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9 to be dealt with by the Board and is that enough of a negative, if it has to be dealt 10 with to outweigh any advantages we see, either 11 12 in efficiency or fairness. And I suppose the 13 other issue that, you know, will come up eventually is--that one of the Board members 14 15 actually asked is, is it necessary to do this? Do we have to do it right now? So I think 16 17 those are the things that the Board has to weigh. 18 19 In my opinion, the issue of fairness 20 isn't really a major issue in this case. 21 There are some--I suppose the Industrials have 22 said they feel a bit unfairly treated because 23 of the way the rate works in terms of if their

on the system. That's what all the textbooks say, including Mr. Bonbright's text, and I quote a piece of that in my evidence as well. That's what I think the Board's weighing or has to weigh in this case. Q. In your evidence, you indicated that a demand energy rate is not necessary. Why do you believe it is not necessary? A. Well, I guess I touched on that just a little bit a few seconds ago, but obviously there's not one in place now. Newfoundland Power currently has demand rates on its customers in spite of the fact that there is no demand energy rate. There's also been a lot of argument in terms of is it necessary to make Newfoundland Power do some DSM and I had evidence filed in 1990 on that issue of

demand goes up, they have to pay a little

more, Newfoundland Power doesn't. But at the

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Page 6  MR. HROCKMAN:  clearly a demand energy rate might incent them  a little more, hat the read questions is incent  them to do what and at what price? So it's  not necessary. The question is: is twise?  CRELLY, OC.  Q. Okay. In 1990, Mr. Brockman, you testified in  support of a chemad energy woltesale rate.  What has changed since 1990 that affects your  views?  What has changed since 1990 that affects your  views?  A. Well, quite a few things have changed. In  10 views?  A. Well, quite a few things have changed. In  11 to—they thought they saw a lot of DSM on the  12 londing at this effect that "well, if we shave  13 a klowart off the peak, well we inmediately  14 to—they thought they saw a lot of DSM on the  15 horizon that might be cost effective. They  16 were still evaluating it, but they were  17 looking at this effect that "well, if we shave  18 a klowart off the peak, well we inmediately  19 save money?" They knew they would save money  20 in the rate cases because of the Cost of  21 Service Study, It does recognize demand  22 reductions, but they wanted to say "will we  23 same money this month if we do some DSM? and  24 them to do what and and how that archives have only a couple of  30 years out, and people were saying "oh my gosh,  we really need to do something about the  4 we really need to do something about the  19 of what the crists were, and energy orly rob my start that was how that crist be done and the really mean in terms  19 of what the crists were, and energy wersas  10 demand, it someone wants to talk about it.  What was actually haily use Granic Canal and how that—what does that so that all the  20 conclustion turbines that were only a couple of  30 years out, and people were saying "oh my gosh, we really end to do some demand in someone wants to talk about it.  10 So I hink the load growth slowed. The  11 five go to demand energy rates, you know, many the you know, there's a lot of the guestion what should happen is Newfoundand Power was a son of the wineses really thought enough	110	veiliber 16, 2005	winin-i age	11L Hyuru 8 2003 General Kate Application
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25 handle this volatility." And so that's   25 Retail Rate Design Study. Why are those	1			
	25	handle this volatility." And so that's	25	Retail Rate Design Study. Why are those

Page 9 Page 10 1 KELLY, O.C.: load shape for Newfoundland Power or 1 important and how would that process proceed? 2 something, and let me change that load. Let A. Well, they're important, as I alluded to 3 me assume it grows or shrinks. And then what 3 earlier, in the sense that if you're going to 4 4 you do is you see what happens to the long-run talk about efficiency, you really can't talk 5 5 cost of the system over time and you can about efficiency with respect to embedded present value that back, if you'd like, and 6 6 7 costs. You have to look at marginal costs to eventually you can take that back and you say, 7 8 really make any real claims on efficiency. 8 if I do this, if I change the demand on peak, That's the way economists and planners do if I change the energy on or off peak or I 9 10 that. The way a Marginal Cost Study is done, 10 change it in some certain way, some certain 11 if it's done properly--there are a lot of ways load shape, what's the cost of doing that over 11 to do a Marginal Cost Study, some are good, time? What will the customers see, you know, 12 12 13 some are not. The way it's done, if it's done in the long run over time from doing that? 13 properly, is you look at what all the 14 14 Then you take that and you compare that 15 expansion options of the utility are that are to whatever embedded rate design you might 15 16 on the horizon, what do they cost, what are have and say well, okay, the long-run marginal 16 their characteristics, what are they fuel 17 cost of doing these things is this, and you 17 costs and so on. 18 18 know, the energy cost might be one number and 19 You model all the existing units and how 19 the demand cost might be another number. Am I they react and what their costs are and so on too high on energy? Am I too low on energy? 20 20 and so forth. And then what you do is you go 21 21 Am I too high on demand? Am I too low on 22 in and you say, okay, let me change the load. 22 demand? And you can make judgments about how Let me change the demands, for instance, on 23 23 to modify your embedded rate so that you hope peak or off peak, or let me even take a load its more efficient. 24 24 shape. Like maybe I'd take the residential 25 25 Q. Okay. Is there a logical sequence in how the Page 11 Page 12 Board should deal with this wholesale rate of rates you want to look at. You have to 1 1 2 issue? 2 somehow deal with things like weather 3 (9:15 a.m.) normalization and so on and so forth. You get 3 some of the weather variability out of it if A. Well, in my mind, yes. The Board has been 4 you want to do some long-term planning. And 5 struggling with this issue, I guess, since 5 1990. I guess there was some evidence in then you have to look at what the effects of 6 6 these rates would be on stability of revenues 7 1989. I personally have only been struggling 7 8 with it with the Board since 1990, but what's 8 and what does it do to Newfoundland Power. 9 been missing in that whole time is a Marginal What does it do to Newfoundland Power's 9 Cost Study from Hydro. Newfoundland Power What does it do to the 10 customers? 10 11 tried to do one in 1997 and they really don't 11 Industrials? So there is a progression in my 12 have all of these numbers that they need to do mind that goes that way. 12 one properly. They did the best they could, Q. Okay. After you do a Marginal Cost Study and 13 13 and in fact, in 1997, because a turbine was a Rate Design Study, is it possible that the 14 14 15 sitting right on the horizon, what they did 15 Board would end up with an energy only rate or may have not been that bad, although what with a demand set at zero? 16 16 happened right after that shows that the 17 17 A. Well, that's certainly possible. The NARUC number would have been way off and I can talk manual that I referenced, the cost of service 18 18

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Page 9 - Page 12

manual that I reference in my testimony talks

about systems that have a lot of hydraulic

tendency and they're adding units that are

sometimes if you look at what the marginal

cost of demand is on those systems, you find

it's very close to zero. If that were to be

really saving fuel, essentially.

efficiency for a rate.

about that, but you first have to do a

Marginal Cost Study if you want to claim

can look at some various embedded rate

designs, innovative rates, if you will, demand

energy rates, time of use rates, whatever kind

After you do the Marginal Cost Study, you

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No	ovember 18, 2003 Multi	i-Pa	age <sup>™</sup> NL Hydro's 2003 General Rate Application
	Page 13		Page 14
1	MR. BROCKMAN:	1	itself. It pays for itself in fuel savings.
2	the result of a study done by Hydro, then you	2	If that happens on a system and you start
3	might feel differently about the demand cost	3	trying to figure out how much of that unit
4	than you do just sort of guessing that it's	4	cost, that \$135 million at Granite Canal was
5	whatever the embedded Cost of Service Study	5	demand related, what you normally do is net
6	says it's worth.	6	out the fuel savings from the capital costs
7	I looked at Granite Canal, after one of	7	and you might very well find that you end up
8	the witnesses earlier talked about what was	8	with a number that's very close to zero. So
9	the sort of net cost of adding Granite Canal	9	if that were to happen from a true Marginal
10	and it was very low or zero, and in fact if	10	Cost Study in the future for Hydro, you might
11	you escalated fuel at all, I think Granite	11	say, well, I don't know if the marginal long
12	Canal's levelized cost was only in the order	12	run demand costs are zero today without a
13	of five something, 5.4 cents, somewhere in	13	study. I don't know if they're two dollars.
14	that neighbourhood. But it was very close to	14	I suspect they're not \$28.00 because Hydro is
15	the energy cost that Newfoundland Power is	15	saying well, the value of interruptible right
16	currently being signalled. But it's also very	16	now isn't \$28.00. They're trying to do away
17	close to the running costs at Holyrood. So	17	with that. They're admitting that in the long
18	that if you were to project fuel cost	18	run, it probably was something and I don't
19	escalations at Holyrood at all, just because	19	disagree with that, but I don't know the real
20	of, you know, escalation in fuel costs, not	20	number without a Marginal Cost Study. So I
21	necessarily burning more, and you took that	21	can't really judge it efficiently without
22	out over time for the life of Granite Canal,	22	that.
23	you might very well find that Granite Canal's	23	KELLY, Q.C.:
24	net cost to the system was negative. You	24	Q. Finally, Mr. Brockman, there's a question
25	should have added it because it pays for	25	being raised about whether the Board should
	Page 15		Page 16
1	reopen the generation credit issue in relation	1	be better to signal it as a credit. I think
2	to Newfoundland Power's thermal plant. Can	2	that the Cost of Service Study numbers, the
3	you just explain briefly your views on that	3	mathematics, if you will, that the Cost of
4	issue?	4	Service Study comes up with, no one, I don't
5	A. Yes. The Industrials have raised an issue.	5	think, has questioned the accuracy of the
6	Mr. Greneman called it an anomaly. They went	6	mathematics and what's really happening, to
7	in and sort of calculated how much does their	7	some degree, in the Cost of Service Study is
8	costs go up if you took outor go down, I	8	it's throwing off numbers by way of what it's
9	suppose, if you took out the credit that	9	told to do. The Board chose to use a load
10	Newfoundland Power's receiving for its	10	factor method for splitting demand and energy,
11	generation. The credit that Newfoundland	11	for instance, costs on the units and the
12	Power is actually receiving isn't really a	12	numbers are what they are.
13	dollar figure, in essence, because what	13	You could just as easily argue, I think,
14	happens is if you look at the Cost of Service	14	if you wanted to open it up that maybe there's
15	Study, what happens is Newfoundland Power is	15	other places in the Cost of Service Study
16		16	where other people arewhose other people's
17	generation they have, and I think there's a	17	axes are being gored. For instance, if you

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were to look at the split on Granite Canal, you know, you'd find that just the split for Granite Canal, 60 percent load factor, you'd say that the demand portion of Granite Canal was 40 percent of its cost, and that's a pretty high number. It's more than \$100 a kilowatt, I can tell you that. So I think if you're going to open up the cost of service

credit for reserves as well. So what's

happening there is that you're just reducing

demand by the amount of generation that

Power currently doesn't necessarily run that

because it's under the control of Hydro and I

think the province has wisely decided that

maybe they shouldn't have to run it. It may

Newfoundland Power could run. Newfoundland

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			J. J. L.
	Page 17		Page
1 1	MR. BROCKMAN:	1	morning, which is the demand energy rate
2	study, you have to be a little careful about	2	structure, something we've discussed before,
3	picking and choosing. I'm not saying I'm	3	and perhaps with a different twist today.
4	opposed to that. I mean, I argued in the	4	Mr. Brockman, I believe you were present
5	generic cost of service docket that, you know,	5	in the room the last few days when the rate
6	we should weigh these things, and the Board	6	design relationship that Hydro has with
7	made a decision on it. So I just caution the	7	Newfoundland Power at present, being the
8	Board against picking and choosing issues like	8	energy only rate, has been discussed. You
9	that though in the Cost of Service Study	9	probably heard Mr. Patrick Bowman describe
10	because it's a complicated animal.	10	demand energy rates as the norm. You probably
11	KELLY, Q.C.:	11	heard Mr. Greneman refer to energy only rates
12	Q. Thank you, Mr. Brockman. Those are my	12	as being an anomaly, and yesterday, Mr. Doug
13	questions, Chair.	13	Bowman referred to the present situation of an
14	CHAIRMAN:	14	energy only rate with Newfoundland Power as
15	Q. Thank you, Mr. Kelly. Good morning, Mr.	15	being an outlier, I think his term was. I'm
16	Young.	16	just wondering what your sense of this is.
17	MR. YOUNG:	17	How common are energy only rates between
18	Q. Good morning, Chair. Good morning, Mr.	18	relatively large wholesale and distributing
19	Brockman.	19	utilities, such as Hydro and Newfoundland
20	A. Good morning.	20	Power?
21	Q. I can't remember now how many times I've	21	A. Well, it is true that in that sense
22	cross-examined you, we've had this pleasure,	22	Newfoundland is an outlier. I think I even
23	but I think it's fair to say we're regulars at	23	testified to that at some point in time over
24	this. To carry that a bit further, I think	24	the lastI can't remember all the things I've
25	we're going to be serving up the usual this	25	said over the last 13 years, but you are a bit
	Page 19		Page 2
1	of an outlier. Most very large customers are	1	Power cannot control its customers' demands
2	on demand energy rates. I would point out	2	and so it's the end users' demands, and you
		1 .	

that sometimes when people start counting the 3 number of jurisdictions that that entails, in 4 5 the US that's really only one jurisdiction. That's the FERC. They regulate all the 6 wholesale power rates. It's not like all 50 7 states say well, we're going to have demand 8 9 energy rates. They regulate their local utilities. The FERC regulates the wholesale 10 rates. And you know, the local jurisdictions 11 have to deal with the volatility. This 12 particular jurisdiction is in the enviable or 13 unenviable position of actually regulating 14 15 both the wholesale rate and the retail rates. But yes, it's fairly common. Then again, 16 Newfoundland Power is a lot different looking 17 than most of the utilities in North America. 18 19 in terms of its hydraulic mix and you know, in terms of being isolated and so on. But I 20 certainly can't argue that it doesn't--it's 21 22 not an outlier. Q. One of the points you raise in your testimony 23 that you pre-filed is that the--you have a 24

Page 20 tomers' demands nands, and you raise that in relation to the price signal 3 that may be getting from Hydro in the sampling 4 5 rate. I'm just wondering if you could discuss that a bit further. Is that the issue? 6

7 A. Yes, that's really one of the issues. As I said earlier in my summary, there are really 8 9 several issues the Board is wrestling with and that's the question of fairness, efficiency 10 11 and volatility, if you will. In order for me to make any argument that the rate that would 12 be put in was more efficient, as I said, I'd 13 have to judge these relative demand and energy 14 charges against marginal cost. I know the 15 rate creates volatility, so if Newfoundland 16 Power can't do anything about the rate, if 17 they're not going to change their rate designs 18

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and when they say they're not going to change

their rate designs, it's not that they're

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concern relating to the fact that Newfoundland

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	Page 21	
1	MR. BROCKMAN:	1
2	doing. They don't have all of Hydro's	2
3	numbers. But if they can't do anything about	3
4	it, you know, and it creates volatility, I	4
5	guess that's really the issue. What can they	5
6	do about it? Can they do more DSM? I don't	6
7	see any real evidence that they can. I don't	7
8	see any evidence that they can't either, but	8
9	there certainly isn't anybody that's showing	9
10	there's a wonderful amount of things we can do	10
11	for \$84.00 a kilowatt. If they're not going	11
12	to change their rate designs for valid	12
13	reasons, in my mind, then I don't see that	13
14	we're any better off. I'm not sure if I	14
15	answered your question, Geoff. I may have	15
16	gone off.	16
17	MR. YOUNG:	17
18	Q. Yes. Well, I guess the reason I asked the	18
19	question is because I was wondering how	19
20	different Newfoundland Power is from other	20
21	distribution utilities which have, you know, a	21
22	fair number of domestic customers and smaller	22
23	general service customers -	23
24	A. Well, it's -	24
25	Q who don't have demand charges either.	25
	Page 23	
1	rates?	1
2	A. Oh, yes.	2

A. - it's probably not all that different, and the few that I looked at, many of them try to--what they do is they say, okay, how do we deal with it? That's really the issue and what they do is they put in clauses, you know, like fuel adjustment or RSP clauses. They say this sort of moving all over the place on demand, which is primarily caused by weather, is something we don't have any real control over. So they'll come to the Board and say you need to give us some sort of recovery clause. We need to set up another RSP to handle these demand fluctuations, if you will. So that's the way that most of them deal with it, but they do have to deal with this. Is it good or bad? I can't say unless I weigh all those other things. Q. I'm not sure if you've answered my question.

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- Is Newfoundland Power different than the other utilities in the particular circumstances of the customer demography, demographics?
- A. Well a lot of distribution utilities are primarily residential, if that's where you're
  - Q. And a lot of them have demand and energy

A. Oh, yes. 3 Q. Does Newfoundland Power have--I understand 4 from your answer, it doesn't have a great deal 5 of control over its domestic customers and 6 others, some others at least, but I think you 7 probably agree with me, it can have some 8 influence on a group of their customers. For 9 example, Newfoundland Power had curtailable 10 rates. It has demand and energy rates for 11 some of its larger general service customers. 12 I was just wondering, have those sorts of 13 options given Newfoundland Power some measure 14 of control on the peak and on the load growth? A. Sure, and I believe they've put in as many as 15 16 they think cost effective and justified by 17 what they're doing. They've already done 18 that, by the way, in the face of an energy 19 only rate, which kind of goes back to is it 20 necessary to have the demand energy rate. 21 Q. You said a moment ago that Newfoundland Power 22 has indicated that it didn't intend to change 23 its rates based upon the particular price 24 signal from Hydro. The range of rates that it

that a reflection of the rate that Hydro gives? Because I understand that a change to the sample rate, in your view, won't cause a change in rates. Is that correct? A. Well, you have to--I don't know how many of Newfoundland Power's hearings you've sat through, but you have to kind of understand the way Newfoundland Power designs its rates. It does take the embedded cost from Hydro as a sort of starting point. But it also takes the demand energy splits from Hydro that comes straight out of the Cost of Service Study, and it applies those to its own rate designs in the classes that have demand, but it also weights all of those things with how they feel about the short-run marginal energy costs, the long-run demand costs, which again they really don't know, but Newfoundland Power attempts to look through the purchase power rate, if you will, and try to do what they think is good for society and so, that's why they say, I believe, that you know, to a large extent, the purchase power rate, other than creating volatility which they will have to deal with, is somewhat irrelevant in terms of how they

has for its customers now, to what extent is

Nov	ember 18, 2003 Multi	i-Pa	nge <sup>™</sup> NL Hydro's 2003 General Rate Application
	Page 25		Page 26
1 1 N	MR. BROCKMAN:	1	A. Insofar as they can, yes. Again, they're
2	would modify their own rate designs. I mean,	2	somewhat handicapped by not knowing along the
3	obviously the revenue requirements are set by	3	marginal cost of demand, but insofar as they
4	the embedded Cost of Service Study, but not	4	can, they attempt to use those.
5	necessarily the way they adjust their rate	5	Q. Aside from the end-use rates Newfoundland
6	designs. So I don't know if I answered that	6	Power designs for its own customers, I'm just
7	or not.	7	wondering, would you agree with me, as a basic
8 N	MR. YOUNG:	8	premise, that between Hydro and Newfoundland
9	Q. Well, I think perhaps you have. So there is	9	Power, Hydro is providing Newfoundland Power
10	aI wouldn't say a disconnect between the	10	with essentially two different products? One
11	two, but there is some level of independence	11	is capacity; the other is energy.
12	between the rate that Newfoundland Power -	12	A. Yes.
13	A. Exactly.	13	Q. And is there any reason not to price them
14	Q receives from Hydro and the final rate	14	separately so Newfoundland Power gets a very
15	design. I do understand that Newfoundland	15	clear indication of what the price is for each
16	Power does get its embedded cost information	16	of those two components?
17	that it uses for rate design from the Cost of	17	(9:30 a.m.)
18	Service Study.	18	A. Well, it depends on what signal you want to
19	A. Yes.	19	send for those separate components. As you
20	Q. And further, I think you just indicated, and I	20	said, do you want to signal the marginal price
21	just want you to confirm this, that I	21	of those two products for efficiency? Is
22	understood it correctly, that there some	22	there some difference in the fairness if you
23	marginal costs principles that Newfoundland	23	don't signal them separately? There's a
24	Power uses in designing its end-use rates for	24	timing difference. Newfoundland Power already
25	its customers?	25	gets a demand energy signal in effect in
	Page 27		Page 28
1	everyevery time you do a Cost of Service	1	can be done, and one of them is seasonal
2	Study, as we just discussed, they look through	2	rates. Would you agree that that's an option
3	there, through the rate that you give them and	3	that Newfoundland Power might consider in its
4	say "how much of that's demand and how much of	4	-
5	it's energy?" and they apply that to their	5	A. It's an option, and in order to do that, you'd
6	rate designs. So the Board has to decide what	6	have to again decide what signals do you want
7	signal they want to send. Do they want to	7	to send in that seasonal rate? Do you want to
8	send just an embedded signal and in that	8	place the embedded cost of demand on peak? Do
9	embedded signal, is it the load factor split	9	you want to place something like the marginal
10	they want to send or do they want to send a	10	cost of demand on peak? Do you want to signal
11	marginal signal, or at least modified by a	11	less than the short-run marginal running costs
12	marginal signal? You can't really charge	12	of Holyrood as the sample rate does in the
13	everybody the marginal cost every time. So I	13	off-peak months? You have to make decisions
14	think, once again, it's a balancing act. What	14	even to do that. But you could do that, sure.
15	signal do you want to send and is it a better	15	That would be one of the things I would
16	signal than the one you're currently sending?	16	recommend that be studied in this marginal
17	Q. Talking about pricing just a little bit	17	cost and innovative rate kind of study that I
18	further, we were discussing a few moments ago	18	recommend that Hydro do.
19	of some of the limitations Newfoundland Power	19	Q. And I don't know if there's any strong
20	might experience with passing price signals on	20	disagreement amongst anyone who has testified
21	to, for example, its domestic customers, price	21	yet as to the benefits of a Marginal Cost
22	signals that Hydro might give in its original.	22	Study, but there does seem to bewell,

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perhaps I'll use the word, growing consensus

that a Marginal Cost Study ought to be done in

its own time, but it's not linked or it's not

This strikes me as an issue that other similar

Greneman's evidence, he refers to things that

utilities must have dealt with and in Mr.

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	Page 2	9		Page 30
1 N	MR. YOUNG:	1	1	but -
2	a prerequisite to a demand energy rate?	2	Q.	Yes, I know, I justyou're jumping in to
3	A. Well, I certainly don'tI mean, I don't agree	3	;	answering my question and -
4	with that, if you're going to claim any sort	4	Α.	I'm sorry.
5	of efficiency benefits from the embedded rate.	5	Q.	- and I have just one further point on that,
6	I think most of the witnesses have testified	6	1	because you're right, I don't want to just
7	that marginal cost is required for efficiency,	7	(	come back on that point. I would suggest to
8	but at the same time, efficiency benefits are	8	,	you that, you know, the Marginal Cost Study
9	being claimed for the embedded rate. So I	9	(	does have a value and Newfoundland Power may
10	think there's a disconnect there. I don't	10	1	use the outputs from the study. But it's a
11	agree with that at all.	11		down-the-road thing that Newfoundland Power
12	Q. If the demand energy rate is based upon the	12		can do in its own rate design largely, is it
13	embedded costs, and I think you'll probably	13		not? And it's not necessarily an intrinsic
14	agree with me that when it comes right down to	14		issue with the demand energy rate study?
15	it, almost all jurisdictions look to their	15		Well, you don't have to do a Marginal Cost
16	embedded costs to ensure that their marginal	16		Study to design an embedded rate and implement
17	costs aren't out of whack and they're	17		the rate. I mean, no one's arguing that. If
18	collecting the right revenue, et cetera. But	18		you want to claim efficiency for the embedded
19	if the demand energy rates are based on an	19		rate, however, you have to compare it to
20	embedded cost study, to what extent is it a	20		marginal costs, you know. That's a simple
21	necessary thing to look at the marginal costs	21		fact. I don't know that anyone's taking issue
22	to set those embedded costs properly?	22		with that.
23	A. Well, I guess we've -	23		One of the things that Mr. Greneman spoke
24	Q. Isn'tif I can just -	24		about is the role that the demand component in
25	A we've talked about that four or five times,	25		an embedded cost study and in the demand
				<u> </u>
١.	Page 3			Page 32
1	energy rate, the sample rate, the role that	1		more volatile on the down side, without the
2	the demand component plays, and in his view,	2		ratchet as it's currently been designed.
3	and you probably heard his testimony	3		There's no cap, so if Newfoundland Power uses
4	yesterday, and if I don't get it quite right,	4		more demand, Hydro will get more money. Their
5	I'm sure he'll correct me on this, but in his	5		fixed costs won't really go up in the short
6	view, it deals with the commitments that the	6		run, but they'll get more money. So yes, I
7	utility has made to its bankers for debts it's	7		would see why they couldI mean, I would like
8	incurred to build capacity. Would you agree	8	1	that rate too perhaps in that sense, if I were
9	that that's an important element for the	9		you.
10	generating utility to recover as essentially a	10		There's a section in your evidence that deals
11	given, given that it has to have that capacity	11		with the level of study that Stone and Webster
12	to provide to its customers?	12		has done on the demand management potential
13	A. Well, absolutely, and the utility recovers	13		and I think I'm probably paraphrasing you
14	that investment in both an energy only rate	14		accurately if I was to say that in your view
15	and a demand energy rate. The only thing	15		Stone and Webster have not provided persuasive
16	that's actually guaranteeing Newfoundland	16		evidence that demand management potential
17	Power anyor Newfoundland Hydro anything in	17		exists. Is that a fair characterization of
18	the demand energy rate is the setting of the	18		your view?
19	ratchet at 98 percent. They're guaranteed	19		Yes. I didn't see any studies, or you know,
20	they'll collect 98 percent of whatever demand	20		basically it's anecdotal.
21	and the such added Coat of Country Study and	21	Q.	Hydro is primarily a generator and transmitter
1	costs the embedded Cost of Service Study say			
22	are demand costs. That's all it does. Both	22	(	of capacity and energy in this jurisdiction.
22 23	are demand costs. That's all it does. Both rates recover the revenue requirements for	22 23	,	You'd agree with that?
22	are demand costs. That's all it does. Both	22	A.	

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	Page 33		Page 34
1	MR. YOUNG:	1	regulating both a wholesale and a retail rate.
2	distributor of that capacity and energy to its	2	They have to worry about both Newfoundland
3	own customers. Would you agree that it's	3	Power's customers and your customers and where
4	Newfoundland Power's role primarily to know	4	mostI mean, what we're really talking about
5	the kind of detail that would be required at	5	there ultimately is sort of an integrated
6	the domestic general service level as to the	6	resource planning, is what we used to call it
7	options and the potential benefits or	7	in the States until we sort of deregulated all
8	otherwise of different demand management	8	of our markets and messed half of them up, but
9	potentials or is that Newfoundland and	9	what was done there is you look at all of it
10	Labrador Hydro's prime role? Who's the expert	10	as a whole. You don't look at it in
11	on that particular issue?	11	isolation, and especially if you're going to
12	A. Well, I think probably both. Hydro certainly	12	claim that this embedded rate that you've
13	knows the characteristics of their domestic	13	designed is more efficient, you can't say that
14	rural customers, so perhaps they're more	14	without looking at these other things.
15	expert on that and Newfoundland Power probably	15	Q. There is some discussion in relation to load
16	knows more about its own domestic customers,	16	management programs that you just related to
17	which is why I think that they should both	17	that sort of permeates through this testimony,
18	participate in any sort of provincial look at	18	and I'm just wondering, just from the point of
19	what's to be done if we're to achieve	19	view of, I mean, Hydro has no problem in
20	efficiency and perhaps try to avoid plants and	20	indicating to this Board or to anyone that it
21	so on and so forth. Whatever we're trying to	21	has a very good idea about its own customers,
22	do, I think both should participate. I really	22	but I mean, to put it in perspective, Hydro's
23	think this is aagain, this Board is in a	23	rural customers number around 22,000. I'm
24	very unique position in North America to some	24	taking these numbers, because it's convenient
25	degree in regulating both utilities, but	25	to do so, from Mr. Perry and Mr. Henderson's
	Page 35		Page 36
1	evidence.	1	little over \$2.00 for what demand is worth to
2	A. Um-hm.	2	you in terms of efficiency. And so, yes, you
3	Q. And Newfoundland Power's customers are about	3	do know something about it and the signal that
4	ten times that number, correct? And to a very	4	you're sort of signalling me in doing away
5	large degree, the rates that Hydro charges	5	with that is that it's not worth much more
6	those customers are in fact Newfoundland	6	than \$2.00. But yet you want to say it's
7	Power's rates? Do you agree with those	7	worth 7.00 as an efficiency signal. So I'm a
8	characterizations I just gave?	8	bit confused by that, I suppose.
9	A. Yes, in terms of the number of customers and	9	Q. Is that an apples to apples comparison?
10	the way the rate is set, sure. I would point	10	A. Not to me.
11	out that in terms of, you know, what you can	11	Q. Is it an apples to apples comparison though to
12	do about it, is you touched on earlier. I	12	compare the \$7.00 to the 2.00 -
	· · · · · · · · · · · · · · · · · · ·		
13	mean, one of the things we can do about it,	13	A. Yes.
13 14	mean, one of the things we can do about it, one of the most cost effective types of demand		A. Yes. Q on the basis of where it comes from?
- 1		14	
14	one of the most cost effective types of demand	14 15	Q on the basis of where it comes from?
14 15	one of the most cost effective types of demand management that is known somethat we do know	14 15	Q on the basis of where it comes from? A. I think it is.
14 15 16	one of the most cost effective types of demand management that is known somethat we do know something about is curtailable and interruptible load. You had 46 megawatts of curtailable interruptible load on your system.	14 15 16 17 18	<ul><li>Q on the basis of where it comes from?</li><li>A. I think it is.</li><li>Q. One being the embedded cost of demand and the other being a particular program at a particular point in time?</li></ul>
14 15 16 17	one of the most cost effective types of demand management that is known somethat we do know something about is curtailable and interruptible load. You had 46 megawatts of curtailable interruptible load on your system.  NP has, I think, around five or 4.6 or	14 15 16 17 18	<ul><li>Q on the basis of where it comes from?</li><li>A. I think it is.</li><li>Q. One being the embedded cost of demand and the other being a particular program at a particular point in time?</li><li>A. If you signal Newfoundland Power that demand</li></ul>
14 15 16 17 18	one of the most cost effective types of demand management that is known somethat we do know something about is curtailable and interruptible load. You had 46 megawatts of curtailable interruptible load on your system.  NP has, I think, around five or 4.6 or something megawatts. You're recommending that	14 15 16 17 18	<ul> <li>Q on the basis of where it comes from?</li> <li>A. I think it is.</li> <li>Q. One being the embedded cost of demand and the other being a particular program at a particular point in time?</li> <li>A. If you signal Newfoundland Power that demand is worth \$84.00 a kilowatt, it's signalled on</li> </ul>
14 15 16 17 18 19	one of the most cost effective types of demand management that is known somethat we do know something about is curtailable and interruptible load. You had 46 megawatts of curtailable interruptible load on your system.  NP has, I think, around five or 4.6 or something megawatts. You're recommending that 46 megawatts of demand side management	14 15 16 17 18 19	<ul> <li>Q on the basis of where it comes from?</li> <li>A. I think it is.</li> <li>Q. One being the embedded cost of demand and the other being a particular program at a particular point in time?</li> <li>A. If you signal Newfoundland Power that demand is worth \$84.00 a kilowatt, it's signalled on the one CP. That's the way it works. That's</li> </ul>
14 15 16 17 18 19 20	one of the most cost effective types of demand management that is known somethat we do know something about is curtailable and interruptible load. You had 46 megawatts of curtailable interruptible load on your system.  NP has, I think, around five or 4.6 or something megawatts. You're recommending that	14 15 16 17 18 19 20	<ul> <li>Q on the basis of where it comes from?</li> <li>A. I think it is.</li> <li>Q. One being the embedded cost of demand and the other being a particular program at a particular point in time?</li> <li>A. If you signal Newfoundland Power that demand is worth \$84.00 a kilowatt, it's signalled on the one CP. That's the way it works. That's the way it's being proposed. You're telling</li> </ul>
14 15 16 17 18 19 20 21	one of the most cost effective types of demand management that is known somethat we do know something about is curtailable and interruptible load. You had 46 megawatts of curtailable interruptible load on your system.  NP has, I think, around five or 4.6 or something megawatts. You're recommending that 46 megawatts of demand side management currently isn't needed, and I think it's priced at \$28.00, which if I just	14 15 16 17 18 19 20 21	<ul> <li>Q on the basis of where it comes from?</li> <li>A. I think it is.</li> <li>Q. One being the embedded cost of demand and the other being a particular program at a particular point in time?</li> <li>A. If you signal Newfoundland Power that demand is worth \$84.00 a kilowatt, it's signalled on the one CP. That's the way it works. That's the way it's being proposed. You're telling them if you shave a kilowatt off the peak,</li> </ul>
14 15 16 17 18 19 20 21 22	one of the most cost effective types of demand management that is known somethat we do know something about is curtailable and interruptible load. You had 46 megawatts of curtailable interruptible load on your system.  NP has, I think, around five or 4.6 or something megawatts. You're recommending that 46 megawatts of demand side management currently isn't needed, and I think it's priced at \$28.00, which if I just simplistically look at it and say well, if I	14 15 16 17 18 19 20 21 22	Q on the basis of where it comes from?  A. I think it is.  Q. One being the embedded cost of demand and the other being a particular program at a particular point in time?  A. If you signal Newfoundland Power that demand is worth \$84.00 a kilowatt, it's signalled on the one CP. That's the way it works. That's the way it's being proposed. You're telling them if you shave a kilowatt off the peak, it's worth \$84.00 a year. How are they to
14 15 16 17 18 19 20 21 22 23	one of the most cost effective types of demand management that is known somethat we do know something about is curtailable and interruptible load. You had 46 megawatts of curtailable interruptible load on your system.  NP has, I think, around five or 4.6 or something megawatts. You're recommending that 46 megawatts of demand side management currently isn't needed, and I think it's priced at \$28.00, which if I just	14 15 16 17 18 19 20 21 22 23	<ul> <li>Q on the basis of where it comes from?</li> <li>A. I think it is.</li> <li>Q. One being the embedded cost of demand and the other being a particular program at a particular point in time?</li> <li>A. If you signal Newfoundland Power that demand is worth \$84.00 a kilowatt, it's signalled on the one CP. That's the way it works. That's the way it's being proposed. You're telling them if you shave a kilowatt off the peak,</li> </ul>

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1 MR. BROCKMAN:	1	Granite Canal that if you really backed out
2 possibly by doing curtailable load. I mean,	2	the fuel savings from Granite Canal, you might
there's been anecdotal evidence that maybe	3	find the demand cost of it was very low.
4 they could put in some water heater	4	Q. A fair piece of your evidence deals with the
5 controllers. I don't think there's been any	5	increased earnings volatility that occurs with
6 real engineering quality numbers put up to the	6	Newfoundland Power's earnings and in your
7 Board on that, but the simple fact of the	7	view, if the Board moves away from the energy
8 matter is if Newfoundland Power went out and	d 8	only rate and adopts a demand energy rate, I
9 if they could somehow steal those 46 megawat	ts 9	guess, in saying that, we really have to say
of customers from you and offer them the	10	that the energy only rate exists in its
interruptible rate at \$28.00, they would save	11	present form with the RSP -
\$84.00 a kilowatt year. So that's notit is	12	A. Yes.
apples and apples in my mind. Why is it	13	Q and Newfoundland Power's RSA, and we can't
different? Well, I'm sorry, you're asking the	14	divorce the two. That does set up the present
15 questions.	15	circumstances.
16 MR. YOUNG:	16	A. Yes.
17 Q. Yes, I know. I was just wondering, have you	17	Q. On page three of your evidence, I don't think
considered all the issues of that contract and	18	we need to turn to it, but one of the
the nature of the relationship?	19	principles you refer to, and there are a
20 A. Yes, I have, and what they said was it's a	20	number of principles you were referencing from
short-term thing. It was only for ten years.	21	Bonbright's and you've chosen some of them and
So what that tells me is today we don't need	22	listed them for us, but number four on your
it. Today it's not worth \$28.00 so is load to	23	list is stability. I'm just wondering if this
Newfoundland Power worth \$84.00? We've j	ust 24	concern about volatility is referencing that
put in a unit, as I said, that you know,	25	issue, and yesterday when I was discussing
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these issues with Mr. Doug Bowman, his	1	league with the devil and about six months
2 indication was that when you're looking at	2	later, that Board said "maybe we should have
3 Bonbright's principles, there's aI may be	3	thought more about the impact on the customers
4 putting words in his mouth, but a judicious	4	and the stability" and so I think you can't
5 balancing that goes on between these various	5	say that because some are sort of more
6 attributes. Would you agree with that, that	6	important in general that you can ignore the
7 stability doesn't have sort of any independent	7	others.
8 value unless you compare it with the other	8	Q. No, I think as I've been listening to rates'
9 values that you may be trading off in relation	9	experts in this room, that's a fairly common
to it?	10	sort of synopsis, that you have to consider
11 A. It's clearly a balancing act, as I've	11	them with the each. So Mr. Greneman was
testified before, and I've seen various	12	talking about the other values that might be
people, including myself at times say probably	13	considered or other issues and other of
the fairness and the efficiency or perhaps the	14	Bonbright's principles that may be considered

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most two--the two that are most important, but 15 you can't ignore the other ones. I happen to 16 17 have worked for a Board in my former life, one of my former lives, where we did that a few 18 19 times, and we put in rate designs. I remember one where we put a demand rate on some 20 21 churches that were on a demand rate, but they 22 were large enough to be on a demand rate, and 23 no one really looked at what it did to those 24 customers and I got to answer all the letters 25 and the phone calls accusing me of being in

and one of the ones he referred to was dynamic efficiency and would you agree that if you're going to go with stability, to a great degree, you're going to be trading off that sort of an option also and what the Board has to do is strike a balance between the two? A. Absolutely. I mean, Mr. Greneman, you know, expanded my summary. Mine was intended to be a summary and I sort of lumped all efficiency into the category of efficiency and he went back to Bonbright and talked about static and

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1 MR. BROCKMAN:	1	the CFO of the utility as he is.
2 dynamic efficiency and I mean, you ha	ve to 2	Q. I understand that, but you did express
3 consider all of Bonbright's principles an		concerns about volatility.
Board, this Board has to weigh is there		A. Well, my concerns came from conversations with
5 fairness, is there more efficiency, is the		Mr. Perry and others before him at
6 some more volatility and then all the of	ther 6	Newfoundland Power saying, you know, I got all
7 things as well. But I mean, it's a balance		this earnings volatility, and he has evidence
8 act. That's why we have boards design	-	that's filed in the case which the Board can
9 rates rather than just dropping them ou		judge on its own as to whether he's accurate
the Cost of Service Study.	10	in his calculations or not. I'm simply saying
11 (9:45 a.m.)	11	yes, it's a concern to him. He's the CFO. I
12 MR. YOUNG:	12	think we need to worry about it, if it's
Q. When you look at other distribution utili	ities 13	something real. But I personally can't judge
and you compare it to the one, the	e 14	its realness, but I think the Board can.
circumstances that Newfoundland Powe	er finds 15	Q. Would you agree that moving from a rate form
itself in, and when I say that I mean, th	at 16	such as Newfoundland Power has at present
you know, under the present regime, it h	nas an 17	towards a demand energy rate, anything of any
energy only rate with the RSP. Would	you 18	of the sample rates that we have, has inherent
19 characterize the Newfoundland Po	ower 19	with it or in it, I suppose, an element of
20 circumstance as having very stable earni	ings or 20	additional volatility and it almost has to, in
21 moderately so or, you know, compared t	to others 21	order to work the way it ought to?
that you viewed over the last few years,	where 22	A. Well, in my experience, most load forecasters,
does it fit in the range?	23	and I'm not a load forecaster, tell me that
24 A. I probably should let Mr. Perry answer	that 24	it's easier for them to forecast energy than
25 question. I'm not a cost of capital exper	t or 25	it is to forecast demand. I suppose that has
	Page 43	Page 44
someto some degree, that's probably b	ecause 1	look at Mr. Henderson and Mr. Perry's
2 of weather, but they have a much m	nore 2	evidence, you'll find that even after the
3 difficult time forecasting demand, s	so 3	proposed weather normalization the volatility
4 obviously if you put in a demand energy	y rate 4	is still there. Their calculations have been
5 versus an energy only rate and you have		done after weather has supposedly been
6 forecast what's going to happen in the co		removed. So, I guess I conclude from that,
7 service studies, you're going to probably		that perhaps weather hasn't really been
less volatility with the energy only than	•	removed to as well a degree as it should be.
9 are with the demand energy. So I think,	yes, 9	And I guess that's one of the things that Mr.
they probably do go hand in hand.	10	Greneman said would have to be looked at
11 Q. Can the impact of weather, though, that		before, you know, the rate could be
mitigated to a great degree, I think you		implemented. He said it could be solved in a
agree with me, by normalization approach		month; I'm not so sure of that based upon what
14 A. Well, I'm not sure that it can. There's t		I've seen so far, but I haven't tried to
things going on in what's sort of comm		weather normalize the load either.
characterized as weather normalization.		Q. Do you have any suggestions or do you have any
things caused Newfoundland Power,		experience from other jurisdictions and other
instance, to be off on their forecast, one		times, perhaps, that you could use and provide
strange weather events, you know, it g	-	us with to date to help us understand the
really, really cold for one day or someth	_	sorts of things Newfoundland Power might be
The other thing is, is the day type is		able to do in order to deal with this
sometimesyou know, does the peak of the weekend or does it occur on Monda		perception of a volatility concern or are they

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options?

sort of stuck with it and left without any

A. Well, I think that, I don't know, a handful of

the weekend or does it occur on Monday night

or, you know, Monday--when does the peak

occur. And it's somewhat--and I think if you

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1 MR. BROCKMAN:		1 jurisdiction -	
things have been proposed that Newfoundl	and	2 A. Yes.	
3 Power could do to deal with that.		3 Q of course, yeah. One of the comments that	
4 MR. YOUNG:		4 Mr. Greneman made, I think I'm paraphrasing	
5 Q. Yeah. I'm just wondering do you have ar	ny	5 him correctly, is that necessity is sort of	
6 aside from the ones that have been proposed	to	6 the mother of invention when it comes to these	
7 now, any ones from your other -		7 things and if Newfoundland Power finds itself	
8 A. Have any new other ones?		8 in a situation with what is, I think you'll	
9 Q. Yeah. Well, not necessarily new ones, but	t	9 agree with me, a fairly traditional kind of	
other ones you've seen.	1	rate, a demand energy rate and it has trouble	
11 A. No. I think most of them have been covered	l in 1	with that, it might become inventive and deal	
the prior people's evidence.	1	with that issue, if it does have a volatility	
Q. Okay. So the ones that have been covered a	re 1	concern and if the Board is moved to believe	
the sorts of ones that other jurisdictions	1	that the volatility concern is such that it	
have used and sort of tried and tested?	1	ought to do something?	
16 A. Yeah, I would say most people have proba	bly 1	16 A. Well, they certainly would have to think about	
done clauses and/or put in something like	1	it quite a bit. Whether they would come up	
interruptible rates, or, I guess one that	1	with, we just mentioned the five things	
hasn't been mentioned in that way but has be	een 1	everybody else in the world, I guess, does and	
20 mentioned is many people that, say, own	1 2	whether they would come up with anything	
generation would use that generation to redu	ice 2	beyond that, I don't know whether	
its demand. You've already sort of taken ca	re 2	Newfoundlanders are that creative or not, but	
of that, soyou're already taking that one	2	perhaps they would. But, you know, again, the	
24 into account.	2	Board has to weigh whether or not thatso	
25 Q. Yeah. That has its own nuances in this	2	what you're sort of doing is saying, well,	
I	Page 47	Page	48
1 we'll just put this rate on you and see if you		you care to share, but it strikes me that	
2 could come up with something. They could	l do	these are matters which strike at the way that	
3 that. Do you think that's going to be more		3 the Cost of Service deals with Newfoundland	
4 fair, do you think it's going to be more		4 Power's transmission allocations in the Cost	
5 efficient and is it going to outweigh the		of Service. And the one that we've discussed	
6 volatility things that they would have to deal	1	a fair amount already is the one that the, the	
7 with? I mean, to me that seems to beI'd		Burin Peninsula, lines TL-212 and 219. Do you	
8 prefer, I guess, to sort of design rates in a		8 have anything you'd like to share? And I'm	
9 more deliberate manner, than just throwing i		9 just wondering what your view on that is	
out and saying now, try to do something lik	e 1	because the Industrial Customers have	
that. I guess I just wouldn'tI agree with	<b>I</b>	suggested that there ought to be a change	
the concept that, yeah, it could maybe mak	e   1	because at the very most I think I'm probably	
them think more about it, especially if you		paraphrasing them correctly, one but not both	
didn't ever give them the recovery on the	1	of those lines can be properly assigned common	

have to live with it, you know, too bad. But, if not both. 16 I think they'd be in before this Board. 17 A. Well, I can't remember if I specifically Q. I'd like to perhaps thankfully change the commented on this in my current evidence or 18 topic from one tried and true matter to 19 not, I don't another one that's been discussed for awhile Q. I don't believe you did. I'm just wondering 20

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21 if you have -

and the other should be specifically assigned,

22 A. But yeah, I mean, I can certainly give you my general thoughts, I suppose, on it, if that's 23 of use. In terms of generation, I think there 24 25 are two things going on. First you have to

here before this Board.

volatility, if you just said, well, you'll

Q. Because there are a few issues of plant

assignment which have arisen in this hearing.

I don't know if you have views on this that

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A. Okay.

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1	MR. BROCKMAN:	1		those lines ought to be assigned to probably
2	sort of classify the generation as to whether	2		serve that load. If we, however, have a
3	it's common and then you can think maybe	3		significant amount of generation that's of
4	perhaps about the transmissions lines as well.	4		benefit to the island on thatin that region,
5	But the way I look at the way your witnesses	5		then we have to think about at least
6	say they do their planning is they take all	6		classifying some portion of those transmission
7	the load and they take all the generation and	7		lines to common. I think the peninsula that
8	they make an LOLH, a loss of load hours	8		you're referring to, you have so many
9	calculation. And in that sense it really	9		peninsulas on the island I sometimes get a bit
10	doesn't matter where the generation is. If I	10		confused, is one that's slated for this 25
11	built 50 megawatts in the interior of the	11		megawatts of wind, is that, am I on the right
12	island or I build it off somewhere, as long as	12		plate?
13	I'm connected by a transmission line so that I	13	MR.	YOUNG:
14	feel adequate in reflecting an LOLH	14	Q.	It's a possibility, yes.
15	calculation, then it counts the same. So most	15	A.	So that being the case, that generation looks
16	of the large generations on the island are	16		like it's being proposed to come into place
17	being classified as common. I don't	17		probably during the time that these rates will
18	necessarily disagree with that, because that's	18		be in place. And if that's the case, then
19	the way you do it. The question arises, I	19		they give a benefit to the island, which it
20	guess that you're asking is what do we do	20		appears they do, I think you'd say that some
21	about the transmission lines that go out to	21		portion of those lines ought to be common.
22	those areas. If the area is fairly isolated	22		And I think the position that some of the
23	and, you know, it doesn't interconnect, for	23		witnesses took, maybe one ought to be common
24	instance, with the rest of the island then	24		and the other one shouldn't be or something, I
25	clearlyor to any great degree, then clearly	25		haven't looked at it in any great detail, but,
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1	you know, that seems like maybe it's a fair	1		point also that you mentioned in your direct
2	compromise.	2		this morning about the thermal generation, and
3	Q. Yeah. And it's interesting that you use the	3		that's been a contentious issue in this
4	word "compromise" because we had discussions	4		proceeding. And you mentioned to me that
5	about these sorts of issues back in '92 during	5		there's a concern about sort of picking and
6	the Cost of Service hearing and it strikes me	6		choosing. I'm just wondering if you have any
7	that costs of service studies are not	7		comments in relation to concerns as to picking
8	completely efficient or foul, they're not	8		into the middle of an Embedded Cost Study and
9	completely principle driven and they're not	9		choosing one item that appears to stand out
10	completely just exercises on compromise, but	10		without really understanding how it got there
11	they're a bit of both. Isn't that correct?	11		in the first place and looking at the whole as
12	I'm just wondering if you have any -	12		a sort of a balancing compromise with
13	A. Yeah, there's a lot of judgment and opinion in	13		principles?
14	there.	14	A.	As I said earlier, I would caution against
15	Q. Yeah. And sometimes trade offs and you might	15		doing that to any great degree. I mean,
16	assign a whole lot of things one way and then	16		obviously it's worthy of investigation. And
17	scratch your head and say, boy, it doesn't	17		when you find something like that that doesn't
18	quite get the right balance that I expected	18		appear to add up and you've got to ask
19	and -	19		yourself as an expert why is that happening,
20	A. Especially if conditions change on you like	20		but you alsoagain, as you say, there are
21	what we were just talking about, you're	21		many places in the Cost of Service Study where
22	building some more generation or you're	22		we make compromises. For instance, the
23	building another line, you find sometimes	23		Board's load factor split between demand and
24	things change.	24		energy, it's a compromise. A lot of witnesses
25	Q. Right. And I suppose that comes back to the	25		in the generic Cost of Service Study argued, I

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1 N	MR. BROCKMAN:	1 CHAIRMAN:	
2	argued that the plants ought to be split based	2 Q. Thank you, Mr. Young. Thank you,	Mr.
3	on their ratio of peakers versus base load.	3 Brockman. Good morning, Mr. Browne.	
4	There were some problems with that, as the	4 BROWNE, Q.C.:	
5	Board pointed out. I think the Board's own	5 Q. Mr. Chairman.	
6	witness in this case is arguing something	6 CHAIRMAN:	
7	along those lines. That's not being opened up	7 Q. Could I ask you, Mr. Browne, if you have	e any
8	in this case, nor am I recommending that it	8 idea of howI'm trying to decide in term	is of
9	be, but other people would say maybe there	9 the break, on a long day, a short day or	a
10	should be more energy weighting or maybe there	shorter day.	
11	should be more demand weighting. But again	11 BROWNE, Q.C.:	
12	the Cost of Service Study in a complicated	12 Q. I'd say I'll be about an hour, Mr. Chairm	an.
13	animal and there are a lot of interactions and	13 CHAIRMAN:	
14	judgments and decisions that are compromises	Q. An hour. Mr. Hutchings, do you have an	ıv?
15	that go into it. If you want to open it up,	15 HUTCHINGS, Q.C.:	<i>J</i> .
16	you probably should think about all of those,	Q. Probably half an hour, Mr. Chair.	
17	not just a particular pick and choose issue.	17 CHAIRMAN:	
1	MR. YOUNG:	18 Q. An hour and a half.	
19	Q. Which is I think what you said in your direct	19 MR. KENNEDY:	
20	-	20 Q. About equal amount of time, half an h	our.
21	A. Yeah.	21 Chair.	,
22	Q I just want to illuminate that a bit	22 CHAIRMAN:	
23	further, yeah. If I could have just a moment,	23 Q. Half an hour. So a couple of hours. I this	nk
24	Mr. Chair? I think those are all our	24 we'll look at our short day time, Mr. Bro	
25	questions. Thank you, Mr. Brockman.	25 if that's okay. We'll go to 11:00 and we	
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1	break then for half an hour and then we'll	1 Q. So it's necessary conditionally, but it's n	•
2	come back. Is that okay?	2 absolutely necessary, in your view?	
1	10:00 a.m.)	3 A. No. You could implement any rate with	out any
1	BROWNE, Q.C.:	4 study if you really wanted to as long as y	-
1	Q. Yeah. Thank you, Mr. Chairman. Good morning,	5 got the revenue requirements.	,
6	Mr. Brockman.	6 Q. In 1990, 1992 you gave evidence before	e this
7	A. Good morning.	7 Board supporting a demand and energy	
8	Q. Mr. Brockman, yesterday we had delivered to	11 0	rate.
9		Now you come forward to the Board sur	
19		Now you come forward to the Board sup an energy only rate. That leaves some o	porting
1	Newfoundland Power a number of exhibits from	9 an energy only rate. That leaves some o	porting f us
10	Newfoundland Power a number of exhibits from previous hearings and we had them delivered to	9 an energy only rate. That leaves some of somewhat puzzled. Are you at all concerns	porting f us
10 11	Newfoundland Power a number of exhibits from previous hearings and we had them delivered to the Board as well. I want to refer to some of	an energy only rate. That leaves some of somewhat puzzled. Are you at all concert the issue of your own credibility in	pporting f us rned on
10 11 12	Newfoundland Power a number of exhibits from previous hearings and we had them delivered to the Board as well. I want to refer to some of that now. Do you have those there?	an energy only rate. That leaves some of somewhat puzzled. Are you at all concerns the issue of your own credibility in presenting as an expert two different vices.	pporting f us rned on
10 11 12 13	Newfoundland Power a number of exhibits from previous hearings and we had them delivered to the Board as well. I want to refer to some of that now. Do you have those there?  A. Yes, I do.	an energy only rate. That leaves some of somewhat puzzled. Are you at all concert the issue of your own credibility in presenting as an expert two different vicions over these couple of years?	pporting f us rned on ews
10 11 12 13 14	Newfoundland Power a number of exhibits from previous hearings and we had them delivered to the Board as well. I want to refer to some of that now. Do you have those there?  A. Yes, I do.  Q. Okay. And, Ms. Blundon, do you have them	an energy only rate. That leaves some of somewhat puzzled. Are you at all concern the issue of your own credibility in presenting as an expert two different victors over these couple of years?  A. Well, experts are always concerned about	oporting f us rned on ews t their
10 11 12 13 14 15	Newfoundland Power a number of exhibits from previous hearings and we had them delivered to the Board as well. I want to refer to some of that now. Do you have those there?  A. Yes, I do.  Q. Okay. And, Ms. Blundon, do you have them there? I think we sent about ten copies or	an energy only rate. That leaves some of somewhat puzzled. Are you at all concert the issue of your own credibility in presenting as an expert two different vice over these couple of years?  A. Well, experts are always concerned about credibility, and especially in the sense of	oporting f us rned on ews t their
10 11 12 13 14 15 16	Newfoundland Power a number of exhibits from previous hearings and we had them delivered to the Board as well. I want to refer to some of that now. Do you have those there?  A. Yes, I do.  Q. Okay. And, Ms. Blundon, do you have them there? I think we sent about ten copies or whatever is required by the rules. In any	an energy only rate. That leaves some of somewhat puzzled. Are you at all concert the issue of your own credibility in presenting as an expert two different victors over these couple of years?  A. Well, experts are always concerned about credibility, and especially in the sense of when things change and when your opin	oporting f us rned on ews t their of nion of
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110	vember 18, 2005 Mu	ıu-Pag	e NL nyuro's 2005 General Kate Application
	Page 5	57	Page 58
1	MR. BROCKMAN:	1	see when the load growth really began to taper
2	see that in 1992 and beyond we begin to	2	off. And we also added thatI mean, in 1996
3	discover things about the demand energy rate	3	we thought that, you know, there were certain
4	thatsuch as the volatility, that we really	4	types of unit that were going to be added to
5	hadn't thought much about in 1990. And no	5	the system, like gas turbine, for instance,
6	specific rate was on the table to clearly	6	and then that didn't get added. What go added
7	analyze, and even after there was we began to	7	instead was a base load plan. So, I mean,
8	see the volatility issue, we began to see that	8	it's a progression. I can't point to you a
9	the load growth had fallen off, we began to	9	specific date in which I said, ah, today I
10	question how much DSM really was out there and	10	changed my mind. I mean, as you accumulate
11	various other things that I've pointed out.	11	evidence and apply it to the theory, you begin
12	It's not the theory that's changed so much as	12	to reach conclusions.
13	it is the conditions.	13	Q. Have you testified in any proceedings in the
14	BROWNE, Q.C.:	14	last number of years advocating a demand and
15	Q. At what point did you come to the conclusion	15	energy rate?
16	that you were wrong in 1990 and 1992, was it	16	A. I'm not sure I can even answer that question.
17	in 1994 and 1995 or -	17	Do you have something? I can't remember where
18	A. It's been a lot of years between then and now.	18	I testified in the last few years. It's
19	I think we began to come to that conclusion	19	mostly been here, but in the last few years,
20	sometime after '92, I suppose, we began to	20	but I don't know.
21	really see once some real actual rate designs	21	Q. I'm surprised if you can't say with certainty
22	were talked about, we began to see what the	22	that you did or you didn't.
23	volatility really looked like. And we began	23	A. Well, it's a long time, 13 years. I mean,
24	to see the load growth fall off. I don'tI'd	24	I'vein the last 13 years I've testified here
25	have to look back at, you know, the filings to	25	and I believe I testified in Nova Scotia on
	Page 5	59	Page 60
1	some rate design issues. I don't know, it's	1	I've already said to Mr. Young that it's a bit
2	in my resume, but. I mean, where the	2	of an outlier here.
3	conditions fit andI could very well have	3	Q. And it's a bit of an outlier for what reasons?
4	said a demand energy rate might make sense.	4	A. Well, I think it, for one thing, as I say,
5	If the conditions fit, you put it in, if they	5	this is principally a hydraulic system. There
6	don't fit, you may choose a different rate	6	aren't very many of those in the U.S., for
7	design. You have to weigh all the evidence.	7	instance, and there aren't very many
8	Q. But yet, there's no other jurisdiction in	8	jurisdictions that the FERC regulates that
9	which you can point to with the exception of	9	look like Newfoundland and Labrador Hydro and
10	this jurisdiction where there is an energy	10	Newfoundland Power. They look like
11	only rate to a customer such as Newfoundland	11	Newfoundland Power, as Geoff brought out in
12	Power?	12	his questioning. I mean, they're domestic,
13	A. No, I haven't done an exhaustive, I mean, as I	13	primarily domestic customers. But the
14	said, the FERC, the F-E-R-C, in the U.S.	14	characteristics of the supply side, hydraulic
15	regulates wholesale rates for all of the	15	generation, what are the marginal costs and so
16	states in the U.S. and they like demand energy	16	on might look quite different. This
17	rates, so I wouldn't even need to do a study	17	jurisdiction has some very interesting
18	there, that's what they do.	18	planning situations that a lot of other
19	Q. But as part of your evidence and preparation	19	systems don't have.
20	of your evidence if you could come forward	20	Q. But this jurisdiction would be consistent with
21	with a number of other jurisdictions, I'm sure	21	other jurisdictions if it had a demand and
22	you would have brought them to the attention	22	energy rate from the evidence we've had here?
23	of the Board. Is that a fair comment?	23	A. It would no longer be an outlier then, it
24	A. Sure. Yeah, if I had done a study and been	24	would look like everyone else if you putor
1		1	

perhaps almost. I can't say everyone, because

able to find some, I probably would have.

November 18, 2005	Willin-rage	NL Hydro's 2005 General Rate Application
	Page 61	Page 62
1 MR. BROCKMAN:	1	for the record, please?
2 I haven't studied them all, but, you kno	ow, 2 A	A. I say, "Yes. Hydro proposes to continue its
yeah, it would look more like everyone	else. 3	practice of serving Industrial Customers with
4 Its supply side wouldn't look more li	ke 4	a rate containing both a demand and energy
5 everyone else, but its rates might.	5	component while offering an energy charge only
6 BROWNE, Q.C.:	6	rate to NLP. This is done in spit of the fact
7 Q. Okay. If we can go to IC-7 and IC-8 in the	ne 7	that the Cost of Service Study contains
8 documents that we presented to you yest	erday? 8	sufficient information to provide a demand and
9 Do you have copies of those?	9	energy rate structure to NLP."
10 MS. NEWMAN:	10 C	2. And then is it still a fact, if you look at
11 Q. Yes, I can confirm that they were circula	ated 11	what you said there, is it still widely
12 yesterday afternoon to the parties.	12	accepted that you would want tothat that is
13 BROWNE, Q.C.:	13	still true, what you're stating there?
14 Q. Okay.	14 A	. Well, the Cost of Service Study contains
15 MS. NEWMAN:	15	sufficient information to design a demand
16 Q. And the Board should have copies.	16	energy rate. In fact, you could design a lot
17 BROWNE, Q.C.:	17	of different demand energy rates from the Cost
18 Q. So everyone has them? Okay. In referen	nce to 18	of Service Study. Whether those are better
19 IC-7, this takes you back to your evidence	e of 19	than the rate you haveyou can also design
20 1990. And we go to the question "Propo	se rate 20	energy only rate is up tois what's in
21 structure". And the question at that time	on 21	question, I suppose, in this proceeding.
line 24, 25, "Do you have any concerns	about 22 C	2. And you continue on with your evidence there
23 the rate structure proposed by Hydro in	this 23	to page 14 and line 17. Can you just read
24 proceeding?" And of course, we're tall	king 24	that out for us, what you're stating there?
about 1990. Can you read your answer	there 25 A	. "This lack of proper rate design gives little
	Page 63	Page 64
1 incentive for NLP to engage in demand	0	I don't imply it to mean in any way an
2 management activities that reduce peak		efficient signal, but if they respond to the
3 Peak load reduction programs are amon		rate you give them, if they respond the way
4 most common and cost effective deman	-	that economists think they would properly
5 management programs in existence. W		respond -
6 energy only rate, however, there are i		). How should they respond, what would economists
7 immediate savings to NLP and its custom		say what way should they be responding?
8 reducing its demand on the hydro system		a. Well, if you signal them that demand is worth,
9 NLP applies demand charges to its lar		let's say \$84 a kilowatt, which is what's been
customers to control their demands, NLP	-	proposed, year, then they should do whatever
actually lose money if those customers re		they can do that's less than \$84 to remove
12 properly."	12	that demand from the system.
Q. Now, NLP still applies demand charges t	o its 13 C	). And what effect would that have on the system
large -	14	overall if they responded properly?
15 A. Yes, it does.	15 A	a. In terms of the hydro supply, it would
Q customers, does it not? And so that has		probablywell, we don't know, we don't know
17 changed?	17	for sure. I mean, we would clearly reduce the
18 A. No, it hasn't.	18	overall demand and it perhaps would, at some
19 Q. And what is the fear that NLP will actual		point in time, avoid a peaker perhaps out in
lose money if these customers response	•	2012 or 2015 or something like that. If all
properly, what do you mean by "a pro		they did was shave demand, we probably
response"?	22	wouldn't avoid any of the base load plants
23 A. By the word "properly" there I mean if		becauseI mean, I'm saying "probably" now
respond to the signal that would be giv	-	because I don't have a Marginal Cost Study,
25 them anbe giving them a demand energ	-	but you know, having done a few in my life.

	<u> </u>		The Hydro 5 2000 General Rate Hyprication
1	Page 65		Page 66
1	MR. BROCKMAN:	1	at a marginal running cost of about three
2	They probably wouldn't avoid the plants that	2	cents at Holyrood and the energy signal they
3	are built because of the firm energy criteria	3	were being given was four and a half cents, so
4	and you probably wouldn't have avoided Granite	4	those were kind of out of whack. And perhaps
5	Canal because Granite Canal pays for itself	5	an embedded costed signal at that time, if it
6	anyway. So, you know, that's the -	6	was properly designed, might have given them a
7 B	BROWNE, Q.C.:	7	better signal in terms of efficiency.
8	Q. But all things being equal, it would be better	8	Q. You go on to state in line 25 and 26, can you
9	for the system if people responded properly to	9	read that out for the Board, please, at page
10	a demand charge?	10	14?
11	A. Well, again, "properly" as here was defined in	11	A. "Another fact that the Board should consider
12	terms of the rate signal they're being given.	12	is the effect of the Hydro energy only rate on
13	If it's an efficient signal and they respond	13	NLP rates. It forces NLP to have energy rates
14	properly, then the system would be better off.	14	that are too high and demand rates that are
15	If it's not an efficient signal, if it's	15	too low. If NLP is to achieve proper matching
16	somehow inefficient, for instance, if I gave	16	between the distinct cost causation effects of
17	them a very high demand charge and a very low	17	demand and energy, the Board should recommend
18	energy charge and they responded to that by	18	that Hydro develop a rate structure that
19	using more energy but shaving their demand,	19	includes these componentsimportant
20	the system would be worse off. So I have to	20	components."
21	weigh all those things together.	21	Q. Why would that not be true today?
22	Q. Now, is -	22	A. Well, as I've talked about, in terms ofthis
23	A. At this particular time let me just add,	23	was really speaking in terms of sort of
24	again, as I said in my summary, at this	24	efficiency and in terms of marginal cost.
25	particular time Newfoundland Power was looking	25	Remember, why we were arguing for this was
	Page 67		Page 68
1	because we wanted to do efficient DSM	1	customers. The Cost of Service Study sends a
1 ~			customers. The cost of service study series a
2	activities. As I said, the energy rates at	2	demand energy signal through which is deemed
3	activities. As I said, the energy rates at that time that was being signalled to	2 3	•
1			demand energy signal through which is deemed
3	that time that was being signalled to	3	demand energy signal through which is deemed to be fair, if you will, by people, and if you
3 4	that time that was being signalled to Newfoundland Power was higher, quite a bit	3 4	demand energy signal through which is deemed to be fair, if you will, by people, and if you want to try to treat those customers fairly
3 4 5	that time that was being signalled to Newfoundland Power was higher, quite a bit higher than the short-run marginal energy	3 4 5	demand energy signal through which is deemed to be fair, if you will, by people, and if you want to try to treat those customers fairly inside that class, if you signal them
3 4 5 6	that time that was being signalled to Newfoundland Power was higher, quite a bit higher than the short-run marginal energy cost. It was sort of an inefficient energy	3 4 5 6	demand energy signal through which is deemed to be fair, if you will, by people, and if you want to try to treat those customers fairly inside that class, if you signal them individually the demand costs versus the
3 4 5 6 7	that time that was being signalled to Newfoundland Power was higher, quite a bit higher than the short-run marginal energy cost. It was sort of an inefficient energy signal, if you will. What we kind of wanted	3 4 5 6 7	demand energy signal through which is deemed to be fair, if you will, by people, and if you want to try to treat those customers fairly inside that class, if you signal them individually the demand costs versus the energy costs and some will have high load
3 4 5 6 7 8	that time that was being signalled to Newfoundland Power was higher, quite a bit higher than the short-run marginal energy cost. It was sort of an inefficient energy signal, if you will. What we kind of wanted to do was see if we could get those two back	3 4 5 6 7 8	demand energy signal through which is deemed to be fair, if you will, by people, and if you want to try to treat those customers fairly inside that class, if you signal them individually the demand costs versus the energy costs and some will have high load factors, some will have lower load factors,
3 4 5 6 7 8 9	that time that was being signalled to Newfoundland Power was higher, quite a bit higher than the short-run marginal energy cost. It was sort of an inefficient energy signal, if you will. What we kind of wanted to do was see if we could get those two back into shape. And if what was done in this case	3 4 5 6 7 8 9	demand energy signal through which is deemed to be fair, if you will, by people, and if you want to try to treat those customers fairly inside that class, if you signal them individually the demand costs versus the energy costs and some will have high load factors, some will have lower load factors, which means some use more demand relative to
3 4 5 6 7 8 9	that time that was being signalled to Newfoundland Power was higher, quite a bit higher than the short-run marginal energy cost. It was sort of an inefficient energy signal, if you will. What we kind of wanted to do was see if we could get those two back into shape. And if what was done in this case was we had gotten an embedded demand and	3 4 5 6 7 8 9	demand energy signal through which is deemed to be fair, if you will, by people, and if you want to try to treat those customers fairly inside that class, if you signal them individually the demand costs versus the energy costs and some will have high load factors, some will have lower load factors, which means some use more demand relative to their energy than others in the class do.
3 4 5 6 7 8 9 10	that time that was being signalled to Newfoundland Power was higher, quite a bit higher than the short-run marginal energy cost. It was sort of an inefficient energy signal, if you will. What we kind of wanted to do was see if we could get those two back into shape. And if what was done in this case was we had gotten an embedded demand and energy rate or any other kind of rate and it	3 4 5 6 7 8 9 10 11 (10	demand energy signal through which is deemed to be fair, if you will, by people, and if you want to try to treat those customers fairly inside that class, if you signal them individually the demand costs versus the energy costs and some will have high load factors, some will have lower load factors, which means some use more demand relative to their energy than others in the class do.
3 4 5 6 7 8 9 10 11 12	that time that was being signalled to Newfoundland Power was higher, quite a bit higher than the short-run marginal energy cost. It was sort of an inefficient energy signal, if you will. What we kind of wanted to do was see if we could get those two back into shape. And if what was done in this case was we had gotten an embedded demand and energy rate or any other kind of rate and it had been compared to the marginal cost and	3 4 5 6 7 8 9 10 11 (10	demand energy signal through which is deemed to be fair, if you will, by people, and if you want to try to treat those customers fairly inside that class, if you signal them individually the demand costs versus the energy costs and some will have high load factors, some will have lower load factors, which means some use more demand relative to their energy than others in the class do.  D:15 a.m.)  If you split the demand and energy costs
3 4 5 6 7 8 9 10 11 12 13	that time that was being signalled to Newfoundland Power was higher, quite a bit higher than the short-run marginal energy cost. It was sort of an inefficient energy signal, if you will. What we kind of wanted to do was see if we could get those two back into shape. And if what was done in this case was we had gotten an embedded demand and energy rate or any other kind of rate and it had been compared to the marginal cost and shown to be more efficient, then I would say	3 4 5 6 7 8 9 10 11 (10 12	demand energy signal through which is deemed to be fair, if you will, by people, and if you want to try to treat those customers fairly inside that class, if you signal them individually the demand costs versus the energy costs and some will have high load factors, some will have lower load factors, which means some use more demand relative to their energy than others in the class do.  0:15 a.m.)  If you split the demand and energy costs separately and you believe that those costs
3 4 5 6 7 8 9 10 11 12 13 14	that time that was being signalled to Newfoundland Power was higher, quite a bit higher than the short-run marginal energy cost. It was sort of an inefficient energy signal, if you will. What we kind of wanted to do was see if we could get those two back into shape. And if what was done in this case was we had gotten an embedded demand and energy rate or any other kind of rate and it had been compared to the marginal cost and shown to be more efficient, then I would say that perhaps that would be a better rate. I	3 4 5 6 7 8 9 10 11 (10 12 13 14	demand energy signal through which is deemed to be fair, if you will, by people, and if you want to try to treat those customers fairly inside that class, if you signal them individually the demand costs versus the energy costs and some will have high load factors, some will have lower load factors, which means some use more demand relative to their energy than others in the class do.  0:15 a.m.)  If you split the demand and energy costs separately and you believe that those costs are fair, the demand and energy costs that are
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	Page 69		Page 70
1 N	IR. BROCKMAN:	1	to the Cost of Service Study. They do look at
2	class fairness issue. The only fairness issue	2	the energy charges in those classes beyond the
3	in this case is whether or not the Cost of	3	Cost of Service Study. They say, well, what
4	Service Study is throwing the right demand and	4	should the energy charge be, should it just
5	energy cost to Newfoundland Power and the	5	drop out of the Cost of Service Study, and the
6	Industrials, and it is.	6	answer is, no, it shouldn't. It should be set
7 B	ROWNE, Q.C.:	7	at least at the short-run marginal cost of
8	Q. Isn't it true that rates with demand charges	8	Holyrood. And they try to do that; they don't
9	better reflect cost of service?	9	always succeed, especially between rate cases,
10	A. Whatin embedded cost of service?	10	but they try to do that. They try to modify
11	Q. Yes.	11	that Embedded Cost of Service Study rate
12	A. Sure. You know, whatever you think the Cost	12	design so that it's more efficient. They do
13	of Service Study splits are, that'sand if	13	not know most of the time the marginal cost of
14	you take those numbers right out of the Cost	14	demand, so there's not a whole lot they can do
15	of Service Study, it better reflects the cost	15	there sometimes. I suspect that right now
16	of service splits.	16	perhaps they're charging a little too much for
17	Q. And isn't that in fact why Newfoundland Power	17	demand, but that's only based on what's
18	has demand rates for its large customers,	18	happened in the last few years on the system.
19	because it better reflects the cost of		Q. So Newfoundland Power's seen some advantage in
20	service?	20	having demand charges for its large customers,
21	A. Well, it does it because they have a lot of	21	but at the same time it doesn't see any
22	customers in those classes and it better	22	advantage for Hydro in having a demand charge,
23	reflects what's thought to be fair. Now, they	23	demand energy rate for them?
	also do question how those demand and energy		A. Well, the primary advantage that you can see
24 25	rates should be set. They're not just pegged	25	for a demand energy rate is efficiency and
	Tales should be set. They le not fust begged	120	for a demand energy rate is efficiency and
23	Page 71		Page 72
1	Page 71 intra-class fairness. And there is no intra-	1	Page 72 fairness, efficiency and then all the other
	Page 71 intra-class fairness. And there is no intra-class fairness issue and efficiency is open to		Page 72 fairness, efficiency and then all the other things like stability and practicality and so
1	Page 71 intra-class fairness. And there is no intra-class fairness issue and efficiency is open to the marginal cost look. So it's a different	1	Page 72 fairness, efficiency and then all the other things like stability and practicality and so on and so forth. And I don't see any gain to
1 2	Page 71 intra-class fairness. And there is no intra-class fairness issue and efficiency is open to the marginal cost look. So it's a different situation.	1 2	Page 72 fairness, efficiency and then all the other things like stability and practicality and so on and so forth. And I don't see any gain to fairness, I don't see any proven gain to
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1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18	Page 71 intra-class fairness. And there is no intraclass fairness issue and efficiency is open to the marginal cost look. So it's a different situation.  Q. Can we go to your evidence, page 19, lines 18 to 20?  A. That sort of starts in the middle of a thought, Mr. Browne. I'm not sure if I'm on the right page or not. Is there more than one page 19 in here? Go ahead.  Q. Page 19 in your September 2, 2003 evidence.  A. Oh, okay.  Q. Your pre-filed evidence. Line 18 you state, "The simple fact of the matter is that unless changing the wholesale rate results in changes to Newfoundland Power's rate designs and their customers' behaviour there was no good reason for imposing a demand energy rate."  A. Yes.	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19	Page 72 fairness, efficiency and then all the other things like stability and practicality and so on and so forth. And I don't see any gain to fairness, I don't see any proven gain to efficiency and I do see a problem with volatility. So I don't think that there's any good reason based on Bonbright to impose a demand energy rate at this time. We don't really have enough information to judge all of it.  Q. But yet, you've heard other experts refer to Bonbright's principles in this proceeding?  A. Yes.  Q. And saying that Bonbright's principles would be consistent with a demand energy rate and an energy only rate is inconsistent with the Bonbright principles?  A. Don't necessarily agree with all of those other witnesses.
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1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	Page 71 intra-class fairness. And there is no intra- class fairness issue and efficiency is open to the marginal cost look. So it's a different situation.  Q. Can we go to your evidence, page 19, lines 18 to 20?  A. That sort of starts in the middle of a thought, Mr. Browne. I'm not sure if I'm on the right page or not. Is there more than one page 19 in here? Go ahead.  Q. Page 19 in your September 2, 2003 evidence.  A. Oh, okay.  Q. Your pre-filed evidence. Line 18 you state, "The simple fact of the matter is that unless changing the wholesale rate results in changes to Newfoundland Power's rate designs and their customers' behaviour there was no good reason for imposing a demand energy rate."  A. Yes.  Q. Now, when you go back and look at some of Bonbright's principles, wouldn't you find	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21	Fage 72 fairness, efficiency and then all the other things like stability and practicality and so on and so forth. And I don't see any gain to fairness, I don't see any proven gain to efficiency and I do see a problem with volatility. So I don't think that there's any good reason based on Bonbright to impose a demand energy rate at this time. We don't really have enough information to judge all of it.  Q. But yet, you've heard other experts refer to Bonbright's principles in this proceeding?  A. Yes.  Q. And saying that Bonbright's principles would be consistent with a demand energy rate and an energy only rate is inconsistent with the Bonbright principles?  A. Don't necessarily agree with all of those other witnesses.  Q. So in all those jurisdictions which have a demand energy rate and we've already
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1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	Page 71 intra-class fairness. And there is no intra- class fairness issue and efficiency is open to the marginal cost look. So it's a different situation.  Q. Can we go to your evidence, page 19, lines 18 to 20?  A. That sort of starts in the middle of a thought, Mr. Browne. I'm not sure if I'm on the right page or not. Is there more than one page 19 in here? Go ahead.  Q. Page 19 in your September 2, 2003 evidence.  A. Oh, okay.  Q. Your pre-filed evidence. Line 18 you state, "The simple fact of the matter is that unless changing the wholesale rate results in changes to Newfoundland Power's rate designs and their customers' behaviour there was no good reason for imposing a demand energy rate."  A. Yes.  Q. Now, when you go back and look at some of Bonbright's principles, wouldn't you find within those principles several good reasons	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22	Fage 72 fairness, efficiency and then all the other things like stability and practicality and so on and so forth. And I don't see any gain to fairness, I don't see any proven gain to efficiency and I do see a problem with volatility. So I don't think that there's any good reason based on Bonbright to impose a demand energy rate at this time. We don't really have enough information to judge all of it.  Q. But yet, you've heard other experts refer to Bonbright's principles in this proceeding?  A. Yes.  Q. And saying that Bonbright's principles would be consistent with a demand energy rate and an energy only rate is inconsistent with the Bonbright principles?  A. Don't necessarily agree with all of those other witnesses.  Q. So in all those jurisdictions which have a demand energy rate and we've already established Newfoundland Power seems to be the

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	1 MR. BROCKMAN:	1	associations in effect such as NARUC and FERC
	2 A. I would have to examine all of those other	2	and in Canada there are various associations
	jurisdictions' supply costs, I would have to	3	and there seems to be common principles that
	4 examine their long-run marginal costs, I would	4	Bonbright has espoused since 1960 which boards
	5 have to decide whether or not there were more	5	generally have been guided by. So, are you
	6 than one customer in the class that was being	6	stating now that Bonbright's principles don't
	7 served. There are a lot of issues I would	7	apply to the demand and energy rate, is that
	8 have to examine. And by the way, I should	8	what you're telling us?
	9 point out that in 1994 NARUC produced a study	9	A. You can't say what the proper weighting of the
:	which this Board probably has which was called	10	demand and energy costs are without doing all
	something like aligning rates with integrated	11	the studies. In sofar a other jurisdictions
	resource planning, I have a copy of it if	12	have done it without the proper studies, what
	someone needs to get a copy of it, and in that	13	can I say, they're probably wrong. That's
	particular document they surveyed a lot of the	14	kind of what NARUC concluded in 1994. So I
	jurisdictions at least in NARUC and said,	15	mean, they're not going against Bonbright's
	16 yeah, most of them have, you know, these	16	principles. Bonbright contains a lot of
	embedded rate designs. But they didn't	17	principles that in some cases overlap and in
	conclude it was a good idea. They, in fact,	18	some cases are somewhat contradictory. One
:	said that you should examine things like the	19	man's view of fairness may not be the same as
12	20 marginal costs, you should try to see whether	20	another man's view of efficiency. You have to
12	you can make your rates more efficient. Just	21	weigh these things and some jurisdictions
2	because everybody does it doesn't mean it's a	22	weigh them differently than others. So I
2	23 good idea.	23	don't say you could sayuse that to say that
2	24 BROWNE, Q.C.:	24	Bonbright's principles aren't appropriately
[2	Q. But yet, there seems tothere are	25	or aren't applied, but we have differences of
	Page 75		Page 76
	opinion on what the result is, perhaps, or and	1	careful when we're talking about a specific
	we also have huge differences in the supply	2	rate proposal versus this sort of all
	3 side that feeds these systems.	3	encompassing generic demand energy rate,
	4 Q. So there seems to be a lot of people wrong.	4	whatever that is. But, in general and in
	5 We had Mr. Greneman come forward stating that	5	chief I think the Board can read my evidence,
	a demand energy rate is appropriate for this	6	they can see where I disagree with the other
	7 jurisdiction. Is Mr. Greneman wrong?	7	experts. I mean, you know, I disagree with
	8 A. In my mind, yes.	8	them on some things. That's why this Board's
	9 Q. We had Mr. Doug Bowman come forward saying a	9	here, to judge thewhat they think. I tried
:	demand energy rate is applicable in this	10	to lay out the facts as I see them and we all
- 1	jurisdiction. Is Mr. Doug Bowman wrong?	11	compare everything to Bonbright. The Board
[	12 A. First of all, I guess, you know, you're sort	12	has to decide.
:	of paraphrasing their evidence, and I don't	13	Q. Okay. So you're saying Mr. Doug Bowman is
[	14 want to go too far -	14	wrong in advocating a demand energy rate for
:	15 Q. Well, I think I'm being fair, though, I think	15	this jurisdiction, you're saying he's wrong?
[	they've said that.	16	A. He's wrong, I believe, in advocating the
- 1	17 A. Well, I don't know if you are. The main	17	sample demand energy rate. If he proposes
- 1	18 reason I bring -	18	another rate, I'll look at that.
-	19 Q. Well, you were here. Now, let's be fair on	19	Q. Are you saying Mr. Patrick Bowman and Mr. Cam
- 1	<u>c</u>	20	Osler were wrong in their evidence where they
-		21	said a demand energy rate is appropriate for
- 1	- I	22	this jurisdiction?
- 1		23	A. If they're advocating the sample rate, yes.
- 1		24	Q. Are you saying the consultants at EES are
	25 the energy only rate so I want to be a little	25	urong in their avidence which they're about to

wrong in their evidence which they're about to

the energy only rate, so I want to be a little

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	I	Page 77		Page 78
1 1	BROWNE, Q.C.:		1	rate with the energy charges set at marginal
2	give where they advocate a demand energy rate		2	energy cost and a demand charge calculated as
3	for this jurisdiction?		3	a residual?" Can you read your answer to
4	A. Well, they obviously disagree with me, so,		4	that, please?
5	yes, I don't think that the sample rate that's		5 A	A. I say, "In concept, I do. The details may
6	been proposed is better than the energy only		6	need some fine tuning, however. I think the
7	rate we have.		7	proposed rates gives the movement to a demand
8	Q. So we have Mr. Greneman, Mr. Doug Bowman,	Mr.	8	energy rate that NP argued was important in
9	Pat Bowman and Mr. Cam Osler and EES all		9	the last Hydro referral. In addition, energy
10	advocating a demand energy rate and you		10	is given a high weight in this rate design.
11	advocated the same in 1992, but you are, in		11	It should enable NP to get a good balance of
12	fact, your evidence is the outlier in this		12	peak shaving in conservation oriented DSM
13	particular -		13	programs."
14	A. Oh, there's no question about that. And I'm		14 (	Q. And do you still agree with that, that
15	sure that you can put that in your brief.		15	premise?
16	That's not new evidence.		16 A	A. In concept, I do. It's the fine tuning I
17	Q. Can we go to IC-8, please?		17	think where it goes off the rails in terms of-
18	A. Is that one of the ones that you sent out		18	-especially in terms of what the relative
19	yesterday, Mr. Browne?		19	marginal demand and energy costs were in '92
20	Q. Yeah, I sent that out yesterday.		20	versus what they are today.
21	A. Okay. Okay, I'm at it.		21 (	Q. And on page 22, you make reference to option 1
22	Q. Okay. And there at page 21 of IC-8 the		22	there, the energy only form rate is what we
23	question was posed to you in your 1992		23	now have. Can you just read that out for us
24	evidence, it says on line 17, "Do you agree		24	on line 10, please, page 22?
25	with Hydro's proposal to adopt a three-part NP		25 A	A. "The problems with option 1 were discussed
	I	Page 79		Page 80
1	extensively at the last hearing. An excellent	C	1 A	A. Yeah, I think the energyI mean, other than
2	summation of the arguments is contained in	n	2	the fact the costs have changed some, sure,
3	pages 76 through 79 of the Board's June 11		3	it's the same form of rate.
4	1990 report to government. This rate form	1	4 (	Q. I want to just move on and talk for a few
5	does not offer good tracking of costs becaus	e	5	moments about the Marginal Cost Study.
6	changes in the energy cause certain costs to		6	Newfoundland Power in 1997 conducted its own
7	change and changes in demand causes other	s to	7	Marginal Cost Study, is that correct?
8	change. This rate therefore does not offer		8 A	A. Yes, it did.
9	good price signals to NP. In addition, NP		9 (	Q. And were you involved in that?
10	offers some of its customers demand rates. I	f		A. I was involved somewhat, I mean, they ran it
11	these customers respond to NP's price signa	1	11	by me and said, what do you think about it? I
12	by reducing demand, NP loses revenues with	out	12	gave some opinions and so on. I mean, they -
13	a corresponding drop in demand related cos	sts	13 (	Q. Okay. So, they ran it by you. So, I gather
14	from Hydro. The same effect occurs with	h	14	that you charged them for your opinion?
15	respect to peak shaving, DSM equipment N		15 A	A. Probably, I don't remember any more; it's been
16	might wish to encourage its customers to		16	a long time, but if I spent any material time
17	install. For all these reasons, the Board		17	-
18	recommended that Hydro submit at this hear	ring	18 (	Q. You didn't do it for nothing.
19	whatever information it might have with reg	ard	19 A	A. If I spent any material -
20	to a rate with a demand charge componen	t.	20 (	Q. We all work for our Masters.
21	This is what Hydro has done here."		21 A	A. Well, if it's a 15 minute question, I might do
22	Q. Now, that option 1 that was the energy only	y	22	it for free, but if it's four days or ten
23	rate that was there at that time, that's		23	weeks or something, then I would charge for
24	effectively the same rate that we have here		24	it.
25	now, isn't it, the energy only rate?		25 (	Q. Okay. So, you had involvement in that

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1 1	BROWNE, Q.C.:	1	and, in fact, if we used the marginal cost out
2	Marginal Cost Study?	2	of that study, they would have been wrong
3	A. Yes.	3	because that's not what happened. They didn't
4	Q. And now are you coming forward and telling us	4	build the gas turbine in 2000 or '99; they
5	that that Marginal Cost Study was flawed?	5	built a unit that saved a lot of fuel and, in
6	A. I think even the cover letter to that Marginal	6	fact, probably had a lower demand cost. So,
7	Cost Study, as well as the study itself tried	7	the study was flawed and it was pointed out.
8	to say that it was somewhat flawed.	8	But the position that Newfoundland Power was
9	Newfoundland Power doesn't have the expansion	9	put in was they said, you have to do a
10	plans, the costs, the characteristics of all	10	marginal Cost of Service Study. They can't do
11	the future units that are going to go on	11	it. Okay. They have to make guesses about
12	Hydro's system. Because of that, they had to	12	it. Hydro, you know, we've talked about the
13	do something which was, well, let's assume	13	need for a Hydro marginal Cost of Service
14	it's a turbine that's coming on line right	14	Study which would have supplied that piece
15	away because at that time, I think there was a	15	since 1990 and one hasn't been forthcoming. I
16	turbine being proposed. So, they decided to	16	mean, the piece has been missing since 1990.
17	try and use a turbine, even if it were coming	17 (10	0:30 a.m.)
18	on line today, a gas turbine and said, let's	18	Q. So, in 1996, the Board ordered Newfoundland
19	call that the marginal cost of demand. That	19	Power to submit a Marginal Cost Study. And
20	was flawed and I think they pointed that out	20	you're telling us that Newfoundland Power has
21	in their cover letter. I don't have the cover	21	submitted a flawed Marginal Cost Study, is
22	letter in front of me, but in a certain sense,	22	that your evidence?
23	becauseand what happened, by the way was we	23	A. I think if you read the cover letter to it,
24	got Granite Canal instead of that turbine.	24	they say, we have some serious doubts about
25	And Granite Canal had a lot of fuel savings	25	the marginal costs in this study. I think
	Page 83		Page 84
1	they felt okay about the T&D costs that they	1	at some point, they would get together with
2	had, their own costs, but they just don't know	2	Hydro and, sort of, get a co-operative
3	the marginal cost of Hydro.	3	Marginal Cost Study. Those things didn't
4	Q. But yet, they operated on the basis of that	4	happen. So, here we are at 2003 and we still
5	Marginal Cost Study, did they not?	5	don't have a Marginal Cost Study that, in my
6	A. What do you mean by "operated"?	6	mind, is valid for this island.
7	Q. What happened? They submitted the Marginal	7 (	Q. In reference to the Marginal Cost Study that
8	Cost Study and they stood by these marginal	8	was ordered, can we just go to the Board order
9	costs, they didn't deny these were these	9	of that time, PU-7, 1996-1997, I think we got
10	marginal costs?	10	copies of that to distribute in case it's note
11	A. Well, I think the cover letter caveats it	11	available on the monitor.
12	quite a bit, if you read the cover letter that	12 MS	. NEWMAN:
13	was on it, as well as even just reading the	13	Q. While we're doing that, can we label the last
14	study. They didn't do anything because of the	14	items as Information Item number 18,
15	study. Along camethere were a lot of things	15	Information 18.
16	that happened. I mean, we had the Provincial	16 BR	OWNE, Q.C.:
17	Energy Act which came along or Energy Policy	17	Q. Okay. We have in front of us a copy of the
18	and Review I guess it's called which was going	18	Board of Commissioners of Public Utilities,
19	to look at how all these things in the	19	PU-7, 1996-'97 and it says under "Rate Study",
20	province should be treated, demand and energy.	20	number 37, page 107, "a study shall be
21	One would hope they even looked at your favour	21	conducted by July 1, 1997 to evaluate rate
22	thing, electric heat and all these other	22	design based upon marginal cost, time of use
23	things. This all came alongI think at the	23	design principles and other innovative rate
24	time that that study was being pursued, as	24	options. The Board allows an increase in
25	well, Newfoundland Power sincerely hoped that	25	revenue requirements of \$150,000.00 to cover
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1	the cost of such a study". Are you telling us	1	A. No, it was flawed in the respect -
2 B	BROWNE, Q.C.:	2	Q. It wasn't a white wash, was it?
3	that the revenue requirement was increased by	3	A. It was flawed in the respect that they had to
4	\$150,000.00 of consumers' money to provide a	4	guess what Hydro's marginal costs were, if you
5	Marginal Cost Study and that study, you're now	5	will. Well, more than a guess, I mean, they
6	telling us, was seriously flawed?	6	used the gas turbine and tried to do it the
7	A. Well, insofar as calculating the marginal cost	7	best they could, but it certainly was not what
8	from Hydro, yes, Newfoundland Power did what	8	I would consider the best Marginal Cost Study
9	they could to calculate their own marginal	9	that could have been done had Hydro
10	cost, the T&D cost and so on and tried to do	10	participated with it.
11	Hydro, but they did what they could and their	11	Q. Why are you suggesting now that Newfoundland
12	study was flawed. I don't know if they spent,	12	Power be involved in Hydro's Marginal Cost
13	I don't know what they spent. You'd have to	13	Study if Hydro couldn'tif Newfoundland Power
14	ask another witness, but I didn't get 150,000,	14	couldn't produce its own Marginal Cost Study,
15	let's put it that way.	15	other than the flawed one that they submitted,
16	Q. Yes, it looks a bit steep, on reflection,	16	why are you suggesting now that they would do
17	particularly if it was done in-house, I guess.	17	any better job by getting involved with
18	Maybe we'll put these questions and	18	Newfoundland Hydro in reference to its?
19	undertakings to another witness when they come	19	A. Because, as I said in my summary, there are
20	forward. But in any case, they were given an	20	two things that you need to look at. It's not
21	allotment of \$150,000 to carry out the study,	21	just a Marginal Cost Study that I'm
22	and you're saying it was flawed, but it was	22	recommending and I don't even think that's all
23	flawed in only one respect? Is that what	23	that your witness is recommending, but you
24	you're stating? It wasn't completely flawed,	24	can't just do a Marginal Cost Study
25	was it?	25	necessarily in isolation. You have to say the
	Page 87		Page 88
1	marginal cost of what. Am I looking at the	1	you don't set up -
2	marginal cost of shaving one kilowatt of peak	2	Q. You got my gist.
3	demand for one hour of the year or am I	3	A. Yes. I think if you don't set up appropriate
4	looking at doing some kind of realistic	4	safeguards, I mean, I've worked for large
5	changes in the load shape? And Newfoundland	5	consulting firms before where we actually had
6	Power has the best ideas about what changes in	6	consultants working both sides of the fence,
7	load shape they might be able to do for their	7	if you will, and we had confidential
8	customers and Hydro has the best ideas about	8	information that we weren't allowed to share
9	what the future expansion plans look like on	9	with each other. We solved those issues by
10	the island. So it seems to be a good match to	10	putting up chinese walls, as they were called
11	me for them to cooperate on this.	11	sometimes and I don't know if that term's used
12	Q. Just on that last part you mention, Hydro	12	here, where we said these two staff can't work
13	would have a good idea of what's necessary	13	together. They can't share this confidential
14	coming up on the island. Wouldn't that, in	14	information. You can have people sign
15	fact, potentially put Newfoundland Power in a	15	confidentiality agreements. I've signed a lot
16	conflict of interest by getting involved in	16	of those. Every time an IPP comes to me, has
17	Newfoundland's Hydro Marginal Cost Study?	17	come to me in the last five years and said
18	Just think if there was some new generation	18	"can you analyze a certain plant for me?
19	needed and Hydro wantedor Power wanted to	19	Should I build it here or there and will it
20	bid on that work, wouldn't they have the	20	make money?" I have to sign an agreement that
21	inside track -	21	says I'm not going to tell everybody, all my

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other clients, what those numbers are. So I

Q. So you're admitting therefore that

those kinds of devices.

think those can be handled appropriately with

A. - if you don't set it--I'm sorry. I think if

Q. - by getting involved in Newfoundland Hydro's

A. I think if -

22

23

24

1			
	Page 89		Page 90
1	Newfoundland Power could have access to a	1	else does. Other jurisdictions commonly have
2 E	BROWNE, Q.C.:	2	published avoided cost numbers and that's what
3	certain proprietary information?	3	comes out of marginal cost studies. I mean,
4	A. Oh, absolutely, and it has to be protected.	4	no one says "well, you shouldn't publish your
5	Q. But once the cat is out of the bag, how would	5	avoided cost numbers." They say well, it
6	it be protected? We have the customer,	6	could bias the IPP bidding. That's really
7	Newfoundland -	7	what it's all about, you know, someone's going
8	A. Well, I've just described how.	8	to bid to build generation instead of Hydro.
9	Q Power involved in the -	9	IPPs aren't going to bid on anything if they
10	A. You have to have the agreements.	10	don't know what the target is and what you try
11	Q involved in Newfoundland Hydro's proprietary	11	to do is you try to get them to bid lower than
12	information. At what point would that stop?	12	that number. I mean, if Hydro can build the
13	A. Well again, you'd have to have the people who	13	expansion plan out for the next 20 years for,
14	were privy to that, whatever part of that	14	you know, a certain number of kilowatt,
15	information that was proprietary, would have	15	dollars per kilowatt and dollars per kilowatt
16	to sign confidentiality agreements, and if	16	hour and someone else can do it better, let's
17	they violated -	17	have them bid. But you know, you can't do
18	Q. But wouldn't that involve -	18	things without information and there are ways
19	A those confidentiality agreements, I suppose	19	to protect information. You're much more
20	you'd have whatever remedies the law gives you	20	aware of that than I am, because I'm not a
21	on any other confidentiality agreement. You	21	lawyer. What are the remedies, I don't know.
22	know, doing a Marginal Cost Study without	22	Q. Going back to the Board order on page 107,
23	sharing the information is somewhat	23	that order in 1996 also involved an energy and
24	meaningless. Other jurisdictions, you know,	24	demand charge from Hydro, and Order No. 58
25	there's been a lot of talk about what everyone	25	there states "the applicant shall follow the
	Page 91		Page 92
1	Page 91 direction given in the Board's report to the	1	Page 92 can't agree, sort of like our negotiations we
1 2	direction given in the Board's report to the	1 2	can't agree, sort of like our negotiations we
1 2 3	direction given in the Board's report to the Minister of Mines and Energy dated April 13,		can't agree, sort of like our negotiations we had where we all had high hopes we would all
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Page 93  the interruptible design and so on. So I  that had other than a demand and energy	Page 94
the interruptible design and so on. So I 1 that had other than a demand and energy	
1 5	
2 MR. BROCKMAN: 2 charge?	
mean, you have to look at a rate.  3 A. Well, I didn't ask them whether they had a	
4 BROWNE, Q.C: 4 demand energy charge. You're talkingI'n	ı
5 Q. In its most recent order, the Board ordered 5 sorry, I may have lost the thrust of your	
6 Newfoundland Power to form a peer group. Are 6 question somewhere. Are you talking about d	id
7 you familiar with that order? 7 I contact other boards to ask about a demand	
8 A. Yes. Well, I don't know if I'm familiar with 8 energy charge or did I contact -	
9 the order. I'm familiar with the fact that it 9 Q. The other utilities you contacted.	
was ordered to do that, yes. 10 A. The Peer group review had nothing to do wit	h
11 Q. And are you involved in - 11 demand energy rates. It was notthat's not	
12 A. I've been involved in doing some preliminary 12 what it was designed to do. It's designed to	
analysis for Newfoundland Power, just in terms 13 look at things like, you know, how many	
of what are other people around the continent 14 employees per line mile do you have and ho	W
doing. 15 many dollars per kilowatt do you spend on O	
16 Q. And - 16 and you know, things like that. That wasn't	
17 A. Then we kind of had this hearing, so you know, 17 that issue hasn't come up yet and it's not a	
people have been busy. 18 question that's been asked, I don't think.	
19 Q so have you contacted other utilities and 19 Q. But that's in the works, is it, the formation	
20 are you contacting - 20 of the Peer group?	
21 A. Contacted some other Boards and some other 21 A. Teh formation is in the works. I don't know	
22 utilities and reviewed a lot of reports and 22 whether that question will ever come up or	
things like that.  23 whether that question will ever come up of the state of the s	
24 Q. And when you contacted these other Boards and 24 whether that even is relevant or not, but it's	
25 other utilities, did you find any of those 25 an interesting question, Mr. Browne, that I	
	<b>D</b> 0.5
Page 95	Page 96
1 never really thought much about. 1 question.	
2 Q. When Newfoundland Power did its Marginal Cost 2 (10:45 a.m.)	
3 Study, the one that we referred to in the 3 Q. Okay. Thank you. These are our questions.	
4 Board Order in 1996, and submitted it, the 4 MS. NEWMAN:	
5 Board then had its own consultant review that 5 Q. Chair, before we move on, I just should label	
6 Marginal Cost Study, didn't it? 6 the excerpt from the Order P.U. 7 (1997-97)	
7 A. Dr. Wilson, I believe. 7 page 107 and we'll call it Information No. 19	
8 Q. Are you familiar with his comments in 8 CHAIRMAN:	
9 reference to that? 9 Q. Thank you, Ms. Newman. Thank you, Mr. Bi	
10 A. I'm sure at one point in time I read it. I 10 Mr. Brockman. We'll move now to cross by	
have no idea, I rememberI mean, I can't Industrial Customers. Good morning, Mr.	
remember. If you want to put it to me, I'll Hutchings.	
read it again, but I don't remember what he 13 HUTCHINGS, Q.C.:	_
14 said. I have read it. 14 Q. Good morning, Mr. Chair. Good morning, I	Mr.
15 Q. But the fact that you submitted it and 15 Brockman.	
indicated on the cover sheet when you 16 A. Good morning.	
submitted it that you might have to have a 27 Q. I'd like to speak first of all with you about	
discussion with Hydro in reference to one of the LOLH criteria that has been discussed a	
19 the issues, no follow up was done by 19 little here and as I understand it, this is a	
Newfoundland Power or yourself in reference to 20 tool that's used to measure the probability of	
21 that aspect? 21 loss of load and the numbers are actually	
22 A. Not me personally. I wasn't involved in any 22 produced by a consideration of the demands of	
of the negotiations with Hydro over the demand 23 the system and the resources available to mee	t
energy rate. You'd have to ask Newfoundland 24 them. Is that a generally accepted	
25 Power's client or their witnesses that 25 description?	

November 18, 2003 Page 97 A. Yes. Generally what you'd do, I mean, there 2 MR. BROCKMAN: are different ways of doing it, but I suppose 3 the most robust way of doing it is you look at 4 every hour and you look at the load in that 5 6 hour and then you look at the generation 7 that's available and you look at that generation's forced outage rates, if you will, 8 how often is that generation forced out in a 10 random fashion, and then you make calculations on the probability for, you know, all those 11 hours as to what's the probability of losing 12 load in that hour and then you can sum them 13 all up over a year and say well, over the year 14 or over--I mean, there are various ways of 15 16 doing it, but in general, you sum them up and say here's my loss of load hours for the year. 17 18 HUTCHINGS, O.C.: 19 Q. And Newfoundland and Labrador Hydro, like I suspect most other utilities, whether or not 20 they use LOLH, have a target that they use for 21 planning purposes, correct? 22 23 A. Yes. 24 Q. Okay. And that's the 2.8 hours that we've talked about? 25 Page 99 local generation there. Were you aware of 1 2 that? 3 A. I guess I hadn't--that one went by me. I'll

Page 98 A. Subject to check, I think that's right. 1 Q. Yes, okay. And that's intended to be a 2 measure of the acceptable probability of lost 3 load on the system? Is that fair? 4 A. Yes, that would be the minimum acceptable in 5 the way that Hydro uses it. 6 7 Q. Yes, okay. So we're prepared to pay enough money to bring it down to that, but we don't 8 want to pay the additional money it would take 10 to bring it lower than that? A. No. If you could keep it at that number every 11 year, you would. You would never--I mean, you 12 probably wouldn't want to go above it. 13 Unfortunately the way we add generation is 14 lumpy and sometimes it goes above it and there 15 16 are even years where it might go below it. But you do the best you can to sort of 17 fluctuate around it. 18 19 Q. Yes. And that all depends on the vagaries of the system you're faced with at any given 20 point? 21 22 A. Exactly. 23 Q. We've heard that it's a policy of Hydro when they interconnect the previously isolated 24 system that they generally decommission the 25 Page 100 Q. Okay. But on the other hand, if at the time 1

accept it, but I mean, if that's true, but I -4 5 Q. All right. I mean, but what we're getting to here, I would suggest, is that there is a 6 7 decision to be made in respect of such an instance and just suggest to you that if at 8 9 the time that interconnection was done, the loss of load probability target was not being 10 11 met, let's say it was 2.9 instead of 2.8, one might choose to leave that generation on 12 because, as you say, all the generation on the 13 system, wherever it is, contributes to the 14 15 LOLH, correct? A. Yes. I think you--I mean, if you were going 16 to do it, right, what you would probably do is 17 you'd probably calculate the cost of keeping 18 19 that. It would probably be mostly fixed O&M

because you've already paid for the units or

out of that, so you'd probably compare the

fixed O&M cost of just keeping them around

are still paying for them, but you can't get

versus having to build something else

potentially, and you'd make a decision.

2 that you did this interconnection, your LOLH was 1.5 hours and your target was 2.8, you 3 wouldn't really even think about keeping that 4 5 old diesel plant, would you? A. Well, I don't know if I would or not. Again, 6 7 I would probably want to do, you know, that calculation. I mean, 1.1 is better than, you 8 know, 2.8. I'd have to make some sort of 9 decision as to whether or not the fixed cost 10 11 of keeping those units around was worth any additional reliability. I mean, I would get 12 additional reliability benefits. I might--I 13 mean, again, as you said, it depends on the 14 vagaries of the system, how long is my LOLH 15 going to be 1.5 and, you know, it's a 16 complicated issue, but it's something that 17 you'd study. You'd see whether or not the 18 19 cost outweighed the benefit. Q. But the target of 2.8 is really your basic 20 criteria and then -21 22 A. I don't want -Q. - and where that's going to move over time? 23 A. I don't want to go below 2.8. 24 25 Q. Yes.

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	,		112 Hydro 5 2000 General Rate Hypheation
1	Page 101		Page 102
1	A. Or I guess I'm phrasing that wrong. I don't	1	on the bottom which is the Burin and Bonavista
2	MR. BROCKMAN:	2	Peninsula being up the third little peninsula
3	want to go above it. You know, I don't want	3	from the bottom right on the northern coast.
4	the loss of load hours to go above 2.8. If	4 .	A. Okay.
5	they get better, maybe it's good or maybe it's	5	Q. Okay. Why would it do that?
6	bad. It depends on what it costs me.	1	A. I haven't studied that particular issue. I
7	BROWNE, Q.C.:	7	don't know why they did that.
8	Q. I mean, if you can get them to 1.5 without	8	Q. Could I suggest to you that there may have
9	spending any money -	9	been a need in that particular area to support
10	A. That's great.	10	local loads or have additional excess, yes -
11	Q that's a good thing, sure, okay. All right.	11 .	A. Certainly possible, yeah.
12	And as regards, as we say and I think you said	1	Q. Yes, okay, additional excess capacity in the
13	this in answer to earlier questions that as	13	event that the line, there was a problem with
14	regards to LOLH, it doesn't really make any	14	the line or something like that.
15	difference where that generation is on the	1	A. There was obviously some need or they probably
16	system, correct?	16	wouldn't have moved it. I don't really know
17	A. As long as it's sufficiently interconnected, I	17	what the need was.
18	mean, if you built it on an isolated system,		Q. Okay. So, you'll agree with me that there are
19	then clearly it doesn't affect the LOLH of the	19	other reasons unrelated to LOLH that could
20	Island Interconnected.	20	cause generation to be put in a particular
21	Q. All right. There is evidence before the Board	21	place?
22	that Newfoundland Power actually moved some of	1	A. Yes. I think there was testimony on the fact
23	its thermal generation from Burin to	23	that well, when you build a hydraulic plant,
24	Wesleyville, okay. So, in terms of the	24	you can't really decide whereI mean, you can
25	peninsulas, you're talking about the boot down	25	decide where you're going to build it, but you
25		23	decide where you ie going to build it, but you
1	- 104		
	Page 103		Page 104
1	only got one or, in certain places.	1	would build it and you guys would see the same
2	only got one or, in certain places.  Q. Yes, exactly.	1 2	would build it and you guys would see the same costs. So, I don't know that you care where
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	Page 105		Page 106
1	A. I certainly don't have any reason to question	1	Q. Okay. And we're talking about a difference
2 N	IR. BROCKMAN:	2	like, between \$2.00 and \$16.00 here, right?
3	Mr. Bowman's math. I've been convinced at	3	A. Yeah, well, the numbers in the table, I guess,
4	this proceeding that he is good at math, but	4	it's 6, 4 that you're talking about, I have a
5	it's an anomaly, I guess, as you say, I just	5	little bit of trouble with it, just because
6	think if you're going to look at it, you have	6	what he divides by in every case is sort of a
7	to look at it in the whole. There isone	7	total generation capacity as opposed to how
8	would have to question why is that number	8	much is being allocated to him. So, I'm a
9	different from what you might expect.	9	little cautious about the exact, you know,
1 <sub>10 H</sub>	IUTCHINGS, Q.C.:	10	interpretation of those numbers, but the point
11	Q. And as appears in the evidence from Mr. Osler	11	is taken that he appears to show that he's
12	and Mr. Bowman, the Industrial Customers are	12	paying more for that generation than, say, a
13	paying a lot more per kilowatt hour for the	13	new gas turbine.
14	peaking capacity provided by the generation	14	Q. And your evidence while you seem to concede
15	credit than they are for Hydro's primary	15	that there is an anomaly here, you're saying
16	peaking capacity, isn't that correct?	16	that this is just one element of the whole
17	A. Taken in isolation, the Cost of Service Study		Cost of Service Study and you shouldn't pick
1	· · · · · · · · · · · · · · · · · · ·	17	and choose and deal with this one issue except
18	effect is more than, I guess, was more than	18	*
19	that equivalent new gas turbine.	19	in the context of the entire Cost of Service,
20	Q. Yes, and certainly a lot more than the	20	is that fair?
21	existing gas turbines, in the range of like -	21	A. That's correct.
22	A. Yeah, again, taken in isolation, as I said,	22	Q. Okay. What issues within the Cost of Service
23	you could ask that question in other parts of	23	did you identify that unfairly treated
24	the Cost of Service Study as well, and you	24	Newfoundland Power?
125			A Wall I don't think that Navytoundland Dayyania
25	might find a different effect.	25	A. Well, I don't think that Newfoundland Power is
23	Page 107	25	Page 108
1	-	1	
	Page 107		Page 108
1	Page 107 arguing that they're being unfairly treated.	1	Page 108 ability to raise a particular issue that may
1 2	Page 107 arguing that they're being unfairly treated. I mean, they've accepted the Board's rulings	1 2	Page 108 ability to raise a particular issue that may result in your words, in having -
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	Page 109		Page 110
1	argue, don't get gored, but its customers-	1	Tr Tr
2	MR. BROCKMAN:	2	1
3	- they do care about what happens to their	3	•
4	customers.	4	1
5	HUTCHINGS, Q.C.:	5	
6	Q. No, I understand that and Mr. Browne is here	6	6 (11:00 a.m.)
7	to represent them in his usual good style.	7	1 5 6 7
8	The other issue and this is very brief that I	8	<b>→</b>
9	want to speak to you about relates to this	9	<i>e</i> .
10	notion of the incentive which is provided to	10	
11	Newfoundland Power by reason of the existence,	11	•
12	among other things, of the generation credit	12	•
13	and perhaps we could bring up here, IC 421.	13	•
14	We asked here in the context of a demand	14	
15	energy rate whether Newfoundland Power would	15	•
16	feel itself to, feel itself at liberty to act	16	ž
17	on an incentive which would run contrary to	17	3 3
18	the directions of the EPCA. And looking at	18	
19	the answer, it confirms that Newfoundland	19	1
20	Power now presumably operates its facilities	20	· · · · · · · · · · · · · · · · · · ·
21	in the best interest of the overall system in	21	
22	accordance with the Act. And then goes on to	22	· · · · · · · · · · · · · · · · · · ·
23	say that the sample rate provides an incentive	23	
24	for the management of generation facilities	24	·
25	that is contrary to the Act and is therefore,	25	25 Q. Um-hm.
1			
1	Page 111		Page 112
1	A. Right now, Newfoundland and Labrador Hydro	1	
1 2	A. Right now, Newfoundland and Labrador Hydro counts Newfoundland Power's generation as	1 2	maybe I'm confusing the issue, but I don't see -
	A. Right now, Newfoundland and Labrador Hydro counts Newfoundland Power's generation as integral part of its generation plan and they		maybe I'm confusing the issue, but I don't see  Q. The policy and the Act is a valid economic
2 3 4	A. Right now, Newfoundland and Labrador Hydro counts Newfoundland Power's generation as integral part of its generation plan and they give them a credit for that. They don't have	2	maybe I'm confusing the issue, but I don't see  One of the policy and the Act is a valid economic  policy that the whole system should be run in
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	Page 113		Page 114
1	an hour after the break. So, unless anybody	1	page 17 of your original pre-filed? And it's
2 (	CHAIRMAN:	2	in a discussion there under 5.8 Newfoundland
3	has any vehement objections, we'll break just	3	Power retail rate designs, line 11, "Stone and
4	for 15 minutes or so and we'll return, if	4	Webster offer two major arguments for the
5	that's okay, at twenty after.	5	sample rate to Newfoundland Power. The first
6	(BREAK AT 11:03 A.M.)	6	is a suggestion that Newfoundland Power may be
7	(RESUME 11:24 A.M.)	7	able to do some additional demand management.
8	CHAIRMAN:	8	There is no current evidence to support that
9	Q. Thank you. Ready to begin Mr. Brockman?	9	suggestion." So, am I taking it correctly
10	A. Yes.	10	that what you're indicating there is that
11	Q. Good morning Mr. Kennedy?	11	there's no, as you said, engineering quality
12	MR. KENNEDY:	12	information concerning what kind of demand
13	Q. Good morning, Chair. Mr. Brockman, I just	13	side management responses Newfoundland Power
14	have two topic areas. One is triggered by a	14	could undertake?
15	comment you made concerning integrated	15	A. Beyond the Interruptible and Curtailable
16	resource planning, which was an area that we	16	rates, which are in fact a way of doing demand
17	were going to cover, in any event. And the	17	side management, I haven't seen it, I mean, I
18	other one is just some questioning concerning	18	don't know that there aren't any, but I
19	Newfoundland Power's generation credits.	19	haven't seen any in this proceeding, you know,
20	A. Okay.	20	that I would consider to be of the quality
21	Q. First I'd like to just deal with the	21	that I would want to have to do anything about
22	integrated resource planning. And just as a	22	it.
23	precursor to that, and this is something you	23	Q. Sure. And as I understand it, the issue on
24	also alluded to in response to a question on	24	demand side management is not that you can't
25	cross there just a few minutes ago, it's at	25	effect your demand, it's at what cost that
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1	Page 115 effect is acquired at?	1	Page 116 in a best position to generate those
2	Page 115 effect is acquired at? A. That's correct.	1 2	Page 116 in a best position to generate those engineering quality level demand side
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		Page 117			Page 118
	1	management? I mean, do I save a kilowatt for	1		and there's a lot of fairness issues, who has
	2 MF	R. BROCKMAN:	2		to pay for all of this and who benefits and
	3	every kilowatt of water heater or is it	3		the Board usually gets involved in that sort
	4	something less than that, so there are a lot	4		of issue. What test do we use? Do we say
	5	of people who can do it, but it's, in terms of	5		that we want to minimize rates over time or do
	6	who is best to do it here, in terms of the	6		we want to minimize sort of revenue
	7	stakeholders, probably for the individual	7		requirements over time and those two can often
	8	customers, Newfoundland Power probably knows	8		times quite differ, so it's a process that's
	9	more about its individual customers. But I	9		sort of, everyone needs to participate in.
	10	wouldn't want to preclude other parties who		(11.3	30 a.m.)
	11	are very interested in this from participating	11	•	And is my understanding correct that under
	12	and contributing even, not just participating,	12	Q.	demand side management that you would look at
	13	in many cases they contribute.	13		chiefly two different things. One would be
		R. KENNEDY:	14		conservation aimed initiatives and the other
		Q. Sure. But just to use a metaphor that	15		one would be, more to do with the peak or the
	16	Newfoundland Power would be in the driver's	16		load?
		seat, the other people who are other		٨	Demand management without the demand side.
	17 18	stakeholders would be passengers in that	17 18		Right.
	19	effort?	19		Yeah, the term and unfortunately it's kind of
		A. Well Newfoundland Power would be in the driver		A.	sometimes confusing because we use the term
	21	seat perhaps with respect to what they can do	20		demand side management and we often times
		with their individual customers. Hydro might	21		-
	22	•	22		don't make the distinction that you're making.
	23	be in the driver seat with respect to the	23		There are various kinds of load shape objectives that were identified when people
	24	avoided supply side cost, you know, and then there are a lot of tests that have to be done	24 25		were doing a lot of this in the States, things
	25	there are a for or tests that have to be done	23		were doing a for or tins in the States, tilligs
- 1					
		Page 119			Page 120
	1	like is your load shape objective to shave the	1		control that could control water heaters, for
	2	like is your load shape objective to shave the peaks, you just want to remove demand off the	2		control that could control water heaters, for instance, you couldyou might give a
	2 3	like is your load shape objective to shave the peaks, you just want to remove demand off the peaks and something like an Interruptible	2 3		control that could control water heaters, for instance, you couldyou might give a different signal, you might rather have a
	2 3 4	like is your load shape objective to shave the peaks, you just want to remove demand off the peaks and something like an Interruptible program might do that. Or do you want to	2 3 4		control that could control water heaters, for instance, you couldyou might give a different signal, you might rather have a higher demand charge to promote that. How
	2 3	like is your load shape objective to shave the peaks, you just want to remove demand off the peaks and something like an Interruptible program might do that. Or do you want to accomplish conservation? Do you want to save-	2 3		control that could control water heaters, for instance, you couldyou might give a different signal, you might rather have a higher demand charge to promote that. How high would, of course, depend on what the
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	2 3 4 5 6 7	like is your load shape objective to shave the peaks, you just want to remove demand off the peaks and something like an Interruptible program might do that. Or do you want to accomplish conservation? Do you want to save-give you an example, if I put a wrap on a water heater with more insulation, which I	2 3 4 5 6 7	Q.	control that could control water heaters, for instance, you couldyou might give a different signal, you might rather have a higher demand charge to promote that. How high would, of course, depend on what the awarded costs were, so - So on the demand side, you would have
	2 3 4 5 6	like is your load shape objective to shave the peaks, you just want to remove demand off the peaks and something like an Interruptible program might do that. Or do you want to accomplish conservation? Do you want to save-give you an example, if I put a wrap on a water heater with more insulation, which I think Newfoundland Power even has a program	2 3 4 5 6	Q.	control that could control water heaters, for instance, you couldyou might give a different signal, you might rather have a higher demand charge to promote that. How high would, of course, depend on what the awarded costs were, so - So on the demand side, you would have potentially you would look at initiatives that
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No	vember 18, 2003 Multi
	Page 121
1	Integrated Resource Plan that in addition to
2	MR. KENNEDY:
3	looking at DSM, you would also look at the
4	supply side?
5	A. Oh, absolutely, that goesthat's why we call
6	it integrated resource planning.
7	Q. And would a third aspect of an integrated
8	resource plan involve looking at rate design
9	issues?
10	A. Yes, I think if it's done properly and is
11	truly integrated, it ought to look at
12	innovative rates, I mean, all of these things
13	are ways of affecting change in the load,
14	change in the demand, change in the kilowatt
15	hours or the energy changes during the summer,
16	changes during the winter. Anything that you
17	can do, be it a device such as a water heater
18	controller or some signal that you send, such
19	as a rate, all of those things really can be
20	viewed as part of integrated resource planning
21	and they're all to be weighed against whatever
22	is on the horizon for the expansion plan, you
23	know, are we trying toI mean, what's our
24	sort of target that's setting our avoided
25	costs? Is it a hydraulic unit, is it, you
	Page 123
1	and Labrador?
2	A. That's the goal of integrated resource
3	planning.
4	Q. And let's say we actually achieve this
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ti-Page<sup>TM</sup>NL Hydro's 2003 General Rate Application Page 122 know, a thermal unit, what is it and how much is it worth? Q. And the supply side aspect of an integrated resource plan, for Newfoundland, given the dynamic in the industry, is it fair to say that Hydro would be in the driver's seat for those aspects of an integrated resource plan -A. Yes. Q. The supply side consideration of that. A. Yes, if you look at the 1999, I guess, study that Hydro provided in this proceeding, looking at, well Granite Canal, for instance, you'll see that they looked at all of their alternatives and what they cost and ran some computer programs to see what if I mix or move this one here or that one there and that's the kind of information you need. Q. So Hydro is behind the wheel at some aspects and Newfoundland Power is behind the wheel in other aspects? A. Yes. Q. And hopefully everyone is trying to drive in the same direction or achieve the same objective which is to get an integrated resource plan for the Province of Newfoundland Page 124 has to be gathered, there's a lot of issues that have to be talked about and a lot of analysis that has to be done. The good news is we're in somewhat of a situation right now where, you know, perhaps we don't need a unit next year, so we have some time, we don't have an infinite amount of time if we're going to grapple with these issues. Q. If under your recommendation then, am I gathering correctly that in order for Newfoundland Power to be comfortable with a wholesale demand rate, that it would require an integrated resource plan and that would

would do with it then? That depends on the 6 7 plan, I presume, and what the outcome of it 8 is. 9 A. Well I would hopefully implement whatever came out of that as being cost effective, if I did 10 11 in fact find, for instance, that water heater 12 demand controllers saved a lot of money for 13 customers in the future, I probably would want 14 to implement those. The Board would have to 15 deal with a lot of other issues at that point 16 which is who is going to pay for it and how do 17 we roll it into the rates and so on and so 18 forth, but what I would hope would come out of 19 it was we would try to do some of those 20 things. 21 Q. How long would you suspect it would take to 22 complete that whole process of an integrated 23 resource plan?

integrated resource plan, what is it that you

3 4 5 6 7 8 9 10 11 12 13 require a multi-year effort? 14 A. Well in order for Newfoundland Power to be 15 comfortable that the rate that they were 16 getting was signalling more efficiency, they 17 would at least want to know the Marginal Cost 18 Study part of that integrated resource plan 19 and what they could do about it, that's the 20 piece that they need. And I, you know, how 21 long it would take to do just a Marginal Cost 22 Study? I guess, Hydro, I don't know how long 23 they said, I think it was an estimate they put 24 25 on the table of \$300,000.00 or something, but

A. It would realistically, probably be a multi-

year effort because there's a lot of data that

		Page 125		Page 126
	1	I would point out that about half of that	1	they're still around. One of the problems is
		BROCKMAN:	2	a lot of these people have gone away because
	3	study has probably already been done in the	3	when we deregulated a lot of things in the
	4	Granite Canal Study because they looked at all	4	~
	5	their options and on a supply side, what's	5	management went away, and so we quit studying
	6	coming on, what it's going to cost, what's it	6	
	7	do to the rest of the system. They can	7	unfortunately, I think -
	8	probably update that and they're halfway	8	MR. KENNEDY:
	9	there. The piece that is missing that would	9	Q. So, Mr. Brockman in light of all of that, as I
	10	take some time, it probably would take a year	10	described it in order for Newfoundland Power
	11	or two, would be what can we do about it?	11	to feel comfortable with the wholesale demand
	12	What are the demand side options that are	12	rate, what would be required? The converse of
	13	available? There is some help on that, the	13	that, the sample rate that's being proposed -
	14	Board is not completely out on their own on	14	A. Yes.
	15	that, I mean, there are tons and tons of	15	Q. Are we also dealing with then levels of
	16	documents that were published in the States	16	comfort or is it a case of, as I asked Mr.
	17	and even in Canada on things that were	17	Bowman, that you consider it to be fatally
	18	available. Some of those are old so they	18	flawed, the proposal that has been put forward
	19	would have to be updated, but there are	19	by Stone and Webster?
	20	consultants who specialized in just looking at	20	A. Well the designI suppose it depends on
	21	the demand side and how much does it cost to	21	what's really being proposed and I sympathize
	22	do certain things. I'm not one of those	22	with Mr. Bowman when he was on the stand
	23	consultants, but there are consultants, I	23	saying he wasn't completely clear what was
	24	mean, I'm sort of a generic, you know, look at	24	being proposed because we have an energy only
	25	both sides, but there are consultants if	25	rate that was proposed in the original filing
		Page 127		Page 128
	1	and then, somewhere along the way, in an RFI,	1	have looked at the expansion plans and they
	2	I suppose, Hydro adopted the samplewhat was	2	
	3	called at that time the sample rate as sort of	3	
	4	their proposed rate. Mr. Greneman, when he	4	fuel, but which might tend to reduce that
	5	was on the stand, talked with Mr. Kelly about,	5	\$7.00. So we would probably want to look at
	6	well, you know, I suppose if you guys were	6	the design of the rate and think about moving
	7	really concerned about it, I could fool around	7	some of the charges around. The other thing
	8	with the energy charge and make sure that it	8	that would have to be solved, I think, before
	9	was marginal cost in all the months, you know,	9	Newfoundland Power would feel comfortable was
	10	short-run marginal cost. So I guess in order	10	how's the Board going to allow them to deal
	11	to feel comfortable about it, I mean, one of	11	with the volatility that any demand energy
	12	the things that is requiredwell there are	12	rate creates.
	13	several things that are required. Number one,	13	Q. Okay, just on that point, on the volatility,
	14	I probably would design a different rate	14	,
	15	designed than that, even if I was just going	15	financial issue, not a -
	16	for a straight-up embedded rate, just as Mr.	16	A. That's a financial issue.
	17	Bowman said he would probably design a	17	Q. Right, and so the minute it becomes a
	18	different rate design and I don'tmy own mind	18	•
	19	it's not a very good rate design because it	19	your area of expertise.
	20	completely ignores the short-run marginal cost	20	A. It's outside my expertise, that's correct.
		in some months. I believe it weights demand	21	Q. Sure. And in regards to the \$7.00 kilowatt of
	22	too highly because it says demands were \$7.00	22	billing demand, well first I just want to make
	23	on the province per kilowatt month or \$84.00 a	23	sure we're dealing with the same sample rate.
	24	year, but the Interruptible rate isn't worth	24	I wonder if we could go to Chart 1 on page 15
- 1	25	that much it's worth loss than 28 And I	25	of the BDC No. 2 Mr. O'Pailly Towards the

of the RDG No. 2, Mr. O'Reilly. Towards the

25

that much, it's worth less than 28. And I

	Page 129		Page 130
1	bottom. Okay, so we have, as I understand it,	1	capacity today, based on cost estimates for a
2 1	MR. KENNEDY:	2	new simple cycle combustion turbine, the
3	is this your understanding as well that the	3	levelized annual cost for new peaking capacity
4	rate that's proposed at the bottom there on	4	coming on line in 2004 is on the order of
5	page 15 with the two energy blocks and then a	5	\$100.00 per kilowatt per year."
6	demand charge of \$7.00 a kilowatt is the	6	A. Uh-hm.
7	sample rate that's being proposed by Hydro,	7	Q. So do you agree with me that 84 is at least in
8	that as you indicated was subsequently adopted	8	the same range as this estimate for a new
9	through an RFI?	9	simple cycle combustion turbine to add -
10	A. I think that's the one that's currently being	10	A. 84 is clearly less than a hundred. The simple
11	proposed now, yes.	11	fact of the matter is we don't need a
12	Q. Okay, and the \$7.00 a kilowatt, that's a	12	combustion turbine this year, butso that
13	monthly, so that works out to be \$84.00 a	13	would tend to bias my opinion of that. The
14	kilowatt year.	14	real question is when do we need a combustion
15	A. \$84.00, yes, that's right.	15	turbine, if at all, and if we don't build a
1	Q. And I just wondered if you could just comment		
16	•	16 17	combustion turbine, as in '97 we were thinking we were going to buildor they were going to
17	on, if we could go to JRH No. 3, page 13? This was a discussion on the estimated value		build a combustion turbine and it didn't
18		18	happen, and they built a base load unit which
19	of the generation assets, Mr. Brockman. And	19	in effect had a much lower cost than \$100.00
20 21	the bottom paragraph, "However, it is possible to get an indication of the value that these	20 21	per kilowatt year for demand. So what's what
1	assets bring to the Island Interconnected	22	I would have to weigh, but yes, \$84.00 is less
22 23	System through an examination of the costs	23	than \$100.00.
24	that would be incurred if Hydro were required	24	Q. Okay, I just wanted to turn to that second
25	to purchase a similar amount of peaking	25	topic, the Newfoundland Power generation
25	to purchase a similar amount or peaking	23	topic, the rewiodingiand rower generation
1	D 121		D 122
	Page 131		Page 132
1	credit. You comment in your Supplementary	1	transmission credit in that generation credit?
2	credit. You comment in your Supplementary Evidence at page 6, Mr. O'Reilly, line 15,	2	transmission credit in that generation credit?  A. Yes, insofar as whatever portion of
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1	A. Okay, right.	1	A. Well the connection is, as I said, you sort of
2 1	MR. KENNEDY:	2	have to think about what does Hydro have to
3	Q. And we know that Newfoundland Power has	3	build or not build in order to take advantage
4	generation down at the bottom of that	4	of the credit or the generation, which is what
5	Peninsula, and there's been lots of discussion	5	you're saying, if they're going to access the
6	about the assignment of the respective	6	generation, they have to be able to get it
7	transmission lines owned by Hydro.	7	back into the system. Had Hydro built that
8	A. Right.	8	generation and there were no customers down
9	Q. And Newfoundland Power receives a generation	9	there, they would have still had to build the
10	credit for that generation on the Peninsula,	10	transmission line to get it back. So that's
11	correct?	11	how they're related and I think the numbers
12	A. Yes.	12	break down, I don't know, there's some sixty
13	Q. All right, so does Newfoundland Power need to	13	some odd dollars in there for generation and I
14	use Hydro's transmission in order to get their	14	guess the rest is transmission. Of the total
15	generation up to the common good of everybody,	15	\$84.00, I can't remember the exact number, but
16	is that the sort of rationale for why you	16	-
17	provided gener -	17	Q. Yeah, there's some split there between the two
18	A. Yes, I guess I'd phrase it the other way,	18	and there's an undertaking outstanding to
19	Hydro needs to use the transmission to get it	19	Hydro to provide us with the actual split. So
20	back up.	20	could I just ask then, in light of all that,
21	Q. Right. And so, is that related then to the	21	could you just give me your views on then the-
22	transmission credit that's provided to	22	-and we know the transmission lines are
23	Newfoundland Power inside the gen. credit?	23	assigned common on the Burin Peninsula, at
24	A. Yes.	24	least that's the proposal?
25	Q. And what's the connection?	25	A. Right.
		23	<u>-</u>
	Page 135		Page 136
	Q. The Great Northern Peninsula, the other one -	1	commented on that way in awhile, so I might
2	A. Okay.	2	have to refresh my memory as to what, how much
3	Q. So in the case of the Great Northern	3	load is there and whose it is and how much
4	Peninsula, we have generation plant up on the	4	generation, but it's philosophical since the
5	top of the Great Northern Peninsula owned by	5	Board ought to try to use consistent
6	Hydro this time?	6	philosophy in the assignment of both.
7	A. Right.	7	Q. That's all the questions I have, Chair. Thank
8	Q. And that's being proposed to be assigned	8	you, Mr. Brockman.
9	common.		CHAIRMAN:
10	A. Yes.	10	Q. Thank you, Mr. Kennedy. Do you have any re-
11	Q. The transmission, however, is to be assigned	11	direct Mr. Kelly?
12	specific.		KELLY, Q.C.:
13	A. Okay.	13	Q. No further questions, Chair.
14	Q. As proposed by Hydro. Could you tell me does		CHAIRMAN:
15	the treatment of the gen. credit for	15	Q. Okay. Commissioner Saunders, do you have any?
16	Newfoundland Power and the rationale for		COMMISSIONER SAUNDERS:
17	providing a transmission credit inside the	17	Q. No questions, Mr. Chair.
18	gen. credit, does that have any implications		CHAIRMAN:
19	for how this Board should look at the Great	19	Q. Commissioner Whalen?
20	Northern Peninsula's transmission and		COMMISSIONER WHALEN:
21	generation assets?	21	Q. Good morning, Mr. Brockman.
22	A. Well yes, in so far as possible, I mean I	22	A. Good morning.
23	think the Board should try to be consistent in	23	Q. I take it from your evidence that your summary

25

position is that the sample rate that's been

proposed at some point along the way by Hydro,

their thinking on that, so obviously the two

are interrelated. I don't know but I've

24

	D 127		Dece 120
۱.	Page 137		Page 138
1	should not be implemented? That's your -	1	now.
2 1	MR. BROCKMAN:	2	Q. So if we had the appropriate Marginal Cost
3	A. That's correct.	3	Study before us today, do I take it that the
4 (	COMMISSIONER WHALEN:	4	demand energy rate would be something that you
5	Q. I don't get the distinct impression, though,	5	would beyou would support?
6	that you're opposed to a demand energy rate	6	A. Well I would certainly look at it and see how
7	for Newfoundland Power, it's the sample rate	7	much I needed to, say, adjust the demand and
8	that you don't -	8	the energy charges that might come out of an
9	A. If the rate were properly designed with taking	9	embedded design. I would probably also ask
10	account of marginal costs and you could solve	10	the Board to think about how they're going to
11	the volatility problem, I mean, I would take	11	deal with the volatility that even a
12	the same position, I think as I took in 1990	12	redesigned rate would do, but then at that
13	that perhaps it was a good idea.	13	point, you know, you probably would have the
14	Q. So your position is based on the fact that we	14	support.
15	have a sample rate that's being proposed for	15	Q. Okay. If the Board were to say that, what the
16	Newfoundland Power and it's the sample rate	16	effect from this order that it wants a demand
17	itself and the design of that rate that you -	17	energy rate for Newfoundland Power and didn't
18	A. It's the sample rate and the fact that it		make any order on what that rate would be, but
1	•	18	•
19	creates volatility and I don't see any hugh	19	told Newfoundland Power and Hydro to go away
20	advantages, either for fairness or efficiency	20	and come up with such a rate -
21	coming out of it. So it's creating a problem	21	A. Yes.
22	and it's not solving any, so that's kind of	22	Q. And assuming that you would be involved in
23	mybut I mean, that's not to say that if you	23	such a process and appreciating you just made
24	redesigned it completely and solved all of my	24	a comment to Mr. Kennedy that you would
25	problems, I probably would say okay, it's okay	25	probably design a different rate. I
	Page 139		Page 140
1	Page 139 understood Mr. Bowman to say yesterday he	1	Page 140 frustrated, I suppose to some degree and what
1 2	_	1 2	-
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coming in and asking for some sort of recover	ery 1	provide that, but it just hasn't happened. So
2 MR. BROCKMAN:	2	I think that piece has been missing for a
3 clause for this volatility would be, that's	3	long, long time, but I share your frustration.
4 what the Board would have to struggle, I me	an, 4	Q. I just want to pick up on something that I
5 I'd have to look at those issues. Whether or	5	think Mr. Browne raised with you referring
6 not youif you just ordered Newfoundland	d 6	back to page 19 of your evidence, and I think
7 Power and Hydro to get together and solve a	11 7	your statement was unless changing the
8 those issues in a month, given the history,	8	wholesale rate results in changes in
9 without the things, I'm not sure where that	9	Newfoundland Power's rate designs and their
10 would really go.	10	customer's behaviour, there is no good reason
11 COMMISSIONER WHALEN:	11	for imposing a demand energy rate?
12 Q. Would you agree that we've sort of been the	re 12	A. That's right.
and done that and -	13	Q. Are there any changes that the Board, separate
14 A. Well I don't think you've ever had, I mean,	14	from a demand energy rate, are therewhat
what's really been missing in this picture for	15	kinds of changes to the wholesale rate would
a long, lone time since I've been testifying	16	actually result in changes to or actually
for it, is what are the marginal costs of	17	incent Newfoundland Power to change their rate
Hydro? I mean, I really respectfully to the	18	design, short of a demand energy rate? Is
Board I think perhaps the wrong people we	re 19	there anything that's actually going to create
ordered to do the Marginal Cost Study. I	20	thatthose changes on the other end to the
mean, they could only do the part for T & D	, 21	end-user customer?
they couldn't really do the Hydro piece of it	22	A. Well, I suppose that, you know, the Board if
and I think the hope was, I know in talking	23	let's say we went down the road that Mr.
with the guys in Newfoundland Power was to	they 24	Kennedy was taking me down and we had a lot of
25 would somehow get together and Hydro w	ould 25	information about the long-run supply side,
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1 marginal cost and demand side and the Boar	rd, 1	time I don't see any real realistic things
as other Boards have done, looked at that and	d 2	that you can do. I mean, Newfoundland Power
3 said, well, we think Newfoundland Power sh	ould 3	already looks through the purchase power rate
4 be moving demand off the peak or we thin	ık 4	and tries their best to see what the long-run
5 Newfoundland Power should be encourage	ging 5	marginal costs are. They know what the
6 summer load or something like that, the Boa	-	embedded costs are, they don't necessarily
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could just order Newfoundland Power to do 7 8 those things. I believe, under most acts, I 9 haven't really looked at yours lately, but you could say this is good for the Province, it's 10 11 good for your customers, we're going to order 12 you to do it and we'll allow you to recover 13 whatever it costs to do that. And you could do that without a demand energy rate. You 14 15 could just make them do it if you thought it was a good idea. You could--I mean, certainly 16 17 if you set up a rate, like a demand energy rate with a \$7.00 charge and told Newfoundland 18 19 Power we're not going to allow you to recover the money for these fluctuations in demand, we 20 21 don't care--we'll raise your cost of capital 22 or something, whatever that--we don't care, 23 then who knows, maybe you'd incent them to do

think that the embedded costs are efficient price signals for a lot of reasons that I talked about. And so they do the best they can and I think what's really needed is to know what the marginal costs are, the long-run marginal costs. That would probably incent Newfoundland Power to have to think about what they should really do.

- Q. So the price signal to the end-user customer is still an important -
- A. Well it's the most important thing in terms of the end-user customer being Newfoundland Power's customer and that's the most important thing. The question is how do you make Newfoundland Power send the signal to them, how should you? Right now they look through the rate and they try to judge the sort of long-run marginal cost versus the embedded cost and they can only do half of that. So to

something. Whether it's a good idea or not, I

doubt, but there, you know, at this point in

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1 me, the best solution is, look, let's get on	1	and she asked you what you needed. Could you
2 MR. BROCKMAN:	2	have designed an alternative rate from the
3 with the marginal cost from the right people,	3	embedded cost that would be a demand energy
4 the ones who know it.	4	rate structure?
5 COMMISSIONER WHALEN:	5	A. I could design an infinite number of
6 Q. That's all my questions, thank you very much,	6	alternative rate designs from the Embedded
7 Mr. Bowman.	7	Cost of Service Study.
8 CHAIRMAN:	8	Q. Did you consider proposing one here in
9 Q. Thank you, Ms. Whalen. I have no questions	9	relation to the short-comings you saw in the
10 Mr. Brockman. Ms. Whalen is our panel's	10	sample rate?
resident cost of service expert.	11	A. No, because I really don't know how high I
12 (12:00 p.m.)	12	should put the demand charge. It's not what
13 MR. YOUNG:	13	the Cost of Service Study tells me, I know
14 Q. I have a few questions arising, Mr. Chair.	14	that, so how much do Ido I make it zero, do
15 CHAIRMAN:	15	I make it \$2.00, do I make it \$28.00 divided
16 Q. Questions? I'm sorry, yes, absolutely.	16	by 12? I don't know the answer to that, so I
17 MR. YOUNG:	17	didn't propose one.
18 Q. Mr. Brockman, you just mentioned to Ms. Whalen	18	Q. So in your mind, I just want to clarify this
19 and I'm trying to understand exactly what it	19	for sure, in your mind it's the Marginal Cost
20 was you said in your response, if it was in	20	Study doesn't necessarily drive a demand
21 relation to the Embedded Cost Study. But she	21	energy rate structure, but contrary to what
22 asked you, I think, if you could have designed	22	other witnesses say, you think there is a link
23 a rate because it appears you're not	23	between the two?
24 categorically opposing a demand energy rate,	24	A. There's a clear link between the efficiency of
25 it's just the structure of the sample rate,	25	a rate and marginal costs, the long-run
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marginal costs and in the short-run marginal	1	CERTIFICATE
2 costs.	2	I, Judy Moss Lauzon, hereby certify that the
3 Q. Okay, I just wanted to understand where you	3	foregoing is a true and correct transcript in the
4 dispute the other experts. Thank you.	4	matter of Newfoundland and Labrador Hydro's 2003
5 CHAIRMAN:	5	General Rate Application for approval of, among
6 Q. Other matters or Board questions? No. Once	6	other things, its rates commencing January, 2004,
7 again, thank you for your testimony, Mr.	7	heard on the 18th day of November, AD., 2003 before
l =	1	

- Brockman. This brings to a conclusion today's 8
- 9 proceedings and I guess tomorrow we have Ms.
- Tabone and Mr. Chymko, I hope I've done 10
- 11 justice to those names, scheduled from EES
- 12 Consulting. And it's my understanding as
- well, Ms. Newman, that Mr. Hearn is showing 13
- tomorrow from Labrador City, Wabush? 14
- 15 MS. NEWMAN:
- Q. Yes, that's my understanding as well. 16
- 17 CHAIRMAN:
- Q. Thank you very much and we'll see you 9:00 18

19 tomorrow morning.

- 8 the Board of Commissioners of Public Utilities,
- 9 Prince Charles Building, St. John's, Newfoundland
- 10 and Labrador and was transcribed by me to the best
- 11 of my ability by means of a sound apparatus.
- 12 Dated at St. John's, Newfoundland and Labrador
- 13 this 18th day of November, A.D., 2003
- 14 Judy Moss Lauzon