I do not know the cost. 11 Q. No, okay, so you haven't looked at or studied 12 that issue at all? 13 A. I have not, no. 14 Q. Okay. Now, let's just go on then to the next 15 bit that you've got in this piece here. 16 "Typically the largest load management opportunities are derived from commercial and industrial facilities, rather than residential facilities and in several U.S. jurisdicions, 20 demand rates have resulted in significant load shapes when targeted at large users." Now, 21 appreciate you haven't looked. Newfoundland Power's retail rate design, but-apart from having a look at the basic rate structure, but are you aware that Newfoundland Power's customers are generally smaller, but the cost or the incentives is approximately the same as for Hydro's Interruptible B? We have roughly, approximately about \$29,00 and the available capacity that we're looking at is only three or four megawatts, so that's there in a curtailable rate structure. Page 115 Interruptible B, so approximately the same value. Now, Hydro has proposed to terminate its curtailable rate option? Page 115 Interruptible B, so approximately the same value. Now, Hydro has proposed to terminate its curtailable rate option? Page 115 Q. But one of the things that you have indicated in your report is you want us to have an incentive to do things that would minimize the Island peak, that's the whole premise of your report, so we have a curtailable rate that in your report is you want us to have an incentive to do things that would minimize the Island peak to the extent of three 10 impacts the Island peak to the extent of three | | Page 11: | 3 | Page 114 |
| 2 A. Yes, I'm aware of that. 3 Another way you can go at it is you can outfit 4 every water heater in the Province with a 5 radial controlled device, so that when Hydro 6 says the system is reaching peak, we'll shut 7 them all off. Now, do you have any idea what 8 the cost of doing that is? 9 A. There are a number of technologies around that 10 can accomplish that, I do not know the cost. 11 Q. No, okay, so you haven't looked at or studied 12 that issue at all? 13 A. I have not, no. 14 Q. Okay. Now, let's just go on then to the next 15 bit that you've got in this piece here. 16 "Typically the largest load management opportunities are derived from commercial and industrial facilities, rather than residential facilities and in several U.S. jurisdicions, 20 demand rates have resulted in significant load shapes when targeted at large users." Now, 21 appreciate you haven't looked. Newfoundland Power's retail rate design, but-apart from having a look at the basic rate structure, but are you aware that Newfoundland Power's customers are generally smaller, but the cost or the incentives is approximately the same as for Hydro's Interruptible B? We have roughly, approximately about \$29,00 and the available capacity that we're looking at is only three or four megawatts, so that's there in a curtailable rate structure. Page 115 Interruptible B, so approximately the same value. Now, Hydro has proposed to terminate its curtailable rate option? Page 115 Interruptible B, so approximately the same value. Now, Hydro has proposed to terminate its curtailable rate option? Page 115 Q. But one of the things that you have indicated in your report is you want us to have an incentive to do things that would minimize the Island peak, that's the whole premise of your report, so we have a curtailable rate that in your report is you want us to have an incentive to do things that would minimize the Island peak to the extent of three 10 impacts the Island peak to the extent of three | 1 1 | KELLY, Q.C.: | 1 | refinery? |
| Another way you can go at it is you can outfit every water heater in the Province with a radial controlled device, so that when Hydro says the system is reaching peak, we'll shut them all off. Now, do you have any idea what the cost of doing that is? A. There are a number of technologies around that can accomplish that, I do not know the cost. O No, day, so you haven't looked at or studied that issue at all? A. I have not, no. O Nokay, Now, let's just go on then to the next bit that you've got in this piece here. "Typically the largest load management opportunities are derived from commercial and industrial facilities, rather than residential facilities and in several U.S. jurisdictions, demand rates have resulted in significant load shapes when targeted at large users." Now, first of all, are you aware that in Newfoundland the large users are directly dealt with by Newfoundland Hydro, principle ones, we have the paper mills, we have the oil Page 115 Interruptible B, so approximately the same value. Now, Hydro has proposed to terminate its curtailable rate option? A. I'm not prepared to comment on that at at the moment. 10, O.No, okay, so you have indoked at or studied that issue at all? 11, O.No, okay, so you have indoked at or studied that issue at all? 12, O.Nox, Now, let's just go on then to the next bit that you've got in this piece here. "Typically the largest load management of coknowledge and study of is death of the north of the next them all off. Now, do you have indoked that issue at all? A. I have not studied that and I'm not prepared to comment on that at the moment. 10, O.Nox, Now, let's just go on then to the next the cost of the incentives is approximately the same as for Hydro's Interruptible B? We have roughly, approximately about \$29.00 an the available cutrallable rate structure. A. Is that \$29.00 per what? O, Okay, well you've head the evidence here about how the situation works at Abitible to comment on it without having complete to knowledge and study of it. O, Okay, Now, | 1 | | 2 | • |
| every water heater in the Province with a radial controlled device, so that when Hydro so says the system is reaching peak, we'll shut them all off. Now, do you have any idea what the cost of doing that is? A. There are a number of technologies around that can accomplish that, I do not know the cost. O, No, okay, so you haven't looked at or studied that issue at all? A. I have not, no. Okay. Now, let's just go on then to the next bit that you've got in this piece here. Typically the largest load management oportumities are derived from commercial and industrial facilities, rather than residential facilities, rather than residential facilities and in several U.S. jurisdictions, dean when targeted at large users." Now, 21 first of all, are you aware that in Newfoundland the large users are directly dealt with by Newfoundland Hydro, principle ones, we have the paper mills, we have the oil Newfoundland Power also terminate its curtailable rate option? A. Fire are a number of technologies around that the cost of the incentive of do the things that vould be improper for me to comment on it at the moment. A. I have not studied that and I'm not prepared to comment on that at the moment. B. A. I have not studied that and I'm not prepared to comment on that at the moment. C. Okay. Now, I approxicately obea. All the moment and the large out of the management of technologies around that is sure at all? A. I have not, no. B. Okoay, Now, I aprover steat prace and under the doctor of the incentive size and the ware than a curtailable rate option? A. I don't recall offhand, but I accept what - Q. Okay, and if I say to you that Newfoundland the test of the case as for Hydro's Interruptible B? We have roughly, approximately about \$29.00 and the available curtailable rate structure. A. Is that \$29.00 per what? Q. Per kilowatt. A. Per kilowatt vear? Q. Per kilowatt. A. In a qualitative sense. Q. Okay, well you've heard the evidence here evidence as to why it's been terminated. Q. Okay, well you've heard the eviden | | · · · · · · · · · · · · · · · · · · · | 3 | · |
| into target large users? A. I have not studied that and I'm not prepared to comment on that at the moment. Okay. Now, lappreciate you haven't looked to restudied that issue at all? A. I have not, no. Okay. Now, le's just go on then to the next bit that you've got in this piece here. Fypically the largest load management opromunities are derived from commercial and industrial facilities, rather than residential facilities, rather than residential facilities, rather than residential shapes when targeted at large users. Now, first of all, are you aware that in Newfoundland Hydro, principle ones, we have the paper mills, we have the oil Page 115 Interruptible B, so approximately the same value. Now, Hydro has proposed to terminate its curtailable rate option? A. I'm not prepared.—I'm not apprised of all of the circumstances of your curtailable rate portion? A. I'm not prepared.—I'm not apprised of all of the circumstances of your curtailable rate portion? A. I'm not prepared.—I'm not apprised of all of the circumstances of your curtailable rate portion? A. I'm not prepared.—I'm not apprised of all of the circumstances of your curtailable rate in land of the lange users are directly do comment on it without having complete knowledge and study of it. D. Okay. Now, I appreciate you haven't looked to commend to that at the moment. Okay. Now, I appreciate you haven't looked to commend to the tot the moment. Okay. Now, I appreciate you haven't looked to commend to making a look at the basic rate structure, but are you aware that Newfoundland Power's customers are generally smaller, but the cost or the incentives is approximately the same as for Hydro's Interruptible B? We have roughly, approximately about \$29.00 and the available curtailable capacity that we're looking at is only three or four megawatts, so that's there is a curtailable rate structure. A. I shat \$29.00 per what? O. Okay, well you've heard the evidence here about how the situation works at Abitibi Stephenville about storage of the pulp, ar | 4 | | 4 | * * * * * * * * * * * * * * * * * * * * |
| 6 says the system is reaching peak, we'll shut 7 them all off. Now, do you have any idea what 8 the cost of doing that is? 9 A. There are a number of technologies around that 10 can accomplish that, I do not know the cost. 11 Q. No, okay, so you haven't looked at or studied 12 that issue at all? 13 A. I have not, no. 14 Q. Okay. Now, let's just go on then to the next 15 bit that you've got in this piece here. 16 "Typically the largest load management 17 opportunities are derived from commercial and 18 industrial facilities, rather than residential 19 facilities and in several U.S. jurisdictions, 20 demand rates have resulted in significant load 21 shapes when targeted at large users." Now, 22 first of all, are you aware that in 23 Newfoundland the large users are directly 24 dealt with by Newfoundland Hydro, principle 25 ones, we have the paper mills, we have the oil 26 Interruptible B, so approximately the same 2 value. Now, Hydro has proposed to terminate 3 its Interruptible B program. Should 4 Newfoundland Power also terminate its 5 curtailable rate option? 4 A. I'm not prepared to comment on that at the moment. 5 Ookay, Now, I appreciate you haven't looked Newfoundland Power's retail rate design, but apart from having a look at the besic rate structure, but are you aware that Newfoundland Power's customers are option? 4 I don't recall offhand, but I accept what - Q. Okay, and if I say to you that Newfoundland Power's lateroption? 5 Interruptible B? We have roughly, approximately the ware a sor of the incentives is approximately the same as for Hydro's Interruptible B? We have roughly, approximately about \$29.00 and the exidence as to why it're in a curtailable rate structure. 20 A. Is that \$29.00 per what? 21 A. Per kilowatt year? 22 Q. Yes, so roughly \$28.20 was Hydro's 23 Stapes when targeber mills. We have the oil 24 A. Per kilowatt year? 25 Q. Yes, so roughly \$28.20 was Hydro's 26 Yes poughly. 27 A. I a qualitative sense. 28 Poper in the moment on that at the moment apart from having a look at the besic | | • | 5 | |
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| the cost of doing that is? A. There are a number of technologies around that to can accomplish that, I do not know the cost. Q. No, okay, so you haven't looked at or studied that issue at all? A. I have not, no. Q. Okay. Now, let's just go on then to the next bit that you've got in this piece here. "Typically the largest load management opportunities are derived from commercial and in distrilation facilities, rather than residential facilities and in several U.S. jurisdictions, dealt with by Newfoundland Hydro, principle ones, we have the paper mills, we have the oil shapes when targeted at large users are directly dealt with by Newfoundland Hydro, principle ones, we have the paper mills, we have the oil sits Interruptible B, so approximately the same value. Now, Hydro has proposed to terminate its curtailable rate option? A. I'm not prepared—I'm not apprised of all of the circumstances of your curtailable rate pottion? A. I'm not prepared—I'm not apprised of all of the circumstances of your curtailable rate pottion? A. I'm not prepared—I'm not apprised of all of the circumstances of your curtailable rate pottion? A. I'm not prepared—I'm not apprised of all of the circumstances of your curtailable rate pottion? A. I'm not prepared—I'm not apprised of all of the circumstances of your curtailable rate pottion? A. I'm not prepared—I'm not apprised of all of the circumstances of your curtailable rate pottion? A. I'm not prepared—I'm not apprised of all of the circumstances of your curtailable rate pottion? B. Dokay. Now, It appreciate you aware that Newfoundland Power's customers are generally smaller, but the cost or the incentives is approximately the same as for Hydro's Interruptible B. Power's customers are generally smaller, but the cost or the incentives is approximately the same as for Hydro's Interruptible B. Power are generally smaller, but the cost or the incentives is approximately the same as for Hydro's Interruptible B. Power oughly, approximately about \$29.00 and the available curtailable | 1 | | | |
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| 10 can accomplish that, I do not know the cost. 11 Q. No, okay, so you haven't looked at or studied 12 that issue at all? 12 Power has a curtailable rate option? 13 A. I have not, no. 14 Q. Okay. Now, let's just go on then to the next 15 Dower's customers are generally smaller, but 16 "Typically the largest load management 16 industrial facilities are derived from commercial and 18 industrial facilities, rather than residential 19 facilities and in several U.S. jurisdictions, 19 the same as for Hydro's Interruptible B? We have roughly, approximately about \$29.00 and the available curtailable capacity that we're 18 looking at is only three or four megawatts, so 18 the available curtailable capacity that we're 19 looking at is only three or four megawatts, so 10 Page 115 Interruptible B, so approximately the same 2 value. Now, Hydro has proposed to terminate 2 v | | —————————————————————————————————————— | | |
| 11 Q. No, okay, so you haven't looked at or studied 12 that issue at all? 13 A. I have not, no. 14 Q. Okay. Now, let's just go on then to the next 15 bit that you've got in this piece here. 16 "Typically the largest load management 17 opportunities are derived from commercial and 18 industrial facilities, rather than residential 19 facilities and in several U.S. jurisdictions, 20 demand rates have resulted in significant load 21 shapes when targeted at large users." Now, 22 first of all, are you aware that none with the cost or the incentives is approximately about \$29.00 and the available carpacity that we're looking at is only three or four megawatts, so that's there in a curtailable rate estimated. 23 Newfoundland the large users are directly dealt with by Newfoundland Hydro, principle ones, we have the paper mills, we have the oil 24 dealt with by Newfoundland Hydro, principle ones, we have the paper mills, we have the oil 25 ones, we have the paper mills, we have the oil 26 that issue at all? 27 A. I don't recall offhand, but I accept what - 28 Q. Okay, and if I say to you that Newfoundland Power's customers are generally smaller, but the cost or the incentives is approximately the same as for Hydro's Interruptible B? We have roughly, approximately about \$29.00 and the available capacity that we're looking at is only three or four megawatts, so that's there in a curtailable rate structure. 29 Q. Per kilowatt. 29 Q. Yes, so roughly \$28.20 was Hydro's 29 Q. Okay, well you've heard the evidence as to why it's been terminated. 30 Q. Okay, well you've heard the evidence as to why it's been terminated. 31 Stephenville about storage of the pulp, are you familiar with that? 42 Q. Okay, well you've heard the evidence as to why it's been terminated. 43 Q. Okay, well you've heard the evidence as to why it's been terminated. 44 A. Per kilowatt. 45 Q. Okay, well you've heard the evidence as to why it's been terminated. 46 Q. Okay, well you've heard the evidence as to why it's been terminated. 47 A. Very roughly. 48 Q. | | | | |
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| 13 A. I have not, no. 14 Q. Okay. Now, let's just go on then to the next 15 bit that you've got in this piece here. 16 "Typically the largest load management 17 opportunities are derived from commercial and 18 industrial facilities, rather than residential 19 facilities and in several U.S. jurisdictions, 20 demand rates have resulted in significant load 21 shapes when targeted at large users." Now, 22 first of all, are you aware that in 23 Newfoundland the large users are directly 24 dealt with by Newfoundland Hydro, principle 25 ones, we have the paper mills, we have the oil 26 Interruptible B, so approximately the same 27 value. Now, Hydro has proposed to terminate 28 its Interruptible B program. Should 29 A. I m not preparedT m not apprised of all of 30 Chay, and if I say to you that Newfoundland 31 the cost or the incentives is approximately 32 the awailable curtailable rate structure. 32 looking at is only three or four megawatts, so that's there in a curtailable rate structure. 32 Page 115 33 A. I don't recall offhand, but I accept what - 44 Chay, and if I say to you that Newfoundland 45 Power's customers are generally smaller, but the cost or the incentives is approximately the same as for Hydro's Interruptible B? We have roughly, approximately about \$29.00 and the available curtailable rate structure. 40 Last the 29.00 per what? 41 A. I don't recall offhand, but I accept what - 41 the cost or the incentives is approximately the same as for Hydro's Interruptible B? We have roughly, approximately about \$29.00 and the available curtailable rate structure. 41 A. Is that \$29.00 per what? 42 A. Per kilowatt. 42 A. Per kilowatt. 43 A. I don't recall offhand, but I accept what - 44 the cost or the incentives is approximately the same a curtailable rate structure. 44 A. Per kilowatt. 45 A. Per kilowatt. 46 A. Per kilowatt. 47 A. Very kilowatt. 48 Evidence as to why it's been terminated. 49 C. Okay, well you've heard the evidence here about how the situation works at Abitibi Stephenville about storage of the pu | 1 | | | • |
| 14 Q. Okay. Now, let's just go on then to the next 15 bit that you've got in this piece here. 16 "Typically the largest load management 17 opportunities are derived from commercial and 18 industrial facilities, rather than residential 19 facilities and in several U.S. jurisdictions, 20 demand rates have resulted in significant load 21 shapes when targeted at large users." Now, 22 first of all, are you aware that in 23 Newfoundland the large users are directly 24 dealt with by Newfoundland Hydro, principle 25 ones, we have the paper mills, we have the oil 26 Interruptible B, so approximately the same 27 value. Now, Hydro has proposed to terminate 28 its Interruptible B program. Should 29 Newfoundland Power also terminate its 20 curtailable rate option? 21 Interruptible B program. Should 22 A Per kilowatt. 23 Watt there is to study, I have heard the evidence as to why it's been terminated. 3 its Interruptible B program. Should 4 Newfoundland Power also terminate its 5 curtailable rate option? 4 A I'm not prepared—I'm not apprised of all of 5 the circumstances of your curtailable rate program and it would be improper for me to 6 Comment on it without having complete knowledge and study of it. Q But one of the things that you have indicated in your report is you want us to have an incentive to do things that would minimize the Island peak, that's the whole premise of your report, so we have a curtailable rate that impacts the Island peak to the extent of three | 1 | | | |
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| 16 "Typically the largest load management opportunities are derived from commercial and 18 industrial facilities, rather than residential 19 facilities and in several U.S. jurisdictions, 20 demand rates have resulted in significant load 21 shapes when targeted at large users." Now, 21 shapes when targeted at large users. "Now, 22 first of all, are you aware that in 23 Newfoundland the large users are directly 24 dealt with by Newfoundland Hydro, principle 25 ones, we have the paper mills, we have the oil 26 ones, we have the paper mills, we have the oil 27 Interruptible B, so approximately the same 28 value. Now, Hydro has proposed to terminate 29 a lits Interruptible B program. Should 30 its Interruptible B program. Should 31 Stephenville about storage of the pulp, are 32 you familiar with that? 34 In a qualitative sense. 35 In other words, when it's called up, they have 36 in your report is you want us to have an 37 incentive to do things that would minimize the 19 Island peak, that's the whole premise of your 15 report, so we have a curtailable rate that 31 impacts the Island peak to the extent of three 31 incentive to do things that you have indicated 31 impacts the Island peak to the extent of three 32 on the available curtailable and evidence apacity that we roughly, approximately about \$29,00 and the available curtailable rate structure. 32 that's there in a curtailable rate estructure. 34 Is that \$29.00 per what? 35 Q. Yes, so roughly \$28.20 was Hydro's 36 Page 115 Page 4 A. Per kilowatt. 4 A. Per kilowatt year? 36 Q. Yes, so roughly \$28.20 was Hydro's 37 What there is to study, I have heard the 38 evidence as to why it's been terminated 4 evidence as to why it's been terminated 4 evidence as to why it's been terminated 50 Stephenville about storage of the pulp, are 39 you familiar with that? 4 A. Very roughly. 5 Q. Very roughly. 5 Q. Very roughly. 5 Q. Very roughly. 6 In other words, when it's called up, they have 4 a storage of pulp which they can draw down, 30 they available rate that 4 In other thre | 1 | | | The state of the s |
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| 11 Q. But one of the things that you have indicated 12 in your report is you want us to have an 13 incentive to do things that would minimize the 14 Island peak, that's the whole premise of your 15 report, so we have a curtailable rate that 16 impacts the Island peak to the extent of three 17 a storage of pulp which they can draw down, so they can shut down their pulping plant, that's they can shut | 1 | | | • |
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| impacts the Island peak to the extent of three 16 Q. Now, Newfoundland Power's curtailable rate | 1 | | | • |
| | | • | | |
| | | - | | |
| or four megawatts, so we're wondering from 17 are for, some of them are applied to | | | | |
| | | | | hospitals, senior citizen's homes and we even |
| | | - | | have the St. John's Water Supply System. In |
| 20 A. I'd really have to study that to answer that 20 each of those cases that I've just talked | $ ^{20}$ | • | 20 | <u> </u> |

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about, diesel generation that they have for

has to trip in to have that curtailable rate,

so in terms of relative efficiencies between

storing pulp versus a diesel generation at the

emergency purposes is what the customer then

46 megawatts?

Q. Have you studied then Newfoundland Hydro's

termination of its curtailable rate which is

A. I don't--I've heard the evidence, I'm not sure

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| No | November 14, 2003 Mul | | i-Page $^{^{\mathrm{TM}}}$ NL Hydro's 2003 General Rate Applicatior | | | |
|----|-------------------------------------------------|-------|---------------------------------------------------------------------|--|--|--|
| | Page 117 | , | Page 118 | | | |
| 1 | KELLY, Q.C.: | 1 | are the points we touched on earlier and if we | | | |
| 2 | customer's premises, at a high level, Mr. | 2 | come down to the bottom of the page, you say | | | |
| 3 | Greneman, which is more efficient? | 3 | in the last paragraph, "In setting an | | | |
| 4 | A. Well they have different entities and it's | 4 | appropriate energy rate, Hydro should try to | | | |
| 5 | different purposes with different entities, so | 5 | strike a balance between the demand and energy | | | |
| 6 | I don't think you can compare one versus the | 6 | rate levels, such that the demand rate | | | |
| 7 | other. They are two different parties with | 7 | satisfies the above criteria, with the energy | | | |
| 8 | two different objectives. | 8 | rate reflecting short-run marginal costs", in | | | |
| 9 | Q. Well then, let me put the question this way, | 9 | this case, the fuel at Holyrood. So the | | | |
| 10 | if we have capacity on the system, should we | 10 | short-run marginal costs at Holyrood we saw as | | | |
| 11 | be paying people, whether it's a hospital or | 11 | 5.13 cents a kilowatt hours? | | | |
| 12 | awhich are public institutions now, should | 12 | A. Yes. | | | |
| 13 | we be paying for them to run diesel generation | 13 | Q. Now, here you're talking about using, you had | | | |
| 14 | as an Interruptible rate, is that the most | 14 | a discussion with Mr. Browne about where | | | |
| 15 | efficient way of going about it? | 15 | marginal costing fits into this, and here you | | | |
| 16 | A. I'd have to know under what conditions you | 16 | are suggesting that in where we set this level | | | |
| 17 | would interrupt them. | 17 | of demand and energy rate, that we have to | | | |
| 18 | Q. Okay, and you haven't conducted that study? | 18 | bring in a short-run marginal cost | | | |
| 19 | A. No, by no means. | 19 | consideration as to what it costs to produce | | | |
| 20 | Q. Okay. Now, let's move along to page 11 of | 20 | electricity. Why is that the case? Just | | | |
| 21 | your report and at the very top of the page, | 21 | explain that to the Board. | | | |
| 22 | you make three points in your bullet, should | 22 | A. Well because it influences customer decisions | | | |
| 23 | be an appropriate cost based price signal, | 23 | at the margin. | | | |
| 24 | maintain revenue stability and provide an | 24 | Q. Right. | | | |
| 25 | incentive to control the Island peak, those | 25 (1 | 2:00 p.m.) | | | |
| | Page 119 |) | Page 120 | | | |
| 1 | A. Based upon today's cost. | 1 | A. Suppose you had one source of energy at 3 | | | |
| 2 | Q. Right, so we should not be selling | 2 | cents and another at 2 cents and you sold it | | | |
| 3 | electricity, we shouldn't be selling energy at | 3 | atI'm sorry, one at 3 and one at 1 cent and | | | |
| 4 | less than the cost of producing it? Correct, | 4 | the average was 2 cents - | | | |

less than the cost of producing it? Correct,

5 on a short-run basis?

A. There may be some special circumstances where 6

7 you can, but in general -

8 Q. As a general proposition.

9 A. Right.

Q. And we're going to have a look at some 10

variations later on, but as a general

proposition, we don't want to be selling 12

13 energy at less than the cost of production, do

we? 14

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A. Well, it happens sometimes just as a matter of 15

circumstance. If there were a demand--okay, 16 17

go ahead, I'm sorry, I retract that.

Q. If you want to add something, by all means, 18

19 feel free.

A. If there is a levelized energy rate that is 20

21 one energy rate year round and there are two

sources of energy, one higher than the other,

there will always be one source that's sold at 23

24 less than the short-run marginal cost.

Q. If you do what?

the average was 2 cents -

5 Q. Yes.

A. And you had a year round rate for 2 cents, at 6

7 some point you will be selling for less than -

8 Q. But here on the Island, because of the nature

of our generation structure, this is the very 9

point we talked about at the very beginning, 10

11 the marginal cost of Holyrood is the marginal

cost all year round and that's 5.13 cents. 12

13 A. Yes.

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14 Q. We agreed on that when we started.

A. Yes, I did. 15

Q. So that what we don't want to be doing is 16

selling energy at less than cost, as a general

proposition, you agree with that? 18

19 A. Generally, yes.

20 Q. Okay. Now, because that would be inefficient,

21 correct?

22 A. In the long run.

Q. And in the short run it would be inefficient, 23

24 wouldn't it, to be selling below cost?

A. Well, unless you recovered your cost earlier

Page 122

| г | November 14, 2003 | Multi-Paş | ge™NL Hydro's 2003 General Rate Application |
|----|----------------------------------------------------|-----------|--------------------------------------------------|
| ı | Pa | ge 121 | Page 12 |
| l | 1 MR. GRENEMAN: | 1 | A. Well, I had thought aboutbut you know, you |
| l | 2 on. | 2 | have to account for growth on NP side. |
| l | 3 KELLY, Q.C.: | 3 | Q. But can you address my question? |
| l | 4 Q. Okay. Now, at page 12 in your recommenda | tion 4 | A. Yes. |
| l | 5 as to how this works, how this should work, a | | Q. In your proposal, were you proposing thatyou |
| l | I understand it the type of structure that | 6 | were clearly proposing that Hydro should have |
| l | you're putting forward is to be basing the | 7 | a floor and my question is, were you also |
| l | demand on the single winter peak, correct? | 8 | proposing, in proposing this band that Hydro |
| l | 9 A. That is correct. | 9 | should have a cap on how much revenue they |
| | 10 Q. In other words, you're not proposing that it | 10 | should earn if demand went up. |
| 1 | should be done over various months, we're | e 11 | A. No, the thinking was thatthe concept was |
| | going to judge how to do this against the one | | that NP's load normalizedNP's demand |
| 1 | winter peak? | 13 | normalized for weather, would be |
| | 14 A. That is the criterion that Hydro has to live | 14 | representative of its true demand and a cap |
| 1 | 15 by. | 15 | would not be needed. |
| 1 | Q. Right, and that's what you're recommending | and 16 | Q. So that what you would do is you would impose |
| 1 | I want the Board to just understand how this | 17 | a floor so that Hydro would be protected if |
| 1 | is intended to work. | 18 | there were variations on the downside, but you |
| | 19 A. Yes. | 19 | would not impose a cap to limit Hydro on the |
| 2 | Q. And then at the top of page 13, you talk abou | t 20 | upside? |
| 2 | the need to limit Hydro's downside risks in | 21 | A. Yes. |
| 12 | 22 the first sentence and if you come down | 22 | Q. And such a cap would also limit volatility to |
| 12 | 23 halfway through the paragraph, you talk abou | ıt 23 | Newfoundland Power if there was a cap on how |
| 12 | setting a ban, okay, did you intend by that to | 24 | much demand was going to be subject to this |
| 2 | set any kind of a cap, as well as a floor? | 25 | to, wouldn't there? |
| | Pa | ge 123 | Page 12 |
| l | 1 A. But it wouldn'tit wouldn't really cap the | 1 | floor for Hydro at all? |
| l | load growth, if at the end of this proceeding | 2 | A. It's sort of a safety net in moving out of a |
| l | there is not another proceeding for eight or | 3 | revenue stabilization plan. |
| | 4 nine years from now, NP can grow a certain | . 4 | Q. A safety net for Hydro? |
| | 5 percent and as NP grows, it moves further aw | ay 5 | A. Well for moving out of this environment where |
| | from that 2 percent, if you will. For | 6 | there is revenue stabilizationrate |
| | 7 example, if you grow 3 percent, then you have | re 7 | stabilization plan in effect. |

an allowable 5 percent swing before you hit 8 9 that 98 percent threshold because it's 98 percent of the 2004 forecast. So as you get 10 11 bigger, the downside increases proportionately. 12 13 Q. That's assuming Hydro doesn't come in for five

or six years, which I think is perhaps

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unlikely. But let's stick with it, so you're proposing a floor, but no cap? That's the effect of your recommendation? A. Well, the concept is that your demand normalized for weather will be very closely related--will be quite accurate and that it will greatly minimize the chance for windfalls on either side and that it would be very representative of an agreeable demand between everyone. And I still believe that. Q. If you fully believe that, why do you need a

Q. And just to kind of jump ahead of that, if the 8

demand drops to the 98 percent and in fact,

drops more than the 98 percent, would 10

11 Newfoundland Power then pay for demand that is

not being used on your recommendation? 12

13 A. You're paying for it right now.

Q. Exactly, right now the demand -

15 A. You're paying for it right now if you're not

using it. 16

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17 Q. Right now it gets all translated through at an energy only rate without the volatility 18

issues, we'll talk about those as we get to

them. 20

21 A. Right.

Q. But on your scenario with the demand rate -

23 A. On the scenario you just stated, you're

24 gaining an economic advantage if you drop 25

below 98 percent.

| Nov | vember 14, 2003 Mul | ti-Pa | ge "NL Hydro's 2003 General Rate Application |
|-------|---------------------------------------------------|-------|---------------------------------------------------|
| | Page 125 | 5 | Page 126 |
| 1 1 I | KELLY, Q.C.: | 1 | objections to a demand energy rate, the basic |
| 2 | Q. But after we get to 97 percent, Newfoundland | 2 | objections from 1989 through present, and |
| 3 | Power will still have to pay at the 98 percent | 3 | that's explained in the demand energy report |
| 4 | level - | 4 | and what Stone & Webster done was to try and |
| 5 | A. Right. | 5 | structure a demand energy rate that addresses |
| 6 | Q. Even though the load has dropped to 97 | 6 | all the concerns that have been stumbling |
| 7 | percent, is that what you're recommending? | 7 | blocks until this point. |
| 8 | A. Right, see you're 2 percent ahead of where you | 8 | Q. Okay, but you're not proposing necessarily |
| 9 | are right now. | 9 | this rate, but this is somehow the structure |
| 10 | Q. Now let's just follow this along, at the | 10 | to be followed? |
| 11 | bottom of page 13, you talk about your | 11 | A. It's our view that a structure such as this |
| 12 | recommended rate treatment and you make a | 12 | can serve as a guideline in going past the |
| 13 | number of observations there. You say, "The | 13 | stumbling, things that have been stumbling |
| 14 | report does not recommend an actual demand | 14 | blocks in the past. |
| 15 | rate to Newfoundland Power, but a demand rate | 15 | Q. As a guideline. Then you go on to say, "Using |
| 16 | structure that is based on the principles set | 16 | these principles, it is recommended that Hydro |
| 17 | out in this section using the preferred Option | 17 | run cases to carefully determine measures for |
| 18 | A." Now, if we break that into a couple of | 18 | such things as the appropriate demand energy |
| 19 | parts, first of all, you say not necessarily | 19 | balance, variation in its revenue stream, et |
| 20 | giving you the demand rate, but saying this is | 20 | cetera. It is also recommended that the |
| 21 | the type of structure you should follow. | 21 | results of various cases be shared with NP and |
| 22 | Could you just elaborate on what you mean by | 22 | that the proposed demand rate be based on |
| 23 | that? | 23 | discussions between both utilities." And if I |
| 24 | A. Yes, I would like to. This structurewhat | 24 | take that in parts, that hasn't happened yet, |
| 25 | I've done is reviewed all the parties' | 25 | as it? In fact, the running the various |
| | Page 127 | - | - |
| 1 | analysis, providing that, getting feedback? | 1 | Page 128 run. So we, in a sense, hung our hats on |
| 2 | A. Well, I have not been apprised as to whether | 2 | Option A because it allows NP to operate in |
| 3 | it's happened or not. | 3 | the efficient fashion it has been operating in |
| 4 | Q. Okay, you don't know the answer. | 4 | the past. That's not to say other options |
| 5 | A. No, I don't. | 5 | aren't viable, but it does directly address |
| 6 | Q. Now, just go back to the Option A, as I | 6 | that aspect of the past negotiations that have |
| 7 | understand your recommendation, the Option A | 7 | been a stumbling block. |
| 8 | is the option with the full credit for | 8 | Q. And Option A is thewhat I'll say consistent |
| 9 | Newfoundland Power's hydraulic and thermal | 9 | with the existing generation credit |
| 10 | generation, correct? | 10 | methodology that the Board has used? |
| 11 | A. That's correct. | 11 | A. Yes, it is consistent with that. |
| 12 | Q. And just explain to the Board the reasons why | 12 | Q. Right, okay. Let's turn next to page 15 and |
| 13 | you believe that that's desirable? | 13 | just flesh out the final bit of your report |
| 14 | A. Any one of the three options could have merits | 14 | here, page 15 in Chart 1, you have the sample |
| 15 | on their own, but one of the stumbling blocks | 15 | rate design characteristics and what I want to |
| 16 | in the past has been the question as to | 16 | go to is down to the bottom and you have a |
| 17 | whether, if we do put in a demand energy rate, | 17 | proposal which goes as follows: For the |
| 18 | then perhaps NP can maximize their generation | 18 | energy component, you have the first |
| 10 | and in neutral at their thermal consection | 10 | 420,000,000 Itilowett hours 0,244 cents o |

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kilowatt hour?

A. That's correct.

hour, okay?

A. That's right.

Page 125 - Page 128

420,000,000 kilowatt hours, 0.344 cents a

Q. And then for over that, 0.470 per kilowatt

Q. And a demand charge of \$7.00 per kilowatt hour

and, in particular, their thermal generation

at the time of the system peak to artificially

and for the short term depress the peak;

what Option Adoes is it actually builds on

NP's native demand, that is what its intrinsic

demand before any of its own generation is

thereby giving them an economic advantage and

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| Nov | vember 14, 2003 Mult | i-Pa | ge™NL Hydro's 2003 General Rate Application |
|-----|--------------------------------------------------|------|---------------------------------------------------|
| | Page 129 | | Page 130 |
| 1 : | KELLY, Q.C.: | 1 | A. That's correct. |
| 2 | of billing demand, correct? | 2 | Q. That's correct. |
| 3 | A. Per kilowatt of billing demand. | 3 | A. And that is the costing methodology that's |
| 4 | Q. Per kilowatt, sorry, per kilowatt of billing | 4 | been used and approved. |
| 5 | demand. Now, that demand charge is per month | 5 | Q. Okay, Now, can we just go to NP-128 for a |
| 6 | as are the energy charges, correct? | 6 | second, so that we see what this means in |
| 7 | A. Yes, the thing with that is the levelthe | 7 | practise, and the question in NP-128, boiling |
| 8 | number of kilowatts that NP, we're proposing | 8 | down the question, what months are we talking |
| 9 | here that NP is to be billed on, is the 1 peak | 9 | about here, and the answer is in '98, 2000 and |
| 10 | hour of the winter, the winter being November | 10 | 2001 and 2002, the monthly energy purchases |
| 11 | through March. But now here, we're collecting | 11 | exceeded 420 kilowatt hours in the months of |
| 12 | it, this is simply a collection mechanism, | 12 | January, February, March and December. So on |
| 13 | we're collecting that in 12 equal payments of | 13 | your proposal, if you look at 1999 first, |
| 14 | \$7.00, which equals the fully allocated demand | 14 | there were only two months, January and |
| 15 | cost of \$84.00 per kilowatt year. | 15 | December, correct? |
| 16 | Q. Exactly the point I was coming to. So you are | 16 | A. Sorry, where are you referring me to? |
| 17 | going to base it off the single winter peak, | 17 | Q. Okay, it's lines 9 through 14. If you look at |
| 18 | so the annual demand charge is \$84.00 per | 18 | years '98 - |
| 19 | kilowatt? | 19 | A. Oh here, yes, I see, January and December, |
| 20 | A. And that is indeed, Hydro's fully allocated | 20 | right. |
| 21 | cost of serving NP. | 21 | Q. So we will agree that most years we're talking |
| 22 | Q. Right, and we'll come to that discussion, but | 22 | about that upper rate kicking in at, for four |
| 23 | the numbers on the annual basis is \$84,00 a | 23 | months of the year, correct? |
| 24 | kilowatt because we're looking at it off a | 24 | A. That is correct. |
| 25 | single winter peak demand? | 25 | Q. Okay, so your proposal essentially boils down |
| | Page 131 | | Page 132 |
| 1 | to this, we're going to have a demand charge | 1 | A. Which component of this? |
| 2 | of \$84.00, but right now under the existing | 2 | Q. Any or all of them, I'd like you to tell me |
| 3 | energy only rate, we have the demand charges | 3 | which component you think should be reflected |
| 4 | and the energy charges rolled into one energy | 4 | in Newfoundland Power's retail rates? |
| 5 | only charge, which is 54 whatever it is, as in | 5 | A. None of them can be reflected identically, but |
| 6 | the Revised Application, we're going to break | 6 | by Newfoundland Power living by the same rate |
| 7 | that out, we're going to have a \$84.00 demand | 7 | structure, a rate structure such as this, |
| 8 | charge and then you're going to have a two- | 8 | which is consistent with the way Hydro incurs |
| 9 | level rate, one that applies for eight months | 9 | its cost, is a virtue on its own and will, in |

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of the year and one that will apply at the 10 11 higher rate in the last four months--or in 12 four months of the year? 13 A. No, it's one rate that applies throughout the 14 year. 15

Q. Yes, but the higher rate will only kick in, in the usual circumstances, on four months of the year, correct?

A. Well, you will--the rate will be there, you 18 19 will fall into the second block for that period of time, right.

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20 21 Q. Right. Now, my next question is, and I'll 22 just give you this question before we break, 23 is it your contemplation that Newfoundland 24 Power should reflect that proposed wholesale 25 rate structure in its retail rates?

my view, promote innovation and being able to respond to that and proper rationing of demand and capacity. I cannot sit here and tell you the exact route to take or the exact mechanics to take, I think that's in your--more properly in your ballpark, but I think this is an essential and needed step that needs to be done. Q. As a general principle then, do you want us to

reflect in our retail rate structure a seasonal component reasonably proportional to what you are proposing at the wholesale level? A. I think a seasonable component--see, Hydro is

a unique situation, I mean, this Province is, in a sense, unique. I would need to study the mechanism of the seasonal--I can't say yes or

| 14, 2003 | 122 | |
|------------------------------------------------------------------------------------------------|----------|-------------------------------------------------------------------------------------------|
| | age 133 | Page 134 |
| 1 MR. GRENEMAN: | 1 | users, our customers? |
| 2 no to a seasonal, as a general concept. I | 2 | A. Can you repeat that please? |
| 3 think it can, a seasonal component can be | | Q. Do you want us to pass on your seasonal rate |
| 4 implemented, but I would need to see the | | structure in our retail rate structure to the |
| 5 mechanics. | 5 | end-use consumers? |
| 6 KELLY, Q.C.: | 6 | A. Oh, this being the seasonal rate structure. |
| 7 Q. What would be the utility of you giving us | | Q. Yes. |
| 8 seasonal rate to achieve anything unless w | | A. Not in the same form necessarily. |
| 9 somehow put a seasonal rate in place with o | | Q. In what form? |
| 10 customers? | 10 | A. There could beI would think that would be |
| 11 A. That would beisn't that what I just | 11 | for you to devise, a form. |
| mentioned? | 12 | Q. Would you think it should be reasonably |
| Q. I thought you were just saying that you'd ha | | proportionable to what you are proposing? |
| 14 to study it and - | 14 | A. Not necessarily. |
| 15 A. I'm sorry, I was referring to you putting a | | Q. Okay, the demand charges, are you proposing |
| NP putting a seasonal rate in for their | 16 | that we should pass on the demand charges as |
| customers, that's what I was referring to. | 17 | demand charges in some reasonable |
| Q. Right, and my question to you is, well if yo | | proportionality? |
| 19 want us to have a seasonal rate - | 19 | A. That's what is typically done, notI mean, |
| 20 A. Oh, do we have to have one? No. | 20 | there's divert, considerations of diversity, |
| 21 Q. No, my question is, if you think it is | 21 | of course, and so you can't pass on the same |
| 22 worthwhile for us to have one because there | | exact demand charge and there's different ways |
| some benefit to the system of having | 23 | of passing it on, whether you do it at the |
| seasonable rates and end-users, to we not ha | | retail level based upon a single peak or |
| to pass that on in some fashion to the end | 25 | whether you do it on a racheted peak is up to |
| P | age 135 | Page 136 |
| 1 you. | 1 | system, principles to be applied and then we |
| 2 Q. But you'd like us to pass on that demand | 2 | had looked at your report, exhibit RDG No. 2. |
| 3 charge to our customers? | 3 | And I want to go next and have a look at your |
| 4 A. I'm not saying that's a necessity, utilities | 4 | evidence at page 16, if we could go there. |
| 5 do do that in response to this type of rate | 5 | And if we come down to the paragraph that |
| 6 structure. | 6 | begins at line 10, and I'll give you a moment |
| 7 Q. That's a good place for us to break and we'll | 7 | to read the paragraph, the second that I want |
| 8 pick it up there after lunch. | 8 | to focus on begins at line 15. And at line |
| 9 CHAIRMAN: | 9 | 15, you say, "The demand portion of Hydro's |
| 10 Q. Thank you, Mr. Kelly, thank you Mr. Grenemar | n, 10 | rate will provide Newfoundland Power with a |
| we'll reconvene at 1:30 p.m. | 11 | quantitative measure against which to develop |
| 12 (BREAK AT 12:20) | 12 | a viable load management plan." Now, the |
| 13 (RECONVENED AT 1:30 P.M.) | 13 | quantitative measure that you're talking about |
| 14 CHAIRMAN: | 14 | there is the \$84.00 per kilowatt, per year, |
| 15 Q. Thank you. Good afternoon, Ms. Newman, is | 15 | correct? For demand? |
| there anything before we begin? | 16 | A. Effectively yes. |
| 17 MS. NEWMAN: | 17 | Q. Okay. Now, and you go on in the next sentence |
| 18 Q. No. | 18 | to say, "All things considered, the preferable |
| 19 CHAIRMAN: | 19 | alternative is to provide Newfoundland Power |
| 20 Q. Okay, thank you. Good afternoon, Mr. Kelly, | 20 | with a relevant price signal." And the |
| 20 Q. Okay, mank you. Good afternoon, wif. Keny, | 120 | with a fele vant price signar. This the |
| 20 Q. Okay, mank you. Good arternoon, Mr. Keny, 21 when you're ready please? Are you ready? | 21 | relevant price signal that you're talking |
| | | |
| when you're ready please? Are you ready? | 21 22 | relevant price signal that you're talking |
| 21 when you're ready please? Are you ready? 22 KELLY, Q.C.: | 21 22 | relevant price signal that you're talking about there again is \$84.00 a kilowatt a year? |

Page 138

Page 140

| Nov | ember 14, 2003 Mult | ı-Pag | e "NL Hydro's 2003 General Rate Application |
|-----|--------------------------------------------------|-------|---------------------------------------------------|
| | Page 137 | | Page 138 |
| 1 I | KELLY, Q.C.: | 1 | evidence here that this is the quantitative |
| 2 | in other words, what Hydro has spent in the | 2 | measure against which we are to develop the |
| 3 | past? | 3 | load management plan. Is it or is it not? |
| 4 | A. It is. | 4 | A. Right, I'm not disagreeing with what I wrote, |
| 5 | Q. Okay, now let's just follow this along a bit, | 5 | you have to think about your sentence. |
| 6 | so if this is the quantitative measure against | 6 | Q. Okay, well let me put this proposition to you, |
| 7 | which Newfoundland Power is to develop a | 7 | if it is the quantitative measure against |
| 8 | viable load management plan, would you agree | 8 | which we should develop a load management |
| 9 | with me that any expenditure which | 9 | plan, in your view is it also the quantitative |
| 10 | Newfoundland Power makes less than that | 10 | measure against which Hydro should develop its |
| 11 | quantitative measure to reduce demand, would | 11 | load management plan? |
| 12 | be good in your view for the system? | 12 | A. Which load management plan of Hydro's are you |
| 13 | A. I would agree tentatively. The \$84.00 | 13 | referring to? |
| 14 | provides a measure which was non-existent in | 14 | Q. Load management plan for any demand that |
| 15 | the energy only rate. | 15 | relates to the customers that Hydro serves |
| 16 | Q. Okay, but will you accept my proposition that | 16 | directly, whether that is Rural Connected or |
| 17 | on your view any expenditure that Newfoundland | 17 | whether that's Industrial? |
| 18 | Power makes to reduce demand, which is less | 18 | A. Well, you see, you're expressing it as an |
| 19 | than \$84.00, it costs less than \$84.00 a | 19 | absolute and I'd need to think about whether |
| 20 | kilowatt hoursorry, a kilowatt for demand, | 20 | it's valid as an absolute, rather than being |
| 21 | would be good for the system? That's your | 21 | based on, and I have not come to a conclusion |
| 22 | view? | 22 | on whether I can say anything that's |
| 23 | A. I would agree, but I would like to reflect on | 23 | absolutely less than \$84.00. There are other |
| 24 | it a little bit more later on. | 24 | considerations that come into play. |
| 25 | Q. Well, that puzzles me because this is your | 25 | Q. What would be the other considerations that |
| | Page 139 | | Page 140 |
| 1 | would come into play there? | 1 | of what you achieve. What are the |
| 2 | A. It would be the quality of the type of load | 2 | characteristics and quality of what you |
| 3 | management you achieve, whether it's long | 3 | achieve? Is itcan it be called on at any |
| 1 | | 1 | |

term, short term, whether it's a specified limited number of hours per year or whether it's available on a continuing basis. These are all modifiers--the statement holds on its own. I'm reticent to agree with your very specific case.

- Q. But you had set forward a proposal in which we 10 11 are to develop a load management plan -
- A. This is a guideline, if you will. 12
- Q. and we are to test it, sir, according to 13 your analysis, against a winter peak, a single 14 15 winter peak, that is your proposal.
- A. Right. 16

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- 17 Q. And the value of that is \$84.00 a kilowatt, so if we spend \$75.00 a kilowatt to get rid of a 18 19 kilowatt of demand, would that not meet your criteria of quantitative measure? 20
- A. As I sit here, I don't think I can agree with 21 22 that premise. I think it's based on the \$84.00, but I cannot say that if you spend 78, 23 it's worthwhile. That's for you to decide, 24 25 number one; and number two, it's the quality

- re the hat you
- at any time, is it for a specified period of time, 4
- 5 are there conditions involved with it, is it
- temporary in nature or long term in nature? 6
- You can't answer those questions based--7
 - they're all valid considerations and honestly,
- 9 I cannot -

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- Q. What would you have to look at then to address all of those concerns that you've put forward?
- A. I'd have to know the nature of what it is and 12 13 to study it.
- Q. So then this is not a quantitative measure 14 15 against which we can determine the value of a load management plan? 16
- A. It is in that it provides you with a hard 17 number to assess various options in 18 19 consideration with other variables.
 - O. Well, let's take it a step further and wrap some numbers around this discussion. Let's assume that there was 20 megawatts that we could deal with, so instead of talking about \$84.00 a kilowatt, 20 megawatts would work out to 1.68 million dollars at \$84.00. So if we

| November 14, 2003 Multi-I | | | -Page [™] NL Hydro's 2003 General Rate Application | | |
|---------------------------|-------------------------------------------------|----|-------------------------------------------------------------|--|--|
| | Page 141 | | Page 142 | | |
| 1 F | KELLY, Q.C.: | 1 | A. And has to live by it, but it's putting that | | |
| 2 | spent anything less than 1.68 million to get | 2 | at risk in order to get a demand and energy | | |
| 3 | rid of 20 megawatts of demand at peak period, | 3 | rate on the table and in place. | | |
| 4 | would that not meet your quantitative measure? | 4 | Q. So you would agree that Hydro, anything less | | |
| 5 | A. You would have a net savings. | 5 | than 1.68 million for 20 megawatts would be a | | |
| 6 | Q. In your view, we would have a net savings? | 6 | good investment? | | |
| 7 | A. On the face of it, yes. | 7 | A. No, as I pointed out, it has a commitment that | | |
| 8 | Q. And that's your view, is it? | 8 | it must pay those dollars, regardless right | | |
| 9 | A. On the face of what you describe without | 9 | now of whether it gets rid of them or not. | | |
| 10 | further consideration and my experience is | 10 | Q. But those are historical costs, aren't they? | | |
| 11 | that everything requires further | 11 | A. But they have contracts and they have to pay | | |
| 12 | consideration, you would have - | 12 | that historical costs, so - | | |
| 13 (| 1:45 p.m.) | 13 | Q. But the future costs against which load | | |
| 14 | Q. Okay, wellso let's take it a step further. | 14 | management has to be addressed is a future | | |
| 15 | So by the same token, that would also be true | 15 | expense, is it not? | | |
| 16 | for Hydro? Hydro could get rid of 20 | 16 | A. Yes, the deferral of plant. | | |
| 17 | megawatts at peak period, it would make sense | 17 | Q. Deferral of plant is a future expenditure, | | |
| 18 | for them to spend anything less than 1. 68 | 18 | okay. Now, then what does the Board have to | | |
| 19 | million to get rid of it. | 19 | know in order to be satisfied that it is cost | | |
| 20 | A. Hydro has made a long-term commitment and it | 20 | effective to spend money now to defer capacity | | |
| 21 | cannot get ridthat's the embedded cost, so | 21 | in the future? | | |
| 22 | it has to recover that cost and it's putting | 22 | A. Well, if you're headed towards marginal costs, | | |
| 23 | that money at risk. It's already made a | 23 | marginal cost is certainly an input to demand | | |
| 24 | historical commitment for that \$84.00. | 24 | side management and load management; however, | | |
| 25 | Q. Made a historical commitment, but what - | 25 | that is separate and distinct, in my view, | | |
| | Page 143 | | Page 144 | | |
| 1 | from implementation of a demand energy rate. | 1 | would not Hydro need to know it and would not | | |
| 2 | The virtues of a demand energy rate stand, on | 2 | the Board need to know it to determine the | | |
| 3 | themselves, regardless of whether or not NP | 3 | cost effectiveness of it? | | |
| 4 | does any load management. | 4 | A. It will defer the time, my presumption is it | | |
| 5 | Q. But your report has framed it in terms of | 5 | will defer the time at which Hydro needs to | | |
| 6 | deferring capacity to meet peak. Now let's | 6 | sit down at the table and plan the next unit. | | |
| 7 | just follow this through. Would we not need | 7 | Q. Okay. | | |
| 8 | to know, first of all, what that future | 8 | A. And that, in itself, is a savings in dollars. | | |
| 9 | capacity will in fact look like? What are the | 9 | Q. So we need to know what - | | |
| 10 | long-run system expansion model for that | 10 | A. Without knowing quantitatively, to the extent | | |
| 11 | Interconnected System? Would we not need to | 11 | that it will defer it and it will defer it, | | |
| 12 | know that? | 12 | that is a dollar savings and I don't think it | | |
| 13 | A. No, I can saywell, it depends if you want to | 13 | necessarily has to quantify that dollar | | |
| 14 | know qualitatively or quantitatively. I can | 14 | savings. | | |
| 15 | tell you with a very high degree of certainty | 15 | Q. It's a dollar savings, but you say we don't | | |
| 16 | that if you lower your load on aI can tell | 16 | need to quantify it? | | |
| 17 | you pretty definitively that if you lower your | 17 | A. I'm saying I'm not sure that Hydro needs to | | |
| 18 | peak demand on an ongoing basis, you will | 18 | quantify it and is Hydro quantifying it right | | |
| 19 | defer capacity. I can say that prettywith a | 19 | now? I don't think so. | | |
| 1 | | 1 | - D 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 | | |

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here?

A. Yes and we would quantify if there is a time 24 element that would come into play. 25

Q. Do we need to know when that capacity will be

added, would otherwise need to be added? Is

there not a time element that comes into play

Q. Okay, so but do we need to know what that

capacity analysis is going to look like, what

type of plant, how much it's going to cost?

Q. Well Hydro is going to build it, presumably,

high degree of certainty.

A. You might need to know that.

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| | P 115 | | D 146 |
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| | Page 145 | | Page 146 |
| 1 | ELLY, Q.C.: | 1 | megawatts and at 50 percent, 75 megawatts. |
| 2 | Q. And would we not then have to determine a net | 2 | Now remember we had the discussion this |
| 3 | present value of the cost of that future | 3 | morning - |
| 4 | capacity to be deferred? | 4 | A. I'm sorry, say that again? |
| 5 | A. Right. | 5 | Q. If how many were on, how many were running - |
| 6 | Q. We would, wouldn't we, right. So that if in | 6 | A. Right. |
| 7 | fact, let me come back to the example we | 7 | Q. And you said 10 percent to 50 percent of them |
| 8 | talked about this morning of water heaters, | 8 | may be on at any point in time during the day, |
| 9 | the one that you put forward. And in your | 9 | agreed? And at 150 megawatts for the whole |
| 10 | report, you said there were 150,000 electric | 10 | capacity, according to your report as a rough |
| 11 | hot water heaters, 1 kilowatt per unit for a | 11 | ballpark here - |
| 12 | total load of 150 megawatts. Now they cycle | 12 | A. Right. |
| 13 | off and on, so at any given point in time, how | 13 | Q. That would be a hot water - |
| 14 | many do you think would be on? | 14 | A. Well the 50 percent was premised on normal |
| 15 | A. I don't know at the moment. | 15 | recycling to begin with. |
| 16 | Q. You have no sense of on a regular basis - | 16 | Q. Fine. |
| 17 | A. How many would be off? | 17 | A. And what I'm referring to, okay, so the gain |
| 18 | Q. How many would be on? | 18 | would be the gain with respect to 50 percent |
| 19 | A. How many would be on? I would say anywhere | 19 | this is purely hypothetical and theoretical. |
| 20 | from, I would just take a rough guess and this | 20 | Q. I appreciate that. |
| 21 | is, I'd say between 10 and 50 percent. | 21 | A. And to reiterate, I'm stepping out of my area |
| 22 | Q. Between 10 and 50 - | 22 | right now. But assuming in the normal course |
| 23 | A. I'm just picking a rough number, I'm stepping | 23 | of events 50 percent were on, and I said 10 to |
| 24 | out of my area right now. | 24 | 50 percent meaning if 25 percent are on, |
| 25 | Q. So that would give us at 10 percent, 15 | 25 | that's a 100 percent gain with respect to the |
| | | | |
| | Page 147 | | Page 148 |
| | Page 147 50 percent that would have been on. | | Page 148 75 megawatts like that? |
| 1 2 | 50 percent that would have been on. | 1 | 75 megawatts like that? |
| 2 | 50 percent that would have been on. Q. Okay, so if I could ask you the question, if I | 1 2 | 75 megawatts like that? A. Well instant savings to you are \$84.00 a |
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| 2 3 4 5 | 50 percent that would have been on. Q. Okay, so if I could ask you the question, if I had a magic switch and I said, now I can turn off every hot water heater in the province that's on - | 1 2 3 4 5 | 75 megawatts like that? A. Well instant savings to you are \$84.00 a kilowatt year. Q. So if you work that out, it would be worth it to us to spend a lot of money to do it, how |
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| 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 | 50 percent that would have been on. Q. Okay, so if I could ask you the question, if I had a magic switch and I said, now I can turn off every hot water heater in the province that's on - A. Yes. Q. How many megawatts would I turn off? A. Well according to your calculation, 150 megawatts. Q. But that's if they're all running. A. According to the 50 percent, 75 megawatts. Q. So it may be 75 megawatts, to take a very high percentage using your 50, okay. A. Right. Q. Now, if I'mwe talked about this morning about how we could go about doing that and one potential method that's out there is we could put in an electronic control on every hot water heater and build an expensive system to have radial control dispatch to take that off the system, so that when Hydro calls us up and says, okay, there's a peak, we're getting | 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 | 75 megawatts like that? A. Well instant savings to you are \$84.00 a kilowatt year. Q. So if you work that out, it would be worth it to us to spend a lot of money to do it, how much would that work out to? A. 75,000 times 84. Q. A lot of money. Now, if we spent all of that money, would we go out therethat would be the cost to, if we spent a million dollars, would it be worth spending a million dollars? A. On the face of it, it seems like it would be worth spending it to you. Q. For us? A. Yes. Q. On your analysis. Would it be worth us spending 5 million dollars? A. I'm trying to think where this is all headed. Q. Never mind, just - A. It could be. Q. Could be. Would it be worth us spending 10 million dollars? |

| Page 149 J. M.R. GRENEMAN: A. That's right. A. That's right. A. Cookay. A. Actually I would say it could be, because that's per year and then it goes on year after year. B. Q. Right, but that enables us to turn it off on a winter peak. Now, would that defer any capacity? A. If it's reliable year after year, the question list, is it reliable year after year, something that's dependable. A. If it's reliable year after year, the question list, is it reliable year after year, something that's dependable. A. Right. That would cause—I would think that would cause Hydro to defer capacity. Q. Okay, now what's the difference in that and Hydro calling up Stephenville and saying we have a winter peak coming and they have a program in place that turns off 75 megawats or 46 or whatever number they have is equally as a reliable, does that not defer capacity? A. Well, I don't know all the circumstances around Stephenville. I don't know how long term it could be. I think the option for Page 151 alternative is what is the system-number one, what is the expression row, what is the folog run marginal cost. What is the net present value to bring it back so we have a number to determine whether the expenditure now on deferral today is, in fact, what is the net present value to bring it back so we have a number to determine whether the expenditure now on deferral today is, in fact, a savings or not? Isn't that the malysis that has to be done? A. I honestly believe that your line of questioning is exceeding the scope of the demand energy rate. I think it's a pretty well known fact and I think you would even approach at the sexpenditure now on determine whether the expenditure now on determine whether the expenditure now on determine whether the expenditure now on determine the least cost alternative. And your proposal at line 15 was that so would solve to speak to it. A. If it's reliable year after year, the question have to indeed in the malysis of the least cost alternatives? And the malysis the following and the pa | | ember 14, 2005 Mulu | -Pag | ge NL Hydro's 2005 General Rate Application |
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| 2 A. That's right. 3 (NELLY, O.C.) 4 (O. O. O | | Page 149 | | Page 150 |
| SKELLY, O.C.: A Catally I would say it could be, because that's per year and then it goes on year after year. S Q. Right, but that enables us to turn it off on a winter peak. Now, would that defer any capacity? 10 A If it's reliable year after year, the question is, is it reliable year after year, the question is, is it reliable year after year, the question is, is reliable year after year, the question is, is reliable year after year, the question is, is reliable year after year, something it at s' dependable. Q. We have a dependable radial controlled system. | 1 1 | MR. GRENEMAN: | 1 | whether they want it turned off or not is |
| 4 Q. Okay. 4 A. Actually I would say it could be, because that's per year and then it goes on year after year. 5 Q. Right, but that enables us to turn it off on a winter peak. Now, would that defer any capacity? 10 capacity? 11 A. If it's reliable year after year, the question is, is, is treliable year after year, something that would cause Hydro to defer agracity. 12 is, is it reliable year after year, something that would cause Hydro to defer agracity. 13 A. Right. That would cause—I would think that would cause Hydro to defer agracity. 14 Q. Okay, now what's the difference in that and Hydro calling up Stephenville and saying we have a winter peak coming and they have a program in place that turns off 75 megawatts or 46 or whatever number they have is equally as reliable, does that not defer capacity? 2 A. Well, I don't know all the circumstances around Stephenville. I don't know how long term it could be. I think the option for 2 what is the system—number one, what is the expression? Number three, when will that occur in the future? And number four, what is the heat present value to bring it back so we have a number to determine whether the expenditure now on deferral tody is, in fact, a savings or not? Isn't that the analysis that has to be done? 3 A. If his Read that has to be done? 4 A. I hon't know fact and I think you would even agree that a demand energy rate and I'd probably want to refer this to somebody that's more qualified within Hydro to speak to it. 4 Q. Who would that be, si?? 4 I don't know, I'd like to confer with Hydro on that the sould cause Hydro should give us, you, what is the system planning. 5 Q. Well, I don't know how long term it could be. I think it's a prety well known fact and I think you would even agree that a demand energy rate does promote conservation, it's pretty well accepted in the industry. And I think you're getting into a lord of details which perhaps are more properly addressed by system planning. 5 Q. But this Board has to determine the least cost alterative. And your | 2 | A. That's right. | 2 | their option, rather than Hydro's option, I'm |
| 5 A. Actually I would say it could be, because that's per year and then it goes on year after year. 8 Q. Right, but that enables us to turn it off on a winter peak. Now, would that defer any capacity? 10 capacity? 11 A. If it's reliable year after year, the question is is, it reliable year after year, the question is is, it reliable year after year, omething that's dependable. 12 Q. We have a dependable radial controlled system. 13 A. Right. That would cause—I would think that would cause Hydro to defer capacity. 14 Q. Okay, now what's the difference in that and Hydro calling up Stephenville and saying we have a winter peak coming and they have a program in place that turns off 75 megawatts or 46 or whatever number they have is equally a se reliable, does that not defer capacity? 12 A. Well, I don't know all the circumstances around Stephenville. I don't know how long term it could be. I think the option for 13 A. Well, I don't know all the circumstances around Stephenville. I don't know how long to that that so the done? 24 what is the system plan for future expansion? 25 Number two, what is the long run marginal cost of that expansion? Number three, when will that occur in the future? And number four, what is the net present value to bring it back so we have a number to determine whether the expenditure now on deferral today is, in fact, a savings or not? Isn't that the analysis that has to be done? 10 A. I honestly believe that your line of questioning is exceeding the scope of the demand energy rates. I hink it's a pretty well accepted in the industry. And I think you're getting into a lot of details which perhaps are more properly addressed by system planning. 20 Q. But this Board has to determine the least cost alternative. And your proposal at line I5 was that you should give us, you, Mr. Greneman from Stone and Webster and Hydro, should give us, you, Mr. Greneman from Stone and Webster and Hydro, should give us, but the Board has to determine the least cost alternative. And our proposal at l | 3 1 | KELLY, Q.C.: | 3 | not sure of that. |
| that's per year and then it goes on year after year, year. Q. Right, but that enables us to turn it off on a winter peak. Now, would that defer any capacity? A. If it's reliable year after year, the question is, is it reliable year after year, the question at hat's dependable. Q. We have a dependable radial controlled system. A. Right. That would cause—I would think that would cause Hydro to defer capacity. O. Okay, now what's the difference in that and Hydro calling up Stephenvillea and saying we have a winter peak coming and they have a program in place that turns off 75 megawatts or 46 or whatever number they have is equally as reliable, does that not defer capacity? A. Well, I don't know who will be a discussion though. We have to measure the Board, the \$84.00 is simply an historical rate, but the Board has a responsibility to determine system planning for the future and the least cost alternative. That's the mandate under the Electrical Power Control Act. In order to determine whether the expenditure that I just put to you for water header controls is appropriate, does the Board not have to judge that against the following factors. What are the alternatives? And the what is the system—number one, what is the system plan for future expansion? Number two, what is the long run marginal cost of that expansion? Number three, when will that occur in the future? And number four, what is the net present value to bring it back so we have a number to determine whether the expenditure now on deferral today is, in fact, so what is the net present value to bring it back so we have a number to determine whether the expenditure now on deferral today is, in fact, so what is the net present value to bring it back so we have a number to determine whether the expenditure now on deferral today is, in fact, so what is the net present value to bring it back so we have a number to determine whether the expenditure now on deferral today is, in fact, so what is the system planning or that it has to live with. Whether load m | 4 | Q. Okay. | 4 | Q. No, no, on Interruptible B, if they've signed |
| 7 A. Yeah. I think this is getting out of the purview of the demand energy rate and I'd purview of the demand energy rate does promote conservation, it's pretty well known fact and I think you would that be demand energy rate does promote alternative. And your proposal at line I5 was that you should give us, you, Mr. Greneman from Stone and Webster and Hydro, should give us the quantitative measure, but the Board has to the done? 7 A. Yeah. I think this is getting out of the purview of the demand energy rate and I'd purview of the demand energy rate and I'd purview of the demand energy rate one your proposal at line I'd would that be freight measure is the right measure. It was to refer this to somebody that's more qualified within Hydro to speak to it. 9 A. Yeah. I think the purview of the demand energy rate one your probably want to refer this to somebody that's more qualified within Hydro to speak to it. 9 A. Vell, I don't know, I'd like to confer with Hydro on that. 10 Who would that be, sir? 11 A. I don't know, I'd like to confer with Hydro on that. 12 Whell, let me, I want to continue this discussion though. We have to measure the Board, the S84.00 is simply an historical to the east cost alternative. That's the discussion though. We have to measure the Board, the S84.00 is simply an historical trace, but the fact to fact mand the least cost alternative is what is the system—number one, what is the system plan in place that urns off 75 megawatts of a word of the furn and the least cost alternative is what is the option for the furn and the least cost alternative is what is the system—num | 5 | A. Actually I would say it could be, because | 5 | up for 25 times a year, 25 peaks on demand |
| 8 Q. Right, but that enables us to turn it off on a winter peak. Now, would that defer any capacity? 10 capacity? 11 A. If it's reliable year after year, the question that's dependable. 12 is, is it reliable year after year, something that's dependable. 13 that's dependable. 14 Q. We have a dependable radial controlled system. 15 A. Right. That would cause-I would think that would cause Hydro to defer capacity. 16 Q. Okay, now what's the difference in that and Hydro calling up Stephenville and saying we program in place that turns off 75 megawatts or of 46 or whatever number they have is equally as reliable, does that not defer capacity? 12 a. Well, I dor't know wol long term it could be. I think the option for what is the system-number one, what is the option for that expansion? Number two, what is the long run marginal cost of that expansion? Number two, what is the option for that expansion? Number two, what is the option for that expansion? Number two, what is the option for that expansion? Number two, what is the option for that expansion? Number three, when will that occur in the future? And number four, what is the net present value to bring it back so we have a number to determine whether the expenditure now on deferral today is, in fact, a savings or not? Isn't that the analysis that has to be done? 11 A. I honestly believe that your line of questioning is exceeding the scope of the demand energy rate and Frid probably want to refer this to somebody that's more qualified within Hydro to speak to it. 19 Who would that be, sir? 20 Q. Well, let me, I want to confer with Hydro on that. 21 Hydro there, with Hydro on that it has to leave to measure the Board has a prespossibility to determine system planning or the future and the least cost alternative. And your proposal at line 15 was that you should give us, you, Mr. Greneman from Stone and Webster and Hydro, should give us the quantitative measure, but the Board has to determine the least cost alternative measure, but the Board has to determine the least | 6 | that's per year and then it goes on year after | 6 | from Hydro, they'll turn off 46 megawatts. |
| 8 Q. Right, but that enables us to turn it off on a winter peak. Now, would that defer any capacity? 10 capacity? 11 A. If it's reliable year after year, the question that's dependable. 12 is, is it reliable year after year, something that's dependable. 13 that's dependable. 14 Q. We have a dependable radial controlled system. 15 A. Right. That would cause-I would think that would cause Hydro to defer capacity. 16 Q. Okay, now what's the difference in that and Hydro calling up Stephenville and saying we program in place that turns off 75 megawatts or of 46 or whatever number they have is equally as reliable, does that not defer capacity? 12 a. Well, I dor't know wol long term it could be. I think the option for what is the system-number one, what is the option for that expansion? Number two, what is the long run marginal cost of that expansion? Number two, what is the option for that expansion? Number two, what is the option for that expansion? Number two, what is the option for that expansion? Number two, what is the option for that expansion? Number three, when will that occur in the future? And number four, what is the net present value to bring it back so we have a number to determine whether the expenditure now on deferral today is, in fact, a savings or not? Isn't that the analysis that has to be done? 11 A. I honestly believe that your line of questioning is exceeding the scope of the demand energy rate and Frid probably want to refer this to somebody that's more qualified within Hydro to speak to it. 19 Who would that be, sir? 20 Q. Well, let me, I want to confer with Hydro on that. 21 Hydro there, with Hydro on that it has to leave to measure the Board has a prespossibility to determine system planning or the future and the least cost alternative. And your proposal at line 15 was that you should give us, you, Mr. Greneman from Stone and Webster and Hydro, should give us the quantitative measure, but the Board has to determine the least cost alternative measure, but the Board has to determine the least | 7 | year. | 7 | A. Yeah. I think this is getting out of the |
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| 11 A. If it's reliable year after year, the question 12 is, is it reliable year after year, something 13 that's dependable. 14 Q. We have a dependable radial controlled system. 15 A. Right. That would cause—I would think that 16 would cause Hydro to defer capacity. 17 Q. Okay, now what's the difference in that and 18 Hydro calling up Stephenville and saying we 19 have a winter peak coming and they have a 20 program in place that turns off 75 megawatts 21 or 46 or whatever number they have is equally 22 as reliable, does that not defer capacity? 23 A. Well. I don't know all the circumstances 24 around Stephenville. I don't know how long 25 term it could be. I think the option for 26 what is the system plan for future expansion? 27 Number two, what is the long run marginal cost 28 of that expansion? Number three, when will 29 that occur in the future? And number four, 29 what is the net present value to bring it back 29 so we have a number to determine whether the 29 expenditure now on deferral today is, in fact, 20 so we have a number to determine whether the 21 a savings or not? Isn't that the analysis 22 that has to be done? 23 a savings or not? Isn't that the analysis 24 that has to be done? 25 that has to be done? 26 will be a savings or not? Isn't that the analysis 27 that has to be done? 28 that has to be done? 29 Q. But this Board has to determine the least cost 20 Q. But this Board has to determine the least cost 21 alternative. And your proposal at line 15 was 22 that you should give us, you, Mr. Greneman 28 that you should give us, you, Mr. Greneman 29 the save after year, something that a demand at system peak. 29 that have a difference in that and that that is the option of the least cost of the demand at system peak. 29 that have a difference in that and the deferral that and the least cost of the demand and webster and Hydro, should give us you, Mr. Greneman from Stone and Webster and Hydro, should give us the quantitative measure is the right measure is against which to determine the least cost of | 10 | • | 10 | - · · · · · · · · · · · · · · · · · · · |
| is, is it reliable year after year, something that's dependable. Q. We have a dependable radial controlled system. A. Right. That would cause—I would think that would cause Hydro to defer capacity. Q. Okay, now what's the difference in that and Hydro calling up Stephenville and saying we have a winter peak coming and they have a program in place that turns off 75 megawatts or 46 or whatever number they have is equally as reliable, does that not defer capacity? A. Well, I don't know all the circumstances around Stephenville. I don't know how long term it could be. I think the option for Page 151 alternative is what is the system—number one, what is the expstem plan for future expansion? Number two, what is the long run marginal cost of that expansion? Number three, when will that occur in the future? And number four, what is the net present value to bring it back or that has to be done? A. Vell, I don't know, I'd like to confer with Hydro on that that and that that of the standing that had the storm of the future and the least cost alternative. That's the mandate under the Electrical Power Control Act. In order to determine whether the expenditure that I just put to you for water heater controls is appropriate, does the Board not have to judge that against the following factors. What are the alternatives? And the Page 152 The proper manufact and think that the analysis of that has to be done? A. Well, that's sign fact, cost effective? A. Well, that's sign fact, cost effective? A. Well, that's signing that it says. A. Well, that's sign fact, one some have a mander energy rate does promote conservation, it's pretty well accepted in the industry. And I think you're getting into a lot of details which perhaps are more properly addressed by system planning. Board the \$84.00 is simply an historical rate, but the Board has a tesponsibility to determine system planning for the future and the least cost alternative. That's the mandate under the Electrical Power Control Act. In order to determine whether the | 11 | | 11 | · · · · · · · · · · · · · · · · · · · |
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| 0. We have a dependable radial controlled system. 15 A. Right. That would cause—I would think that 16 would cause Hydro to defer capacity. 17 Q. Okay, now what's the difference in that and 18 Hydro calling up Stephenville and saying we 19 have a winter peak coming and they have a 19 program in place that turns off 75 megawatts 20 program in place that turns off 75 megawatts 21 or 46 or whatever number they have is equally 22 as reliable, does that not defer capacity? 23 A. Well, I don't know all the circumstances 24 around Stephenville. I don't know how long 25 term it could be. I think the option for 26 what is the system plan for future expansion? 27 A. Well, I when two, what is the long run marginal cost 28 of that expansion? Number three, when will 29 that to ccur in the future? And number four, 29 what is the expenditure now on deferral today is, in fact, 29 a savings or not? Isn't that the analysis 29 that has to be done? 20 A. In order to determine whether the 20 program in place that turns off 75 megawatts 21 alternative is what is the system-number one, 22 what is the system plan for future expansion? 23 Number two, what is the long run marginal cost 24 of that expansion? Number three, when will 25 that occur in the future? And number four, 26 what is the net present value to bring it back 27 so we have a number to determine whether the 28 expenditure now on deferral today is, in fact, 29 a savings or not? Isn't that the analysis 20 that has to be done? 21 alternative. And J think you would even 22 agree that a demand energy rate does promote 23 conservation, it's pretty well accepted in the 24 industry. And I think you're getting into a 25 demanded energy rate does promote 26 conservation, it's pretty well accepted in the 27 industry. And I think you're getting into a 28 laternative. And your proposal at line 15 was 29 that you should give us, you, Mr. Greneman 20 Thoreac demand at system peak. 21 alternative adventure of the forman at the following factors. What are the alternatives? And the least co | 1 | • | | |
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| | in the state of th | | THE HYDRO S 2000 General Rate Application |
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| | Page 153 | | Page 154 |
| | 1 KELLY, Q.C.: | 1 | we supposed to respond to it? |
| | looking at the historical costs. You have to | 2 | A. That's up to you. |
| | look at the future potential costs of | 3 | Q. No, no, with respect, sir, you have said we |
| | 4 generation versus deferral. | 4 | should have an incentive to do this. And so, |
| 1 | A. I would submit that it could be looked at both | 5 | if you're saying we should have the incentive, |
| | ways and it could be looked at independently | 6 | presumably you want us to respond. |
| | based upon embedded cost. | 7 | A. It would be desirable to respond, but I can't |
| | 8 Q. Okay. What will embedded cost give us other | 8 | tell you how you're going to respond or what |
| | 9 than historical costs? | 9 | the economics are. |
| 1 | 0 A. It gives you historical cost, but it's | 10 | Q. You can't tell me the economics of how we |
| 1 | | 11 | should respond? |
| 1 | | 12 | A. Well, I think that's within your area to |
| 1 | | 13 | determine. |
| 1 | | | Q. But you can't tell me the economicsyou're |
| 1 | - · · · | 15 | going to give me an incentive at \$84.00 to |
| 1 | | 16 | take demand off the system, but you can't tell |
| 1 | • | 17 | me that we should take demand off the system |
| 1 | | 18 | for anything less than \$84.00? Is that not |
| 1 | | 19 | what - |
| 2 | | | A. This is really going beyond what the report is |
| 2 | | 21 | saying. The \$84.00 is a proper number, it's |
| 2 | | 22 | supported on the, in some virtues. |
| 2 | | 1 | Q. Will you agree with me, sir, that your rate |
| 2 | | 24 | has two components to it, both demand and |
| 2 | | 25 | energy? |
| H | Page 155 | | Page 156 |
| | 1 A. That is true. | 1 | aren't they, at 5.13 cents a kilowatt hour? |
| 1 | 2 Q. Okay. Now, in your energy component you have | | A. I'm not sure that'sI was told that'show do |
| 1 | a value for eight months of the year of 3. 4 | 3 | I say - |
| 1 | 4 cents a kilowatt hour? | | Q. Would you like - |
| 1 | 5 A. Is that 3.44? | | A. I'm not sure of the validity of that number |
| 1 | 6 Q. 3.44. I'm doing a bit of rounding here? Yes? | 6 | exactly. |
| 1 | 7 A. (No audible response). | | |
| 1 | | 1 / | • |
| | 8 O And the highest rate that you have is 4 / | | Q. You're not? |
| 1 | Q. And the highest rate that you have is 4. 7 | 8 | Q. You're not? A. But the 4.7 is - |
| | cents as the tail block rate for the other | 8 9 | Q. You're not? A. But the 4.7 is - Q. Can we put NP-171 on the screen? |
| 1 | cents as the tail block rate for the other part of the year, the other four months? | 8 9 10 | Q. You're not? A. But the 4.7 is - Q. Can we put NP-171 on the screen? A. I saw that, I saw that. The 4.7 cents is the |
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Page 157 Page 158 minimum at the marginal cost of production? 1 KELLY, O.C.: 1 A. Well, one's a theoretical question, the other Q. Have you done an analysis to dispute Hydro's 2 is--there's theoretical one, a practical numbers? 3 3 A. No. answer. There are circumstances where it's 4 4 Q. No. So would you agree with me that your acceptable to sell energy at less than the 5 5 energy rates are less than the marginal cost 6 marginal cost. 6 7 of production? 7 Q. And so out of that may I suggest to you, sir, A. The intent was to put the--the intent was to that in looking at the long-run future system 8 8 put the tail block, the 4.7 cents at the and how we should either add capacity or defer 9 9 10 marginal cost of fuel, not OM, but fuel at 10 capacity, we need to look at the marginal cost Holyrood. So the intent was to price it at of energy and the marginal cost of demand as 11 11 the marginal cost of fuel at Holyrood. relevant components quite apart from or in 12 12 Q. Then, sir, that would then price energy at addition to, whichever you like, the embedded 13 13 less than it costs to produce it in this costs? 14 14 15 province. 15 A. Yeah. There are marginal cost considerations. 16 A. What would? 16 To price fuel, to set the price of energy at the price of fuel there's a very close if not Q. Because you're going to price it at roughly 17 17 half a cent below the cost of producing it. exact matching of fuel cost with fuel 18 18 Do you not think that that is an inefficient consumption. So if customers decrease their 19 19 use, Holyrood burns less and there's a proper price? 20 20 A. What--I'm not supposed to ask a question, so matching of cost. That's the intent in the 21 21 I'll ask it rhetorically. Would it make you energy block. The intent is not long-run 22 22 happier if we'd made the tail block 5.13? 23 marginal costs, the intent is to match the 23 Q. Well, I simply put the question, do you not cost with--the revenues with the cost. 24 24 agree that any energy should be sold at a O. To make sure we don't sell it below cost at 25 25 Page 159 Page 160 the time of production? be appropriate to -1 1 A. There are plenty of utilities that sell below Q. In what circumstances then? 2 2 3 A. Okay. Let me hypothesize, let me put forward 3 cost. 4 (2:05 p.m.) a theoretical rate form, okay, to give you an 4 5 Q. Do you think in this province we should sell 5 example. It's not the rate form we put forward here. Suppose we implemented as an energy below cost? 6 6 7 A. There are circumstances where it may be 7 alternative to what we have in RDG-2 a rate, a two tier rate just as we have right now where 8 appropriate. 8 9 Q. Do you think in any circumstance which exists 9 the second block is exactly as you see it in this province now we should sell energy here, 5.13 cents per kilowatt hour and we took 10 10 11 below cost? 11 the block ending instead of being 420 gigawatt A. If you have two sources and one source is one hours per year, we moved that such that every 12 12 cent a kilowatt hour and the other is three single month NP would see the 5.13 cents. 13 13 cents a kilowatt hour and there's an equal use Because it's a two tier rate you would take 14 14 of the one cent energy and the three cent the first block and bring it down sufficiently 15 15 energy, but you have an equal block all year low in order to enable the higher 5.13 cents 16 16 round priced at two cents in every month. It's that first block that's 17 17

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O. So what -

selling under marginal cost. $\mbox{Q.}$ Okay. So what you would propose, I'll get

A. But it's a concrete example, though, of

this clear before -

being sold at less than the marginal cost, and

yet, that would satisfy all incremental

production at the marginal cost.

Q. That's not our system, though, is it, sir?

Q. No, but in this province now, where we have a

predominantly hydraulic system that we talked

about this morning, is there any circumstance

A. Well, you're selling--okay. I think it could

in which you think we should sell energy below

A. Well, I'm giving you an example.

marginal cost of production?

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| | · | 1-1 ag | · · · · · · · · · · · · · · · · · · · |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Page 161 | | Page 162 |
| 1 | MR. GRENEMAN: | 1 | summer. |
| 2 | A. I'm not proposing it, it's - | 2 | Q. And if you structured that at the wholesale |
| 3 | KELLY, Q.C.: | 3 | level, would you like us to pass that along at |
| 4 | Q. No. But - | 4 | the retail level? |
| 5 | A. It's demonstrative - | 5 | A. Well, you've moving away from your original |
| 6 | Q. To make sure we sell at marginal cost, you | 6 | question. |
| 7 | would reduce the first tire block, which is | 7 | Q. No, no, I'm - |
| 8 | further reduce it, which is in effect for | 8 | A. That's a concrete - |
| 9 | eight months of the year and increase the tail | 9 | Q. That's the concrete example that you put. |
| 10 | block at the last four months of the year? Is | 10 | A. Yeah. |
| 11 | that what you're telling us? | 11 | Q. And my question is, if that was the wholesale |
| 12 | A. No. The tail block would be in effect at all | 12 | rate, would you like us to reflect that in the |
| 13 | 12 months of the year. | 13 | retail rate structure? |
| 14 | Q. Yes, but it's never reached? | 14 | A. I don't know if I'd like to. You could do it |
| 15 | A. Well, no, the point is it is reached. And the | 15 | if you'd like to. |
| 16 | reason it's reached is you modify theinstead | 16 | Q. No, but what would you as the expert |
| 17 | of being a 420 gigawatt hour threshold. | 17 | consultant on rate design, what would you see? |
| 18 | Q. Yes. | 18 | A. I haven't studied your system - |
| 19 | A. You vary that such that you have consumption | 19 | Q. Haven't studied it? |
| 20 | in each of the 12 months at the tail block. | | A. And you brought that out before. |
| 1 | | 20 | • |
| 21 | Q. Okay. So that you would have a reduced rate | 21 | Q. Okay. Now, let's look next then at a couple |
| 22 | in the summer, but a tail block rate as well? | 22 | of areas on the history of the load. Can I |
| 23 | A. Right. | 23 | take you to Mr. Haynes' table 8, please? Have |
| 24 | Q. Another - | 24 | you seen this table before? |
| 25 | A. And NP would consume in both blocks during the | 25 | A. I believe I have. |
| 1 | | | |
| | Page 163 | | Page 164 |
| 1 | Q. Okay. Now, as Mr. Haynes has explained, the | 1 | Page 164 Q. Correct? Would you agree with that statement? |
| 1 2 | Q. Okay. Now, as Mr. Haynes has explained, the energy criterion that governs Hydro's system | | Q. Correct? Would you agree with that statement? A. Yes. |
| | Q. Okay. Now, as Mr. Haynes has explained, the energy criterion that governs Hydro's system expansion planning models indicates on this | 1 | Q. Correct? Would you agree with that statement?A. Yes.Q. Okay. So that one of the things when you're |
| 2 | Q. Okay. Now, as Mr. Haynes has explained, the energy criterion that governs Hydro's system | 1 2 | Q. Correct? Would you agree with that statement? A. Yes. |
| 2 3 | Q. Okay. Now, as Mr. Haynes has explained, the energy criterion that governs Hydro's system expansion planning models indicates on this that in 2009 there will be an energy shortage requiring an either plant or capacity addition | 1 2 3 | Q. Correct? Would you agree with that statement?A. Yes.Q. Okay. So that one of the things when you're looking at load management and how that impacts system expansion is you need to model |
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| 2 3 4 5 | Q. Okay. Now, as Mr. Haynes has explained, the energy criterion that governs Hydro's system expansion planning models indicates on this that in 2009 there will be an energy shortage requiring an either plant or capacity addition | 1 2 3 4 5 | Q. Correct? Would you agree with that statement?A. Yes.Q. Okay. So that one of the things when you're looking at load management and how that impacts system expansion is you need to model |
| 2 3 4 5 6 | Q. Okay. Now, as Mr. Haynes has explained, the energy criterion that governs Hydro's system expansion planning models indicates on this that in 2009 there will be an energy shortage requiring an either plant or capacity addition for 2009, 2010. Is that how you understand | 1 2 3 4 5 6 | Q. Correct? Would you agree with that statement?A. Yes.Q. Okay. So that one of the things when you're looking at load management and how that impacts system expansion is you need to model what will happen to the type of plant |
| 2 3 4 5 6 7 | Q. Okay. Now, as Mr. Haynes has explained, the energy criterion that governs Hydro's system expansion planning models indicates on this that in 2009 there will be an energy shortage requiring an either plant or capacity addition for 2009, 2010. Is that how you understand it, first of all? | 1 2 3 4 5 6 7 | Q. Correct? Would you agree with that statement?A. Yes.Q. Okay. So that one of the things when you're looking at load management and how that impacts system expansion is you need to model what will happen to the type of plant expansion that will be needed at that point in |
| 2 3 4 5 6 7 8 | Q. Okay. Now, as Mr. Haynes has explained, the energy criterion that governs Hydro's system expansion planning models indicates on this that in 2009 there will be an energy shortage requiring an either plant or capacity addition for 2009, 2010. Is that how you understand it, first of all? A. Yes. | 1 2 3 4 5 6 7 8 | Q. Correct? Would you agree with that statement?A. Yes.Q. Okay. So that one of the things when you're looking at load management and how that impacts system expansion is you need to model what will happen to the type of plant expansion that will be needed at that point in the future? Agree with that? |
| 2 3 4 5 6 7 8 9 | Q. Okay. Now, as Mr. Haynes has explained, the energy criterion that governs Hydro's system expansion planning models indicates on this that in 2009 there will be an energy shortage requiring an either plant or capacity addition for 2009, 2010. Is that how you understand it, first of all? A. Yes. Q. Okay. And capacity will not be required until | 1 2 3 4 5 6 7 8 | Q. Correct? Would you agree with that statement? A. Yes. Q. Okay. So that one of the things when you're looking at load management and how that impacts system expansion is you need to model what will happen to the type of plant expansion that will be needed at that point in the future? Agree with that? A. Yes. |
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| November 14, 2005 | Mulu-Page | NL Hydro's 2003 General Rate Application |
|---------------------------------------------------|-------------|--------------------------------------------------|
| | Page 165 | Page 166 |
| 1 KELLY, Q.C.: | 1 | a point if he is going to do that, he should |
| 2 Q. Well - | 2 | be taking the witness to the actual reference |
| 3 MR. YOUNG: | 3 | so that we can see, in fact, whether the |
| 4 Q. Can we see the reference to the transcrip | t? 4 | representation is correct. And this is one |
| 5 KELLY, Q.C.: | 5 | where I believe he should do that. |
| 6 Q. I'll takewe'll leave it at - | 6 KEL | LY, Q.C.: |
| 7 A. At just capacity, okay. | 7 Q | . I'll have a look for that - |
| 8 Q. It will add something? I don't want to de | bate 8 CHA | IRMAN: |
| 9 with you whether it's 25 or whatever. Se | ee to 9 Q | . Mr. Kelly, if you're going to pursue that, I |
| satisfy Mr. Young whether we can find | the 10 | agree with Ms. Greene on that. |
| 11 reference for you. | 11 KEL | LY, Q.C.: |
| 12 GREENE. Q.C.: | 12 Q | . It's not important, but I will look for the |
| 13 Q. There was no evidence given with response | ect to 13 | reference at the break, Chair. Mr. Greneman, |
| the wind on the LOLH calculations. | 14 | the next addition will add some degree of |
| 15 KELLY, Q.C.: | 15 | capacity, some degree of energy, agreed? |
| Q. I agree with that. But that wasn't - | 16 A | . Yes. |
| 17 GREENE. Q.C.: | 17 Q | Okay. And in fact, there's discussion of |
| 18 Q. Well, you're going to with the next pla | ant 18 | adding Island Pond. And Island Pond was |
| 19 addition, Mr. Kelly. | 19 | proposed to be a 36 megawatt project. Are you |
| 20 KELLY, Q.C.: | 20 | familiar with that at all? |
| 21 Q. Okay. Let's just leave it on the basis, M | r. 21 A. | . I've heard the name. |
| 22 Greneman, that - | 22 Q | Okay. And that would add, as we understand |
| 23 GREENE. Q.C.: | 23 | it, being a hydraulic project, 36 megawatts of |
| Q. And we haven't objected to date with Mr | :. Kelly 24 | capacity and some degree of energy, correct? |
| summarizing evidence, but really, there c | comes 25 A | . Yes. |
| | Page 167 | Page 168 |
| 1 Q. Okay. So that if we go back to table 8, if | - | 5 p.m.) |
| 2 you add both capacity and energy, the point a | at 2 A | . Well, that's, in my view, a technicality. |
| 3 which the energy balance and the LOLH balan | ice 3 | It's followed rapidly, within a year or two, |
| 4 move will be presumably some point further | out 4 | by capacity. And my understanding is that in |
| 5 into the future. Would you agree with that? | 5 | the years to come Hydro's system will become |
| 6 A. Yes. | 6 | actually more capacity constrained rather than |
| 7 Q. Okay. So that in determining the value today | 7, | energy constrained. |
| 8 the net present value of load management | 8 Q | . If we could conserve enough energy, would we |
| 9 today, the question is, what is the value of | 9 | not defer the plant expansion from 2009 or |
| that future generation at an unknown but a | 10 | 2010 on the table 8, to 2011? |
| significant point in the future, discounted to | 11 A | . If I understand what you're getting at is that |
| today's date, is that not the type of analysis | 12 | Hydro's system is a combination of energy and |
| you'd have to go through to determine its cos | st 13 | capacity constrained, what I would like to |
| 14 effectiveness? | 14 | point out is that this is indeed recognized in |
| 15 A. Generally, yes. | 15 | Hydro's Cost of Service where were apportion |
| 16 Q. Okay. And meanwhile, would you agree wit | h me | the hydraulic facilities based on load factor |
| that the more current effect, more current | 17 | and we apportion Holyrood based upon capacity |
| issue right now is the total energy | 18 | factor. So this indeed recognizes that |
| consumption because that is what drives | 19 | there's a dual demanded energy relationship. |
| 20 currently the next generation addition? | 20 | And what is being proposed in the \$84 is not |
| 21 A. But it's followed shortly thereafter by | 21 | the entirety, is not the entirety of capacity |
| capacity, the need for capacity. | 22 | cost, but rather it's the demand portion. And |
| 23 Q. But energy - | 23 | it's my view that to the extent you point out, |
| 24 A. Might - | 24 | rightly so, that there perhaps is an energy |
| | 1 | |
| 25 Q. Energy is the one that gets met first? | 25 | portion that is already in the energy portion |

| | Page 169 | | Page 170 |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 1 | MR. GRENEMAN: | 1 | Power's customer base, what it looks like, |
| 2 | of the rate. It's been apportioned in the | 2 | what it's made up of? |
| 3 | Cost of Service. | 3 | A. It would only be by recall of when you did |
| 4 1 | KELLY, Q.C.: | 4 | your GRA. I can't recall offhand. |
| 5 | Q. So we should ensure, should we not, that the | 5 | Q. Okay. So let me, let me take you to Mr. |
| 6 | energy portion of rates are efficient in terms | 6 | Perry's evidence and Mr. Henderson's evidence. |
| 7 | of the signals that they send because of the | 7 | And the place I want to take you to is to page |
| 8 | fact the nextthe first constraint right now | 8 | 4, table 1. While Mr. O'Reilly is finding |
| 9 | is energy, not capacity. Would you agree with | 9 | that, as we looked at your exhibit RDG- 2 |
| 10 | that? | 10 | you'll remember this passage that you had |
| 11 | A. They are so close together they are tantamount | 11 | written which was on page 3, "Through a demand |
| 12 | to being the same, almost. I mean, they are | 12 | rate Newfoundland Power can provide incentives |
| 13 | within a year or two of each other. | 13 | to its customers to reduce peak through rates |
| 14 | Q. But you're not suggesting that we should | 14 | or other cost effective means." Now, I want |
| 15 | ignore energy pricing efficiency at the | 15 | to talk about this rate issue as we go through |
| 16 | expense of demand pricing efficiency, are you? | 16 | this next discussion. There we go. Now, in |
| 17 | A. Or the other way around. | 17 | table 1 you can see a breakdown by customer |
| 18 | Q. Okay. Let's go next thenhave you looked at | 18 | number, to start off with, what our customers' |
| 19 | NP's, Newfoundland Power's, the structure of | 19 | structure looks like. And you'll see 86. 3 |
| 20 | its customer base at all? Mr. Greneman? | 20 | percent of them are in domestic and 5.3 are in |
| 21 | A. I'm sorry, where were you? | 21 | general service? |
| 22 | Q. Have you - | 22 | A. Um-hm. Yes. |
| 23 | A. Oh, I'm sorry, I thought you were pointing me | 23 | Q. Now, none of those have demand charges, |
| 24 | here. | 24 | correct, or would you know that? |
| 25 | Q. No, no. Have you looked at Newfoundland | 25 | A. The zero to ten is not a - |
| | | | |
| | Page 171 | | Page 172 |
| 1 | Q. Zero to ten. | 1 | will be influenced at the end use customers |
| 1 2 | Q. Zero to ten. A. Is no demand meter? | 1 2 | will be influenced at the end use customers are the 4.1 percent of our customers that fall |
| 1 | Q. Zero to ten.A. Is no demand meter?Q. No demand meter. | | will be influenced at the end use customers are the 4.1 percent of our customers that fall in classes 2.2 to 2.4? |
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| 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 | Q. Zero to ten. A. Is no demand meter? Q. No demand meter. A. Okay. Q. Are you aware of that? A. I would have assumed it because it's a common type of structure and I've seen it before. Q. Okay. And so, I take it you would agree with me that it is not cost effective to demand meter the domestic classes and the general service zero to ten class? A. Yes, I would agree with that. Q. Okay. So the ones that would have a demand rate are the 2.2, 2.3 and 2.4 classes, correct? A. Right. Q. Because street and area lighting wouldn't be a demand issue either, would it? A. I would consider those to be effectively demanded metered. There's noeven though they're not metered, they arethey can't react. | 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 | will be influenced at the end use customers are the 4.1 percent of our customers that fall in classes 2.2 to 2.4? A. In all fairness, I think the point is better represented by the percent of energy distribution rather than demand. Q. And I'm going to come to that. A. Okay. Q. So that we look at the number of customers first. Let's go next then to table 2, which is the energy sales by customer class. A. Right. Q. So we have roughly 60 percent, 59.2 in domestic and in 2.1 we have two percent, so about 61 percent in total? A. That's right. Q. Okay. And if we go to table 4, the total across the entire group of Newfoundland Power's customers have 77 percent comes from energy charges and 9.1 percent comes from demand charges? A. I have a comment on that table. |

| 110 | ovember 14, 2005 Mulu | i-Pag | ge | NL Hydro's 2005 General Rate Application |
|-----|------------------------------------------------|-------|----|------------------------------------------------|
| | Page 173 | | | Page 174 |
| 1 | MR. GRENEMAN: | 1 | | 2.2 to 2.4? |
| 2 | what's demand metered, I would like to point | 2 | A. | Yes. |
| 3 | | 3 | Q. | Now have you looked at that type of rate |
| 4 | | 4 | | structure to determine whether it is the |
| 5 | | 5 | | demand charges that we have in those rate |
| 6 | | 6 | | classes are appropriate? |
| 7 | | 7 | A. | I remember reviewing it at the time of your |
| 8 | | 8 | | GRA. |
| 9 | | 9 | Q. | And what conclusion did you come to? |
| 10 | | 10 | | The only personal conclusion I came to was the |
| 11 | | 11 | | relationship of the demandthe demand seemed |
| 12 | | 12 | | to be declining in magnitude as the classes |
| 13 | KELLY, Q.C.: | 13 | | got larger and larger, but that's a detail. |
| 14 | | 14 | | That's not relevant to any of this. |
| 15 | • | 15 | Q. | Okay. |
| 16 | | 16 | | But I did noticeI did see demand charges, |
| 17 | | 17 | | yes. |
| 18 | - | 18 | Q. | So did you give Hydro any advice or |
| 19 | | 19 | | recommendation that there were any problems |
| 20 | | 20 | | with the rate structure in those classes? |
| 21 | | 21 | A. | Not specifically. |
| 22 | | 22 | | Now in order to have those demand charges |
| 23 | • | 23 | | there, Newfoundland Power didn't need, because |
| 24 | Q. Right. So that the ones that will be on the | 24 | | we don't have, a demand energy rate at the |
| 25 | - | 25 | | wholesale level to put those in place, did we? |
| | Page 175 | | | Page 176 |
| 1 | | 1 | Α | Less than 100. |
| 2 | | 2 | | And if you go down to the note at the bottom, |
| 3 | | 3 | ν. | beginning at line 21, it explains that |
| 4 | | 4 | | "Newfoundland Power's 2003 GRA evidence was |
| 5 | | 5 | | presented which indicated that Newfoundland |
| 6 | D 1 1 1 | 6 | | Power's retail tail-block rates for 2, 3 and 4 |
| 7 | | 7 | | were below short-run marginal costs. Having |
| 8 | | 8 | | rates set for these rate classes that better |
| 9 | | 9 | | reflect short-run marginal costs was |
| 10 | | 10 | | recommended. Due to other considerations, |
| 11 | | 11 | | such as the need to minimize customer impacts |
| 12 | | 12 | | and the final order to decrease overall rates, |
| 13 | | 13 | | Newfoundland Power was unable to increase its |
| 14 | | 14 | | tail-block rates." So one of the things that |
| 15 | | 15 | | concerns us is, in fact, whether the energy |
| 16 | | 16 | | component should be priced higher for economic |
| 17 | | 17 | | efficiency signals to our customers. Do you |
| 18 | | 18 | | agree with that? |
| 19 | | 19 | A. | I understand the logic of it, yes. |
| 20 | | 20 | | Yes. Now if you shift more into energy, you |
| 21 | | 21 | ` | either have to take it out of demand or take |
| 22 | • | 22 | | it out of earlier tail blocks, do you not? |
| 23 | | 23 | A. | Yes. |
| 24 | A. Yes, it says shown in the last column. | 24 | Q. | Okay. Because those are the only two places |
| 25 | • | 25 | _ | it can come from? |

| November 14, 2003 | Mulu-Pag | e NL Hydro's 2005 General Rate Application |
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| | Page 177 | Page 178 |
| 1 MR. GRENEMAN: | 1 | when he said the question has been asked and |
| 2 A. Right. | 2 | answered three or four times. It's been asked |
| 3 KELLY, Q.C.: | 3 | and answered several times that Mr. Greneman |
| 4 Q. Okay. Now what, if any, specific changes | do 4 | has not studied the Newfoundland Power end-use |
| 5 you see making to Newfoundland Power' | s rate 5 | rates and I really don't see the point in |
| 6 structure, if any? Not necessarily on this, | 6 | pursuing this further. |
| 7 but on any of our rate structures. | 7 K | ELLY, Q.C.: |
| 8 A. I can't - | 8 | Q. Well, I want to explore the seasonal rate with |
| 9 MR. YOUNG: | 9 | you, Mr. Greneman, because I asked you earlier |
| 10 Q. Mr. Chair, if I can interject for just a | 10 | about whether you thought that should be |
| moment. This very similar question to th | is 11 | reflected in the retail rate. |
| one, and perhaps the very same question l | nas 12 G | REENE, Q.C.: |
| been asked three or four times before, and | I 13 | Q. I would like the Board to rule on my |
| think in each case, Mr. Greneman indicated | l he | objection, before Mr. Kelly continues with the |
| wasn't able to answer it. I just don't know | 15 | question of the seasonal rate for Newfoundland |
| if there's a point of belabouring this | 16 | Power end users. |
| particular line of questioning any further. | 17 C | HAIRMAN: |
| 18 KELLY, Q.C.: | 18 | Q. Do you have any response to - |
| 19 Q. Well - | 19 K | ELLY, Q.C.: |
| 20 GREENE, Q.C.: | 20 | Q. Chair, I think it is vitally important for |
| 21 Q. And to clarify, Hydro's position has alwa | ys 21 | this Board to understand the implications of |
| been that we are not suggesting rate desig | n 22 | what is being suggested with this demand |
| changes for the Newfoundland Power en | d-use 23 | energy rate and the implications for the |
| customers. That is an issue for Newfoundl | and 24 | system overall and for customers in |
| Power to address. I think Mr. Young was 1 | kind 25 | particular. One of the questions that flows |
| | | For the second s |
|] | Page 179 | Page 180 |
| out of that is if in fact we are to attempt to | | <u> </u> |
| | Page 179 | Page 180 |
| 1 out of that is if in fact we are to attempt to | Page 179 | Page 180 has Hydro made any recommendations with |
| out of that is if in fact we are to attempt to reflect seasonal rates or a seasonal rate | Page 179 1 2 3 CI | Page 180 has Hydro made any recommendations with respect to them. |
| out of that is if in fact we are to attempt to reflect seasonal rates or a seasonal rate structure into retail rates, which is, as Mr. | Page 179 1 2 3 Clect to 4 | Page 180 has Hydro made any recommendations with respect to them. HAIRMAN: |
| out of that is if in fact we are to attempt to reflect seasonal rates or a seasonal rate structure into retail rates, which is, as Mr. Greneman said, that's what one would exp | Page 179 1 2 3 Cleet to 4 n 5 | Page 180 has Hydro made any recommendations with respect to them. HAIRMAN: Q I think I have to agree with Ms. Greene, Mr. |
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| | Page 181 | | Page 182 |
|----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------------------------------------------------------------------------------------------------------------------------|
| 1 | MR. GRENEMAN: | 1 | the evidence of Mr. Haynes indicates that |
| 2 | A. No. | 2 | deficits in capacity are not forecast until |
| 3 | KELLY, Q.C.: | 3 | 2011. |
| 4 | Q. Okay. Now the rest of the answer goes on to | 4 | A. Yes. |
| 5 | suggest that in theory that should be the | 5 | Q. And it's on that basis that Hydro has decided |
| 6 | case? | 6 | not to renew the Interruptible B contract? |
| 7 | A. Right. That's not the only support for demand | 7 | A. Yes. |
| 8 | ε | 8 | Q. So it appears to be because of the capacity |
| 9 | • | 9 | not being needed, agreed? |
| 10 | • | 10 | A. Yes. |
| 11 | A. The theory is that consumers respond to price | | (2:33 p.m.) |
| 12 | 1 1 0 | 12 | Q. Okay. Now let me take you then, with that as |
| 13 | • | 13 | the background to NP-140. If you could scroll |
| 14 | | 14 | up the table, Mr. O'Reilly, please. Now in |
| 15 | | 15 | the table, that 46 megawatts, if it were put |
| 16 | 1 , | 16 | back into the system, still leads to an LOLH |
| 17 | you to be able to see the terms of it. | 17 | criteria violation in 2011, the same date that |
| 18 | 1 | 18 | Mr. Haynes had in his table before? |
| 19 | | 19 | A. Yes. |
| 20 | | 20 | Q. So that 46 megawatts did not defer any |
| 21 | Q. And if I take you to IC-194, the answer down | 21 | capacity, did it, and that - |
| 22 | • | 22 | A. Not on a quantum, by quantum I mean by year |
| 23 | <u> </u> | 23 | basis. |
| 24 | · · · · · · · · · · · · · · · · · · · | 24 | Q. Right. |
| 25 | load requirements is summarized on Table 8 in | 25 | A. It appeared not to. |
| | Page 183 | | Page 184 |
| 1 | Q. So when we looked at the example of the radio | 1 | A. Yes. |
| 2 | | 2 | Q. Okay. Now in your report, you indicated that |
| 3 | | 3 | the revenue volatility to Newfoundland Power |
| 4 | other words, we can turn it off when Hydro | 4 | is a factor that you thought was important, |
| 5 | , , , , , , , , , , , , , , , , , , , , | 5 | but if we go to NP-127, you haven't evaluated |
| 6 | 1 | 6 | that risk at all, have you? |
| 7 | · | 7 | A. Not qualitatively, no. |
| 8 | 1 3 | 8 | Q. Not - |
| 9 | | 9 | A. Not quantitatively rather. |
| 10 | · · · · · · · · · · · · · · · · · · · | 10 | Q. All right. Would you agree that that needs to |
| 11 | show that it does not defer capacity at | 11 | be done, needs to be looked at? |
| 12 | • | 12 | A. Not necessarily before implementation of a |
| 13 | ▼ | 13 | demand energy rate. Once again, the support |
| 14 | 1 0 | 14 | for demand energy rateall this rate is doing is suggesting a way to reflect its internal |
| 15 | | 15 16 | cost structure to the customers. Now if |
| 16 | Q. Okay. Now I want to explore a little bit with | | there's volatility associated with that, that |
| 17 | | 17 | goes hand in hand with the demand portion of |
| 18 19 | | 18 19 | the demand and energy rate. I don't think |
| الا | | 17 | Hydro is required to do any quantitative |
| 20 | · · · · · · · · · · · · · · · · · · · | 20 | |
| 20 21 | the demand energy ratesorry, under the | 20 | 7 7 7 |
| 21 | the demand energy ratesorry, under the energy only rate because of the way it's | 21 | analysis beyond its responsibility, in my |
| 21 22 | the demand energy ratesorry, under the energy only rate because of the way it's protected through the RSP load functions? | 21 22 | analysis beyond its responsibility, in my view, to pass on its cost structure. |
| 21 22 23 | the demand energy ratesorry, under the energy only rate because of the way it's protected through the RSP load functions? A. Yes. | 21 22 23 | analysis beyond its responsibility, in my view, to pass on its cost structure. Q. But is it not a factor that the Board needs to |
| 21 22 | the demand energy ratesorry, under the energy only rate because of the way it's protected through the RSP load functions? A. Yes. Q. So it fully recovers its cost of service with | 21 22 | analysis beyond its responsibility, in my view, to pass on its cost structure. |

| No | vember 14, 2003 Multi | -Pa | ge ™NL Hydro's 2003 General Rate Application |
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| | Page 185 | | Page 186 |
| 1 | KELLY, Q.C.: | 1 | and changing supply and demand conditions. I |
| 2 | the volatility issues both in revenue to the | 2 | think, in my view, that is mostand I think |
| 3 | utility and in terms of rate stability to | 3 | as represented in the industry, that is most |
| 4 | customers? | 4 | appropriately done through a demand and energy |
| 5 | A. Those are two principles stated in Bonbright. | 5 | rate. I don't think itI don't see how it |
| 6 | In the case of NP, I think there are two | 6 | could possibly be done through an energy only |
| 7 | overriding principles which are stronger than | 7 | rate. |
| 8 | that, and while we're on the subject, if I | 8 | Q. Anything else you want to say on that point? |
| 9 | might go back to one point. I had brought up | 9 | A. Pardon? |
| 10 | earlier two points on two of Bonbright's | 10 | Q. Is there anything else? |
| 11 | points. One was static efficiency and one was | 11 | A. Basically, that's the point on that. And the |
| 12 | dynamic efficiency, and I think you had said | 12 | other one, if I can just turn to that - |
| 13 | well, this is basically Mr. Brockman'sthis | 13 | Q. What's the static efficiency point? |
| 14 | point and basically Mr. Brockman is that | 14 | A. Bonbright has, in this point of static |
| 15 | point. And on reflection, I would disagree | 15 | efficiency, the control of the relative uses |
| 16 | with that, and I just wanted to bring that up | 16 | of alternative types of service by rate payers |
| 17 | within this context. | 17 | on peak versus off peak service or higher |
| 18 | Q. Well, I don't want to leave that simply left | 18 | quality versus lower quality, and I don't |
| 19 | on that basis. What are static and dynamic | 19 | think that could be effectively accomplished |
| 20 | efficiency issues that you think are different | 20 | through an energy only rate. So to the extent |
| 21 | then from Bonbright? | 21 | that you had said well, this is basically Mr. |
| 22 | A. Not from Bonbright, from Mr. Brockman. | 22 | Brockman's, I can't remember which of the |
| 23 | Q. But just explain your position then. | 23 | points and which of the other points. I would |
| 24 | A. Okay, if I might. The dynamic aspect is the | 24 | say that Mr. Brockman's is a very limited case |
| 25 | ability of the rate to respond to innovation | 25 | of this more general characterization. |
| | Page 187 | | Page 188 |
| 1 | Q. Okay. Can I take you to PUB-151? Now in PUB- | 1 | earlier, there's no actual upper limit. |
| 2 | 151 at line 8, beginning at line 7, the | 2 | There's no cap at the top, is there? |
| 3 | difference between Hydro's forecast for NP | 3 | A. See, I don'tI'm not sure that there actually |
| 4 | native peak and the weather adjusted actual | 4 | needs to be a cap at the top for a couple of |
| 5 | has been within the range of plus or minus | 5 | reasons. The real cause of any volatility |
| 6 | five percent? | 6 | would be weather and once one normalizes for |
| 7 | A. Yes. | 7 | weatherif I could even frame it more |
| 8 | Q. So after adjusting for weather, the volatility | 8 | generally. Maybe it's not the load that's |
| 9 | of peak or the range of peak is plus or minus | 9 | volatile. Maybe it's the estimate that's |
| 10 | five percent? | 10 | volatile. It's a comparison with respect to |
| 11 | A. Yes. If I might say, my understanding is that | 11 | the forecast. Either one could be wrong. |
| 12 | based upon recent history, the actual number | 12 | Q. But the plus or minus five percent or plus or |
| 13 | has been something more like 3.6 percent. | 13 | minus 3.6, whichever you want, is after |
| 14 | Five percent is just a more rounded number. | 14 | weather normalization, is it not? |
| 15 | Q. Okay. This was Hydro's response. | 15 | A. Right. But part of that volatility depends |
| 16 | A. It was Hydro's response, but my let's say | 16 | upon your ability to forecast, as opposed to |
| 17 | internal understanding is that it's really | 17 | the weather, adjusted weather. |
| 18 | been 3.6 percent. | 18 | Q. I'm not sure I'm taking your point. |
| 19 | Q. Okay. Now let's just go on with the answer | 19 | A. There's different factors that enter into that |
| 20 | here. The billing determinants under the | 20 | five percent and you're comparing it with the |
| 1 | 1 1 | 1 | C . |

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forecast.

Q. Yes. I'm not getting your point.

your forecast could be five percent

A. In other words, the adjusted demand--the

demand adjusted for weather could be exact and

Page 185 - Page 188

demand energy rate, when you come down a

is set by the minimum bill provision which is

98 percent of 1054 or 1033. The upper limit

is 105 percent. But as we talked about

little bit further, line 12, the lower limit

20 21

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| 1101 | Ville 14, 2003 | | <u> </u> | 1L Hydro 8 2003 General Rate Application |
|----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Page 189 | | | Page 190 |
| 1 1 | MR. GRENEMAN: | 1 | | Right. |
| 2 | difference. | 2 | Q. C | Okay. |
| 3 1 | KELLY, Q.C.: | 3 | A. A | and under the present energy only rate, you |
| 4 | Q. Okay. But you had no indication that | 4 | W | ould be paying that right now. |
| 5 | Newfoundland Power's forecasts have been | 5 | Q. N | Now, just go to - |
| 6 | anything other than the best that can be | 6 | A. S | o this gives an opportunity for savings. |
| 7 | provided? | 7 | Q | let's go to PUB-152. And that 21.1 percent |
| 8 | A. And I also. correspondingly have no indication | 8 | W | yould reduce Hydro's earnings by 1.77 million? |
| 9 | that the weather, adjusted weather is anything | 9 | A. Y | es. |
| 10 | other. This could be some combination of - | 10 | Q. C | Okay. |
| 11 | Q. I don't want to get into that debate with you. | 11 | A. Y | Yes. |
| 12 | A. Okay. | 12 | Q. N | Now so if I follow the math correctly, Hydro |
| 13 | Q. The variation of billing determinants then, at | 13 | | yould lose 1.7 million for 21 megawatts of |
| 14 | line 16, is negative 21.1. So the most that | 14 | | apacity taken off the peak, correct? |
| 15 | Hydro will take out in terms of megawatts, | 15 | A. Y | - · |
| 16 | because of the 98 percent factor, is 21.1 | | | o.m.) |
| 17 | megawatts, line 16? | 17 | • | Now on what basis would the Board approve that |
| 18 | A. Okay. | 18 | | s cost effective when, in fact, Hydro has the |
| 19 | Q. Do you see that? | 19 | | bility, for example, with Interruptible B to |
| 20 | A. So is that minus the two percent one? | 20 | | ay \$28.20 or 1.3 million for 46 megawatts and |
| 21 | Q. That, as I understand the mathematics, | 21 | • | o ratchet that down to 21.1 would be |
| 22 | reflects two percent on the load. | 22 | | 595,000. In other words, if you want 21.1 |
| 23 | A. Okay. | 23 | | negawatts off between rate hearings, that's |
| 24 | Q. So if we save two percent, then that would be | 24 | | ne range that is going to be potentially |
| 25 | 21.1 megawatts. | 25 | | ffected, why would the Board approve Hydro |
| 23 | <u> </u> | | a | |
| | Page 191 | | | Page 192 |
| 1 | losing 1.7 million of revenue when in fact | 1 | | emand and energy rates to reconcile the those |
| 2 | that capacity reduction off peak can be | 2 | | wo things. |
| 3 | achieved at a price much less? | 3 | | Now, when you translate the answer on the up |
| 4 | A. I don't know about the capacity reduction | 4 | | ide here, the upper bound results and a gain |
| 5 | being achieved much less within the context of | 5 | | f 4.952, if in fact, the demand goes over - |
| 6 | the demand and energy rates. It's a risk that | 6 | A. Y | |
| 7 | Hydro is taking to reduce system peak. | 7 | | and correspondingly, Newfoundland Power |
| 8 | Q. Yes. | 8 | | yould have to pay that 4.952 million, wouldn't |
| 9 | A. And to implementI mean, a demand energy rate | 9 | | ney? |
| 10 | is, once again, a proper rate and this is an | 10 | A. Y | |
| 11 | affect that goes part and parcel with that. | 11 | | eight. And what mechanism would exist for |
| 12 | Q. But under the Interruptible B program, 1.3 | 12 | | Newfoundland Power to recover that from its |
| 13 | million costs, 1.3 million dollars takes off | 13 | | ustomers, from your view? |
| 114 | peak 46 megawatts five times, 25 times a - | 14 | A. C | Okay. The nature of the 4.9 million is a plus |
| 14 | | | | |
| 15 | A. This is really the same question as the \$84.00 | 15 | aı | nd minus deviation ofit's a deviation of |
| 1 | A. This is really the same question as the \$84.00 versus the \$28.00. | 15 16 | aı | nd minus deviation ofit's a deviation of lus and minus 5 percent. |
| 15 | A. This is really the same question as the \$84.00 versus the \$28.00.Q. But my question to you is Hydro here would | | aı | lus and minus 5 percent. |
| 15 16 | A. This is really the same question as the \$84.00 versus the \$28.00.Q. But my question to you is Hydro here would lose 1.7 of revenue which potentially then | 16 | p. Q. Y A. A | lus and minus 5 percent. Yes. And in my view, there's a probabilistic |
| 15 16 17 | A. This is really the same question as the \$84.00 versus the \$28.00.Q. But my question to you is Hydro here would | 16 17 | p. Q. Y A. A | lus and minus 5 percent. Yes. |
| 15 16 17 18 | A. This is really the same question as the \$84.00 versus the \$28.00.Q. But my question to you is Hydro here would lose 1.7 of revenue which potentially then | 16 17 18 | q. Y Q. Y A. A | lus and minus 5 percent. Yes. And in my view, there's a probabilistic |
| 15 16 17 18 19 | A. This is really the same question as the \$84.00 versus the \$28.00.Q. But my question to you is Hydro here would lose 1.7 of revenue which potentially then impacts, 1.7 million that Hydro does not get. | 16 17 18 19 | Q. Y A. A ex | lus and minus 5 percent. Yes. And in my view, there's a probabilistic expectation that in another year it could be |
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| | | | THE HYDRO S 2000 General Rate Hyprication |
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| | Page 193 | | Page 194 |
| 1 | MR. GRENEMAN: | 1 | capture load conservation and load growth. |
| 2 | expect that it wouldthe plus and minus | 2 | Q. So, one potential way of looking at it is |
| 3 | excursions would equal out. | 3 | somehow in Newfoundland Power's retain rate |
| 4 | KELLY, Q.C.: | 4 | design, a reserve account mechanism would have |
| 5 | Q. But - | 5 | to be created. That's one mechanism that |
| 6 | A. Go ahead. | 6 | could be used. That's your - |
| 7 | Q. Sorry, I don't want to cut you off, but that | | A. I'm not saying it would have to be created - |
| 8 | sounds like some kind of a reserve account | | Q. It could be. |
| 9 | creation. Is that what you're proposing? | | A it could be. |
| 10 | A. I'm not proposing it, it's a possibility. | 10 | Q. Okay. Now, another possibility is that as the |
| 11 | Q. Okay. | 11 | winter peak is met in January or February or |
| 12 | A. I think they see Hydro has something similar. | 12 | March of the year, that could be passed |
| 13 | Q. What would be the impact then on the price | 13 | through on as an extra cost by coming back in |
| 14 | signal to go as customers who have demand | 14 | a rate hearing. Is that a possibility? |
| 15 | rates at the retail level, if you put that in | 15 | A. Say that again. |
| 16 | place? | 16 | Q. In other words, if we get a peak in January of |
| 17 | A. If you were to put that in place? | 17 | the year that drives up expenses five million |
| 18 | Q. Yes, you had this reserve account mechanism. | 18 | dollars, 4.95, then you could find yourself in |
| 19 | A. If NP had this reserve account mechanism? | 19 | the situation where the utility has to apply |
| 20 | Q. Yes. | 20 | for rate relief to pass that through to |
| 21 | A. What I think it would do is it wouldn't | 21 | customers. It's another possibility, is it |
| 22 | stabilize it as the RSP stabilizes cost, but | 22 | not? |
| 23 | it would deal with your definition of the | 1 | A. Why? Because itwhy would that happen? |
| 24 | volatility, the plus and minus the five | 24 | Q. Because as we looked at the rate to our |
| 25 | percent. But very importantly, it would | 25 | customers who are primarily residential are on |
| 1 | | | |
| | Page 195 | | Page 196 |
| 1 | Page 195 an energy only basis. So, if peak demand | 1 | Page 196 potentially are, if we want to get a handle on |
| 1 2 | • | | • |
| | an energy only basis. So, if peak demand | 1 | potentially are, if we want to get a handle on |
| 2 | an energy only basis. So, if peak demand rises and creates an additional cost of 4.9 | 1 2 | potentially are, if we want to get a handle on future costs and the costs of deferral of new |
| 2 3 | an energy only basis. So, if peak demand rises and creates an additional cost of 4.9 million dollar, how does that get recovered by | 1 2 3 | potentially are, if we want to get a handle on future costs and the costs of deferral of new capacity, we'd need to do a marginal, long run |
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| | Page 197 | | Page 198 |
| l | KELLY, Q.C.: | 1 | study should also incorporate load research |
| 2 | restructured, you'd have a retail rate study | 2 | information which is currently being gathered |
| 3 | to look at that issue. | 3 | by way of Newfoundland Power's load research |
| 4 | A. Okay. In a general concept I would say, yes. | 4 | study". So, it contemplates a retail rate |
| 5 | Q. Now, you referred earlier to Mr. Brockman's | 5 | design study which includes the load research |
| 6 | testimony and you suggested that his reference | 6 | data. |
| 7 | to a retail rate study were simply a load | 7 | A. Okay. |
| 8 | research project. Can I suggest to you, sir, | 8 | Q. Correct? |
| 9 | that there is currently under way, by virtue | 9 | A. Yes. |
| 10 | of the Board's ruling in our last hearing, a | 10 | Q. Okay. The volatility issue would be another |
| 11 | load research project. | 11 | point that would need to be looked at, do you |
| 12 | A. See, I did not know that. When I read, all I | 12 | agree with that one? |
| 13 | had was the Supplemental Evidence. | 13 | A. In the context of retail rate study? |
| 14 | Q. I appreciate you may not have known - | 14 | Q. And in terms of, yes, and in terms of a demand |
| 15 | A. And when I had seen retail rate study, the way | 15 | energy rate structure. |
| 16 | it was phrased, he was referring to the | 16 | A. The volatility would need to be looked at by |
| 17 | marginal cost and the retail rate study. And | 17 | whom? |
| 18 | I scratched my head and I said, what retail | 18 | Q. As one of the things that still would need to |
| 19 | and I looked up ahead and it says load | 19 | be looked by the Board before determining how |
| 20 | research study. | 20 | to proceed. |
| 21 | Q. The languageand I can find the passage for | 21 | A. If the Board wants to look at that. |
| 22 | you, is at page 3, sorry, in the Supplemental, | 22 | Q. Okay. You talked about the joint committee |
| 23 | if you go to page 1, there you go, and if you | 23 | which is looking at the weather normalization. |
| 24 | go to lines 11 through 13. "As part of a | 24 | A. Yes. |
| 25 | comprehensive plan, the retail rate design | 25 | Q. That's an item still to be done? |
| | Page 199 | | Page 200 |
| 1 | A. Yes. | 1 | Q. In terms of fairness is allocating the Cost of |
| 2 | Q. Okay. Can I take you back to the last point | 2 | Service, Hydro's Cost of Service between |
| 3 | and I'll close with these, if we go back to | 3 | Newfoundland Power and the Industrial |
| 4 | Mr. Brockman's points, principle again. The | 4 | Customers, both rates allocate the Cost of |
| 5 | first one was being effective in collecting | 5 | Service, do they not, fairly, those |
| 6 | the revenue requirement for Hydro. Under the | 6 | structures? Ours is simply rolled into one |
| 7 | current energy only rate, Hydro collects all | 7 | rate - |
| 8 | of its cost of service revenue, correct? | 8 | A. Did you say both rates allocate the Cost of |
| ۱۵ | Whereas under the demand energy rate Hydro | 9 | Service? |

- 9 Whereas under the demand energy rate, Hydro
- has 1.7 million in the proposal at risk? 10
- 11 A. That's correct.
- 12 Q. So, in terms of collecting the revenue for 13 Hydro, the energy only rate is more effective?
- A. It's more effective in collecting the--can you 14 15 repeat that? In terms of -
- Q. In terms of Hydro collecting its revenue 16
- requirement from the Cost of Service study, 17
- the energy only rate is more effective in 18
- 19 achieving that objective.
- A. In terms of its collecting it revenue 20
- requirement at the time that the rates were 21
- 22 set, okay, it's more effective, but in
- 23 following the way the cost and things evolve,
- 24 a demand energy rate may actually be more
- 25 effective.

- 9 Service?
- Q. In other words, both the energy only rate 10 11
 - structure and the demand energy rate -
- A. Rates don't allocate Cost of Service. Rates 12 13 collect cost.
- 14 Q. Right. The division that comes out of the
- 15 current division will be the same, would it
- not? 16
- 17 A. The division that comes out of the current division--I'm sorry, I'm -18
- 19 Q. The division between Newfoundland Power and
- 20 the Industrial Customers of the Cost of
- 21 Service is the same under the energy only rate
 - and demand energy rate.
- A. Yes. 23

- 24 Q. Okay. In terms of encouraging efficiency, 25
 - that's the one that we seem to have the most

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| | Page 201 | | Page 202 |
| 1 | KELLY, Q.C.: | 1 | result, that's the virtue. That's not a |
| 2 | disagreement on, would you agree with that? | 2 | virtuous measurement right now, in my view. |
| 3 | A. There are different aspects of efficiency, | 3 | Q. Okay. So, do I take the answeryou don't |
| 4 | yes. | 4 | agree then it's necessarily a good thing, but |
| 5 | Q. Okay. In terms of stability, will you agree | 5 | do you acknowledge that there is more rate |
| 6 | with me that in terms of the result to the end | 6 | instability for customers? |
| 7 | customer, that the energy only rate is more | 7 | A. And that is what is intended by a demand |
| 8 | stable for customers? | 8 | energy rate. |
| 9 | A. Everything else being equal, no, I would not. | 9 | Q. Okay. And the latter two, predictability and |
| 10 | Q. Then tell me - | 10 | understandability, I don't think we need to |
| 1 | A. We discussed this before. The energy only | | spend any time on. |
| 11 | | 11 | * |
| 12 | both rates, can we take away for purposes of this conversation the effect of the RSP or do | 12 | A. Well, the other qualificationyou say that |
| 13 | | 13 | you're putting them on equal footing and some |
| 14 | you want to talk in the context of the RSP? | 14 | of these are things that are more important to |
| 15 | Q. You can address it either way. | 15 | domestic customers and some are more important |
| 16 | A. Okay. And energy only rate can be as unstable | 16 | to customers, more sophisticated customers |
| 17 | as a demand rate. It depends upon temperature | 17 | such as NP. |
| 18 | variations within the month, it depends upon | 18 | Q. Yes. Which, out of all of them, would you |
| 19 | manyeconomic conditions. | 19 | think is the most important? |
| 20 | Q. But within the mechanisms that exist in | 20 | A. I would think static and dynamic efficiency |
| 21 | Newfoundland and will continue to exist, the | 21 | are two very important ones. |
| 22 | energy only rate would create more stability | 22 | Q. The efficiency issues. |
| 23 | for customers, does it not? | 23 | A. Static and dynamic as itright. |
| 24 | A. But that is not a virtue in this case. The | 24 | Q. We have different views on that, but we agree |
| 25 | virtue is putting dollars at risk to achieve a | 25 | that that's the right issue. Thank you, Mr. |
| | | | |
| | Page 203 | | Page 204 |
| 1 | Page 203 Greneman, those are my questions. | 1 | Page 204 closed. Butand that all other things being |
| 1 2 | _ | 1 2 | 9 |
| 2 | Greneman, those are my questions. | | closed. Butand that all other things being |
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| 2 3 4 5 | Greneman, those are my questions. A. Okay. CHAIRMAN: Q. Thank you, Mr. Kelly. Thank you, Mr. Greneman. We'll break now for 15 minutes. (BREAK - 3:00 P.M.) | 2 3 4 5 | closed. Butand that all other things being equal, and that's to say leaving out a Rate Stabilization Plan, there's no great difference in rate volatility as between energy only rate and a demand energy rate. Is that fair? |
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| | Page 205 | | Page 206 |
| 1 H | IUTCHINGS, Q.C.: | 1 | accepted way of dealing with allocation to |
| 2 | assignment of plant. And at the top of page | 2 | assign it to two specific customers, yet not |
| 3 | 44 he deals with this NP-IC sub-transmission | 3 | to a third? |
| 4 | class. I take it you're familiar with these | 4 | A. ThereI've experienced many, many variations |
| 5 | various classes of assignment of plant for the | 5 | in the industry and I'm not doubting that this |
| 6 | purpose of Cost of Service Study? | 6 | could be an acceptable method. |
| 7 | A. The sub-transmission function? | 7 | Q. Okay. If we could now look at that in the |
| 8 | Q. Yes. | 8 | context of the issue we had about the |
| 9 | A. Yes, I am. | 9 | transmission line on the Burin Peninsula. |
| 10 | Q. Yes, okay. As I understand it, there is | 10 | Would there be any objection in principal to a |
| 11 | actually nothing that falls within this | 11 | sub-transmission category to deal with |
| 12 | classification in the present Cost of Service | 12 | customers of Newfoundland Power and Hydro |
| 13 | Study, is that correct? | 13 | Rural but not Industrial Customers? |
| 14 | A. Sub-transmission? | 14 | A. I would think that that could be of |
| 15 | Q. This particular NP-IC sub-transmission. | 15 | acceptablemay I preface my response? |
| 16 | A. Oh, NP-IPNP-IC sub-transmission. I would | 16 | Q. By all means. |
| 17 | I'll accept that subject to. | 17 | A. Okay. I'd like if I could to respond from the |
| 18 | Q. Okay. That's my understanding. If you have | 18 | point of my general industry experience with |
| 19 | any different information, you can certainly | 19 | recognition, as I had noted this morning, that |
| 20 | let us know, but I don't believe that there | 20 | the specific study in question that we're |
| 21 | was any plant that served by Newfoundland | 21 | looking at right now was performed by Hydro's |
| 22 | Power and an Industrial Customer but not Hydro | 22 | planning department and supported by Hydro's |
| 23 | Rural with an original capital cost of two | 23 | witnesses, Mr. Haynes. And I've read that |
| 24 | percent of the total transmission of terminal | 24 | study, but I'm not, if you will, prepared to |
| 25 | stations cost. But this is a valid and | 25 | comment on the appropriateness or |
| | Page 207 | | Page 208 |
| 1 | inappropriateness of any of Mr. Haynes' | 1 | down in the lower right-hand corner, page |
| 2 | recommendations, only to note that he has | 2 | numbers. It's Schedule 4.2, page 1 of 1. |
| 3 | followed what I believe to be relied upon what | 3 | There. Okay. |
| 4 | I believe to be general industry guidelines. | 4 (| (3:30 p.m.) |
| 5 | And I wouldin response to your question, I | 5 | I recognize the numbers don't necessarily |
| 6 | would think that such a category could exist. | 6 | coincide and I want to get you to reconcile |
| 7 | Q. Okay. Thank you. I don't think we need to | 7 | them for us. But, the coincident peak at |
| 8 | pursue that any further. There is a somewhat | 8 | generation here for the Island Interconnected |
| 9 | technical point, I guess, that I was trying to | 9 | System is shown at 1.32915, 1,324,915 |
| 10 | resolve with Mr. Haynes earlier on, and there | 10 | kilowatts? |
| | are a number of references to look at to | 11 | |
| 11 | | 11 | A. Yes. |
| 11 12 | illustrate the initial point. If we could put | 12 | A. Yes. Q. I don't think we need to go to it, but in |
| 1 | | | |
| 12 | illustrate the initial point. If we could put up Mr. Haynes' Schedule 11 in the revision? I'm looking here at the numbers for total | 12 | Q. I don't think we need to go to it, but in |
| 12 13 | illustrate the initial point. If we could put up Mr. Haynes' Schedule 11 in the revision? | 12 13 | Q. I don't think we need to go to it, but in revision No. 1 of RDG-1 that number was |
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| June 1 Indeed earlier, sobut we need to one destroy on opposite directions? A. I think that I could refer you to the rational for the first and I'd have to come back to you with the answer to the second. A. The rational for the first, we can prepare a sheet for you, but effectively the reconciliation of Mr. Haynes and what's used in the Cost of Service Study would need to be based upon the Information Request, IC-265, NLH as it would be updated. July Cyes. I tried to follow that through and as regards the coincident peak 265 refers us to IC-77, which refers us to PUB-14, which refers to between. A. Provide that to you afterwards? Jo Qo Kay. If we can provide that to you afterwards? Q. Qo Kay. If we can provide that to you afterwards? Jo Qo Kay. That's fine. And it's my view that there is some potential benefit to all customers from all generation. Page 211 that fair? Some fashion benefits the entire system and Industrial. To what extent it's representing in the Cost of Service Study to the allocation process, I, guess would ultimately be up to this Board to determine. But it's my view that there is some potential benefit to all customers from all generation is of some degree of benefit to all customers or a customer class? Jo Personal and the last customers or a customer class? Jo Personal and the cost refers us to that generation to specific customers or a customer class? Jo Personal and the cost refers us to that there is some benefit that that customer is represent some benefit that that customer is receiving, should it not? Jo Personal and the specifically with respect to this issue. Jo Personal and the specifically with respect to this issue. Jo Personal and the specifically with respect to this issue. Jo Personal and the difference between the two under Section 2.3 in, at late at pass, in order to the benefit what a marked to lobe the cost of service as e | 14070111001 14, 2003 | Widit-Tage NE Hydro's 2003 General Rate Application |
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| 2 Sudy, and secondly, why are they moving in opposite directions? 4 A. I think that I could refer you to the rational for the first and I'd have to come back to you with the answer to the second. 7 Q. Okay. 8 A. The rational for the first, we can prepare a sheet for you, but effectively the reconciliation of Mr. Haynes and what's used in the Cost of Service Study would need to be based upon the Information Request, IC-265, NJH as it would be updated. 14 Q. Yes. I tried to follow that through and as regards the coincident peak 265 refers us to IC-77, which refers us to PUB 3. And I got the first number in the first one and the last number in the between. 21 A. Okay. If we can provide - Q. I meun, I don't - A. Provide that to you afterwards? 22 Q. I meun, I don't - A. Provide that to you afterwards? 23 Q. Okay. That's fine. And it's more related, I guess, to the different directions of movement 24 process, I guess would ultimately be up to this Board to determine. But it's my view that there is some potential benefit to all customers from all generation. 8 Q. Yes. okay. Accepting that premise for the moment that all generation is of some degree of benefit to all customers from all generation is of some degree of benefit to all customers from all generation is of some degree of benefit to all customers from all generation is of some degree of benefit to all customers from all generation is of some degree of benefit to all customers from all generation is of some degree of benefit to all customers from all generation is of some degree of benefit to all customers from all generation is of some degree of benefit to all customers and has a slight variation. 2 Q. Firstly, in general and then specifically with respect to this issue. 3 A. That's my view that NP's thermal generation in the cross of a particular class of customer or Hydro can derive benefit to Hydro can derive benefit to that that customer is receiving, should it not? Otherwise the cost would be specifically with respect to this issue. 4 A. Tha | | |
| 3 anumbers, I guess, in order to be able to get 4 A. I think that I could refer you to the rational 5 for the first and I'd have to come back to you 6 with the answer to the second. 6 Q. O.O.Ay. 8 A. The rational for the first, we can prepare a 9 sheet for you, but effectively the 10 reconciliation of Mr. Haynes and what's used 11 in the Cost of Service Study would need to be 12 based upon the Information Request, IC.265, 13 NLH as it would be updated. 14 Q. Yes. I tried to follow that through and as 15 regards the coincident peak 265 refers us to 16 IC.77, which refers us to PUB-14, which refers 18 us to PUB-3. And I got the first number in 18 the first one and the last number in the last 19 one, but I'm not sure I got the road in 19 between. 21 A. Okay. If we could look, Mr. Greneman, 22 at O. Wes, Oat and I believe that's 23 essentially the same phrase that you used 24 earlier on in terms of responding to issues 25 us to PUB-14, which refers 26 us to PUB-3. And I got the first number in 27 the first one and the last number in the last 28 one, but I'm not sure I got the road in 29 between. 21 A. Okay. If we could look, Mr. Greneman, 21 at page 17 of your evidence? And specifically 21 under Section 2.2.3 in, at lines 8 to 10 you 22 refer to the proper recognition of 23 Newfoundland Power's generation on both the 24 costing and rate side. And I believe that's 25 essentially the same phrase that you used 26 earlier on in terms of responding to issues 26 about the Newfoundland Power generation 27 you on this issue and recognizing that the 28 the first one and the last number in the last 29 on, but I'm not sure I got the road in 29 the first one and the last number in the last 20 ol. Term, I don't 21 the Industrial Customers at all, we're purely 21 dealing with it as with the Cost of Service 22 aspects of it. What benefit is the 23 Newfoundland Power thermal generation to the 24 land Industrial To what extent it's representing 25 in the Cost of Service Study to the allocation 26 propost, the question was the recog | | |
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| with the answer to the second. 7 Q. Okay. 8 A. The rational for the first, we can prepare a sheet for you, but effectively the reconciliation of Mr. Haynes and what's used in the Cost of Service Study would need to be based upon the Information Request, IC-265. 10 In Haynes and what's used in the Cost of Service Study would need to be based upon the Information Request, IC-265. 11 In Haynes and what's used in the Cost of Service Study would need to be based upon the Information Request, IC-265. 12 In Haynes and what's used in the Cost of Service Study would need to be based upon the Information Request, IC-265. 13 In Haynes and what's used in the Cost of Service Study would need to be based upon the Information Request, IC-265. 14 Q. Yes. I tried to follow that through and as regards the coincident peak 265 refers us to IC-77, which refers us to PUB-14, which refers us to PuB-14 in the set set of this doesn't affect on | 4 A. I think that I could refer you to the rational | 4 there. Okay. If we could look, Mr. Greneman, |
| 7 | 5 for the first and I'd have to come back to yo | at page 17 of your evidence? And specifically |
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| 8 Q. Yes, okay. Accepting that premise for the 9 moment that all generation is of some degree 10 of benefit to all customers, how does one 11 approach the question of assigning a 12 proportion of the cost related to that 13 generation to specific customers or a customer 14 class? 15 A. In general or within the context of the way 16 it's being treated? 17 Q. Firstly, in general and then specifically with 18 respect to this issue. 19 A. There can be various ways of handling it. 19 There are three options that have been 20 presented and each has a slight variation. 21 Q. But the notion being that there is ultimately 22 a fair allocation of the cost and some 23 connection to the benefit which a particular 24 being allocated among customers presumably any 25 cost that is allocated to a particular class 26 of customer must represent some benefit that 26 that customer is receiving, should it not? 27 Otherwise the cost would be specifically assigned to someone else? 28 A. Right. 29 Cyes. So what do you mean when you say that there's some benefit to Hydro which would justify a - 29 A. Well, what I was referring to was to the 20 extent that Hydro can call on NP's thermal generation. 21 Q. And the theory being that that's of benefit to 22 the Industrial Customers because it helps the system and we're on the system? 24 A. That's right. | _ | |
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| 14 class? 15 A. In general or within the context of the way 16 it's being treated? 17 Q. Firstly, in general and then specifically with 18 respect to this issue. 19 A. There can be various ways of handling it. 20 There are three options that have been 21 presented and each has a slight variation. 22 Q. But the notion being that there is ultimately 23 a fair allocation of the cost and some 24 connection to the benefit which a particular 14 A. Right. 15 Q. Yes. So what do you mean when you say that there's some benefit to Hydro which would 17 justify a - 18 A. Well, what I was referring to was to the 19 extent that Hydro can call on NP's thermal 20 generation. 21 Q. And the theory being that that's of benefit to the Industrial Customers because it helps the system and we're on the system? 24 A. That's right. | | |
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| 17 Q. Firstly, in general and then specifically with 18 respect to this issue. 19 A. There can be various ways of handling it. 20 There are three options that have been 21 presented and each has a slight variation. 22 Q. But the notion being that there is ultimately 23 a fair allocation of the cost and some 24 connection to the benefit which a particular 26 Justify a - 27 A. Well, what I was referring to was to the 28 extent that Hydro can call on NP's thermal 29 generation. 20 Q. And the theory being that that's of benefit to 20 the Industrial Customers because it helps the 21 system and we're on the system? 22 A. That's right. | 1 | · · · · · · · · · · · · · · · · · · · |
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| 19 A. There can be various ways of handling it. 20 There are three options that have been 21 presented and each has a slight variation. 22 Q. But the notion being that there is ultimately 23 a fair allocation of the cost and some 24 connection to the benefit which a particular 25 extent that Hydro can call on NP's thermal 26 generation. 27 Q. And the theory being that that's of benefit to 28 the Industrial Customers because it helps the 29 system and we're on the system? 20 A. That's right. | 1 | |
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| presented and each has a slight variation. Q. But the notion being that there is ultimately a fair allocation of the cost and some connection to the benefit which a particular 21 Q. And the theory being that that's of benefit to the Industrial Customers because it helps the system and we're on the system? A. That's right. | · · · · · · · · · · · · · · · · · · · | |
| 22 Q. But the notion being that there is ultimately 23 a fair allocation of the cost and some 24 connection to the benefit which a particular 25 the Industrial Customers because it helps the 26 system and we're on the system? 27 A. That's right. | | generation. |
| 23 a fair allocation of the cost and some 23 system and we're on the system? 24 connection to the benefit which a particular 24 A. That's right. | presented and each has a slight variation. | Q. And the theory being that that's of benefit to |
| 24 connection to the benefit which a particular 24 A. That's right. | 22 Q. But the notion being that there is ultimately | the Industrial Customers because it helps the |
| | a fair allocation of the cost and some | system and we're on the system? |
| | connection to the benefit which a particular | 24 A. That's right. |
| customer derives from the specific asset. Is 25 Q. Yes, okay. So it's not a benefit to Hydro | • | |

| | Page 213 | | Page 214 |
|-----|--------------------------------------------------|----|---------------------------------------------------|
| 1 H | UTCHINGS, Q.C.: | 1 | Demand. |
| 2 | that stops at Hydro? It's a benefit - | 2 | Q. And how does that work itself through the cost |
| 3 | A. Oh yes. | 3 | of service study? |
| 4 | Q it's something that's available to Hydro and | 4 | A. With respect to the thermal or thermal and |
| 5 | hence, a benefit to Hydro's customers | 5 | with respect to NP's thermal alone? |
| 6 | generally? | 6 | Q. NP's thermal alone. |
| 7 | A. Of course, right. | 7 | A. NP's thermal is subtracted in calculating the |
| 8 | Q. Yes, okay. All right. I wasn't sure whether | 8 | system load factor net of reserves. The |
| 9 | we were talking about two different things | 9 | system load factor is used to classify what |
| 10 | there, but I think we're just talking about | 10 | portion of the system is generation that is |
| 11 | one thing. So in that context then, how do we | 11 | energy related versus demand related and the |
| 12 | move to start allocating a particular portion | 12 | demand related portion hasthere is a |
| 13 | of the cost of that asset, those assets, those | 13 | coincident demand attributed to each class and |
| 14 | thermal generation assets of Newfoundland | 14 | in calculating that coincident demand, NP's |
| 15 | Power to a customer class like the Industrial | 15 | thermal is net of reserves is subtracted from- |
| 16 | Customers? | 16 | -I'm sorry, NP's thermal capacity net of |
| 17 | A. It is subtracted fromin other words, how | 17 | reserve is subtracted from its forecast. This |
| 18 | does the flow through of cost effects come to | 18 | is disregarding hydraulic for the moment. |
| 19 | Industrial? | 19 | Q. Yes. I just want to direct our attention |
| 20 | Q. Yes. How do we decide what proportion of the | 20 | toward the thermal issue at this time. So if |
| 21 | total cost to the system of that capacity, | 21 | the thermal generation of Newfoundland Power |
| 22 | what portion of thathow do we decide what | 22 | did not give rise to a generation credit then |
| 23 | portion of that gets assigned to the | 23 | there would be a higher number used for |
| 24 | Industrial Customers? | 24 | Newfoundland Power's capacity responsibility, |
| 25 | A. In general, based upon Relative Coincident | 25 | correct? |
| | Page 215 | | Page 216 |
| 1 | A. Yes. | 1 | a note to the effect that NP receives a net |
| 2 | Q. Okay. So following that through the cost of | 2 | credit of \$841,388. Do you agree that that's |
| 3 | service study, I mean the costs of this | 3 | an accurate representation of what the credit |
| 4 | generation are still recovered by Hydro, | 4 | does in that particular year? |
| 5 | correct? | 5 | A. I'll accept that. |
| 6 | A. That's correct. | 6 | Q. Okay. And immediately to the left then, there |
| 7 | Q. And how does the cost of service study, after | 7 | is a representation of the cost to the |
| 8 | application of the generation credit, | 8 | Industrial Customers with respect to that |
| 9 | distribute those costs? | 9 | generation and the number there, which is |
| 10 | A. The demand component of the costs are | 10 | again an annual number, \$738,386. Do you |
| 11 | distributed based on relative coincident peak. | 11 | accept that that's what the cost of service |
| 12 | Q. Okay. | 12 | study does in respect of allocation of these |
| 13 | A. Relative contribution to coincident peak. | 13 | costs? |
| 14 | Q. All right. Can I have you look for a moment | 14 | A. I'll accept that. |
| 15 | at the evidence of Mr. Osler and Mr. Bowman at | 15 | Q. Okay. Now the function these units serve is |
| 16 | page 30? Have you had the opportunity to | 16 | to provide peaking capacity, correct? |
| 17 | review the information contained in this | 17 | A. Generally that's my understanding. |
| 18 | table? | 18 | Q. Okay. There's noI mean, on all the forecasts |
| 19 | A. Yes. | 19 | and in the cost of service study, there's no |
| 20 | Q. Okay. And this is with reference to the | 20 | energy forecast to be produced by these units, |
| 21 | specific information which was available to | 21 | correct? |
| 22 | those gentlemen from the cost of service | 22 | A. I'llsubject to my understanding, yes. |
| 23 | studies and under the heading "costs to NP" | 23 | Q. Yes, okay. Now there are, of course, other |
| 24 | the fourth entry down, which deals with | 24 | sources of peaking capacity on Newfoundland |
| 25 | Newfoundland Power generation credit there is | 25 | Hydro's system including their own gas |

Hydro's system, including their own gas

Newfoundland Power generation credit, there is

| | Page 217 | | Page 218 |
|----|--------------------------------------------------|----|---------------------------------------------------|
| 1 | HUTCHINGS, Q.C.: | 1 | A. I'm not going to use the word "unfairness" but |
| 2 | | 2 | there seems to be some sort of perhaps |
| 3 | * | 3 | inequality. |
| 4 | | 4 | Q. Would you agree that this is not a result that |
| 5 | | 5 | would be consistent with the proper principles |
| 6 | | 6 | of cost allocation to be applied in the public |
| 7 | | 7 | utility setting? |
| 8 | | 8 | A. At this moment, I wouldn't go so far as to say |
| 9 | | 9 | that. I would simply say it merits review. |
| 10 | | 10 | Q. Okay. And are you telling us that you have |
| 11 | | 11 | not reviewed the issue? |
| 12 | | 12 | A. I note there might be an anomaly in this |
| 13 | | 13 | respect and I'm not 100 percent sure what the |
| 14 | | 14 | remedy is. |
| 15 | • | | (3:45 p.m.) |
| 16 | | 16 | Q. Okay. Would you agree with me that at worst |
| 17 | | 17 | the Industrial Customers should not be paying |
| 18 | | 18 | any more per kilowatt for the benefit of the |
| 19 | | 19 | Newfoundland Power thermal generation than |
| 20 | | 20 | they're paying per kilowatt for Hydro's gas |
| 21 | | 21 | turbines? |
| 22 | | 22 | A. Well, of course it depends upon the relative |
| 23 | | 23 | cost of the turbines, you know, when they were |
| 24 | Q. Would you agree with me that there is an | 24 | installed and the relative age and so on, but |
| 25 | | 25 | putting those factors aside and everything |
| | Page 219 | | Page 220 |
| 1 | else assumed to be equal, one would expect | 1 | Q. So should the Board be satisfied that those |
| 2 | | 2 | generating units are in fact primarily or |
| 3 | | 3 | almost exclusively used for the purpose of |
| 4 | | 4 | supporting local loads at the end of radial |
| 5 | | 5 | lines, would it not be proper, in fact, to be |
| 6 | | 6 | consistent and not assign any of that cost to |
| 7 | | 7 | the Industrial Customers on the general grid? |
| 8 | | 8 | A. I think that this is stepping out of my area. |
| 9 | | 9 | I think it relates to the system planning |
| 10 | | 10 | study that's been done and I'd like to defer. |
| 11 | | 11 | Q. Okay. All right. In your rate design study, |
| 12 | A. Yes. | 12 | I think some of what we have been discussing |
| 13 | Q. Would you agree that's a factor that actually | 13 | is illustrated in your Appendix 3. Perhaps we |
| 14 | should tend to make those units even more | 14 | could bring that up? Yes, there we are. And |
| 15 | valuable? | 15 | your Option A, and this of course is in the |
| 16 | A. I would probably tend to agree. | 16 | context of a demand energy rate but that's not |
| 17 | Q. Yes, okay. Now are you aware that certain of | 17 | particularly relevant for our present concern. |
| 18 | this thermal capacity of Newfoundland Power is | 18 | Option A is essentially the current system for |
| 19 | in fact located at the end of some longer | 19 | the generation credit. Is that correct? |
| 20 | radial lines? I think we've discussed or I | 20 | A. Yes, that's correct. |
| 21 | • | 21 | Q. Okay. And we see there that the hydraulic |
| 22 | * | 22 | credit is netted off at 79.3 megawatts and the |
| 23 | | 23 | thermal credit is netted off at 45.5 for |
| 24 | end of a long radial line down there. | 24 | costing purposes? |

A. Yes.

A. Yes.

| | 7.000 | 1 | - Till Hydro 5 2000 General Rate Hyprication |
|-------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Page 221 | | Page 222 |
| 1 | HUTCHINGS, Q.C.: | 1 | Q. Okay. But the effect here is to give credit |
| 2 | Q. Okay. And that is, in fact, the generation | 2 | to Newfoundland Power as if that thermal |
| 3 | credit that we're talking about? | 3 | production was running all the time, correct? |
| 4 | A. That's correct. | 4 | A. No, it's to give effect for its ability to |
| 5 | Q. Part of it is hydraulic and part of it is | 5 | run. |
| 6 | thermal? | 6 | Q. Yes. |
| 7 | A. Yes. | 7 | A. When called upon. |
| 8 | Q. Okay. And as you understand it, Newfoundland | 8 | Q. Yes, but as regards its capacity elements, I |
| 9 | Power actually uses its hydraulic production | 9 | mean, leaving out energy, because we know it |
| 10 | capability and produces energy with it, does | 10 | doesn't produce any energy, but the effect is |
| 11 | it not? | 11 | the same as if this was running the whole |
| 12 | A. Yes, it does. | 12 | time? |
| 13 | Q. So it's fair to say that the system actually | 13 | A. I'm sorry, are you saying that the capacity |
| 14 | gets the benefit of that 79.3 megawatts? | 14 | arithmetic is the same as if it was or was not |
| 15 | A. It gets the benefit from NP's hydraulic. | 15 | running? |
| 16 | Q. Yes. It's actually used and produced and | 16 | Q. Exactly. |
| 17 | consumed somewhere in the system? | 17 | A. Yes. |
| 18 | A. Right. | 18 | Q. Okay. And equally under your Option B here, |
| 19 | Q. Yes, okay. How does that compare to the | 19 | it is the thermal capacity that you're giving |
| 20 | thermal? | 20 | the full credit for there? |
| 21 | A. Thermal can be used. | 21 | A. That's correct. |
| 22 | Q. For cost of service purposes, is any energy | 22 | Q. Okay. Now in that scenario, I take it you're |
| 23 | production assigned to that thermal | 23 | assuming that Hydro or Newfoundland Power runs |
| 24 | production, thermal capacity? | 24 | its own hydraulic and hence has reduced its |
| 25 | A. No, my understanding is it's not. | 25 | peak or its demand that it's putting on |
| | | | |
| | · | | |
| | Page 223 | | Page 224 |
| 1 | Page 223 Newfoundland Hydro? | 1 | Page 224 dispatch of Newfoundland Power generation, |
| 1 2 | Page 223 Newfoundland Hydro? A. That's correct. | 1 2 | Page 224 dispatch of Newfoundland Power generation, both hydraulic and thermal? |
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| | Page 225 | | Page 226 |
|--------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 I | HUTCHINGS, Q.C.: | 1 | to the amount of the Newfoundland Power |
| 2 | credit on the left-hand side of the page | 2 | generation credit? |
| 3 | there, you calculate the hydraulic credit and | 3 | A. It reduces the credit. |
| 4 | the thermal credit, I take it using gross | 4 | Q. No, I don't think. You're dividing by 1.185 |
| 5 | figures and then dividing by 1.185? | 5 | now instead of dividing by 1.16. |
| 6 | A. Yes, that's what's shown. | 6 | A. Oh, so it increases the credit, I guess. |
| 7 | Q. Yes. And that I understand is the reserve - | 7 | Q. Yes. And has anything happened, that you're |
| 8 | A. Yes, it is. | 8 | aware of, with the Newfoundland Power |
| 9 | Q that is applied so that that's consistent | 9 | generation that would suddenly make this |
| 10 | with the percentage of system reserve for the | 10 | generation capacity more valuable than it was |
| 11 | entire Island system? Is it not? | 11 | previously? |
| 12 | A. I would think so. | 12 | A. No, I am not. |
| 13 | Q. Yes, okay. | 13 | Q. Okay, thank you. Another point to deal with, |
| 14 | A. Subject to check. | 14 | Mr. Greneman, and I want to refer you to the |
| 15 | Q. If we could look for a moment at the Osler and | 15 | response to IC-1C and that's the 2002 Actual |
| 1 | Bowman evidence at page 39. Yes, that's it, | 16 | Cost of Service and specifically at page 3 of |
| 16 | and I'm specifically interested in footnote | 17 | 98. Yes, that's it, can you make that a |
| 17 | 137. This footnote, and I don't know whether | 18 | little bigger? I've broached this subject |
| 18 | you've had a chance to look at it in any | 19 | with a couple of witnesses who have all |
| 19 | detail, comments upon the fact that the | | deferred it down the line, let's see how far |
| 20 | • | 20 | · |
| 21 | reserve requirement for the system has changed | 21 | you and I make out with it, can you just |
| 22 | from 16 percent to 18.5 percent since the last | 22 | explain to us the significance of column 7, |
| 23 | hearing. Were you aware of that? | 23 | the revenue to cost coverage? |
| 24 | A. I believe I've heard that. Q. Okay. Can you tell us what that change does | 24 25 | A. Well just as it's noted, the revenue to cost coverage is columns 2, divided by column 3, so |
| 25 | Q. Okay. Call you tell us what that change does | 23 | coverage is columns 2, divided by column 3, so |
| 1 | D 227 | | D 220 |
| | Page 227 | | Page 228 |
| 1 | it's the cost of service beforesorry, it's | 1 | Customers, what is the target? |
| 2 | it's the cost of service beforesorry, it's the revenues recovered, divided by the cost of | 1 2 | Customers, what is the target? A. It's different in different jurisdictions. |
| 2 3 | it's the cost of service beforesorry, it's the revenues recovered, divided by the cost of service before the deficit and revenue credit | 1 2 3 | Customers, what is the target? A. It's different in different jurisdictions. It's a matter for the Board to decide what |
| 2 3 4 | it's the cost of service beforesorry, it's the revenues recovered, divided by the cost of service before the deficit and revenue credit allocation. | 1 2 3 4 | Customers, what is the target? A. It's different in different jurisdictions. It's a matter for the Board to decide what target is1.0 simply says that they're |
| 2 3 4 5 | it's the cost of service beforesorry, it's the revenues recovered, divided by the cost of service before the deficit and revenue credit allocation. Q. Okay, and we can see there for Newfoundland | 1 2 3 4 5 | Customers, what is the target? A. It's different in different jurisdictions. It's a matter for the Board to decide what target is1.0 simply says that they're covering 100 percent of their cost. 1.05 says |
| 2 3 4 5 6 | it's the cost of service beforesorry, it's the revenues recovered, divided by the cost of service before the deficit and revenue credit allocation.Q. Okay, and we can see there for Newfoundland Power that the revenue to cost coverage number | 1 2 3 4 5 6 | Customers, what is the target? A. It's different in different jurisdictions. It's a matter for the Board to decide what target is1.0 simply says that they're covering 100 percent of their cost. 1.05 says they're covering 105 percent of their cost. |
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| | Page 229 | | Page 230 |
| 1 N | IR. GRENEMAN: | 1 | to cost coverage for the Island Industrial |
| 2 | A. Yes. | 2 | Customers of 1.13, do you see that number? |
| 3 H | UTCHINGS, Q.C.: | 3 | A. Yes, I do. |
| 4 | Q. Okay, and why did you do that? | 4 | Q. Okay. Can you explain to us why the target of |
| 5 | A. Well the point of that is that you're paying | 5 | 1.0 was not met for 2002? |
| 6 | your costs exactly. | 6 | A. I believe this is in connection with the issue |
| 7 (| 4:00 p.m.) | 7 | that's been brought up in Mr. Osler's and Mr. |
| 8 | Q. And that's the way it's supposed to be, | 8 | Bowman's testimony, that the actual for demand |
| 9 | correct? | 9 | for NP came in higher than forecast and came |
| 10 | A. That's the way it could be. There could be a | 10 | lower than forecast for Industrials. |
| 11 | lot of reasons why it won't be that way. | 11 | Q. Well it came in differently for Newfoundland |
| 12 | Q. Yes. But to your knowledge, at least since | 12 | Power and for the Island Industrial Customers, |
| 13 | the time that legislation was passed to | 13 | yes. Okay, and does that in fact explain the |
| 14 | prevent the Island Industrial Customers | 14 | difference in the revenue to cost coverage |
| 15 | contributing to the rural deficit, has the 1.0 | 15 | from the target to the actuals? |
| 16 | revenue to cost coverage been the target for | 16 | A. I wouldI'd have to review it, I think it |
| 17 | Island Industrial Customers for cost of | 17 | probably explains a lot of the difference. |
| 18 | service purposes? | | Q. Okay, all right. And perhaps we should look |
| 19 | A. Yes, but I can understand that there could be | 19 | at page 39 of the evidence of Mr. Osler and |
| 20 | reasons to differ from the 1.0 for reasons | 20 | Mr. Bowman. And this is the issue that's |
| 21 | other than the rural deficit, with that | 21 | discussed starting at line 12 and shows that |
| 22 | qualification. | 22 | the Industrial Customers paid more than 5 |
| 23 | Q. Sure. I quite understand that. If we can go | 23 | million dollars in excess of their measured |
| | back then to IC-1C, page 3 of 98, we note that | | costs in 2002 and Newfoundland Power's actual |
| 24 | the actual results for 2002 show the revenue | 24 | payments to Hydro were almost 5 million |
| 25 | the actual results for 2002 show the revenue | 25 | payments to fryuro were annost 3 million |
| | | | |
| | Page 231 | | Page 232 |
| 1 | dollars below. If we were to assume perfect | 1 | Page 232 has a direct influence. |
| 1 2 | dollars below. If we were to assume perfect information and perfect forecasting, would it | 1 2 | Page 232 has a direct influence. Q. Let's look then from another direction and |
| 1 | dollars below. If we were to assume perfect information and perfect forecasting, would it be fair to say that those two numbers would | 2 3 | Page 232 has a direct influence. Q. Let's look then from another direction and explain for us - |
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| 2 3 4 | dollars below. If we were to assume perfect information and perfect forecasting, would it be fair to say that those two numbers would have cancelled one another out, that the | 2 3 4 | Page 232 has a direct influence. Q. Let's look then from another direction and explain for us - A. Unless that's what they're forecasting with, |
| 2 3 4 5 | dollars below. If we were to assume perfect information and perfect forecasting, would it be fair to say that those two numbers would have cancelled one another out, that the Newfoundland Power number would have come out | 2 3 4 5 | Page 232 has a direct influence. Q. Let's look then from another direction and explain for us - A. Unless that's what they're forecasting with, is that what you're referring to? |
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| | 7,1000 | | , | 12 Hydro 5 2000 General Rate Application |
|-----|---------------------------------------------------|----|-------|------------------------------------------------|
| | Page 233 | | | Page 234 |
| 1 | HUTCHINGS, Q.C.: | 1 | sy | ystem load factor, in part - |
| 2 | Q. And correct me if I'm wrong, but to the extent | 2 | Q. Y | es, okay. |
| 3 | | 3 | A. A | and it's also used as their magnitude in |
| 4 | is higher, they will have a larger proportion | 4 | | alculating their demand factor for the |
| 5 | | 5 | | ortion, of course, that is demand related. |
| 6 | | 6 | _ | kay. Those are the two purposes, there is |
| 7 | | 7 | | e calculation of the system load factor and |
| 8 | | 8 | | eir allocation of demand responsibility? |
| 9 | | 9 | | hat's correct. |
| 10 | | 10 | | and in calculation of the system load factor, |
| 11 | Cost of Service Study? | 11 | | o you use both Newfoundland Power's forecast |
| 12 | • | 12 | | f demand and their forecast of energy? |
| l | | | | —————————————————————————————————————— |
| 13 | | 13 | | of the system load factor? |
| 14 | • • • • • • • • • • • • • • • • • • • • | 14 | Q. Y | |
| 15 | - 3 | 15 | A. Y | |
| 16 | * | 16 | | okay, and what would be the effect of |
| 17 | • | 17 | | ewfoundland Power having a lower forecast for |
| 18 | • | 18 | | emand and a higher forecast for energy? |
| 19 | <u> </u> | 19 | | would increase their load factor. |
| 20 | * | 20 | | would increase their load factor and what |
| 21 | hydraulic generation. From there we go to | 21 | | oes that do to the system load factor? |
| 22 | their native peak and then we subtract | 22 | | would increase the system load factor. |
| 23 | generation credits, net of reserve. And that | 23 | | kay, and what does the system load factor do |
| 24 | number is used in the demandokay, it's used | 24 | to | the allocation of costs generally? |
| 25 | in calculating the system of, the Island | 25 | A. A | higher system load factor contributes more |
| | Page 235 | | | Page 236 |
| 1 | _ | 1 | o. W | Ve'll end up with a murder trial that we spoke |
| 2 | | 2 | | pout earlier. With your indulgence and |
| 3 | | 3 | | onsent, I'd suggest for us to break for the |
| 4 | A. The ICs are. | 4 | | ay and start again fresh Monday morning. I |
| 5 | Q. Okay, so both by way of reducing the demand | 5 | | ink again the weekend will give me an |
| 6 | costs assigned to Newfoundland Power and by | 6 | | poportunity to review the notes, I'd be that |
| 7 | way of increasing the energy responsibility | 7 | • | such more concise. |
| 8 | for the costs associated with energy for the | | HAIR | |
| 9 | Industrial Customers, the prediction by | 9 | | hat's fine with me. |
| 10 | | | | NNEDY: |
| 11 | factor than they actually experience tends to | 11 | | and clear headed. |
| 12 | • • • | | HAIR! | |
| 13 | A. I agree. | 13 | | see some nodding of heads as well. That's |
| 14 | | 14 | | ne, we'll reconvene at 9:00 on - |
| l | - | | | |
| 15 | | | | E, Q.C.: |
| | CHAIRMAN: | 16 | | have one item, Mr. Chair. It will only be a |
| 17 | Q. Thank you very much, Mr. Hutchings. Mr. | 17 | | noment. It's to respond to an undertaking |
| 18 | | 18 | | nat was outstanding. It was Undertaking 14 |
| l | MR. KENNEDY: | 19 | | hich was to provide the impact for the |
| 20 | | 20 | | adustrial Customers based on the 2004 revenue |
| 21 | cruel and I suggest criminal after 4:00. | 21 | | equirement of the GNP transmission line being |
| 22 | (laughter). | 22 | | ssigned to common. They had asked us to |
| | CHAIRMAN: | 23 | _ | rovide that information back on October 23rd |
| 24 | Q. I'll stop the bleeding, you need not - | 24 | | nd I have a response, a written response to |
| 125 | MR. KENNEDY: | 25 | pı | rovide to that at this time. And this is a |
| 23 | | 1 | | |

| November 14, 2003 Mult | i-Page [™] NL Hydro's 2003 General Rate Application |
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| Page 237 | Page 238 |
| 1 GREENE, Q.C.: | is, especially by Newfoundland Power. |
| 2 response to Undertaking No. 14 dealing with | 2 (laughter). |
| 3 the issue of the assignment of the GNP | 3 KELLY, Q.C.: |
| 4 transmission line as common and its impact on | 4 Q. What would we do without you? |
| 5 Industrial Customers. Thank you very much, | 5 GREENE, Q.C.: |
| 6 Mr. Chair, that was the only item. I meant to | 6 Q. The issue of the schedule for Monday, my |
| 7 do it earlier and had forgotten. | 7 colleagues were asking here, do we knowwe |
| 8 CHAIRMAN: | 8 had agreed to sit the longer days for Thursday |
| 9 Q. Thank you, Ms. Greene. Ms. Newman, is there | 9 and Friday, we were going to reassess the |
| anything before we conclude? | progress we were making and maybe we can leave |
| 11 MS. NEWMAN: | that until Monday, I'm not sure. |
| 12 Q. No. | 12 MS. NEWMAN: |
| 13 CHAIRMAN: | Q. Yes, perhaps we'll speak to it Monday morning. |
| Q. Thank you very much. We'll see you on 9:00 on | 14 CHAIRMAN: |
| Monday morning and have a good weekend and | 15 Q. Fine by me. |
| hope the weather holds for our visitors from - | 16 Upon concluding at 4:12 p.m. |
| 17 GREENE, Q.C.: | |
| 18 Q. Sorry, Mr. Chair, one last question. I really | |
| 19 do want to leave too. | |
| 20 KELLY, Q.C.: 21 Q. You have to indulge her, it's her first day | |
| 22 back. (laughter) | |
| 23 GREENE, Q.C.: | |
| 24 Q. I was only gone for a very short period. Nice | |
| 25 to know that's I'm missed so much, it really | |
| - | |
| Page 239 | |
| 1 CERTIFICATE 2 I, Judy Moss Lauzon, hereby certify that the | |
| 2 I, Judy Moss Lauzon, hereby certify that the 3 foregoing is a true and correct transcript in the | |
| 4 matter of Newfoundland and Labrador Hydro's 2003 | |
| 5 General Rate Application for approval of, among | |
| 6 other things, its rates commencing January, 2004 | |
| 7 heard on the 14th day of November, A.D., 2003 | |
| 8 before the Board of Commissioners of Public | |
| 9 Utilities, Prince Charles Building, St. John's, | |
| Newfoundland and Labrador and was transcribed by me | |
| 11 to the best of my ability by means of a sound | |
| 12 apparatus. | |
| Dated at St. John's, Newfoundland and Labrador | |
| this 14th day of November, A.D., 2003 | |
| 15 Judy Moss Lauzon | |
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