(9:06 a.m.)

CHAIRMAN:

Q. Thank you and good morning. Good morning, Mr. Hearn, good to see you join us.

HEARN, Q.C.:

Q. Thank you, Mr. Chair.

CHAIRMAN:

Q. Good morning, Ms. Newman, are there any--I assume there's some undertaking. Ms. Blundon just gave me a mitt-full here first this morning.

MS. NEWMAN:

Q. Yes. I believe counsel for Newfoundland and Labrador Hydro would like to speak to some undertakings.

CHAIRMAN:

Q. Sure. Good morning, Ms. Greene.

GREENE. Q.C.:

Q. Good morning, Mr. Chair, Commissioners. I'd like to take just a few minutes to review outstanding undertakings. All of the undertakings that have been given prior to November 12th have already been answered and I'd like now to review the list of the undertakings from November 12th, November 17th and November 18th. Looking first to the

transcript of November 12th, there is some confusion with respect to the list of undertakings that are listed on the transcript as opposed to those that were actually given. So I'm just going to run down each one and to confirm whether they have been answered or to speak to one of the papers that were circulated this morning.

The first undertaking that was listed on page 1 of the transcript of November 12th referred to an undertaking on page 21 of the transcript. That undertaking, if you look at page 21, and I don't know if we need to go to each one, but that undertaking did relate to one given to Mr. Browne to provide a transcript of the comments of the Manager of Communications at Hydro on VOCM radio on electric heat. That undertaking was responded to on that same day in the afternoon. And if you look at the transcript at page 120 to page 121 of the transcript, you will see that Hydro did provide and respond to that undertaking.

The second undertaking is listed on page 1 of the transcript of November 12th as being on page 47. It is actually on page 48 and it

was an undertaking to Mr. Kelly of Newfoundland Power to provide a reconciliation of the 2003 depreciation. So if you look there on page 48, you'll see there in lines 9 to 11 the reference to the undertaking. And you have to go back to the previous page to see what the specific undertaking was. And this is the first document that you have before you. The heading is "Reconciliation of Depreciation Expense of January to August, 2003." And this actually is U-Hydro No. 24.

The next undertaking that is listed as No. 3 on the transcript, page 1 of November 12th is a reference to one at page 61 of the transcript. And it was an undertaking to Mr. Kelly to advise as to whether there had been an analysis completed of the impact on the rural deficit of Hydro assuming responsibility for operations in Natushish. That undertaking was responded to on the same day. And if you look at pages 125 to 126 of the transcript, you will see, of November 12th, you will see the response to that undertaking.

The next one which is listed as No. 4 undertaking on page 1 of the transcript of

November 12th refers to one on page 68. And it dealt with the issue of FTE's. And it's our position that if you look at pages 69 to 70 of the transcript, the actual question was--answer to the question was provided in cross-examination so that it really was not an undertaking. It was answered shortly after that. So it's our position that that answer was provided on pages 69 to 70 of the transcript of November 12th.

The number fifth undertaking that's listed on page 1 of the transcript of November 12th refers to one on page 106 but actually shows up on page 107. So if you scroll down, you'll see on lines 19 to 21 on page 107 the undertaking. And it relates to the decommissioning costs at Davis Inlet and the loss on disposal with respect to the Davis Inlet plant and as to whether there had been any discussions with the Federal Government relating to those two items. The answer to that undertaking was provided that same day on page 122 of the transcript.

The next undertaking that's listed as No. 6 is a reference to page 143 but it's really

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GREENE, Q.C:

found on page 144 at line 23 where you--that's the beginning of the request for the undertaking, and it relates to the reconciliation of the accumulated depreciation. And that one is not ready. We hope to have it filed tomorrow.

The seventh undertaking is a referenced one at page 177 but it's really found on page 179. And it relates to an undertaking to Mr. Hutchings to illustrate the impact of the impact on the changes in fuel purchases and the opening fuel inventory balance for 2004 arising from the amount of rain that we had in October. And this was circulated and is the second document that you have before you. The heading you will see is called "Holyrood No. 6 Fuel Costs 2003, October 31 filing". What we did in response to this, which is U-Hydro No. 29, the top table reproduces what had been in the October 31st filing. The bottom table reproduces for 2003 the most recent update which includes first the actual price paid in October. And if you look down the months, you will see in the table we used A for actual.

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So in October in that second table we have included the actual price paid for fuel in October versus the forecast that had been used in the October 31 filing. And we also have included the impact of rain on the actual volume of fuel used so that the price in October was higher than had been used in the previous forecast. Consumption at Holyrood is down which will have a positive impact on the Rate Stabilization Plan of about $13 million for 2003. But there is a higher weighted average price at year end inventory as a result of the higher actual price in October than what we had used in the forecast for October when we filed for October 31. So the actual price in October was higher than the forecast price. If you turn to the second page, we did the same thing for 2004.

(9:15 a.m.)

The top table shows what the October 31st filing was for fuel purchases for No. 6 fuel used in the 2004 test year. And the bottom table has updated it for the rain that we had in October and to reflect actual fuel purchases. So you will see that while the

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weighted average purchase price for 2004 has decreased by one cent from 28.95 that was used in the October 31 filing which is shown in the top table down to 28.94, so we have a higher beginning inventory price in volume resulting in what would be higher production costs of about 553 million for 2004. So the rain that we had in October was positive in the sense that it reduced the balance in the Rate Stabilization Plan in a significant way. We do have a higher fuel cost for 2004.

The last undertaking that's referred to as No. 8 on page 1 of the transcript of November 12th refers to an undertaking on page 198 which is found on page 200 of the transcript, not page 198, at lines 9 to 11. And this was an undertaking given to Mr. Hutchings and it related to the change in the reserve between the 2002 final cost of service, what was used for that and what is for 2004. The actual reserve percentage in 2002 have been 18 and a half percent. And Mr. Hutchings asked us to provide what were the contributing factors to the reduction of that to 16 percent. So the third document that you

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have before you which begins "A percent of generation reserve capacity", which is the response to U-Hydro No. 30 which was the last one listed in the transcript as an undertaking for November 12th is a response to that undertaking.

CHAIRMAN:

Q. You can continue.

GREENE. Q.C.:

Q. There was one additional item from November 12th which was not listed as an undertaking in the transcript, but there was one that related to Mr. Roberts' evidence where he said that he would take under advisement the issue of his Schedule 8 and the issue of accrued interest, which I believe that that also can be considered to be an undertaking. And we will be filing response to that tomorrow.

Now, moving to Friday, November 14th. There was only one undertaking given--no, I'm sorry, there was actually two on November 14th. This is Mr. Greneman. And the first one was not listed as a transcript (sic.) in the transcript, but Mr. Hutchings had asked Mr. Greneman to provide a reconciliation of

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GREENE, Q.C.:
the load that is shown on Schedule 11 of Mr. Haynes' evidence to the load that is used in Mr. Greneman's Cost of Service. And you'll recall Mr. Hutchings asked us about that the next day saying it wasn't an undertaking but we said we would provide it. So the fourth document you have is that reconciliation as requested by Mr. Hutchings and it's the heading would be "Newfoundland and Labrador Hydro, 2004 Forecast Cost of Service, Island Interconnected, Coincident Peak at Generation". So that is the response to U-Hydro No. 31.

The next undertaking is one again on November 17th at page 17 of the transcript which was an undertaking to Mr. Kennedy from Mr. Greneman. I'm sorry, it actually is the transcript of Monday, November 17th, sorry. So there was only one on the 14th and there's two on the 17th. And this was the undertaking to provide the breakdown of the demand charge into the generation and transmission related costs. And the last document you have before you is a response to that undertaking and it

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also is a response to the other undertaking given to Mr. Kennedy on November 17th at page 18 there in lines 9 to 12 where Mr. Kennedy asked Mr. Greneman to confirm what the energy rate would be if there was only one block above the demand rate. So the last document responds to both of those undertakings, U-Hydro No. 32 and No. 33 are answered in that last document you have before you.

So than you, very much, Mr. Chair. That completes all of the undertakings. At this point in time there are two outstanding which we hope to have filed by tomorrow. Thank you.

CHAIRMAN:
Q. Thank you, Ms. Greene, for that fairly complete report. Thank you. Good morning, Mr. Kennedy. Would you care to introduce your witnesses, please?

MR. KENNEDY:
Q. Yes, Chair. This is Nigel Chymko, spelt with a "C", and Gail Tabone who work with EES Consulting Limited in their Calgary and Seattle offices respectively.

CHAIRMAN:
Q. I'd like to welcome you to the proceedings. I

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wonder, Ms. Tabone, if you could take the Bible in your right hand, please?

MS. GAIL TABONE (SWORN)

CHAIRMAN:
Q. Thank you. Mr. Chymko.

MR. NIGEL CHYMKO (SWORN)

CHAIRMAN:
Q. Thank you, very much. Before we begin, time wise I guess probably what we--what I'd like to do is proceed until 11, similar to yesterday, and we'll see then if a 15 minute or half hour break is warranted and take it from there. So if that's okay, we'll--because I don't quite know whether this is going to be a short day or a long day or otherwise. Is that fair enough, we go to 11 and we'll see then what's in order? When you're ready, Mr. Kennedy.

MR. KENNEDY:
Q. Thank you, Chair. Ms. Tabone, this is your first time in the jurisdiction of Newfoundland, correct?

MS. TABONE:
A. Well, the first time in a proceeding. I was out here during the mediation as well.

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MR. KENNEDY:
Q. Right. And I take it you're probably still getting used to some of the idiosyncrasies of the jurisdiction of Newfoundland as we all are. Could you tell me, though, first, who EES Consulting is and the areas of expertise in the jurisdictions that EES Consulting provides services in?

MS. TABONE:
A. Yes. We're a firm of about 30 professional consultants, we're about half economists, finance people and about half engineers. Nigel and I happen to be on the economics and finance side of the business. We have three primary areas that we consult in. The first one is cost of service and rate design, which would include regulatory intervention. The second one is resource planning, which would include things like load forecasting, feasibility studies of generation. We look at integrated resource plans, wholesale contracting, things of that nature. And the third one is mergers and acquisitions, looking at utilities, whether it's financially feasible to form a new municipal utility, for

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MS. TABONE:
example.

In terms of our clients, we work primarily for what we would call public utilities. By that I mean municipal utilities, public utility districts, cooperatives. We also work for some investor owned utilities and some industrial customers, but primarily in the public sector.

In terms of geographical base, we tend to work more on the west coast, just because of our location. We do quite a bit of work in British Columbia and Alberta, obviously, because of our Calgary office. So we've worked for both the B.C.U.C. West Kootenay Power in British Columbia, Centra Gas in British Columbia as well as some of the industrial customers from time to time. So we're very familiar with things going on in B.C. which has a lot of similarities to this jurisdiction. Alberta, Nigel could speak to in more detail, but we've done a lot of work over many, many years in Alberta. Ontario we work for, again, a lot of the municipal utilities. We've been involved in Ontario

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Hydro rate cases back many, many years before everything was broken up and spun off. We also worked for North West Territories Power Corporation in the past.

On the U.S. side we work primarily on the Pacific Northwest. A lot of our clients are customers of Bonneville Power, which is a large marketing, federal marketing agency that runs primarily hydro and transmission facilities. We also work in Alaska, California and Texas quite a bit.

And again, as Mr. Kennedy mentioned, we're very new to this jurisdiction, we're learning the technical details as we go, but I think we also bring a fresh perspective and we have a lot of experience that is maybe relevant to looking at how things are here.

MR. KENNEDY:

Q. Thank you. Mr. Chymko, EES filed a report with the Board of Commissioners of Public Utilities dated September the 19th, 2003 and filed with the Board, I believe, on September the 22nd, 2003. This is--the report was authored by yourself and Ms. Chymko?

MR. CHYMKO:

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A. It was authored by myself and Ms. Tabone.

MR. KENNEDY:

Q. Sorry. And Ms. Tabone, yes.

MR. CHYMKO:

A. Yeah, it was a joint effort.

MR. KENNEDY:

Q. Yes. And have you made any revisions or updates to that report dated September the 19th since its filing with the Board?

MR. CHYMKO:

A. Yes, we have. It was my understanding there was two pages that were to be filed with the Board and it was page 30 and 31 which addresses the issue of the impact on transmission of the generation credit. The reason it was updated, first of all, was to account for the October 31st, Hydro's re-filing, and as we were going through it we noted a correction also needed to be made to the table. At the end of the day though the changes have no impact on our recommendation as outlined in our evidence.

MR. KENNEDY:

Q. And so do you as representative of EES Consulting adopt your report of September the

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19th as revised with your November the 18th revisions?

MR. CHYMKO:

A. Yes.

MR. KENNEDY:

Q. Okay. Mr. Chymko, there was a Board order issued as a result of motions taken by some of the parties concerning some of the areas that you dealt with in your report and also there was a mediation conducted subsequent to the report. Has this had any impact on the issues to which you're prepared to speak to here today?

MR. CHYMKO:

A. Yes, it has. As a result initially our evidence contained nine recommendations. That has now been reduced to three. And those three are the GNP, Doyles-Port aux Basques and Burin Peninsula assignments, and we're saying they should use a consistent assignment methodology for the generation and transmission facilities. The second area is the Labrador Interconnected System should remain an interconnected system in the Cost of Service. And the third area is that the

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MS. TABONE:

Newfoundland Power wholesale rate should include a demand charge with ratcheted billing determinant.

MR. KENNEDY:

Q. And as you're sitting as a panel, could you tell us which of the two of you is responsible for which of those three issues?

MR. CHYMKO:

A. Ms. Tabone will lead the discussion on the GNP, etcetera, assignments and the Labrador Interconnected and I'll lead the discussion on the Newfoundland Power wholesale rate.

MR. KENNEDY:

Q. Thank you. Ms. Tabone, starting then with the issues that you have primary responsibility for, the assignment issue and the Labrador issue, could you first just provide an encapsulation, if you will, or brief statement of what the recommendation is that was the recommendation made by EES concerning the assignment of the GNP, Burin and Port aux Basques plant?

(9:30 a.m.)

MS. TABONE:

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A. Or recommendation is to treat all of these facilities consistently, which we don't think is being done by the proposal that's been put forward. We believe the GNP transmission assets should be assigned common to go along with the generation assets. In Burin that is already the case and in Doyles-Port aux Basques it's a little bit different issue. On one sense we believe it should go along with the generation facilities and should be treated common. On the other hand, Newfoundland Power is receiving a credit on the cost allocation for transmission and as such they're paying none of or they're paying a reduced amount of common share for the transmission on the Newfoundland Hydro system, so to that extent we could probably see that remaining specifically assigned facility if they continue to get the credit for transmission, if they don't, it probably should be assigned common and then they don't receive a credit.

There's been a lot of discussion on technical issues on these facilities and our focus hasn't been on the technical side, our

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focus is on the policy side. There was some reference the other day about postage stamp rates. And based on our experience and our theoretical beliefs about transmission in particular, it's very common for all transmission facilities to be rolled in, treated on a--everything is common, everything is spread out between all the customers on the system and there's one postage stamp rate for transmission. In this case it would be similar to having a common assignment for all transmission. In that way you're not singling out one particular utility, where their location is, whether they're using 100 miles or 100 kilometres of transmission versus one kilometre of transmission. Everybody is treated the same no matter what the location. And so in that sense we have looked at it both from being consistent with generation, given that you need transmission to move generation across the system as well as looking at it as a postage stamp issue and treating all facilities the same.

MR. KENNEDY:

Q. Does this policy recommendation that you're

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making have implications for the issues surrounding the Labrador rates and the interconnectedness of the system?

MS. TABONE:

A. Again, I see that as very similar in terms of an overall policy direction and how much you postage stamp or average systems out, whether it's transmission or distribution or generation, and how much you directly assign are specifically assigned facilities. There's a line somewhere where you have to have a break between what's commonly assigned, what's directly assigned. For example, distribution facilities across all of the Isolated Rural Systems on the island are all averaged together, even though you know each distribution system has a separate cost and you could have, I don't know if it would be 20 different cost of services for some of the isolated systems, because they all have their own generation, they all have their own distribution. And the policy has been to average those together. As it is, there are five different Cost of Service Studies done, five different zones, if you will, or five

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MS. TABONE:
different rate structures and that's probably not very common across the U.S. and Canada. For example, in British Columbia, very big geographical area, lots of different--five cities and towns and rural versus urban and everything there is postage stamped, everything is averaged together. So we think a trend towards more of the postage stamp idea and more common facilities is appropriate in this case.

MR. KENNEDY:
Q. Mr. Chymko, could you tell us or provide just a concise statement of what the EES recommendation is concerning the wholesale rate issue?

MR. CHYMKO:
A. Yes. In our evidence we had suggested that we could support the sample rate as presented by Stone and Webster or Hydro with two modifications. And we suggested in what we call the framework that we would need to incorporate a demand ratchet formula instead of using a weather normalization. So again, we would use one demand block but we're

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suggesting that perhaps a ratcheting system could be used in place of weather normalization.

The second part was also suggesting that perhaps a peak demand waiver may be needed, depending on how the points of delivery of Newfoundland Power were metered at the interchange with Newfoundland Hydro. So an example, if we were using non-coincident, we would suggest that perhaps a peak demand waiver may be needed. If we're now leaning towards perhaps the coincident peak, perhaps the peak demand waiver is not needed.

The second part of our modifications to the sample rate we suggest that Newfoundland Power generation credit should be, first of all, separated into generation and transmission. The generation portion we believe should still receive a credit, but not the transmission. And we also suggest that rather than have a credit through a megawatt netting system, that there should be an independent separate transparent tariff similar to what the non-utility generators see as well.

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MR. KENNEDY:
Q. Now, you have participated personally in the hearing room this week. I understand as well you've had an opportunity to review the transcripts of the testimony of Mr. Bowman and Mr. Osler on behalf of the Industrial Customers and as well on the first day of Mr. Greneman's testimony on Friday just past, is that right?

MR. CHYMKO:
A. Yes.

MR. KENNEDY:
Q. And one of the key issues, I guess, that's arisen concerning the wholesale rate issue is whether a Marginal Cost Study would be required in order to set a wholesale demand rate. Could you provide your view on that sub-issue?

MR. CHYMKO:
A. Yeah, I definitely believe that there's no need to wait to complete a Marginal Cost Study before we get started. There's enough evidence available, I believe, to make an informed decision in designing a conservative initial wholesale rate and the marginal cost

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at the end of the day, I believe, would be tweaking or building upon what is put in place initially. One thing that reading the transcripts and being present the last few days I think the evidence to date certainly has not caused us to change our recommendation. In fact, we believe the demand energy rate, wholesale rate should be, in fact, implemented in 2004.

MR. KENNEDY:
Q. Mr. Chymko, there's been reference to the fact that if you had ten consultants look at this, you'd likely to have ten proposals returned to you. Hydro, as you indicated, has recommended a sample rate, EES has proposed a variation on that sample rate that you've just detailed. Assuming the Board wishes to implement a wholesale rate, is there any advice that you can give to the Board on how it could ensure its implementation?

MR. CHYMKO:
A. I certainly agree that you would get ten opinions. I think the other thing that a number of parties would also discuss is the issue around the Integrated Resource Plan, as

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MR. CHYMKO:
to whether that is needed before the Marginal Cost Study as well. So again, that's another component that I believe needs to be considered before we finalize the complete Marginal Study. As far as assisting, I guess we believe that the sample demand rate that was set at $7 is too high for the demand component and we would be a bit more conservative in setting or establishing the initial single demand component, based on the information that we've heard today. I don't think we can afford to study this thing to death, though, and at the end of the debate whether we do it today or whether we do it two years from now, I think we still will be debating what is the correct number once we get the Marginal Cost Study.

MR. KENNEDY:
Q. Thank you, Ms. Tabone, Mr. Chymko. Chair, that's all the questions on direct. They're available for cross-examination.

CHAIRMAN:
Q. Thank you, Mr. Kennedy. Mr. Young, good morning.

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MR. YOUNG:
Q. Thank you, Chair. Good morning, Ms. Tabone, Mr. Chymko.

MS. TABONE:
A. Good morning.

MR. YOUNG:
Q. Well, in your direct you've, I think it's fair to say, narrowed down the area of our cross-examination somewhat, which is always helpful. But there are a few areas that, and one, I guess, which I didn't really anticipate which has been given rise to. I don't need to ask you any questions about whether you support the demand energy rate structure, that's fairly clear. And I think there's, as I mentioned yesterday, perhaps growing consensus on that. But I wonder if I could discuss briefly with you when you're choosing amongst these various things--and Mr. Kennedy just mentioned about the ten consultants giving ten outcomes, there's a fair bit of discussion in the last few days about Bonbright's principles. And I think perhaps you'd agree with me that, I just wanted to get your view on this, that some of these principals

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overlap, some of these are, to some degree, in conflict with each other. Do you agree with that?

MR. CHYMKO:
A. Yes, I do.

MR. YOUNG:
Q. And in the jurisdictions you've testified in before and the discussions you've had, are these the sorts of principles you've heard, I suppose, time and time again as you travel around?

MR. CHYMKO:
A. That is true.

MR. YOUNG:
Q. The other thing I think we've noticed is there's a fair--even though there is a fair bit of real engineering work and the science of economics, there's a fair bit of judgment that goes into these things based on a rate maker's experience, is that correct?

MR. CHYMKO:
A. I would agree with that as well.

MR. YOUNG:
Q. In fact, I think you've said as much in your testimony. But one area that I am interested

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in, and perhaps Mr. O'Reilly, you can go to page 25 of the pre-filed testimony? And this is at lines 8 and 11. I'm just going to read the sentence here. It says, "By the very nature of weather normalization, one is suggesting consumption for what should have been, this will involve some degree of professional judgment." I'm just wondering is this a particular area, weather normalization, that you're honing back on, in the sense that you don't wish professional judgment to be a part of it, or is there some particular element of weather normalization that brings you away from what would normally be the case in rate making, which is to say a judicious view of it with the background and some reference to the outcomes?

MR. CHYMKO:
A. No, again, at the end of the day there will be some degree of professional judgment that is required. Again, we're not familiar with the detailed models and the effort that currently goes into the process, but at the end of the day we believe that whether it's the model that's, the model itself basically will be

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MR. CHYMKO:
formula driven. But again, it's setting up that model, what is the agreement, what are the assumptions that I believe professional judgment is required.
MR. YOUNG:
Q. So if I understand that, then weather normalization per se is not something you would have knee jerk reaction against in relation to the wholesale rate, it's just that you think that--I supposed you'd like to have a look at the model that was used. Is that your evidence?
MR. CHYMKO:
A. I guess what we're saying for the wholesale rate itself we believe perhaps a ratchet system might accomplish, we believe would accomplish the price signals that are required more than normalizing the weather. Where we believe the normalize weather would still be required would be in your system planning and going forward in system planning, what's the generation, what's the transmission, what is the customer load expected in the future year in regard to revenue requirement, etcetera.

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We're just saying for billing purposes we would suggest that weather normalization is not critical.
MR. YOUNG:
Q. There's some further discussion on that page, I don't think we need to get to all the particular reference. But if I can paraphrase you generally, I think you're saying the weather is--will be what it will be and Hydro has to bill for it and that's your sense of preferring to deal with the actual demands as they come out, as opposed to a normalized demand, is that it?
MR. CHYMKO:
A. No, I think when you're generally building (phonetic) for it, you would be using normalized weather.
MR. YOUNG:
Q. Okay. I don't know to what extent you've had discussions with people here in either Hydro or Newfoundland Power or other observers. But, I've heard it said around the business that our weather and the demands that are created by it can be subject to needle peaks of very short duration. Does that change at

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all the observations you would make about ratcheting versus a normalization process?
MR. CHYMKO:
A. From a planning point of view?
MR. YOUNG:
Q. Well, I guess from a rate design point of view.
MR. CHYMKO:
A. No, I believe from a rate design point of view and with the ratchets that's what we're attempting to do is to potentially account for some of those exceptional peaks and then I think we have to again ensure that we don't consider the demand rate structure and the volatility that might come out of it independent. I think then we have to take the driver of the demand energy rate and look at the financial impact that might come through the risk that's required for the utility.
(9:46 a.m.)
MS. TABONE:
A. Can I just add one thing? When you talk about the needle peaks, that's really what you plan your system around and build for. So to the extent that you've incurred costs, the costs

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which are in the demand related costs for generation and transmission, those are driven by a needle peak so we don't see a problem with a needle peak as a billing determinant because that's what driven the cost.
MR. YOUNG:
Q. Mr. Greneman, when he was on the stand a few days ago, was referring to the whole concept of volatility going hand in hand with this form of a rate structure, demand and energy rate structure. But I think you'll probably agree with me that there has been, sometimes you have to read between the lines perhaps to see this, but I think you can gather that there's been a sensitivity to the volatility issue. The weather normalization is, I guess, very obviously intended to address that. But you just prefer to do that in another way, is that your view of it?
MR. CHYMKO:
A. Well, in fact, perhaps I could suggest that the weather normalization removal from the demand energy, I would suggest that from what I've heard in the last few days, is more of a longer term issue. I think at this point in

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MR. CHYMKO:
time if I was to put a sample rate before the Board, I would compromise, I guess, a bit to leave weather normalization in place. So again, longer term at the end of the day, we believe, that weather normalization should be taken out of the rate. But to get things going, to get things moving, until we find out where is all the gives and takes within the revenue requirement, whether it's over in the financial side and how that might be dealt with, that we could live with a sample rate today that leaves in weather normalization.

MR. YOUNG:
Q. Just on that point on page 26 if I might, Mr. O'Reilly, we've got a line in your evidence which, just down the page, it's at line 30, thereabouts, 30, 32. It says "Over the long term, ES Consultants preferred payment would be a ratchet billing demand." Is that the point you're making that weather normalization for the interim is fine, but you think this should be explored further down the road?

MR. CHYMKO:
A. That's right.

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MR. YOUNG:
Q. I see. I have a question just a little higher on that page, Mr. O'Reilly, if I might, lines 13 to 15, it's just something I'm not sure I understand, I'll just read the sentence. I think it is at line 13. Yes, it says "First of all, Hydro can only supply" and this in relation to this whole area and some of the concerns some of the parties may raise. But I'm not sure I understand this statement. It says, "First of all Hydro can only supply a finite amount of energy past the design capacity of the system for a finite length of time." When I read that, it just occurs to me, if I can paraphrase you correctly and please straighten me out if I'm reading this with the wrong interpretation, but as I read that, it seems to mean just that, you know, eventually Hydro will run out of energy and therefore there is some limit as to the amount of money Hydro can make. Is that all that's saying? That seems to be a fairly obvious leap to the -

MR. CHYMKO:
A. I guess what we were driving out there that if

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you got into one of these needle peaks, as an example and you hadn't planned for it, the needle was actually above your planning criteria, I think you would run your units harder. You might, you know, take a bit of a risk on letting a bit more water go through. You might do a voltage control to again try and stretch your system, but, from a planning point of view and then coming back to your operations and maintenance you can only do that for a period of time. You don't normally run to it but for a short period of time, whether it's an hour, a couple of hours or three hours, I'm not sure. Again, your needle peaks because we haven't seen a detailed hourly data, this system can be stretched. But it can't be kept running at that above what it was designed for, for a long period of time.

MR. YOUNG:
Q. So that there is logistics which essentially provide some outside barrier, is that your point, the logistics of running the system provide some absolute barrier to the amount of reach we can go into this demand, is that your

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point?

MR. CHYMKO:
A. I think at the end of the day if there is a peak that's way beyond what you planned for and what you built, I'm saying you can get part way there by stretching your system, but there might be the odd occasion where the demand appears that's significantly higher. But we would see that as a very, very exceptional case.

MR. YOUNG:
Q. Just a few more questions. Just a moment ago in your last couple of answers in direct testimony questions you made a comment about the sample demand rate, perhaps the $7.00 maybe too high in your judgment and that you thought it should be lower, was that your comments, am I correct?

MR. CHYMKO:
A. Yes, it is.

MR. YOUNG:
Q. What are you basing that on and before you answer the question I want you to comment as to whether or not you think the $7.00 which is $84 a year we've been discussing over the last

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MR. YOUNG:
few days, that really comes from the embedded Cost of Service Study, correct?
MR. CHYMKO:
A. That's correct.
MR. YOUNG:
Q. Do you have any disagreement with the way that number comes out of that study?
MR. CHYMKO:
A. As far as the calculation of the number?
MR. YOUNG:
Q. Yes.
MR. CHYMKO:
Q. No, we don't.
MR. YOUNG:
Q. So it's the underpinnings within the study of this -
MR. CHYMKO:
A. To be used for rate design purposes.
MR. YOUNG:
Q. So I'm just wondering, if you were going to suggest a lower number, what basis would you use and what sort of number would you be suggesting? Just give me just a general idea because a lower number could be anything down

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to zero, conceptually.
MR. CHYMKO:
A. Right. First of all, we would cap the lower number at at least the transmission component of that bundled number. So as we saw this morning, I think, or we've been talking around this morning, I think that was filed at $1.82. So that would sort of be the minimum that we would go. And I think we would look at a couple of items. One is what's the interruptible credit of $28.00 being that converts to, say $2.33 a kilowatt per month, and then to that, we would suggest that you could look at adding the transmission.
MR. YOUNG:
Q. Okay, just on that point, the interruptible credit I would suggest to you and I can assume you may be using that as a discussion point here as opposed to a firm number, but I'm just wondering if you had a sense of the basis of that being a negotiated number that may or may not have much to do with the actual costs embedded or otherwise?
MR. CHYMKO:
A. We have to accept that number and, again, it

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might be low, it might be high.
MR. YOUNG:
Q. So in the absence of a better number you're using that for discussion?
MR. CHYMKO:
A. We're using that number. There certainly is a number that's being used for other customers and we're suggesting that maybe we could lever off of that number to get to an average rate of just over $4.00.
MR. YOUNG:
Q. Is that to use a marginal price concept, to use a number such as interruptible number? I mean, if you think about where a number like that comes from. We're looking perhaps at being willing--I'm just thinking about how that number was derived in its origin. At the time we were looking forward and considering what our costs might be to provide that much capacity and then discounting from it. So I'm just wondering, is this a marginal price concept you're bringing in at this point overtly or is that just something you're thinking about as a different way of doing this?

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MR. CHYMKO:
A. I guess we're attempting to put what we'll call a framework with an example. As to how we might be able to calculate it, we thought that was one bookend in regard to using the interruptible base and, again, I agree, we didn't go down as to the history and the reasons where it came from, but there is a credit being given out there. We felt that if we added the transmission component out of the embedded cost of that, we would come out with a rounded rate of say $4.25 per kilowatt per month. And whether you round that to $4 or up to $4.50, we're saying let's get started, let's start with the conservative numbers so that we don't make it too high to start with that all of a sudden we get it up there for two years or three years, whatever, and then we have to bring it down. We would rather start with something a little smaller, a little lower, until we do see the completion of the integrated resource plan that we believe needs to be done, again, both on the demand side and on the supply side. And then incorporate that into a marginal cost study,

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MR. CHYMKO:
and then from there, hopefully, we would have the structure in place that we would just be tweaking after that.
Using--to follow-up on your question, using $4.25 as a monthly demand, just the one block, monthly demand with a 90 percent and an 85 percent ratchet attached to it, the energy that would fall out of that based on your October 31st re-filing with the data that we have available is about 4.34 cents.
MR. YOUNG:
Q. That's sort of a residual number.
MR. CHYMKO:
A. That's a residual.
MR. YOUNG:
Q. In a single rate.
MR. CHYMKO:
A. Yes.
MR. YOUNG:
Q. I think you were giving me one number, so it's on a two lock rate (phonetic).
MR. CHYMKO:
A. One demand rate with a ratchet, one energy rate.

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MR. YOUNG:
Q. Right.
MR. CHYMKO:
A. And we're suggesting at this point in time to be conservative to get, I guess, the move off of high centre type thing, we're suggesting let's incorporate weather normalization and get started.
MR. YOUNG:
Q. Now one thing arises from that approach it occurs to me is you're moving away from the embedded approach to designing rates and doing this costing study, essentially. You're going through a marginal basis and that doesn't strike me as being terribly different than the approach you took in your original pre-filed--a number of items I think we've--the Board has agreed we won't be going into. Not terribly far removed and I'll ask you to comment on this but it doesn't sound to me it's terribly far removed from your credit method, is that correct, in concept?
MR. CHYMKO:
A. I think breaking the two components, the transmission credit is embedded -

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MR. YOUNG:
Q. Right.
MR. CHYMKO:
A. And then it's the debate around how much of using the generation credit is embedded versus marginal.
MR. YOUNG:
Q. Okay.
MR. CHYMKO:
A. I guess another way we looked at it, that, again, just trying to be conservative and put something as a starting point on the table, was to take the $84.00 or take the $7.00 which came out of the embedded cost for generation and transmission and average that with the $28.00. And, again, in total we come back with a rate somewhere in the range of $4.60 or somewhere in that range. So, I guess all we're trying to do is focus in regard to we believe it's more than zero. At this time we don't believe there's enough evidence on the table that it should go right to $7.00, so we tried to look at perhaps a couple of sample rates and they seem to come in the range of $4.00 to $4.50.

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MR. YOUNG:
Q. If I could just stop you there for a second. If you say you haven't seen enough evidence, is that just another way of saying you don't accept the embedded cost numbers that follow the Cost of Service in order to come up with the $7.00?
MR. CHYMKO:
A. No, I believe the evidence that I'm talking about is what we've heard earlier is what are going to be the impacts of an integrated resource plan on a marginal cost and what I'm saying the evidence is, we don't have a marginal in front of us.
MR. YOUNG:
Q. Right. So you'd prefer to--for it to be conservative, to go towards a marginal approach as opposed to staying with the embedded approach, because the embedded approach I think, if you agree with me, that's what gives you the $7.00 figure, is that correct?
MR. CHYMKO:
A. And we believe that the $7.00 might be appropriate at the end of the day, we just

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MR. CHYMKO:
don't know that. But to be conservative and I guess to allow customers to start working with price signals, we have to ensure that we don't ratchet it up to say $7.00 and then two years from now we're bringing it back down to $4.00 or $5.00. Our preference is to slowly build it up if it needs to be built up. And I think there's two things we're trying to do here, is, you know, balance the equity issue between Newfoundland Power and Newfoundland Hydro's DISCO, the remaining customers and making sure that there's a price signal starting to be given and passed onto customers. So we're taking the approach from the point of view we believe something needs to get started in 2004.

MR. YOUNG:
Q. And the evidence, I think you would agree with me that's been presented by Hydro as to the derivation of the generation component that goes into the demand charge, is the embedded basis which is and I don't know to what degree you've considered what the Board ordered before this hearing actually commenced, said,

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but it looks to me like that's where this Board was headed and that's what this Board has indicated to the parties we'd be focused on.

(10:00 a.m.)

MR. CHYMKO:
A. And, again, we're saying, yes, the embedded Cost of Service shows a generation component of about $5.00. We're suggesting that might be a little high to get started.

MR. YOUNG:
Q. Okay, those are all my questions, thank you.

CHAIRMAN:
Q. Thank you, Mr. Young. Good morning, Mr. Browne.

BROWNE, Q.C.:
Q. Mr. Chairman, good morning. Have you had the opportunity to review Mr. Brockman's supplementary evidence?

MR. CHYMKO:
A. Yes.

BROWNE, Q.C.:
Q. Mr. O'Reilly, can we go to that evidence on page 3, lines 17 to 20. There, Mr. Brockman recommends that the marginal cost study and

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the retail rate design study be a joint effort of Hydro and Newfoundland Power and he bases this recommendation on the fact that Newfoundland Power's marginal cost will also impact retail rates and that it's the retail rates to Newfoundland Power's customers that should be evaluated. Can you see any reason why a generation and transmission utility such as Hydro, would need to involve its retail distribution company such as Power in any such joint study, within your experience?

MR. CHYMKO:
A. I think there needs to be a joint effort. It's just what we mean by joint effort. I think at the end of the day I would suggest the utility that has the main responsibility, save for, the generation and transmission, should drive the bus. Somebody has to lead and then it's a matter of how do we ensure that any information that's required can be shared through some process. And it might not be able to be shared between the two parties if there's some confidentiality involved. So there may need to be some type of third party assisting to ensure that we get to the bottom

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line.

BROWNE, Q.C.:
Q. But it is recognized that both Hydro and Power would have certain proprietary information that one may not wish to share with the other, is that a fair comment?

MR. CHYMKO:
A. Yes. And that's my concern around the joint effort. There needs to be joint cooperation and joint effort to a degree, but I don't think you could expect the two of them to sit down across the table and get into sharing confidential plans or strategies as to where their utilities are going.

BROWNE, Q.C.:
Q. So you don't envisage it as a joint study such as is in that recommendation?

MR. CHYMKO:
A. Again, depending on the true meaning of joint, I think there has to be somebody taking the lead and there may need to be some interrelationship handled by a third party depending on confidentiality.

BROWNE, Q.C.:
Q. What value would a retail distribution company

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BROWNE, Q.C.:
bring to the table with regard to a marginal cost study, in this particular instance, if Hydro is conducting a marginal cost study?
MR. CHYMKO:
A. Again, I think before you can get into the marginal cost study I believe you have to start at the integrated resource plan stage. And there's two components to that. One is handling the supply issues and again, the other portion of that is somebody to take the lead on the customer side, on the demand side. So, again, depending on the information that's gathered through that process and how it's incorporated into the marginal study, again, I believe both components will be needed.
BROWNE, Q.C.:
Q. Can we go to Mr. Brockman's pre-filed evidence on page 1. And on lines 19 to 20 he states there that "Newfoundland Power's current rate designs reasonably reflect the Island Interconnected system cost of demand and energy." And then says "The sample rate will not change Newfoundland Power's rate designs." But above that on lines 11 and 12 he says, "An

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inappropriate emphasis on demand charges in the sample rate design contributes to inefficiency in the sample rate energy charges." Now, you were here yesterday for Mr. Brockman's testimony, weren't you?
MR. CHYMKO:
A. Yes.
BROWNE, Q.C.:
Q. And as I understood from Mr. Brockman's testimony yesterday, he feels there is an inefficient marginal cost information to design an inefficient wholesale power rate, is that how you understood it, there was insufficient information to design a demand wholesale--to design a wholesale rate.
MR. CHYMKO:
A. That's what I heard, that's correct.
BROWNE, Q.C.:
Q. But yet he tells us in his evidence that Newfoundland Power's current rate designs reasonably reflect the Island Interconnected system cost of demand and energy. Well, if there's insufficient information, how can Newfoundland Power's current rate designs, at the current rate they are, reasonably reflect

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the cost of demand and energy? Have you got any comments on that? Don't they seem contradictory?
MR. CHYMKO:
A. I haven't studied Newfoundland Power's rates so I have to accept his statement that -
BROWNE, Q.C.:
Q. But in the one instance he's telling us that there is insufficient marginal cost information to design an efficient wholesale power rate, but yet he's telling us in the other instance that Newfoundland Power's current rate designs reasonably reflect cost of demand and energy. Do you see an apparent contradiction there?
MR. CHYMKO:
A. As I say, I haven't studied Newfoundland Power's rates to understand are they reflecting the embedded cost of study, embedded Cost of Service or are they reflecting some marginal cost, I haven't studied that.
BROWNE, Q.C.:
Q. Just taking you on another level, a reference to this issue, is the demand energy rate

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proposed by Hydro in Exhibit RDG-2 a typical rate form for sales of electricity to a wholesale customer such as Newfoundland Power?
MR. CHYMKO:
A. I would say what I've seen is more a single demand rate with some ratcheting and generally one energy block. So I would say no, it's not as consistent with some of the rate structures that I've seen.
BROWNE, Q.C.:
Q. Can you cite similar utilities that are subject to an energy only rate?
MR. CHYMKO:
A. I can't, other than the ones that have been discussed.
MS. TABONE:
A. And I've thought about that a little bit and in terms of a wholesale tariff, I don't think we've seen any that are energy only rates. However, we have seen some wholesale contracts that are energy only rates. And those contracts are generally, in one case we helped a client negotiate a contract where it was flat block of energy for a flat energy price. So they got, in this case I think it was 50

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MS TABONE:
megawatt block of power, 50 megawatts in every single hour. In that case they knew the load factor, it was the same all the time and they had a flat energy rate. In other cases we've gotten proposals from various utilities or marketing firms for wholesale power prices that are what they consider a melded energy rate. Again, it's an energy only rate, but that is contingent upon having a set hourly load shape. So, for example, they would request an hour load shape from the purchaser and say for this hourly load shape this is your price. And maybe it's $25.00 a megawatt hour as long as you stick to this exact load shape over the entire year. To the extent that you deviate from that load shape up or down, you're subject to market prices. So the only times we've seen an energy only rate is when it's a load factor or load shape that cannot vary. In this case, there is no fixed load factor or load shape that is relied upon in setting that rate and it's an energy only rate for a load that can vary quite a bit.

BROWNE, Q.C.:

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Q. So in your view, an energy only rate wouldn't be applicable in this jurisdiction for the reasons you just cited.

MS. TABONE:

A. That's right.

BROWNE, Q.C.:

Q. As you know, Newfoundland has a substantial portion of hydro in its generation mix, can you cite any jurisdictions with a large proportion of hydro where the retail distribution, the utility, is subject to a demand energy rate?

MS. TABONE:

A. I think in British Columbia that would be a good example. Again, there's BC Hydro that sells to, I guess it's Aquila, soon to be Fortis, on a wholesale contract basis that has both demand and energy components, as well as separate transmission rate that is demand only. Bonneville Power in our neck of the woods, again, is primarily hydro. They have a nuclear plant as well. They sell to hundreds of municipal utilities, public utility districts. They actually have a very complex wholesale tariff that has a demand rate that

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differs by every month and has both an on peak and off peak energy rate that differs by every month. So they're very sophisticated in sending the price signals to their wholesale customers. We've worked for some other utilities in Montana that buy from other sources that might have some hydro, not predominantly hydro. We've seen it quite a bit in our work.

BROWNE, Q.C.:

Q. So in British Columbia, in Aquila's instance if Fortis were to carry through and acquire that company, that company has a demand energy rate.

MS. TABONE:

A. Yes, it does.

BROWNE, Q.C.:

Q. In your view, why should a demand component be included in a wholesale rate? What would the reason for it be?

MR. CHYMKO:

A. I guess it comes back to the two issues I mentioned before. One was an equity issue between customers -

BROWNE, Q.C.:

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Q. Fairness.

MR. CHYMKO:

A. Fairness, yes. And the second would be in regard to a price signal. And, again, trying to get a price signal to the customer.

BROWNE, Q.C.:

Q. Why is it important to give the customer a price signal?

MR. CHYMKO:

A. I think at the end of the day there's two parts to the system. One is supply and planning for supply and the second is what's the customer going to take at the end of the day. And if you want to move towards better resource management, conservation, energy management, the customer has to be receiving a signal that matches the supply side.

BROWNE, Q.C.:

Q. Hydro has other customers, Newfoundland Power is not its only customer. The fact that there is no demand component in the wholesale power rate to Newfoundland Power, is that unfair to Hydro's other customers, in your view?

MR. CHYMKO:

A. Yes, that's what I believe to be the equity

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MR. CHYMKO:
issue. If I can use the terminology that Hydro is really selling to two DISCOS, one being the remaining customers other than the other DISCO, being Newfoundland Power.
BROWNE, Q.C.:
Q. In terms of the primary reason for including a demand component in the rate to reflect cost that power imposes on the system, is the primary reason to reflect cost rather than to promote demand energy, demand management or are both these reasons?
MR. CHYMKO:
A. I would say it's for both reasons.
MS. TABONE:
A. What it really is, again, looking at embedded cost, that's the equity issue and trying to look at the fairness between customers, and again, if you have a rate that is set now for one test year and then the shape changes between the two DISCOS so to speak, then there's an equity problem. But then also it's not just, you know, demand side measurements, it's trying to defer costs in the future. Whether you do that by demand side management

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or whatever, it's deferring the next generation cost which is the efficiency issue.
(10:15 a.m.)
BROWNE, Q.C.:
Q. So the fact that whether or not Hydro forecast a need for additional capacity in the near future, that is not really the issue?
MS. TABONE:
A. It's not the only issue, it is an issue to consider.
BROWNE, Q.C.:
Q. Should a demand energy rate be introduced regardless of whether or not Hydro has undertaken a marginal cost study?
MR. CHYMKO:
A. Yes, again, we believe that in 2004 strides should be taken to put in place a conservative, what we call a conservative demand energy rate, until we can get through and we would recommend an integrated resource plan process and then a marginal study.
BROWNE, Q.C.:
Q. So you see it in the steps first put in the demand energy rate and what would your second step be?

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MR. CHYMKO:
A. The first step would be put in an initial demand energy rate. We would try and be conservative. The second step would be looking at an integrated resource plan. And the third step would then be following through with a marginal study. And then the fourth step is then coming back and tweaking the demand energy rate.
BROWNE, Q.C.:
Q. And the demand energy rate, how often would it have to be tweaked, in your view?
MR. CHYMKO:
A. Well, again, it's going to depend on how often the costs are changing and where we start. And that's the concern we have. If we start at $7.00, perhaps that might be high if Hydro will not have a rate review for a period of time. Perhaps there won't be an opportunity to update and see where we are to ensure that the customers are getting the right signal. And we would hate to see the customer get a signal and then we change it just when they're going to start to take action. It's going to take sometime for customers to get on board

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and react to some of the price signals. So even though if we put a rate out tomorrow, people aren't going to react over night.
BROWNE, Q.C.:
Q. When you say customers, do you mean the ultimate end-user?
MR. CHYMKO:
A. I'm assuming the end customer, that's right.
BROWNE, Q.C.:
Q. Well, what options are available to Newfoundland Power to pass such a signal on to its customers?
MR. CHYMKO:
A. There's two groups of customers, one being their own DISCO customers, if I can use that term. And, again when it comes to the small residential, very tough to put in place a demand energy because of the cost of metering and those types of things. When we come to the larger customer such as Hydro or Power, Newfoundland Power, we would suggest that they have some opportunities to--and we don't know how they might react to a demand energy rate or the end result of their customers, but I think that would be dealt with in another

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MR. CHYMKO:
form, not this form.
MS. TABONE:
A. And I think you could do it both in rate design--you could do rate design for the non-demand metered customers, like for those having a seasonal rate or something that would be easier to implement, but you could also look at whether it was cost effective to spend money on demand management programs where the utility may itself undertake to pay for facilities or measures that would reduce customer loads. So it's not just the pricing though making the customer respond, but Newfoundland Power can do some of its own activity if it's cost effective.
BROWNE, Q.C.:
Q. So, in jurisdictions within your experience where they have a demand energy rate, are seasonal rates common?
MS. TABONE:
A. Seasonal rates are very common. Both because of seasonal differences on energy only type crisis like cost of fuel, but also to reflect the fact your peaking facilities or your

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demand related costs are incurred, you know, in the--usually the winter months and the jurisdictions we work in. Sometimes it's summer.
BROWNE, Q.C.:
Q. You mentioned Aquila before. Do they have seasonal rates, do you know?
MR. CHYMKO:
A. No, I don't know.
BROWNE, Q.C.:
Q. Is it fair to say--we've been discussing this demand energy issue here in this province. According to the evidence I think it began in 1989 and here we are 15 years later. In your opinion, is it fair to say that because this jurisdiction has only had the energy only rate, that electricity customers in this province have missed out on a potential means for reducing their bills and indeed, the overall cost of power in the province, we've lost out on opportunities here.
MR. CHYMKO:
A. Again, we haven't studied that but we would have to assume that perhaps they haven't been receiving the price signal in regard to making

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the best economic decisions. And again, we hear the growth that's coming about, for instance, in regard to electric heat.
MS. TABONE:
A. And, also, you know, in the work we've done on demand side management, demand side planning, we often see discussion of a lost opportunity when there are new homes built, new businesses put in. Once you decide on a fuel choice or the amount of weatherization in the home, the type of lighting in the commercial business, you've made the capital investment. You're not going to go whip it out a year later. It's always easier to make those changes when a new facility or a new home is being built.
BROWNE, Q.C.:
Q. So, how would those choices tie in with the introduction into the jurisdiction of demand energy rate, can you expand upon that somewhat? What is the connector here?
MS. TABONE:
A. Again, on some of the larger customers, they already have a demand energy rate so maybe they've got the right pricing though again we haven't studied that. For residential, let's

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say you took the demand energy rate on the wholesale basis and you used that to develop a seasonal rate, it may change the pricing decision as to how much it cost to put in base load electric heat versus fuel oil heat, yes, I'm not sure if people put in heat pumps out here, but you know, other sources may change the economics of that and may make a different decision.
BROWNE, Q.C.:
Q. On page 3 of lines 22 to 28 of Mr. Banfield's pre-filed evidence, can we go to that, Mr. O'Reilly, please. Okay, lines 22 to 28, he states that "An energy and demand structure be implemented once a number of important issues are resolved, including the degree of risk to be assumed by Hydro and appropriate weather normalization methodology, the treatment of Newfoundland Power generation and appropriate costing and building determinants." And can solutions, in your opinion, be found for all of these issues in time for implementation of a demand energy rate. Should we resolve these issues and then introduce a demand energy rate or in your view, can these issues that he

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BROWNE, Q.C.:
mentions here be resolved, say, if we wanted to introduce a demand energy rate by April 1 or May 1 of 2004, can the--a lot of these issues be resolved in your opinion?
MR. CHYMKO:
A. I believe that's the issues that we've got before the Board in regard to trying to do the balance between what might be the volatility as a result of the demand energy, and if there's some volatility, how might that be dealt with within the band of return or on the financial side and I just don't want to go there. But again, that is the role of the Board, is to be balancing some of these factors. And what I, you know, say in my introduction is I believe that we've got enough information that if we're conservative, we can move forward to get the process started in 2004.
BROWNE, Q.C.:
Q. So it's your view that in 2004, if this Board is willing, that a demand energy rate could be implemented in this province?
MR. CHYMKO:

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A. A demand energy rate could be implemented, yes.
BROWNE, Q.C.:
Q. In reference to the--a comparison of the energy only rate and the sample rate, Mr. Brockman in his evidence gives--using what he calls principles of good rate design, makes some conclusions about the benefits of the energy only rate, versus the sample rate or the demand energy rate. Can we just go to those, please? You'll find them on the evidence of September 2, 2003 in the summary. Okay, you have it there. Okay, I'm just going to go down through some of these bullets because I'd like your opinions on them. And Mr. Brockman says, "After reviewing the energy only rate compared to the sample rate using generally accepted principles of good rate design, I make the following conclusions. One, the energy only rate is superior to the sample rate in collecting revenue requirements for a fair return." Do you have any comments on that, is that your conclusion?
MR. CHYMKO:
A. We believe that the design of a demand energy

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rate, with some protection, through ratchets, and perhaps not moving away from the weather normalization, I'm not sure, at the end of the day, that the energy rate would be better.
BROWNE, Q.C.:
Q. He states that the second bullet there, the energy only rate, barely recovers Hydro's cost of service revenue requirement from Newfoundland Power. Is that a factor that should be considered or is that your opinion?
MR. CHYMKO:
A. No matter what rate that you have, you want to attempt to recover your revenue requirement.
BROWNE, Q.C.:
Q. So all these jurisdictions out there with demand energy rates, they are able to recover their revenue. I guess a lot of those are publicly listed companies, are they?
MR. CHYMKO:
A. Yes, again you put your--you have--you set your revenue requirement and you establish a set of rates around that and again, depending on the volatility in your jurisdiction, those--
-that type of volatility or what might fall out of the difference between the collection

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of revenue and what's required, perhaps some of that adjustment is handled. And we believe in a lot of jurisdictions, that is handled through the financial side or through the issue of Rate of Return.
BROWNE, Q.C.:
Q. So this volatility issue that's been raised by Newfoundland Power as one of the reasons that they are having difficulty with the demand energy rate, that's not unique to this jurisdiction?
MR. CHYMKO:
A. No, it's not.
BROWNE, Q.C.:
Q. And other jurisdictions and other companies learn to cope with it and to deal with it, in your opinion?
MR. CHYMKO:
A. They face similar issues.
BROWNE, Q.C.:
Q. The next bullet he's -
MR. CHYMKO:
A. If I might add, I think a lot of utilities are seeing, perhaps a bit more volatility. I think that's the utility business and with

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MR. CHYMKO:
pressures from regulators, people wanting to do things differently, I think you're starting to see more volatility for utilities on a go-forward basis.
BROWNE, Q.C.:
Q. And I guess if you look into certain areas of--into the United States, there are competitive forces there that are really not at play here, aren't there?
MR. CHYMKO:
A. Well, in Alberta, as an example, our generation market is wide open. We do not have any regulated generation at all. Transmission and distribution is regulated and we've had to work through that process of now how to get some stability back for the customer and trying to get the customer on board that, yes, we better go back and sign some contracts. We shouldn't be sitting and taking a spot price all the time. But again, that's a change in market that's happening out there.
BROWNE, Q.C.:
Q. So market force is--different market forces

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are at play there which are not particular to this jurisdiction because we're on an island and relatively sheltered from -
MR. CHYMKO:
A. And you still got integrated, fully regulated utilities.
BROWNE, Q.C.:
Q. So anywhere, I guess the volatility would be more there, than probably what is going to be experienced here, in your view?
MR. CHYMKO:
A. But there are some regulated utilities that are getting pushed, I would say to, because of market conditions, are facing more and more volatility.
BROWNE, Q.C.:
Q. The third bullet that Mr. Brockman cites is a demand energy rate, fairly apportions cost between Hydro's Industrial customers, but is not needed for Newfoundland Power since it is the only customer in its class. Is that a good reason for not implementing a demand energy rate or what are your views on that?
MR. CHYMKO:
A. We believe the demand energy rate is required

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to ensure that there is equity or fairness between the Newfoundland Power DISCO and Newfoundland Hydro DISCO, the remaining customers.
BROWNE, Q.C.:
Q. How is that unfair now, therefore, in your view?
(10:30 a.m.)
MR. CHYMKO:
A. I think it's--becomes unfair the longer that rates are not reviewed. So if there is a shift in load from--or load shape between customers in one utility versus another, you're levering--you're starting off of the cost of service, you're setting some numbers; but if you don't review that for a period of time, and one of the utilities, as a result of their customers changing shape, costs could be askewed. So again, that would be one of the issues. So again, part of it comes back to, the degree would be how often do you come back for rate review.
BROWNE, Q.C.:
Q. The next bullet he states that "The current energy only rate is superior to the sample

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rate in promoting energy efficiency. And inappropriate emphasis and demand charges and the sample rate design contributes to inefficiency in the sample rate energy charges." Is that correct in your view or do you have an opinion on that?
MR. CHYMKO:
A. I guess it's tough to talk to this point in isolation. And I've seen what reaction there would be to be putting in place a demand energy rate at the retail level. You would expect that there--the pricing signals would change. But again, we've heard that Newfoundland Power has tried to build some of that into their rates. So how they might react, I don't know. But we would expect that if you put in a demand energy rate, there would be a change in retail rates.
MS. TABONE:
A. And can I add something to that. There's been a lot of talk about the energy only rate, if you don't have a demand charge as comparable to the marginal cost of energy. But then you're left with a demand rate that's not equal to the marginal cost of demand. And

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MS. TABONE:
when you're using marginal cost, generally marginal cost is higher than embedded cost on an overall basis. And so, you have to--if you design a marginal cost rate, there's some point at which they have to be reduced to match embedded costs. So you can't have a marginal cost signal on both energy and a marginal cost signal on demand and still match embedded costs without overcharging, you know, at least in the case where marginal costs are higher than embedded costs.

So again, this idea of, you know, they want energy efficiency, you know, on the energy side, is ignoring the marginal cost of demands.

BROWNE, Q.C.:
Q. You mentioned marginal costs and given the competing objectives, I guess and rate design, is it common to reflect marginal demand costs in rate design?

MS. TABONE:
A. I mean, just as common as it is to reflect marginal costs in energy rate design, usually rates are designed on the basis of embedded

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costs. You'll sometimes use marginal cost to maybe split out demand versus energy or time of use rates between energy blocks, things like that; but you can't drive, you know, the entire rate on a marginal cost basis if you're working on embedded costs.

Of course, if you're a power marketer, your price may be fully based on your margin cost plus something because you're just going to go in and buy some power, you're going to build a new resource, you're going to pass on that cost with some profit to the next guy. You're not going to roll in all of your cheaper resources.

BROWNE, Q.C.:
Q. And the next bullet he uses, it states, "The energy only rate allows Hydro and Newfoundland Power to optimize the use of their hydraulic and thermal generation resources. The proposed sample rate would send and inappropriate pricing signal that would encourage Newfoundland Power to modify its hydraulic storage patterns to reduce cost. Newfoundland Power indicates that the storage modification would increase the likelihood of

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spillage and result in less than optimal use of generation resources." Can you give us your opinion on that?

MR. CHYMKO:
A. Again, that perhaps is a possibility, but I think, as we've heard, we're operating under the Energy Act in the province of utilization of the best resources. And perhaps what you need to do in the sample rate or in a rate example is to control the generation credit so that you do not give a generation credit if the resource is not available. So perhaps there has to be some type of notification going between the utilities and if that generation is not available for these times, they don't get the full generation credit.

BROWNE, Q.C.:
Q. Would that be common within your experience in order to control that factor? Can you cite what they do in other jurisdictions, either of you?

MR. CHYMKO:
A. There are--I know in Alberta that certainly we had economic dispatch. Initially it was controlled and there was coordination between

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the utilities, but that moved into basically one organization being responsible for economic dispatch, and going forward with the utilization of facilities, there are penalties, performance penalties to look after that. So as you move -

BROWNE, Q.C.:
Q. When you refer to penalties, can you expand upon that?

MR. CHYMKO:
A. Basically if you're saying that you have to produce a certain amount or a certain amount over a period of time, and you're not available there to do it when you're requested, not only do you not get paid, but you get to be paying a penalty as well.

BROWNE, Q.C.:
Q. What kind of penalty?

MR. CHYMKO:
A. A performance penalty.

BROWNE, Q.C.:
Q. And that would be imposed by the regulator?

MR. CHYMKO:
A. Right now we sort of moved our regulated generation into commercial light contracts, so

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MR. CHYMKO:
it would be in a commercial contract, but I would say it's very close to the old regulated world for generation.
BROWNE, Q.C.:
Q. So this factor that's cited here is something that has been addressed in other jurisdictions, basically?
MR. CHYMKO:
A. Yes.
BROWNE, Q.C.:
Q. The next bullet, "Newfoundland Power's current rate design recently reflect the Island Interconnected System of cost of demand and energy and the sample rate will not change Newfoundland Power's rate designs." Any comments on that?
MR. CHYMKO:
A. Well, it reflects--I would just say that we're not sure what Newfoundland Power might do and yes, their costs do reflect the demand and energy cost to Newfoundland Power because they are clawing back or collecting the revenue that needs to be collected.
BROWNE, Q.C.:

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Q. But the way they will react if the Board implements a demand energy charge, that's within their bailiwick?
MR. CHYMKO:
A. That's exactly, different form.
BROWNE, Q.C.:
Q. The bullet on the next page, the top of it, says, "There is no evidence to support additional cost effected demand management on Newfoundland Power's system. The available evidence indicates that demand management would have little effect on Hydro's future generation plans." Any comments on that?
MR. CHYMKO:
A. I think this is the heart of the integrated resource plan, going back, I guess we've heard in the proceedings that there has been some work done on the supply side with the Granite study in regard to maybe knowing where we might be going with the supply cost, but certainly we haven't heard that there's been anything that's been brought before this Board in regard to Demand Side Management or the demand component, so I think it has to be studied and at the end of the day, that might

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be true, but we haven't seen the evidence, so it's just a -
BROWNE, Q.C.:
Q. They say next that, "The sample rate will encourage Newfoundland Power to spend up to $84.00 per kilowatt to reduce peak demand when Hydro's provided evidence that $28.20 per kilowatt is too much to pay for peak demand reduction to Interruptible rates, any comment on that?
A. Well I guess that's where we're trying to introduce maybe we don't go to the $84.00 initially, that maybe there's some common ground in the $4.00 range. So again, you've got your $4.00 range versus the, you know, $48.00 versus the $28.00. I'm not sure what more I could add on that.
MS. TABONE:
A. Well I think the other issue is that the Interruptible B rate is being discontinued because it's not needed right now. The demand energy rate, everybody's talked about it, should be based on a long-run marginal cost and if you base it on a short-run marginal cost, you'd probably charge them only for fuel

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at Holyrood, which is effectively what the rate is doing, but that's really not giving them any benefit of the existing Hydro system, for example. So I think it really is two different things. It's short-term versus long-term.
BROWNE, Q.C.:
Q. The next one they say, I guess this is a bit repetitive, "The energy only rate creates a more stable revenue stream for both Hydro and Newfoundland Power than the sample rate. The energy only rate, therefore, avoids the cost of dealing with additional revenue volatility. There are no benefits to customers of imposing additional revenue volatility on Newfoundland Power." You've addressed the issue of volatility and other jurisdictions, in your opinion, deal with that?
MR. CHYMKO:
A. That's correct, and again, depending on the demand energy rate that's put in around protection of, perhaps leaving in the weather normalization for a period of time, the ratcheting, perhaps it won't be any more volatile than what the energy only rate is.

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BROWNE, Q.C.:
Q. And this volatility that they're referring to, I guess it would be volatility for their shareholder, but is the volatility they're referring to down to the end-user, the customer and how do customers cope within your experience, if there is such volatility?
MR. CHYMKO:
A. Well, again, I guess going through to the end-customer, we've got the RSP that adjusts and flows through to customers and there is some stability around the impact on customers. I'm not sure at times they might be getting the right price signal soon enough to be able to react or do something different, but there is some protection only from levelizing or a rate stability point of view. In other jurisdictions, I can use the example in Alberta, we opened up the market, things didn't go very well. Government put in a price cap in an unregulated market and then we ended up having a significant amount of deferral cost to be collected. We went into election, regulation was passed and said, oops, you can't collect that for a couple of

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years. But at the end of the day and I think we go well into 2004 before some 2000 and 2001 costs are collected, but basically at the end of the day, they're all collected from the customer.
BROWNE, Q.C.:
Q. And in terms of volatility in reference to the customer right into people's homes, and I guess this ties in with the next one that they say, "Both the sample rate and the energy only rate are understandable for a large customer such as Newfoundland Power. However, the energy only rate is more practical to administer because it is less complicated." From the end-user perspective, what are your comments on that in reference to other jurisdictions?
MR. CHYMKO:
A. Well I think the end-user at the end of the day really doesn't see the wholesale rate. What they're going to see at the end of the day will be the retail rates, and again, that comes down to a lot of customers metering as in place and a lot of places today for demand energy. As you move up, the bigger customer's

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understanding, how they're taking power, are managing, so I'm not sure if there's much more of a price signal or a metering impact type of billing impact that would be going to customers or different customers. I think what we're talking about here is what's the price signal that's built into those terms.
BROWNE, Q.C.:
Q. Okay, just in summary two questions, do you recommend that this Board direct Hydro to implement a demand energy rate following this particular hearing?
MR. CHYMKO:
A. We suggest that, I guess to get kick started that yes, something come out of this 2004 hearing. We would suggest it be conservative, but we believe you should move forward.
BROWNE, Q.C.:
Q. And do you recommend that the Board revisit the demand energy rate from time to time in the future and that adjustments will be required to reflect new costs and system information as it becomes available?
MR. CHYMKO:
A. Yes, I think that's mandatory going forward

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that rate reviews and changes in conditions, whether it's on the supply side or on the demand side.
BROWNE, Q.C.:
Q. Thank you, that concludes my cross-examination.
CHAIRMAN:
Q. Thank you, Mr. Browne, thank you Ms. Tabone, Mr. Chymko. Good morning, Mr. Kelly.
(10:45 a.m.)
KELLY, Q.C.:
Q. Good morning, Chair. Good morning panel. Since we're on the demand energy rate issue, let's stay with that one for the time being. We talk about the energy only rate and a demand energy rate sometimes as if they're two distinct things, but really what we're talking about here is where should there be--what level of demand charge should there be? Should it be zero at one end of the scale or some other number along the scale, is that essentially correct?
MR. CHYMKO:
A. That's right, we're breaking down, I guess the product, you're receiving two products, one is

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MR. CHYMKO:
on the demand side and one is on the energy, and yes, there will be a range, depending on what rate we are.
KELLY, Q.C.:
Q. So what we're talking about is a discontinuum as to possible options?
MR. CHYMKO:
A. Yes.
KELLY, Q.C.:
Q. Now, as I understand what you did in your compromise rate, you took the embedded cost of transmission and added to that the now discontinued Interruptible B rate, is that essentially correct?
MR. CHYMKO:
A. That was one of the options that we looked at. We also looked at just taking the total amount in the sample rate that was put before us and again the Interruptible, and we came to a number similar to that. So we sort of looked at it from two ways. We don't want to be locked in and say that, you know, this is the only way to do it, but we felt comfortable taking the transmission component from the

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embedded and then adding that.
KELLY, Q.C.:
Q. So you looked at an embedded cost for the transmission and you looked at this Interruptible rate which is now, I take it you're aware this is being discontinued by Hydro?
MR. CHYMKO:
A. Yes.
KELLY, Q.C.:
Q. So Hydro currently has valued that Interruptible value at zero, they haven't agreed to extend it?
MR. CHYMKO:
A. That's true.
KELLY, Q.C.:
Q. Did you factor that into your thinking?
MR. CHYMKO:
A. Again we considered that and again, we're thinking of where we might get to with a Marginal Cost Study and looking on a longer-term basis.
KELLY, Q.C.:
Q. Okay, now, that's kind of where I wanted to go next. You seemed--if I understand you

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correctly, you don't--you're not saying that a Marginal Cost Study is not something that should be done? In fact, what I hear you saying is that it should be done.
MR. CHYMKO:
A. We would agree with that.
KELLY, Q.C.:
Q. Could you explain why? In summary answer.
MR. CHYMKO:
A. I guess it will balance the need--first of all, we'll look at the need for supply, we'll look at the demand side and then we will be able to determine pricing signals that bring forward most efficient use of resources.
KELLY, Q.C.:
Q. So if we're going to have the most efficient use of resources, if we want our rates to establish efficiency, then we really need to do that Marginal Cost Study, would you agree with that?
MR. CHYMKO:
A. Well, I guess it's how far you go with it and how far you have to tweak it at the end of the day. We believe that there needs to be at least a resource plan done to balance that,

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and then from there into the marginal, is that very quick, is it very detailed, and again, we'll have the debate over what are the right numbers that are coming out of that.
KELLY, Q.C.:
Q. What do marginal costs tell us and maybe you could answer the question by addressing long-term marginal or incremental costs and short-term costs?
MR. CHYMKO:
A. Well I guess the long-run marginal, you're looking at the impacts of lumpy large units that you're going to be adding at one time. And what you're trying to do is also looking at technology and are there going to be some innovative things that are going to be impacting, so again, you're trying to determine over a period of time signals or costs that you want to pass those signals on to customers.
KELLY, Q.C.:
Q. And on the short-term basis, short-run marginal costs will give us the cost of the next incremental unit of either demand or energy, and usually in the short-run we're

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KELLY, Q.C.:
talking about energy, aren't we, correct?
MR. CHYMKO:
A. Right, today we're talking of variable costs, yes, okay.
KELLY, Q.C.:
Q. And in the long run we're going to look at the long-run incremental costs of adding demand or energy?
MR. CHYMKO:
A. We would look at both of them.
KELLY, Q.C.:
Q. You would need to look at both of them. And that would enable you then to set rates which, I take it you would want then translated through to the end-use consumer? Appropriately reflected to the end-use consumer?
MR. CHYMKO:
A. That's true.
KELLY, Q.C.:
Q. Right. And I take it from your answers, that you haven't looked at NP's rate design to see if there's anything that can be improved in terms of efficiency in those?

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MR. CHYMKO:
A. We haven't done a detailed review of the rates.
KELLY, Q.C.:
Q. Now, your compromised number that you came up with was $4.25 a kilowatt for demand and $4.34, if I followed you correctly then for the cost of energy, correct?
MR. CHYMKO:
A. That's true.
KELLY, Q.C.:
Q. And on the demand side, I work that out to $51.00 a year?
MR. CHYMKO:
A. Sounds reasonable.
KELLY, Q.C.:
Q. And if I understood your process correctly, that would be an amount that you would apply off of the annual peak, ordinarily, subject to how you ratchet down for a moment and leave that aside, but off the peak for the year?
MR. CHYMKO:
A. It would be a monthly calculation.
KELLY, Q.C.:
Q. Right.

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MR. CHYMKO:
A. Based on the kilowatts of billing demand for that month.
KELLY, Q.C.:
Q. Right, but in terms of where it would--we could look at this quickly at page 26, I think in your evidence and if you go down to lines 33, the demand for the month and the highest, of course, would be in the winter, but at line 34 you have 90 percent of the previous highest monthly billing demand for the past year, correct?
MR. CHYMKO:
A. Yes.
KELLY, Q.C.:
Q. So in essence, subject to the 90 percent principle, we're working off the highest peak for the year, correct?
MR. CHYMKO:
A. Yes.
KELLY, Q.C.:
Q. Okay, now on that basis, that would be worthwhile then for Newfoundland Power to spend up to $51.00 a kilowatt if we could somehow get rid of peak demand, is that

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essentially correct?
MR. CHYMKO:
A. I'm not sure it's to get rid of -
KELLY, Q.C.:
Q. To take it off peak.
MR. CHYMKO:
A. Which gets into demand side management, that's right.
KELLY, Q.C.:
Q. So it would be worth our while to spend $51.00 to take it off peak, which, for example, works out, if you could move a hundred megawatts, it would be 5.1 million dollars, a large sum of money.
MR. CHYMKO:
A. Right.
KELLY, Q.C.:
Q. And you then say, well that's where we get into demand side management. Now, moving something--moving the demand purely off peak is a pure demand issue, isn't it? In other words, we're not talking about an energy saving, just moving a peak--to reduce the peak, do you follow me?

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MR. CHYMKO:
A. It depends if you've got a customer or customers that are shifting from a peak period to another peak period and they have to warm their houses up or they have to run additional production, at the end of the day, the energy might be the same.
KELLY, Q.C.:
Q. It might be the same, all right. So what you would like to know is what's the real value of that peak demand--when we talk about energy conservation, there's also a factor here of saving energy, isn't it, in other words, we have to look at--demand side management looks at demand, but there's also a question of energy conservation which is another issue, isn't it?
MR. CHYMKO:
A. Yeah, we would call--within demand side management there's conversation and there's basically energy management.
KELLY, Q.C.;
Q. Okay, let me give you two theoretical examples and let me get you to comment on these, let's assume in example one that I have a 150

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megawatts of water heaters throughout the Province and I could put a switch on each one of them so we could turn it off at peak, and if half of them are on on a random basis or at the peak period, I could turn off 75 megawatts, follow me? So those people would still need to do the same amount of washing, take the same amount of clothes, so I'm going to take it off peak, but I'm not really going to save any energy, am I?
MR. CHYMKO:
A. You won't save at all.
KELLY, Q.C.:
Q. Right, so what I would do in that situation, though, is it would be worth, on your proposal, us to spend up to $51.00 a kilowatt to achieve that objective, correct? That would be the math.
MR CHYMKO:
A. Over the longer term.
KELLY, Q.C.:
Q. Right, now, let me give you a second example, that's example one, let's say instead of that program I came up with a program that I could wrap every water tank in the Province in some

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super insulation that would save--that would make them 50 percent more energy efficient, so I would take something off of peak there, but I wouldn't save 75 megawatts because they'd still be on in the same old time sequence, but I would somehow save a little bit on peak, but more importantly, I would save on energy, wouldn't I? Would you agree with that first of all?
MR. CHYMKO:
A. Under that scenario, yes.
KELLY, Q.C.:
Q. Right, which of those two programs are better?
MR. CHYMKO:
A. I guess it comes back to, from the longer term resource point of view and resource planning, what is going to be available at what cost to supply.
KELLY, Q.C.:
Q. Can I suggest to you that right now, we don't have the information for you to be able to tell me which of those two would be better at all?
MS. TABONE:
A. Well we do know that you're running out of

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both capacity and energy about the same time, maybe it's a year or two difference, given the uncertainties of load forecasting and changes that could happen over that time, you're going to run out of both at about the same time.
KELLY, Q.C.:
Q. I'll accept that one is 2009 and the other, I think, is 2001, but in terms of where we should spend money, on your proposal, you would give, theoretically, an incentive to spend up to $51.00 per kilowatt to achieve the first objective when maybe the second objective is better, but we don't really know, do we?
MR. CHYMKO:
A. No, and that's why we're saying we should be moving forward very quickly with what we're calling an integrated resource plan, so that when we get to 2009 or 2010, if you back that up three years of whatever it's going to take for an Application to be able to come before the Board, we're looking at 2005, 2006.
KELLY, Q.C.:
Q. So if Hydro already has system expansion plans that can be looked at, your integrated

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KELLY, Q.C.:
resource management, and we can do a Marginal Cost Study and that process can be done relatively quickly, if we assume that for the moment, then we could get to the right--a better answer than simply your compromise, couldn't we? Would you agree with that?
MR. CHYMKO:
A. Well I guess what I mentioned earlier, we might be able to tweak or fine tune on the supply side because my understanding is that material is quite recent. When we get to the demand side, we believe more study is required or from what we've heard, certainly it's going to take a year or two for the sake of a time line to be able to bring that forward.
KELLY, Q.C.:
Q. What do you think of the short-run marginal cost issue and let me just phrase the question this way: we've heard, for example, that at Holyrood the short-run marginal cost of energy, which is the marginal cost for the Island all year round, is $5.13. Should Hydro sell energy below the short-run marginal cost of producing that energy, in your view?

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MS. TABONE:
A. Well I think this goes back to the fact that sometimes your marginal cost is more than your embedded cost.
KELLY, Q.C.:
Q. Well we know that the total cost in Hydro's application would be five forty something, so the actual embedded cost translated through would be somewhat above that, but at $5.13 would you agree with me that from an economic's point of view, it's not reasonable, not efficient, not the usual practice to sell below short-run marginal cost?
MS. TABONE:
A. I think it's also hard to consider an example where you're selling energy only without some contribution to the peak, so
KELLY, Q.C.:
Q. I understand that point, but would you also agree that you should not ordinarily sell below short-run marginal cost of production?
MS. TABONE:
A. Yeah, I think over the short run, I think I would agree with that.
(11:00 a.m.)

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KELLY, Q.C.:
Q. Over the short run you would agree with that. Could you tell me on your proposal if you set the energy block at $5.13, what would be your demand number? And if you like, you can just undertake to file that and advise us or come back after the break. I understand that's not a difficult calculation.
MR. CHYMKO:
A. Right, we'll undertake to do that.
KELLY, Q.C.:
Q. Now let me just, I took you to this page that you got here, page 26, now, first of all, just let me be sure I got--Chair, it's 11:00, did you wish to break now?
CHAIRMAN:
Q. I do soon.
KELLY, Q.C.:
Q. This would be a perfectly fine place.
CHAIRMAN:
Q. Thank you. Do you have any idea, Mr. Kelly, how -
KELLY, Q.C.:
Q. I won't be too much longer, fifteen minutes, I would think, Chair, twenty at tops.

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CHAIRMAN:
Q. Mr. Hearn, do you have any notion of how long you might be?
HEARN, Q.C.:
Q. I would think approximately forty-five minutes, give or take a few.
CHAIRMAN:
Q. All right, Mr. Hutchings, Mr. Seviour?
MR. SEVIOUR:
Q. We think, Mr. Chair, I'd be about forty-five minutes.
CHAIRMAN:
Q. So we will probably be from my calculation, we should probably take a half hour break at this point in time. Thank you. We'll reconvene at 11:30.
(RECESS)
(RESUME 11:34 A.M.)
CHAIRMAN:
Q. Thank you. Are you ready to continue? When you're ready Mr. Kelly.
KELLY, Q.C.:
Q. Thank you, Chair. Panel, when we broke, I was roundly harangued by experts, other counsel and the sorted onlookers for having referred

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KELLY, Q.C.:
to the marginal cost at Holyrood as $5.13 instead of 5.13 cents, so with that correction, which I assume you got, and my apologies for the error, did you have a chance over the break to look at the undertaking question?
MR. CHYMKO:
A. Yes, we have. The monthly value per kilowatt ends up being just about a dollar.
KELLY, Q.C.:
Q. About a dollar.
MR. CHYMKO:
A. About a dollar and if I could just go on and say in regard to the examples, we believe that the minimum again that you would get to in your water heater example, you wouldn't go all the way down because we believe that a minimum demand charge would be about $2.30 again for that transmission component, because we believe that the transmission should continue to be priced on an embedded postage stamp basis. So if there's no demand or using the one dollar, we're saying the minimum should be at least $2.30 plus the dollar.

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KELLY, Q.C.:
Q. Which is based of what, your curtailable rate?
MR. CHYMKO:
A. No, the transmission component is out of the Embedded Cost of Study.
KELLY, Q.C.:
Q. Oh, I see, $1.82 plus a dollar?
MR. CHYMKO:
A. $2.30 plus a dollar, and again, that's because we believe the transmission is based on embedded postage stamp.
KELLY, Q.C.:
Q. And that's an embedded rate again?
MR. CHYMKO:
A. It is.
KELLY, Q.C.:
Q. Right, now the reason I had you go through that exercise is that doesn't this demonstrate that when we're looking at the concept of a demand energy rate, there is a lot of potential variation in terms of where one might want to set that demand rate, versus the energy rate. And we've now canvassed everything from zero to a dollar to seven dollars, have we not?

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MR. CHYMKO:
A. We've been there and I guess that was part of my comments about ten consultants and ten opinions.
KELLY, Q.C.:
Q. Right, now can I take you to what we have on the screen dealing with the mechanism that you put forward. And in the Stone & Webster Report, they had a 98 percent floor, I'll call it. What do you think of that mechanism? Because I take it you're not recommending that?
MR. CHYMKO:
A. We're not recommending the same type of structure based on energy, again, we're putting in place a floor, so to speak, of 90 percent over 12 months on the demand side or 85 percent over 24 months on the demand side. So again, we're dealing on the demand side versus energy.
KELLY, Q.C.:
Q. Would a 90 percent floor on your proposal be more volatility or less volatility for Hydro than the 98 percent in Stone & Webster, keeping in mind they're not the same two

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systems.
MR. CHYMKO:
A. Again, we're putting a sample on the record, we do not have the detailed billing records that go back over a period of time as to whether the exactly 90 percent should be 95 or 85 or whatever that first one, again, we're putting this forward as a sample to get the structure and with the limited data that we had available, that's how we came up with the sample rate.
KELLY, Q.C.:
Q. Okay, so you haven't looked at the precise volatility implications for Hydro, first of all, I take it, in terms of its revenue?
MR. CHYMKO:
A. Well, I guess using the seven dollar example, if there was a change of a hundred megawatts, we were showing a volatility of some seven hundred thousand dollars or about three percent. So I haven't done a comparison over to what the sample rate that was provided.
KELLY, Q.C.:
Q. Okay, have you looked at volatility in terms of Newfoundland Power at all?

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MR. CHYMKO:
A. Again, we haven't gone through the detailed calculation, we believe what we're putting forward as a sample or an example, and we believe that at the end of the day there needs to be a balance as to factors taken into account, is there increased volatility because, again, we have still incorporated weather normalization and that needs to be balanced with what happens on the financial side.
KELLY, Q.C.:
Q. Okay, at a high level, can I ask you this question: if we take your mechanism for a second so that we got a common mechanism, would it be true that the lower the demand cost, the charge, the closer we are to zero, the less volatility would exist both for Hydro and Newfoundland Power and the higher up we go in terms of a demand charge, the greater the volatility?
MR. CHYMKO:
A. I guess at the end of the day without going through and running some scenarios, we believe the demand with the ratchet would, in all

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likelihood, be more stable than just the energy.
KELLY, Q.C.:
Q. My question is a little bit different, whatever ratchet mechanism you use, would it be fair to say that the lower the demand charge is, the less volatility there is as opposed to a high demand number, is that not the case?
MR. CHYMKO:
A. I guess depending on which way the volatility is going. On a per unit basis, if it is demand that where the change is or the impact on the rate, yes, it will go up and down, but we haven't, I guess determined what's the significant difference between the balance of the demand component and the energy component. So again, we're talking about shifting between rate structures, but if the volumes are the same, then the rate should be set properly, there would be no volatility.
KELLY, Q.C.:
Q. Let me ask you this question, in terms of dealing with volatility issues that arise out of a demand energy rate, do you have any

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particular views as to the type of mechanism that the Board should look at if a demand energy rate was implemented?
MR. CHYMKO:
A. I guess we're saying in the short term, until we get some experience, we believe--leave the weather normalization as a component so that when we're talking the billing demand, we would be using a normalized weather. And then, the remaining volatility, if any, would be addressed through other means; namely on the financial side.
KELLY, Q.C.:
Q. That's what I'm trying to understand, what mechanism to address that volatility do you see?
MR. CHYMKO:
A. Well, first of all, I guess we have to ask the question as to the degree of volatility and then is it dollar for dollar that needs to be lined up through some other mechanism, or is there some range that accounts for the volatility already within the capital structure in the cost of capital.
KELLY, Q.C.:

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Q. So you'd have to look at those issues as well. Are you aware in this jurisdiction that Newfoundland Power has a range with a cap in effect on the range of rate of return on rate base?
MR. CHYMKO:
A. Yes.
KELLY, Q.C.:
Q. So you are aware of that?
MR. CHYMKO:
A. Yes.
KELLY, Q.C.:
Q. Okay, how does that impact on your views?
MR. CHYMKO:
A. Again, we believe that that perhaps needs to be reviewed in light of a structure that's put in place. At the end of the day, though, we don't believe that it would be significant, but again, and that would come about depending on how tight we make the ratchets, whether it's 95 percent instead of 90, as to what the drivers were. But we don't think it's a hugh number that we should be scared of.
KELLY, Q.C.:
Q. But you haven't done any analysis to look at

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KELLY, Q.C.:
that?
MR. CHYMKO:
A. No, but just knowing the mechanisms around the 90 percent and the small amount of data that we have.
(11:45 a.m.)
KELLY, Q.C.:
Q. Now, can I shift gears for a second and just talk about this assignment issue for a moment? Can we go to JRH No. 3 at page 5? You talk about the assignment and the transmission being assigned on the same basis as the generation. Would you agree that to the extent that there is more generation in a particular area, for example, if we look at Burin, the Burin Peninsula in total has 34.7 megawatts, that that is a factor which augments the need to have the transmission treated as common?
MS. TABONE:
A. I don't think it would be a factor of just the generation alone, it would be a factor of the generation and the load in that particular area that would be considered. And back to

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the idea of the postage stamp and everything being rolled in together, the amount of generation there might matter on a technical basis, but it wouldn't matter to me on the policy recommendations that I have.
KELLY, Q.C.:
Q. As to whether it contributes to the LOLH for the system?
MS. TABONE:
A. Right.
KELLY, Q.C.:
Q. But to the extent that there's more of it down there, does that not, in terms of LOLH, then mean that you should consider the transmission as common in your analysis?
MS. TABONE:
A. Not necessarily because there could be more load there and so it may never have to leave.
KELLY, Q.C.:
Q. Okay, but on that basis then, on the Great Northern Peninsula where you only have 15 megawatts, what would be your position there as to how that should be treated?
MS. TABONE:
A. Again, our recommendation in our testimony is

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that both the generation and the transmission would be treated as common.
KELLY, Q.C.:
Q. But what if those electrons never have to leave the Northern Peninsula?
MS. TABONE:
A. Well even if they don't leave the Northern Peninsula and they physically serve the customers that are there, that means those same customers will rely less upon the generation and transmission on the rest of the Island, and they're not given a--the GNP customers are not given a credit like Newfoundland Power is for the reduced amount of load because they have some of their own generation.
KELLY, Q.C.:
Q. Now, one could say, well the Great Northern Peninsula, which is virtually exclusively thermal, could be put somewhere else though, could be put somewhere on the, you know, near an industrial plant or whatever, does the fact that it is thermal impact in your view, in terms of how one treats the transmission?
MS. TABONE:

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A. No, I wouldn't say that that would have an impact at all.
KELLY, Q.C.:
Q. Why not?
MS. TABONE:
A. Our concept again is a policy concept and so, take all the transmission, it's all interconnected, there are going to be certain customers that use a little bit of transmission just because of their physical location, other people that use a lot of transmission because of their physical location and maybe because of their load shape, you know, some people are causing Holyrood to be used more because of their load shape and so should they pay for transmission all the way from Holyrood to, all the way across the Island, for example, instead of those who have a load shape or a load size that could just use the Hydro.
KELLY, Q.C.:
Q. So do you view it as purely a policy issue in which then there is no judgment in terms of line drawing between one and the other?

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MS. TABONE:
A. The way I'm looking at it is that it's all transmission and it's a policy issue to roll it all in together.
KELLY, Q.C.:
Q. Now what about, for example, where you have Hydro for example on the Burin Peninsula and Rose Blanche which is the Doyles-Port aux Basques, those units obviously have to be located where the resource is. Does that, in any sense, impact in your view?
MS. TABONE:
A. No, again the generation is interconnected, the transmission really serves to interconnect generation and to get all of the power flowing among all the different load centres, whether they're Newfoundland Power or Newfoundland Hydro load centres.
KELLY, Q.C.:
Q. So at the end of the day, none of those factors impact in how your view it because you view it solely as a policy issue?
MS. TABONE:
A. Right. The one thing I did look at again that is a little bit different between Newfoundland

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Power and the other locations is that Newfoundland Power is getting a credit for, on their load when transmission is assigned to them, so they are not assigned a full share of transmission, as are the other customers. So that might be an exception where maybe you treat transmission serving them a little bit different.
KELLY, Q.C.:
Q. In terms of transmission and the treatment of the transmission credit, are you aware, for example, that Newfoundland Power has Hydro units on the Avalon Peninsula that are operated on a regular basis if the water is available and how does that impact in your analysis?
MS. TABONE:
A. Well again, they have their--Newfoundland Power has generation that they use. I'm sure they have some of their own transmission to get that generation to their loads, and perhaps on a physical basis, that never gets onto the Hydro system. On the other hand, when you look at generation, electrons flow where they flow and so I have a hard time

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believing that Newfoundland Power, despite the location of their generation and the fact that they have some of their own transmission, that they wouldn't somehow be using the Newfoundland Hydro transmission system in some instances for that generation.
KELLY, Q.C.:
Q. Okay, I'll leave it there. Thank you, Chair. Those are my questions.
CHAIRMAN:
Q. Thank you, Mr. Kelly. Mr. Seviour?
MR. SEVIOUR:
Q. Thank you, Chair. Good morning, Ms. Tabone, Mr. Chymko. My understanding of postage stamp theory is advancing somewhat, but I'm still not quite there, Ms. Tabone. I took it from your recommendations in the report that you made a recommendation for common assignment based on two principles: consistency and the postage stamp theory, is that correct?
MS. TABONE:
A. That's correct.
MR. SEVIOUR:
Q. I got the consistency message from the report, but it was really only this morning in your

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evidence in chief, that I really was alerted to the postage stamp theory and I wonder if you could just elaborate on that a little bit?
MS. TABONE:
A. Well again, I don't--maybe the terminology is new here, but I think the theory is certainly being used. The postage stamp idea and again, I think it was clarified by somebody earlier this week or last week that postage stamp usually refers to pricing or to rates. I'm trying to broaden it as maybe a short term, short-cut language for the idea of deciding things on a common basis and averaging them out. But again, the idea behind postage stamp is that you don't differentiate things by distance, you don't differentiate things by zone, you don't differentiate things by the time the customer was billed. For example, the facilities on the GNP are relatively new, they're more costly than some of the transmission facilities that were built perhaps fifty years ago, so it looks like a big impact. But as you add new customers on the system, you average out the fact that some are new customers and costs that are higher in

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today's dollars than costs perhaps fifty years ago, so it's averaging in all of those factors, the location, the age of the system, you know, and all of those things, and treating everybody the same and saying it's an integrated system and we're going to average it out among everybody. And again, if you look at the Island Isolated System, it's a series of small systems that in most cases are not interconnected. There is no postage stamp in terms of the cost of service all rolled in together, as well as the rate setting.

MR. SEVIOUR:

Q. But what I understand the implications of your postage stamp theory to be that all interconnected transmission should be assigned common?

MS. TABONE:

A. Correct.

MR. SEVIOUR:

Q. And that's regardless of whether or not there is generation involved on a transmission line, is that correct?

MS. TABONE:

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A. Generally there's not, I can see cases where it would be transmission and there's no generation involved, I think that would be rare, you know, if there really was not generation involved and it was really one radial line to serve, for example, one Industrial customer, it could be a high voltage line, but it serves a distribution function.

MR. SEVIOUR:

Q. Of the two theories that you've raised to ground your recommendations, the consistency and the postage stamp theory, am I right in understanding your postage theory to be the principle driver, the policy consideration here?

MS. TABONE:

A. I would say that they're equal drivers.

MR. SEVIOUR:

Q. I wanted to talk about the GNP for a moment and can you confirm for me is that a radial line, the transmission on the GNP?

MS. TABONE:

A. It is a radial line.

MR. SEVIOUR:

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Q. And what makes it radial please?

MS. TABONE:

A. What makes it radial in that it's not looped back around, you know, let's say you could have another line running down the other side of the peninsula, looping it back around to the transmission facility.

MR. SEVIOUR:

Q. And can I take you to your report at page 18 please, at lines 15 to 17, I wonder if you could read that? That's your recitation of the Board's principle on transmission assignment.

MS. TABONE:

A. Right.

MR. SEVIOUR:

Q. Could you read that for the record please?

MS. TABONE:

A. "Transmission dedicated to serve one customer should be specifically assigned and costs of substantial benefit to more than one customers should be apportioned among all customers."

MR. SEVIOUR:

Q. And are you agreed that the GNP transmission serves only the Hydro Rural customers on that

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peninsula?

MS. TABONE:

A. I would agree with that, but there are several different communities served there and multiple customers. It may be one customer class, it's not one customer.

MR. SEVIOUR:

Q. One customer class. But within that principle we're dealing with, I think, as I understand the guidelines when they say "one customer" the reference is one customer class, is that not correct?

MS. TABONE:

A. I guess I can't interpret what they're meaning by that.

MR. SEVIOUR:

Q. No, okay. Well let me take you to Mr. Haynes' evidence and I'm going to just ask you to react to Hydro's recommendation in this area which you take some issue, and at page 41 of Mr. Haynes' pre-filed, he's discussing the assignment of transmission assets on the three radial systems that are discussed in your report, and I'm going to ask you to read lines 6 through 25 and I'm going to stop you in a

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MR. SEVIOUR:
couple of places just to ask you your position on a couple of propositions here. Could you commence at line 6, please?
MS. TABONE:
A. Okay, "The appropriate assignment of the transmission assets for these three areas was also addressed. Hydro proposes that factors such as historical assignment, primary purpose and quantity of generation be weighed in determining the ultimate assignment of the transmission and terminal station assets connecting a single customer and generation to the grid."
MR. SEVIOUR:
Q. Let me stop you there, the factors that Hydro relies on and proposes for determination in this area, historical assignment, primary purpose and quantity of generation, do you agree that those are appropriate factors to be weighed in determining the assignment?
MS. TABONE:
A. I think they're certainly things that can be considered. It's a factor of how much weight you give to them and also how much weight you

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give to the technical considerations that are discussed in this report from an engineer and from somebody who is on the engineering side of the system, as opposed to the policy guidelines that would come into play by somebody who's doing the cost of service and designing rates.
MR. SEVIOUR:
Q. So these are appropriate considerations, you wouldn't discount them, even though you may say there are others?
MS. TABONE:
A. They are appropriate from a technical perspective, yes.
MR. SEVIOUR:
Q. Continue at line 10 then, please?
MS. TABONE:
A. "Further, after considering the planning basis and cost of service treatment of similar assets, Hydro concluded that generation and the connecting transmission and terminal station assets can be logically assigned differently in the Cost of Service."
MR. SEVIOUR:
Q. And you take issue with that proposition, I

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take it?
MS. TABONE:
A. I do and again, that's back to the postage stamp when you start talking about specifically assigning things, where do you draw the line? Do you specifically assign every substation to just those customers who use that substation or do you average them altogether whether or not they're looped together.
MR. SEVIOUR:
Q. But your consistency principle holds that generation and transmission should be classified or assigned in the same manner.
MS. TABONE:
A. Yes.
MR. SEVIOUR:
Q. And can you agree with me that this issue of consistency was not a matter of concern or issue raised by any of the other experts that have appeared before this Board in their testimony?
MS. TABONE:
A. I haven't seen it raised in anything in particular, but I haven't viewed everything

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that may have been considered in the past, you know, in the past orders or past testimony that was submitted.
MR. SEVIOUR:
Q. No, I don't mean to play games, I haven't seen any reference or any of the other experts raise that as a concern either, I just wanted to put that to you. Continue at line 15.
MS. TABONE:
A. "An examination of the rationale for the interconnection of the previously Isolated St. Anthony, Roddickton system clearly indicated that the transmission system was constructed for the benefit of the customers on these Isolated systems."
MR. SEVIOUR:
Q. Let me stop you there, do you take issue with Hydro's position on that? Have you done any independent assessment of that proposition?
(12:00 p.m.)
MS. TABONE:
A. I haven't done any independent analysis. My understanding is that there is a decision to interconnect all of those customers. In my opinion, once you decide to interconnect all

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MS. TABONE:
of those customers, you're rolling them in with everybody else on the Island and making them part of the system, not keeping them isolated and not keeping them separate from everybody else.
MR. SEVIOUR:
Q. Yes, but the rationale that's related there, you don't disagree that the GNP transmission interconnection was done for the benefit of those customers in those Isolated systems?
MS. TABONE:
A. Yes, I would agree that it was done for their benefit. It was not done for the sole purpose of interconnecting generation.
MR. SEVIOUR:
Q. Continue at line 17, please?
MS. TABONE:
A. "Generation assets on the GNP which were originally constructed to serve the Isolated system, as a result of the interconnection now serve as reserve capacity to the Island Interconnected System."
MR. SEVIOUR:
Q. And do you agree with that characterization of

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the function of that generation on the GNP as reserve for the system?
MS. TABONE:
A. Yes, I do.
MR. SEVIOUR:
Q. Okay, continue at line 20, please?
MS. TABONE:
A. "While a benefit to all customers, these generation assets are not of sufficient magnitude in Hydro's opinion to justify assignment of the GNP transmission assets as common, given the dominant use of the transmission system in serving a single customer. As a result, Hydro recommends that the GNP transmission assets continue to be specifically assigned to Hydro overall as in P.U. 7."
MR. SEVIOUR:
Q. I wanted to come back to the discussion about the sufficient magnitude of the generation assets that's found at lines 20 and 21. I take it that you disagree with Hydro's conclusion that these generation assets on the GNP are not of sufficient magnitude to warrant transmission to be classified as common?

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MS. TABONE:
A. Again, my analysis and recommendation was not based on the size of the generation.
MR. SEVIOUR:
Q. And this comes back to the question I asked you a few moments ago, for example, if we had a scenario in which only the mini Hydro in Roddickton, which is a .4 megawatt hydro plant, tip of the Great Northern Peninsula was interconnected by that transmission, how would that impact your assessment of the classification of that transmission line?
MS. TABONE:
A. Again, not distinguishing based on the size of it, so the fact that there's generation, I would want to make it consistent with generation because the generation is of no value if there's no transmission associated with it.
MR. SEVIOUR:
Q. So in principle, any generation whatsoever on a radial transmission line will operate to engage your consistency principle and operate towards a common classification?
MS. TABONE:

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A. I think it's not only generation, but the facts in this case that is a major transmission line to interconnect many communities, it's not something that was built to serve, for example, one Industrial customer.
MR. SEVIOUR:
Q. And this is so even though, and there's been evidence before this Board that the GNP generation is unable to serve the normal GNP loads, that doesn't influence your opinion?
MS. TABONE:
A. No, it doesn't. I have a concern with the customers on the GNP and the other customers that are rolled into the Island Isolated paying for facilities that are designated to serve them, when in fact there may be other facilities on other parts of the Island that never get used to serve them. So it's a function of equity, you either have to directly assign every single line in the system or you treat it all as common and I haven't done a detailed technical analysis of, you know, if there are other transmission facilities used that never serve the GNP, but

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MS. TABONE:
I suspect there probably are some.
MR. SEVIOUR:
Q. But isn't the standard or the criteria for the assignment principle that to be common, there must be a substantial benefit to more than one customer? Isn't there analysis which is directed to what constitutes a substantial benefit so as to warrant common assignment?
MS. TABONE:
A. Well again, that may be the past direction, I'm proposing something that differs a little bit from that.
MR. SEVIOUR:
Q. So your policy approach with consistency and postage stamp theory is different from what's been utilized by this Board in the past, is that what you're saying?
MS. TABONE:
A. Well it is in the sense that you're talking about the Island Rural as being one customer and the Industrial class being one customer and Newfoundland Power being one customer. There's certainly averaging among the Rural customers and there's averaging among the

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Industrial customers.
MR. SEVIOUR:
Q. But if I understand you correctly, the substantial benefit inquiry which was utilized by Hydro in this Application and previously endorsed by the Board, was not really the focus of your analysis?
MS. TABONE:
A. That's correct.
MR. SEVIOUR:
Q. And so the issue, for example, of the fact that since interconnection, the GNP assets have been used a total of three times for system support and 117 times for local support, that would not be of relevance to your inquiry or analysis?
MS. TABONE:
A. I don't think it would be a matter of--and again, I didn't rely on that specifically, but the fact that there were three times that it was used for general purposes would mean something to me. The fact that that's less than the amount of times it was used for local benefit doesn't mean that much to me, and furthermore, the fact that it may be used to

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serve local loads frequently, it sounds like, means that they're not placing any load on the other generation assets and they're paying their full allocates share of those other generation and transmission assets.
MR. SEVIOUR:
Q. And you've had the opportunity to review the report of Messrs. Osler and Bowman, I think, the IC experts.
MS. TABONE:
A. Yes, I have.
MR. SEVIOUR:
Q. And you're aware of their position on this?
MS. TABONE:
A. I'm aware that they have a different position, yes.
MR. SEVIOUR:
Q. And I wanted to take you before leaving this area to that position at pages 32 and 33 of the InterGroup Report. And this is the text that deals with IC-399 and the analysis with the GNP generation removed from the Island Integrated System and I'm going to ask you to read starting at lines 35, bottom of page 32 on to the top of page 33.

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MS. TABONE:
A. "As an example of the issues that must be addressed, the material in IC-399 is instructive. In particular, the response indicates the Island Interconnected System, LOLH and energy balance that would arise if the GNP were not interconnected to the Island Interconnected Grid. Comparing these results to Haynes' table 8, indicates that on a net basis the GNP radial transmission line, including bulk loads and generation have an adverse impact on the Island Interconnected system--as a net adverse impact on the Island Interconnected system, but for this radial line being interconnected, the Island LOL rates would improve to 0.7 hours per year, in the test year, from 1.1 hours per year in Haynes' table 8 and the energy balance likewise would improve. Also notable the requirement for future generation additions to the Island Interconnected Grid would be delayed to 2012 from the currently forecast 2010. On balance this type of information indicates a reason of concern or the IC perspective that cost for GNP assets will be

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MS. TABONE:
assigned to the IC cost of service, even though these costs only arise as a result of a project that has a net adverse impact on the IC service quality."
MR. SEVIOUR:
Q. And do you take issue with this analysis and the impact of IC-399 as it's related in this -
MS. TABONE:
A. I have not done an independent analysis of the LOLH and what the impacts are or, you know -
MR. SEVIOUR:
Q. Accepting -
MS. TABONE:
A. - whether this is right or not, but accepting both of them -
MR. SEVIOUR:
Q. Accepting that it is correct, does this impact your analysis at all?
MS. TABONE:
A. No, I don't think it does. Again, the postage stamp theory, the treatment of everything on a similar basis would kind of kick in as you--so to speak. And similarly, again, if you were to go further to the IC approach and say that

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the generation on the GNP should be directly assigned to the customers on the GNP and all the other customers in the Island Rural System who are not on the GNP then you're basically saying that they have to pay for two generation sources, they have to pay for their own on the GNP one time and then they have a full allocation of the common generation assets that they use when they're not using the ones on the GNP. And clearly in the case of Newfoundland Power they're getting a credit, they're not paying twice for their own generation and the common generation.
MR. SEVIOUR:
Q. In terms of the common assignment issue, are cost implications to--of assignment potentials important to you? Do you believe that it's appropriate in the analysis to assess the costs of potential assignments in specific and common assignment implications of particular pieces of plant?
MS. TABONE:
A. When I do a Cost of Service Study, I try and get it as accurate and theoretically correct based on the particular circumstances for the

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entity. And if there are cost impacts or rate impacts to certain customer classes, I generally tend to deal with that as a rate design issue because quite commonly rates are not set equal to 100 percent on Cost of Service for every particular customer or customer class. And so if there are stability issues or rate shock issues or rate impacts costs are too high, I would fix that in the rate design and not in the Cost of Service side of it.
MR. SEVIOUR:
Q. But in terms of cost assignments, isn't it true that assignments must be fair and equitable, isn't that a fundamental principle?
MS. TABONE:
A. I believe that is.
MR. SEVIOUR:
Q. And there has to be some measure of judgment as to cost benefits in that analysis, would you agree?
MS. TABONE:
A. Again, equitable from a Cost of Service standpoint generally means that those who

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cause the cost pay for it. And taken to the extreme you would have every single customer, not just a customer class, every single customer would have a specific cost assigned to them based on where they're located and when they came on the system, they would each have a different class. That would be the most equitable way to do it. But in reality, you can't. You can't always do that from a technical perspective because there are joint facilities and also from a policy perspective. You have to draw the line. You can't have every single customer have a unique rate that's based on their cost along.
MR. SEVIOUR:
Q. But in assignment analysis and recommendations, development of recommendations, would you agree with me that it would be helpful to be aware of cost implications of particular assignments?
MS. TABONE:
A. I don't think I would agree in looking at what facilities should be directly assigned. I wouldn't look at the cost implications of that.

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MR. SEVIOUR:
Q. Okay. And in this particular case I think that, yes, you made no particular cost analysis in relation to the cost implications for common assignment of the transmission lines that you recommend in your report?
MS. TABONE:
A. Yeah, at the time we submitted our testimony we didn't have enough information to do that or couldn't locate it readily enough to do that. I have heard in the testimony, either reading through transcripts or when I was here, I can't recall, that the cost impact is 1.5 million to the Industrial Customers out of a total revenue requirement of about 50 million.
MR. SEVIOUR:
Q. And perhaps we can pull up U-Hydro No. 14, Mr. O'Reilly. And this was the undertaking filed last Friday, for the benefit of the Board members. And I understand that this is an update from that earlier figure to which you refer, the 1.5 million. And these are the cost allocation implications of common assignment of the GNP transmission to common,

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both for Newfoundland Power and Island Industrial. I don't know if you've had opportunity to review this undertaking previously, Ms. Tabone?
MS. TABONE:
A. Not that I recall.
MR. SEVIOUR:
Q. As I understand it, the tables reflect that the current General Rate Application implications reflect that the customer cost increase to Newfoundland Power is 580,000 and to the Island Industrial is $1,109,000 on account of that common assignment of the GNP transmission. But you were weren't aware of that at the time that you developed your report, I understand?
MS. TABONE:
A. Correct.
MR. SEVIOUR:
Q. And you were similarly unaware of the cost implications of the generation assignment, the GNP generation assignment to common?
MS. TABONE:
A. I believe that had been filed somewhere because that was a recommendation of Hydro

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that the--so I believe that was either filed in the RFI or -
MR. SEVIOUR:
Q. Perhaps you can pull up IC-233, Mr. O'Reilly, and I'll put that to you. This indicates, as I understand it, that the implications of cost assignment of common of the GNP generation is $11,830 annually to Newfoundland Power and one hundred and ninety-one thousand, three hundred and--of a hundred and thirty-six dollars to the Industrial Customers. Does that--is that the material that you were thinking of?
MS. TABONE:
A. Yeah, that's the range I was recalling.
MR. SEVIOUR:
Q. But in your view of the exercise in making recommendations to this Board as to how to properly assign costs, whether specifically or to common, you do not believe that it's necessary or appropriate to know the cost implications of such assignment exercises?
MS. TABONE:
A. Not for the purposes of the Cost of Service, no.
MR. SEVIOUR:

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Q. I want to take you to Exhibit JRH-3, page 24. And we've had a bit of evidence on the Hydro Rural sub-transmission definition that appears. And just to put this in context, these are the guidelines that are utilized by Hydro on the current GRA, including the assignment of plant issues. And Hydro Rural sub-transmission is defined as "All transmission of terminal station plant serving only Hydro Rural rate classes." Are you aware of that as a plant assignment guideline, Ms. Tabone?
(12:17 p.m.)
MS. TABONE:
A. I'm aware of that through this report, yes.
MR. SEVIOUR:
Q. And based on your experience, is that an accepted assignment principle or guideline?
MS. TABONE:
A. Again, I think that would be inconsistent with my theory on postage stamp pricing and not assigning things, but certainly that's a definition you could use.
MR. SEVIOUR:
Q. Well, in your experience, is it an accepted

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MR. SEVIOUR:
guideline for plant assignment?
MS. TABONE:
A. It may be accepted. I would say it's not common.
MR. SEVIOUR:
Q. And it conflicts with your view of the world?
MS. TABONE:
A. Yes, yes, it does.
MR. SEVIOUR:
Q. And my purpose in bringing it to this guideline is that Mr. Haynes, in his evidence, stated that this was another basis for specifically assigning the GNP transmission to Hydro Rural customers. And I take it you would disagree with him on that?
MS. TABONE:
A. Yes, I would.
MR. SEVIOUR:
Q. Just on your consistency principle, Ms. Tabone, if it does apply and the Board decides to assign GNP transmission to Hydro Rural, would that in your opinion mean that the Board should also assign the GNP generation to Hydro Rural?

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MS. TABONE:
A. I think that would fall out from my theory, but at the same time to be consistent with the treatment of Newfoundland Power, then I believe that that amount of generation and transmission should be deducted from the allocation of common generation and transmission. They shouldn't pay for it twice, in other words.
MR. SEVIOUR:
Q. And just before leaving our discussion about these guideline principles, I'd like to take you briefly to your report, page 19. And my interest really is in lines 15 and 16 of that page where again you're talking about specific assignment. And your proposition there after discussing some of the issues associated with the radial line assignments it said, "Because of this utilities that direct", direct, I assume that's supposed to mean directly, "assign facilities must have irrefutable evidence of the independence of the facilities directly assigned." And my interest here is in the use of your language, "irrefutable evidence". And it's not language I see in any

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of the guidelines that is in the evidence elsewhere in this hearing or in the recitation from the Bonbright principles. And I just wanted to give you a chance to react to that.
MS. TABONE:
A. Well, again, we do Cost of Service frequently and there are limited cases where we do directly assign facilities, and it's done only when there are very clear reasons for doing it. For example, we've worked for an industrial customer that I know of that wanted added reliability on their plant and they paid for, I can't remember if it was up front or through their rate, but there is a second feeder that serves that plant and they get added reliability to it. It's clearly used just for them and that cost would be directly assigned in that case, and in that case they would pay a full allocation of all the other costs as well because they want something separate. In other cases you may have an industrial customer that is served off of one specific substation that's designed just to serve them and they're directly assigned that cost of that substation. In that case they

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would not pay a share of all the other substations on the system.
MR. SEVIOUR:
Q. And that's helpful, but my interest in this discussion is at the level of principle. And I'm putting to you that this standard or almost a rebuttable presumption that you've got to have irrefutable evidence before there's an appropriate case for specific assignment is not found in the discussion of the other experts of the appropriate assignment guidelines?
MS. TABONE:
A. Well, I think if you think of the terms of where there's benefit to more than one customer, that brings up the question as to whether, you know, whether it's a little bit of benefit or a lot of benefit, you can't break out on how much, you know, is for the benefit of one customer versus the other and that's why you treat it as common, because it's not irrefutable that only one customer benefits or you know exactly who benefits, you know, by what proportion. And so to that extent I think having evidence that it's only

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MS. TABONE:
one customer, and in my mind that means one customer, not one customer class, raises the question, you know, the evidence, and if it's irrefutable or not.
MR. SEVIOUR:
Q. So the presumption is common in all cases unless you've got an irrebuttable case to the contrary?
MS. TABONE:
A. Correct.
MR. SEVIOUR:
Q. Okay. One of the other radial lines discussed in your evidence was Doyles-Port aux Basques. And I don't plan to spend much time on that. Leaving aside the issue of the Newfoundland Power generation credit with which the IC's take issue and I think that you say if the Newfoundland Power generation credit remains then that should be specifically assigned to Newfoundland Power but otherwise it should be common assignment?
MS. TABONE:
A. That's correct.
MR. SEVIOUR:

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Q. And I'm into the latter scenario, in other words, assume that the Newfoundland Power generation credit does not remain, Ms. Tabone. In that scenario I would suggest to you that the issues pertaining to that radial line are substantially the same as those that apply to the GNP. Would you agree?
MS. TABONE:
A. I have not looked at the technical side of those two side by side. Again, if it's really only benefitting Newfoundland Power, perhaps it was a transmission line they should have built and they should pay for it. If it's benefitting them plus some other customers, then it would be common.
MR. SEVIOUR:
Q. Yeah. Well, accept for the purposes of this discussion that it is serving only Newfoundland Power customers.
MS. TABONE:
A. You're saying it's only serving Newfoundland Power customers and they're getting no credits?
MR. SEVIOUR:
Q. And they're getting no credits. And does that

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make it similar to the GNP situation?
MS. TABONE:
A. Yes, that would make it similar to GNP then.
MR. SEVIOUR:
Q. And would you agree that if the Board decided to make a specific assignment of the GNP transmission to Hydro Rural, then it should specifically assign the Doyles-Port aux Basques transmission to Newfoundland Power?
MS. TABONE:
A. Yes, I do agree that they should both be treated the same way.
MR. SEVIOUR:
Q. Thank you. I wanted to finish this discussion of assignment in the area of the Burin Peninsula. Maybe we could pull up JRH-3, page 6, the map, please, Mr. O'Reilly? Scroll down somewhat. Do you know where you are, Ms. Tabone, now that you've been here for a few days?
MS. TABONE:
A. It's the boot I keep referring--hearing people talk about?
MR. SEVIOUR:
Q. It's our own little Italy, yes. I think we've

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heard a fair amount and now understand that TL-212 is the older line which interconnects the hydro plant at Paradise River to the grid and TL-219 is the more expensive and more contentious transmission line which runs down to interconnect with the Newfoundland Power transmission generating facilities at the boot of the peninsula. Is that consistent with your understanding?
MS. TABONE:
A. Yes, it is.
MR. SEVIOUR:
Q. And in this scenario which identifies the Hydro assets, it's clear that the two transmission lines are not, in fact, physically interconnected by Hydro assets, are they?
MS. TABONE:
A. I haven't studies that in particular. It doesn't appear to be.
MR. SEVIOUR:
Q. Doesn't appear to be. And I don't think there was any issue on the point. We've had evidence before this Board that the load split on the Burin is 99.5 percent Newfoundland

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MR. SEVIOUR:
Power and .5 percent Hydro Rural. Are you aware of that?
MS. TABONE:
A. Generally, yes.
MR. SEVIOUR:
Q. Yeah. And that there are no Industrial Customers on that peninsula?
MS. TABONE:
A. Correct.
MR. SEVIOUR:
Q. Are you aware of that?
MS. TABONE:
A. Correct.
MR. SEVIOUR:
Q. Are you aware that the Hydro Rural customers, the .5 percent of the load are physically serviced from transmission line 212?
MS. TABONE:
A. I'm not aware of that.
MR. SEVIOUR:
Q. Well, can you accept that? I think that that is -
MS. TABONE:
A. I can accept that.

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MR. SEVIOUR:
Q. That is the evidence as I understand it from Mr. Haynes on the point. And are you aware that the Burin generation, 34.7 megawatts cannot service the Burin peak load of 58.7 megawatts?
MS. TABONE:
A. That clearly wouldn't be sufficient to cover the entire load.
MR. SEVIOUR:
Q. Pardon me?
MS. TABONE:
A. If you're saying it's not sufficient in size to cover the load?
MR. SEVIOUR:
Q. That's my understanding. I think that there's an IC on this, IC-339 which grounds the figures I've just put to you. But are you aware of that or were you aware of that in making your recommendations?
MS. TABONE:
A. Again, the technical details of this were not a major consideration. I was looking at the policies, so I may not be well versed on all the technical details.

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MR. SEVIOUR:
Q. But this is back to the issue you raised with Mr. Kelly about electrons leaving the transmission lines?
MS. TABONE:
A. Um-hm.
MR. SEVIOUR:
Q. In other words, at peak load the generation which is assigned common on the Burin Peninsula is insufficient to service the local loads. Is that a fair conclusion?
MS. TABONE:
A. I'll accept that.
MR. SEVIOUR:
Q. Okay. Now, I wanted to take you, having gone through the map, to page 24 of JRH-3. And this again is back into the guidelines utilized by Hydro in their assignment exercise. And what we have here is the NPIC sub-transmission. It's defined as transmission and termination station plant which serves both Newfoundland Power and an Industrial Customer but not Hydro Rural and has an original cost of at least two percent of the total transmission and terminal

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stations costs. Are you aware of that as a guideline for assignment of plant.
MS. TABONE:
A. In terms of this particular study, yes, I've seen the definition and I'm aware of it.
MR. SEVIOUR:
Q. Okay.
MS. TABONE:
A. It's not a common definition.
(12:30 p.m.)
MR. SEVIOUR:
Q. And I'm not sure if you were here for the evidence, but are you aware of Mr. Greneman's evidence that he agreed that a similar assignment principle could operate with respect to Newfoundland Power, Hydro Rural?
MS. TABONE:
A. I was here for that, I heard that discussion, yes.
MR. SEVIOUR:
Q. You heard that evidence?
MS. TABONE:
A. Um-hm.
MR. SEVIOUR:
Q. And do you agree with him on that point?

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MS. TABONE:
A. Again, if you go the direct assignment route, there could be a precedent for splitting those two lines and assigning them differently.
MR. SEVIOUR:
Q. And that was the position of the IC experts, as well. You may be aware of that. And I think you were here also for Mr. Brockman, who testified yesterday, and I think briefly talked about the issue of the Burin Peninsula and suggested that this might be an area where it might be appropriate to make a compromise such that one transmission line was assigned to common and one was assigned specific. Do you recollect that evidence?
MS. TABONE:
A. Yes, I do.
MR. SEVIOUR:
Q. And do you agree or disagree with his view as expressed on that subject?
MS. TABONE:
A. Well, clearly from a technical standpoint you could break out as many lines as you want and assign them however you want. Again, it's our recommendation that there is consistency as

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well as that everything is looked at on a postage stamp basis, so it's not a recommendation I would make.
MR. SEVIOUR:
Q. So back to the postage stamp, that would really trump any of these other recommendations that have come forward, in your view, is that correct?
MS. TABONE:
A. Yes, it would.
MR. SEVIOUR:
Q. Final point on this area, I just want to suggest to you that--if we can jump back to page 6 of that exhibit, please, the map? And this is a hypothetical I put to Mr. Haynes. I suggested to him and I'm suggesting to you, Mr. Tabone, that if you take away transmission line 212, then you're left with the transmission line 219 with the Newfoundland Power generation at the end of the boot of the peninsula. And I suggest that in that hypothetical scenario you're left with a situation which is very similar to the Newfoundland--to the GNP situation, that is, transmission at the end of a long radial line

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which is insufficient to service local loads at peak. Sorry. Generation that's insufficient to service local loads at peak. Do you agree with that analogy?
MS. TABONE:
A. On a very high level, yes. I haven't examined the details to see how see how similar they would be.
MR. SEVIOUR:
Q. Okay. I'd provided to the clerk an extract from some of the legislation which I was hoping to briefly refer to.
MS. NEWMAN:
Q. This would be Information No. 20.
MR. SEVIOUR:
Q. Thank you, Ms. Blundon. I've had Ms. Blundon provide to you an extract from the Electrical Power Control Act. And are you familiar with this legislation?
MS. TABONE:
A. I'm generally familiar with the concept that the Industrials do not pay the rural subsidization.
MR. SEVIOUR:
Q. Okay. Well, that is the point of me putting

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this to you. It's the policy of government as expressed in 3(a)(4) that the rates to be charged to supply power to the province should be such that after December 31, 1999 Industrial Customers shall not be required to subsidize the cost of power provided to rural customers in the province. And were you aware of that policy and legislative directive in making your report?
MS. TABONE:
A. I was generally aware of that. But I don't see how postage stamp transmission pricing, which is common throughout all of North America, would be considered a subsidy of Industrial Customers.
MR. SEVIOUR:
Q. I wanted to finish with a couple of points on your report. With respect to the Newfoundland Power generation credit, I took it generally that EES has a problem with generation credit as it's currently implemented?
MS. TABONE:
A. We don't have a problem with the generation credit. We have a problem applying that same credit to transmission.

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MR. SEVIOUR:
Q. And I think I understand the transmission point which comes forward from your report. But as I took--I took the burden of what you were saying about the Newfoundland Power generation credit and the way in which you propose that it be administered to be essentially that it's wrong in principle to credit total capacity as opposed to actual output. Is that correct? And maybe I can focus this by taking you to page 31 of your report, which is my interest in this area. And at the bottom of the page we have in the discussion of Newfoundland Power generation credit and your particular recommendations, the bullet reads, "Crediting total capacity, not actual output, inappropriately dulls long-term incentives." And perhaps you could just simply elaborate on that proposition, what the concern is?
MR. CHYMKO:
A. Again, the gist of our point here was in regard to the transmission. And what we're suggesting is the transmission needs to be removed from the generation credit but the

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generation itself, and we keep hearing a number, I believe it's 124.8 megawatts or 125 megawatts, we believe if that's the common number being used, that should continue to be credited to Newfoundland Power. However, we go on and say that perhaps instead of doing it as a reduction through megawatts, we would like to see it as a transparent separate tariff similar to what the non-utility generation proceeds.
MR. SEVIOUR:
Q. And the transparent, transparency principle that you suggest, is that directed to the actual generation of Newfoundland Power?
MR. CHYMKO:
A. It's the generation that's available, so--that's deemed to be available. So I'm not sure what you mean by "actual". If it's actual when it comes on and if it's called upon?
MR. SEVIOUR:
Q. I have one point on page 3 of your report which was just a simple clarification that confused me. Lines 20 and 21 your report says, "While the generation credit is

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necessary to ensure that Hydro does not over allocate generation costs," " over collect", I'm sorry, "generation costs". My confusion here really related to my understanding that Hydro will get its revenue requirement regardless of whether or not Newfoundland Power receives the generation credit, is that correct?
MR. CHYMKO:
A. Yes.
MR. SEVIOUR:
Q. And I think if you look at the table, Table 11 below, that simply demonstrates that whether or not Hydro--whether or not Newfoundland Power gets its generation credit, it just impacts the percentages of allocation in the Cost of Service Study. Is that -
MR. CHYMKO:
A. That's true.
MR. SEVIOUR:
Q. Okay.
MS. TABONE:
A. I think to clarify, it would be over collection from, you know, particular classes as oppose to over collection from as a whole.

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MR. SEVIOUR:
Q. Okay. The final point I wanted to ask you about was integrated resource planning. You talk briefly about this. And is that the type of a thing that you would recommend before a substantial new plant was approved by a board such as this?
MR. CHYMKO:
A. Yes.
MR. SEVIOUR:
Q. And it would typically be, in your experience, a matter of regulatory review on approval?
MR. CHYMKO:
A. Yes.
MR. SEVIOUR:
Q. And in analysis of that kind of approval, would it typically consider the full range of demand and energy issues that would relate to additional capacity and DSM and energy conservation, things of that nature?
MR. CHYMKO:
A. Yes. You have to look at the full gamut right from all the supply options to all the customer impacts and opportunities that customers might have at a reasonable cost.

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MR. SEVIOUR:
Q. And those issues and options would include things such as the interruptible B option, that kind of a thing?
MR. CHYMKO:
A. Yes.
MR. SEVIOUR:
Q. And typically would you want to have an integrated resource planning type of analysis done before, in fact, you made a decision to terminate an existing program, curtailable program such as the interruptible B?
MR. CHYMKO:
A. Yes. We believe it is important, in particular, to ensure that the price signals aren't--were on the table, taken off the table, back on the table after a particular study. So again, yes, we're saying that's why a resource plan should come very quickly after, hopefully, we go forward with the 2004 demand energy rate.
MR. SEVIOUR:
Q. Thank you, Panel, and thank you, Mr. Chair. Those are my questions.
CHAIRMAN:

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Q. Thank you, Mr. Seviour. Good afternoon, Mr. Hearn. When you're ready, please?
HEARN, Q.C.:
Q. Good afternoon, Mr. Chair. Ms. Tabone, I believe in your report at pages 16 and 17 you discuss the Labrador, so-called Labrador Interconnected System. Would that be correct?
MS. TABONE:
A. That's correct.
HEARN, Q.C.:
Q. I wonder if we might just review that system and just look at it and all its components. Are you aware of the history of the development of the various aspects of that so-called Labrador Interconnected System?
MS. TABONE:
A. I'm aware based on what I've read in various testimony and the Application. I'm sure there are a lot of details that I'm not aware of.
HEARN, Q.C.:
Q. Let's start by discussing the distribution component in Labrador West. Are you aware who built the distribution facilities for the electrical system that presently serves Labrador West?

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MS. TABONE:
A. If I recall it, it was at least partially built or there were financial payments made by the local industrial firm?
HEARN, Q.C.:
Q. When you say -
MS. TABONE:
A. I'm not sure if I--frankly, I don't know the technical details that well and -
HEARN, Q.C.:
Q. Well, let me suggest to you, and I'm sure my friends will correct me if I'm wrong, but I don't think this is incorrect. Let me suggest to you that the distribution system in Labrador West was entirely built by the mining companies at their cost with no contribution from Hydro. Were you -
MS. TABONE:
A. I would accept that, yes.
GREENE. Q.C.:
Q. Mr. Hearn, you're talking about originally, I -
HEARN, Q.C.:
Q. Yes. And I will come to that clarification, Ms. Greene, as I knew you would ensure I do.

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I would also suggest that subsequent to Hydro taking ownership of the distribution facilities that Hydro has contributed towards some, but not all of the cost distribution facilities. Would that be fair to say, Ms. Greene, I haven't misstated myself, have I? You received a contribution from the mining companies or Hydro has received a contribution from the mining companies towards the upgrading even after they've taken ownership is my point.
GREENE. Q.C.:
Q. That's correct. There was--I feel like I'm giving evidence. The distribution system was substandard when it was acquired by Hydro. There was an agreement that each of the mining companies would pay to bring it to a certain level. There are no ongoing commitments, though, however, with respect to the distribution system. It was to bring each distribution system, one in Lab West--one in Labrador City and one in Wabush mines up to a certain standard that was acceptable at the time of the takeover.

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MS. TABONE:
A. And that would be my understanding. And again, an important point there is that going forward that the utility will be paying for new capital improvements that are needed.
HEARN, Q.C.:
Q. Yes, I understand that and I don't think there's any issue with that by the consumers in Labrador West that they should pay for the costs, for those ongoing costs. Just my point is to just to bring out the history of the distribution facilities in Labrador West themselves, that they were--would you agree, subject to any clarification of my learned friends, that they were not originally constructed by Hydro nor paid for by Hydro?
MS. TABONE:
A. I would agree. And there are probably a lot more technical details that you want to walk me through, but I don't think that they have any impact on my overall recommendations.
HEARN, Q.C.:
Q. Well, I don't think I'll walk you through anything contentious, but let's make certain that we understand our basic facts and see if

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we have a common understanding on that. So we have a system that was originally built at some considerable capital costs by private interests and subsequently, in effect, given to Hydro?
MS. TABONE:
A. Correct.
HEARN, Q.C.:
Q. And would you also agree that there was a contribution towards upgrading that system, again received in the form of a subsidy from the local mining interests to Hydro?
MS. TABONE:
A. That would be correct.
HEARN, Q.C.:
Q. Did you ever consider as part of your report why the mining companies had passed over the system at no cost to Hydro and contributed towards the upgrading?
MS. TABONE:
A. I don't think I could begin to try and predict what was in their minds when they did that.
HEARN, Q.C.:
Q. Well, they intend to present before this Board and, in fact, they would have had negotiations

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with Hydro at the time that these things occurred. So is it a consideration that even entered your mind?
MS. TABONE:
A. I don't think so, because I think there are probably facilities all over the island and all over Labrador that had different historical basis, how they got built, when they got built, what the costs were that are averaged in and I don't particularly see this as any different. And if there was a quid pro quo, so to say, for why they gave that over, it seems to me there would be some contractual relationship if there was something to be required on the behalf of Hydro.
HEARN, Q.C.:
Q. Would it be relevant to your analysis if the mining companies that paid and--paid for the capital costs of this system originally and contributed to the upgrade that they turned it over at no cost with the intention that local rates would be kept moderate based on the local Cost of Service?
MS. TABONE:
A. Well, I see utilities all over the country and

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in Canada that have developer contributions to put in facilities that may not have been required by customers 50 years ago that are required now. It keeps the overall costs lower for everybody, but it doesn't mean that their particular residential housing development gets a lower rate than another one where capital was not contributed.
HEARN, Q.C.:
Q. Well, if the situation in Labrador were that the mining companies had a special interest in keeping their rates low so that they could attract and keep a talented workforce in an isolated area and they made contributions, both capital and towards maintenance, to ensure that, is that not a relevant consideration?
GREENE. Q.C.:
Q. I would point out there's no evidence before the Board with respect to this issue. And perhaps if Mr. Hearn is going to rely on evidence that's not before the Board, it would be appropriate for him to submit that.
HEARN, Q.C.:
Q. Well, I won't be presenting the evidence, Mr.

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HEARN, Q.C.:
Chairman. And certainly I'm asking if these are relevant considerations. As things have evolved I'm sure that the Board will be hearing the position of the mining companies. They've indicated an intention to appear before this Board in Labrador West. And I'm sure if there's any--if I'm expressing any things that are not factually supported, we'll hear that and we'll have an opportunity to clarify it. But I'm asking this witness if this is a relevant consideration.
CHAIRMAN:
Q. I accept the fact there's no evidentiary base for it. We usually rely on evidence in this forum. I'll allow the question, Mr. Hearn, but I wouldn't follow-up with too many more references in the absence of the evidence. And certainly, we will hear what we will hear in Labrador, for sure.
HEARN, Q.C.:
Q. I understand fully, Mr. Chairman, and I'll be guided by that. Would you agree that that would be a relevant consideration if that were, in fact, the circumstances?

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MS. TABONE:
A. In looking at developing a postage stamp rate and what systems should be averaged in together and what systems should be separate, I wouldn't particularly consider that a criteria to look at.
HEARN, Q.C.:
Q. Does the Labrador West distribution system connect directly to any other facilities of Newfoundland Hydro?
MS. TABONE:
A. I guess--yeah. You know, back to Churchill Falls and through that, but -
HEARN, Q.C.:
Q. Does it connect to Churchill Falls?
MS. TABONE:
A. Well, indirectly through transmission.
HEARN, Q.C.:
Q. Who owns that transmission?
MS. TABONE:
A. I believe that's Hydro, but I'm not--frankly, I'm not sure of the technical circumstances. But again, I don't think it would have an impact.
HEARN, Q.C.:

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Q. So you're not aware whether or not Hydro owns the transmission line from Churchill Falls to Labrador West?
MS. TABONE:
A. Again, that wasn't part of my examination on this issue. It was not a significant factor as to who owns the facilities. It's a matter of whether the facilities that were owned by Hydro were averaged in together or treated separately. And whether it's a contract for transmission or a contract for generation or ownership of that transmission and generation is irrelevant.
HEARN, Q.C.:
Q. You used the term "interconnected" to describe this system. I would have thought, is this fair, that you would understand how the connections would run and who bore what ownership rights and cost responsibilities with respect to the transmission.
MS. TABONE:
A. Well, again, I was assuming that it was all under the same ownership. If there's something different than that -
HEARN, Q.C.:

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Q. May I suggest to you that -
MS. TABONE:
A. - I'd be happy to hear about it. But I was assuming that it was all Hydro ownership. I understand Churchill Falls is, it's not exactly Hydro; it's a power contract.
HEARN, Q.C.:
Q. So were you aware of Twin Falls Power Corporation?
MS. TABONE:
A. Yes, I am.
HEARN, Q.C.:
Q. Do you know who the shareholders of Twin Falls are?
MS. TABONE:
A. Well, I know it's a subdivision of Hydro. It's not the same--it doesn't fall under the revenue requirements of Newfoundland Hydro that's being submitted here now, but indirectly it has the same owner.
HEARN, Q.C.:
Q. Do you know the shareholding of Twin Falls?
MS. TABONE:
A. I assumed it was the government, which is the same shareholders of Hydro or it's somehow

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MS. TABONE:
connected. Again, that's not -
HEARN, Q.C.:
Q. That's an assumption, you haven't checked it out?
MS. TABONE:
A. It's not a major factor in this. I haven't looked at specifics of all the generation that's averaged out between all the diesel generation and all the specifics of that that's averaged out between the different communities on the Island Isolated or the Labrador Isolated. I don't see any difference here.
HEARN, Q.C.:
Q. But you haven't checked out the shareholding of Twin Falls?
MS. TABONE:
A. No, I have not.
HEARN, Q.C.:
Q. So you were not aware that the mining companies are shareholders, the mining companies to which I refer, Iron Ore Company and Wabush Mines also have a shareholding interest in Twin Falls?

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MS. TABONE:
A. I was not aware of that. And again, it's the power supply contract. I'm not sure it matters who the owner is. I know that there's a power supply contract that goes to both the east and the west side.
HEARN, Q.C.:
Q. Well, let's--you say there's a power supply contract that goes to the east and west side?
MS. TABONE:
A. Well, power supply contract that serves the--that services Hydro to allow them to serve both east and west.
HEARN, Q.C.:
Q. What contract are you referring to?
MS. TABONE:
A. The contract with--from Churchill Falls, Churchill Falls.
HEARN, Q.C.:
Q. What is the contract to which you're referring to between Churchill Falls -
MS. TABONE:
A. It's a power supply contract. I've read about it in transcripts and in the evidence, but again, I have not looked at the specifics of

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the power supply contract because it's not at issue to my recommendations.
HEARN, Q.C.:
Q. Are you aware or can you tell us about what the weaning (phonetic) arrangements are between Churchill Falls and Labrador West?
MS. TABONE:
A. I'm not aware of the specifics. And again, none of the specifics really have a lot to do with my recommendation. Similar, like I said, on the isolated systems there's a lot of different technical issues between all the different communities served. I don't see this as being any different than those and it's not a technical issue that was required to make my recommendations.
HEARN, Q.C.:
Q. Would it make any difference whether there were any costs associated with weaning (phonetic) from Churchill Falls to Labrador West?
MS. TABONE:
A. You mean you're saying that there would be costs to Lab West and not costs to Happy Valley-Goose Bay or vice versa?

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HEARN, Q.C.:
Q. Yes.
MS. TABONE:
A. I don't see that making any more difference than where a particular community on, say, the Island Interconnected system is, in terms of transmission, how close they are to transmission.
HEARN, Q.C.:
Q. Suppose there were no costs associated with the transmission of energy from Labrador--from Churchill Falls to Labrador West and there were costs associated with the transmission of energy from Churchill Falls to Labrador East, would that make a difference to your analysis?
MS. TABONE:
A. No, it wouldn't, and again, I would compare that to perhaps a community that is located right next to Holyrood perhaps that wouldn't need any transmission to get power to them. But they're averaged out with everybody else on the system and everybody pays the same amount of transmission, same amount of generation.

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HEARN, Q.C.:
Q. I'd suggest to you that the facts in this case are that the energy does come from Churchill Falls and it's wheeled to Labrador West through Twin Co. at no cost and that that's common ground. But you weren't aware of that in your analysis, were you?
MS. TABONE:
A. I probably read that at one point. Again, it wasn't a major factor. I recognize that there are significant cost differences between the two communities or the two systems, just as there are going to be with any communities, whether it's GNP, whether it's, you know, other--the Isolated Rural systems are all going to have different costs. You could-- again, it's back to postage stamp versus direct assignment. How much of that do you do? You could directly assign every single customer on the system and I think -
HEARN, Q.C.:
Q. Or you could assign them individually or you could do some combination thereof, could you not? We don't, in fact, in this province, have a postage stamp system, do we? Because

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we have multiple rates. Hydro are proposing five, are they not?
MS. TABONE:
A. You have a series of five different cost of services, which gives you perhaps five zones or five different systems, however you want to refer to it. Within that -
HEARN, Q.C.:
Q. So that's not -
MS. TABONE:
A. - there's quite a bit of averaging.
HEARN, Q.C.:
Q. But that's not your postage stamp system that you're referring to in the other jurisdictions?
MS. TABONE:
A. Well, there's a degree of how much is postage stamped. It depends on how big the utility is and if there's multiple utilities in a particular province versus one.
HEARN, Q.C.:
Q. So looking at the transmission from Churchill Falls to Labrador East, do you know who built, owns and maintains the transmission facilities from Churchill Falls to Labrador East?

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MS. TABONE:
A. Well, it appears to me from the map that that would be Hydro.
HEARN, Q.C.:
Q. Would you know anything of the costs associated with those transmission facilities?
MS. TABONE:
A. Again, I've seen in the study, I've seen in Mr. Drazen's evidence that, yes, he's broken out costs that differ between the two areas and I don't take exception with the fact that the costs are different. I take exception with the fact that you create six cost of service studies instead of five, that you treat them differently than you treat the Island Interconnected system or the Island Isolated system where different communities are averaged in.
HEARN, Q.C.:
Q. So you would accept that Hydro bears the transmission costs for the energy from Churchill Falls to Labrador East?
MS. TABONE:
A. Correct.
HEARN, Q.C.:

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Q. And you would accept that there are no transmission costs associated with the transmission of energy from Churchill Falls to Labrador West?
MS. TABONE:
A. No cost to the utility.
HEARN, Q.C.:
Q. To the utility.
MS. TABONE:
A. There's obviously a cost to somebody.
HEARN, Q.C.:
Q. Yes, somebody. Obviously someone is bearing the burden, but there are no costs being added to the delivery of the energy at the bus bar or at the terminal station in Labrador West?
MS. TABONE:
A. Right.
HEARN, Q.C.:
Q. Would you also accept that the distribution system in Labrador East has a completely different cost basis than the one in Labrador West?
MS. TABONE:
A. Just like any other community in the Interconnected systems or Isolated systems

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MS. TABONE:
that are averaged, there's a different cost basis.
HEARN, Q.C.:
Q. So you don't have any difficulty with that. Would you know whether or not the--how the costs compare from Labrador East to Labrador West respectively?
MS. TABONE:
A. That's in Mr. Drazen's evidence that I've looked at. I don't have it off the top of my head. I could -
(1:00 p.m.)
HEARN, Q.C.:
Q. Do you take any issue with Mr. Drazen's evidence on that?
MS. TABONE:
A. No, I don't. His evidence is technical in nature. It's looking at the cost differences. Mine is based on policy and whether those cost differences, regardless of how significant they are, whether they matter on a policy basis.
HEARN, Q.C.:
Q. So you don't take any issue with Mr. Drazen's

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evidence that the cost of service that even though the sales in Labrador West are greater than those in Labrador East, the cost of service is less than half, given the ratio of about three to one in respective costs in the two areas?
MS. TABONE:
A. Yes, I agree with his findings on the technical basis, yes.
HEARN, Q.C.:
Q. Would you acknowledge that there's standby generation capacity in Labrador East that serves Labrador East only, some 38 megawatts?
MS. TABONE:
A. Again, that was in Mr. Drazen's evidence and I don't take issue with that. I don't see it being that different from some of the issues that we were talking about the Island Interconnected system.
HEARN, Q.C.:
Q. So then you would agree that on distribution, transmission and generation, that there are different cost basis for the two different portions of what's referred to as the Labrador Interconnected system? Would that be correct?

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MS. TABONE:
A. That would be correct.
HEARN, Q.C.:
Q. And in each case, the costs associated with Labrador West are significantly lower than those associated with Labrador East?
MS. TABONE:
A. I would agree with that and I'm sure you could find lots of pairings of cities and towns on the Island Interconnected or the Island Rural that would have similar comparisons to it.
HEARN, Q.C.:
Q. You say lots of pairings on the island or within the system?
MS. TABONE:
A. Um-hm.
HEARN, Q.C.:
Q. Is there any other example that you can point us to of a pairing of what's in effect two municipal areas where one is expected to subsidize the other?
MS. TABONE:
A. Well, it seems to me that there's quite a bit of subsidization going on in this province already.

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HEARN, Q.C.:
Q. But within this Labrador Interconnected system, we have, in effect, a municipal area in Labrador East, a municipal area in Labrador West, that are some 500 kilometres apart. Can you present us with an example of any other system that consists of an equivalent, where one area is subsidizing the other, that's not a general postage stamp system?
MS. TABONE:
A. Well, again, if I went to the Island Isolated system, I have it booked--I don't think anybody tracks the costs or at least it hasn't been presented in this hearing of every single community that has its own diesel system and it's own distribution system and compared them to each other to see if different communities are subsidizing the other ones.
HEARN, Q.C.:
Q. Would you acknowledge that in Labrador, there have been different rates and in effect, different systems for some 40 years or more?
MS. TABONE:
A. I would acknowledge that, and again, may not be dissimilar to the GNP case where they were,

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MS. TABONE:
at one point, isolated and now they've been brought in to the Island Interconnected system.
HEARN, Q.C.:
Q. What has happened to change the situation to bring Labrador West into now an interconnected system that would not have been before?
MS. TABONE:
A. It seems to me that occurred when contracts were signed for generation.
HEARN, Q.C.:
Q. Contracts for generation? To what are you referring?
MS. TABONE:
A. Contracts for power supply.
HEARN, Q.C.:
Q. I'm not aware of what contracts that you're referring to, but can you -
MS. TABONE:
A. With Churchill Falls.
HEARN, Q.C.:
Q. So you say that when there was a contract signed for the supply of energy, that that made Labrador West and Labrador East a single

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interconnected system?
MS. TABONE:
A. Well, and the sale of the system obviously. They were run separately. There was generation. I assume the generation that's installed in Goose Bay Happy Valley area is there because they were using it to serve their own load at one point in the past. But again, I don't know the history in great detail.
HEARN, Q.C.:
Q. So you don't know when it was built?
MS. TABONE:
A. Again -
HEARN, Q.C.:
Q. If I was to suggest to you that that was built prior to Hydro acquiring any interest in the Labrador West distribution system, would that be a relevant factor?
MS. TABONE:
A. Again, I think it's all those things together and how it's operated now and looking at whether it's different than any of the, I guess, postage stamping of different areas anywhere else on Hydro.

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HEARN, Q.C.:
Q. So you're referring to--you're looking just within our system for an example, are you? Do you have any other systems that you're referring us to that provide us with a useful analogy?
MS. TABONE:
A. Most of the systems we're familiar with have postage stamp rates across the entire service area. I have--I do know of a few cases where there may be a single owner of a utility that spans multiple states and they have different rates in each of those states, but for the most--I guess that would be the most similar.
HEARN, Q.C.:
Q. So it can be different rates in different areas, even with the single owner then?
MS. TABONE:
A. Correct, and we have that here with five different systems. I'm just suggesting that it remain five and not six.
HEARN, Q.C.:
Q. So in your discussion, your analysis which took a couple of paragraphs on this issue, that you say numerous jurisdictions with

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larger service areas than Hydro, for example, BC Hydro, Nova Scotia Hydro, Manitoba Hydro, Hydro Quebec, ATCO Electric, have a single rate by customer class for the full interconnected system, even though the actual costs may vary by location?
MS. TABONE:
A. Correct.
HEARN, Q.C.:
Q. In all of those systems that you're using in that example, all of those jurisdictions, is there a single universal rate throughout the whole province or the whole system, for a particular customer class?
MS. TABONE:
A. What do you mean, for a particular customer class? You mean would every Industrial in the entire province pay the same rate? Is that what you're saying?
HEARN, Q.C.:
Q. I'm using your language, a single rate by customer class for the full interconnected system.
MS. TABONE:
A. Right. So each customer class would have a

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MS. TABONE:
rate and it would apply to -
HEARN, Q.C.:
Q. To the entire system.
MS. TABONE:
A. - to the entire system, regardless of location.
HEARN, Q.C.:
Q. So would the--you're not providing us with any illustrations that are in any way analogous to the Labrador system where you've had different systems operated for some 40 years or so with different rates?
MS. TABONE:
A. No. There are cases where, again, Pacific Corp is an example where they acquired--they own Pacific Power and Light serving Oregon, California, Washington, Idaho. They acquired Utah Power and Light with service in Utah and they clearly had different rates. They maintained different rates, but they have been moving towards averaging various costs that are shared between the different states.
HEARN, Q.C.:
Q. So even with a single owner, it's not unusual

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to have different rates?
MS. TABONE:
A. I would say that's not the norm.
HEARN, Q.C.:
Q. Nor is it unique, is it? It would not be unique?
MS. TABONE:
A. Not unique to have different rates, but it's also quite common to have a single rate over an entire province much larger than this one, for example, British Columbia.
HEARN, Q.C.:
Q. It may be common, but it's not the policy in this province, is it?
MS. TABONE:
A. No. But it has been the policy, from what I've read, to move the Labrador system to a common rate over a period of time.
HEARN, Q.C.:
Q. When you say the policy, how did you determine that that was the policy?
MS. TABONE:
A. The direction coming from the Commission, P.U. 7.
HEARN, Q.C.:

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Q. And how did that direction--who sought that direction from the Commission?
MS. TABONE:
A. Again, I wasn't involved in that hearing. I know what the--generally what the Order says. I don't know how they got there.
HEARN, Q.C.:
Q. So you haven't examined the underlying rationale for that policy?
MS. TABONE:
A. No, and I think that was--part of our coming into this was looking at how things are based on our experience in other jurisdictions, without looking solely on the history of what's happened.
HEARN, Q.C.:
Q. But you're telling us that the experiences that you've cited from other jurisdictions or you're acknowledging, as I'm suggesting, that they're not really analogous to here, are they? The jurisdictions you cited in your report, BC Hydro, Nova Scotia, Manitoba Hydro, Hydro Quebec, and ATCO Electric, they're not analogous to the Labrador Interconnected system, are they?

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MS. TABONE:
A. I don't think you could find any system that's analogous from one to another. There are always unique circumstances. That doesn't mean that there's not a common basis for things like postage stamp pricing, policy direction that, you know, may be common between different jurisdictions.
HEARN, Q.C.:
Q. Would you agree that aligning rates with cost of service is the most widely recognized measure of rates that are equitable and non-discriminatory?
MS. TABONE:
A. We've had a lot of discussion in the past few days about Bonbright's principles and there's equity, there's efficiency, the costs going forward may not differ that much between the two sides of Labrador. So maybe the marginal cost for the two aren't different, and that should have an impact as well. You have to balance equity, you know, ability to have efficiency, rate stability and rate stability maybe has been a factor in the fact that these rates are gradually being moved to a single

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MS. TABONE:
rate and not being done all at once. So I think some of those factors have been taken into account already.
HEARN, Q.C.:
Q. Have you examined whether the rates going forward on a cost basis ought to different in Labrador West and Labrador East?
MS. TABONE:
A. Sounds like that should be part of the marginal cost study everybody's been talking about.
HEARN, Q.C.:
Q. So that's a relevant factor, is it?
MS. TABONE:
A. It would be one factor to consider. Again -
HEARN, Q.C.:
Q. Be a relevant factor?
MS. TABONE:
A. - when we're talking about a marginal cost study, nobody has really defined it well, whether it's an integrated resource plan or marginal cost study. Are you looking at the cost for a particular customer or the average on the system? And I would suggest that a

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marginal cost study generally looks at the average on the system and not the incremental cost of serving one community versus another.
HEARN, Q.C.:
Q. Would you agree that maintaining historical relationships is also an important factor to be considered?
MS. TABONE:
A. I think it is a factor for the Board to consider. I wouldn't say that it is something that needs to be done in a cost of service. It's probably something you'd look at more from outside, maybe again by the gradualism towards changing things.
HEARN, Q.C.:
Q. Is the history of some 40 to 50 years of different rates between the two areas a factor that ought to be given some consideration and weight?
MS. TABONE:
A. I would suggest it has been considered and that's why there's a five-year phase in period to get the rates consistent with one another and not done overnight.
HEARN, Q.C.:

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Q. Would you regard the views of the mining companies with respect to their financial contributions as being a relevant factor to be considered?
MS. TABONE:
A. Again, it's not uncommon for customers or governments to provide grants for facilities, for various reasons, whether it's economic development or other reasons, and that I'm assuming that that's been factored into in terms of the book value on Hydro's system. It would be a contribution would reduce the book value of the facilities, which is why you're getting a difference in the cost or one of the reasons.
HEARN, Q.C.:
Q. Would be one of the reasons?
MS. TABONE:
A. Would be one of the reasons.
HEARN, Q.C.:
Q. You're not suggesting, I take it, that it would be the sole reason?
MS. TABONE:
A. No.
HEARN, Q.C.:

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Q. But would you agree that the reasons for such contributions ought to be given some consideration?
MS. TABONE:
A. I think the fact that there were contributions should perhaps be considered to some extent. I'm not sure the rationale for the contributions would make any impact.
HEARN, Q.C.:
Q. Would you agree that it's a widely recognized rate design principle that a utility should recover costs from the customers that cause them to be incurred?
MS. TABONE:
A. That's very standard principle of cost of service. It's why you do it. Again, there's a lot of judgment and precedent and policy on where you split that out, you know, what's directly assigned, whether you figure that cost for every different customer or whether you postage stamp it and everybody gets, you know, the same share of the same, you know, pot.
HEARN, Q.C.:
Q. So in some circumstances, equal rates may not

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HEARN, Q.C.:
be equitable rates?
(1:15 p.m.)
MS. TABONE:
A. There are circumstances where equal rates would not be equitable. I mean, if the customer has a significantly different load shape, for example, and if you've got demand and energy prices, if they had an equal energy rate and they had different load shapes, that probably wouldn't be equitable, which is why you'd split it up by demand and energy, for example.
HEARN, Q.C.:
Q. Suppose you had two customers, A and B, and A had higher distribution costs, higher transmission costs, higher generation costs than customer B and those were the only two customers you were involved with, and you proposed charging them equal rates, would that be equitable?
MS. TABONE:
A. There would definitely be, you know, a cost basis differential between those two. It could be that it was the timing of when they

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came on the system. It could be their physical location, and it's generally a policy decision as to whether you give them the exact same rates or whether you give them each a separate rate. If it's two residential customers, I don't very often see two residential customers have two different rates, even if you know exactly what it costs to serve them.
HEARN, Q.C.:
Q. But in the Labrador system, we're not dealing with two adjacent residential customers, are we?
MS. TABONE:
A. No. It wouldn't matter if they were adjacent or on geographically quite a bit different. It's a policy issue whether you treat them the same or treat them differently and you'd have to draw the line. Is it, you know, each community is separate, each interconnected system is separate, you know, or together or whether you have five costs of service or one cost of service for the entire province. That's a policy decision that the Commissioners have to make. I don't think

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there are any factual characterizations that are going to make a difference in how that policy decision is made, because you can find factual cost differences between every single customer on the system.
HEARN, Q.C.:
Q. Can a rate be considered equitable if it's consistent with the cost of service?
MS. TABONE:
A. That's one way to judge equity.
HEARN, Q.C.:
Q. When you say it's a policy decision for this Board to make, how does the Board decide whether to have five or six different costs area within the Newfoundland and Labrador provincial jurisdiction?
MS. TABONE:
A. Well, I think they do need to consider the costs. It's nice to know the costs for consideration. I think they need to look at where they're going in the future and what kind of price signals they want to send to their customers. I think it's an issue sometimes of economic development of where you want development to occur. It's equity not in

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the sense of cost equity, everybody pays exactly their cost, but whether two customers that happen to live in two separate areas pay the same cost or not.
HEARN, Q.C.:
Q. Price signals, what do you mean by price signals?
MS. TABONE:
A. Price signals are basically the rates, and maybe you haven't been here. Maybe you've read the transcript. There's been a lot of discussion about price signals, in terms of the demand and energy rate for Newfoundland Power, and it's trying to get people to make the right decisions on where they locate, what type of appliances they install, how they use power, so that the efficient--or the system can be built in the most efficient way going forward, and for example, you know, if you have to build new generation, you have to take that into account in some manner in your price signal so that you don't build inefficient generation.
HEARN, Q.C.:
Q. Is there any future generation required for

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HEARN, Q.C.:
Labrador West, that you're aware of?
MS. TABONE:
A. I'm not aware of any future generation that would be built as a result of that. I mean, looking at the resource that they have access to on a contractual basis and the loads, I can't imagine any situation where they may need to build generation.
HEARN, Q.C.:
Q. Is there any future generation required for Labrador East?
MS. TABONE:
A. Again, I haven't looked at the technical side of that, and again, it's not just generation. It's transmission and probably in this case, more importantly, distribution because it sounds like the generation and transmission is already established.
HEARN, Q.C.:
Q. What sort of price signal is being sent by this policy to the customers in Labrador West?
MS. TABONE:
A. I haven't looked at the particular rates as opposed to the price of the power out of the

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contract, so I don't think I can really speak to that.
HEARN, Q.C.:
Q. So you haven't even looked at the costs and the prices?
MS. TABONE:
A. Looked at the cost comparison in Drazen's, Mr. Drazen's evidence. Again, that was after we submitted our evidence. Again, this isn't-- our recommendations are not based on cost difference, whether it's marginal cost or embedded cost.
HEARN, Q.C.:
Q. You spoke to price signals and do you know what the proposed rates would do for customer prices in Labrador West?
MS. TABONE:
A. Well, it looks to me like they're going up, I don't know, 15 percent, in that order of magnitude.
HEARN, Q.C.:
Q. Try 28 percent in the first year only. Is that -
MS. TABONE:
A. Right, but it's -

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HEARN, Q.C.:
Q. What sort of consistency signal is that sending?
MS. TABONE:
A. Well, I think that's sending them a signal to probably use less power.
HEARN, Q.C.:
Q. Is there any evidence that you're aware of that energy has been wasted in Labrador West?
MS. TABONE:
A. I haven't looked at that issue specifically. Haven't looked at it for Goose Bay Happy Valley or Lab West area.
HEARN, Q.C.:
Q. What sort of signal does such an increase send to economic development in that area?
MS. TABONE:
A. Again, it might make it a little bit harder than it was before, but it may still be better than it is in a lot of other places.
HEARN, Q.C.:
Q. Are you aware that after the proposed almost 30 percent increase in the first year that Hydro proposes increases that approach 20 percent in subsequent years?

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MS. TABONE:
A. I had recalled a number more in the 15 percent range, but I think it was under 20 percent.
HEARN, Q.C.:
Q. Could it be--some of my calculations make it 16, 17, 18 percent depending on the particular year, could that be accurate?
MS. TABONE:
A. Again, I'll accept that.
HEARN, Q.C.:
Q. In the present economic circumstances with very moderate inflation, are those substantial percentage increases?
MS. TABONE:
A. Yes, they are, and I've seen a lot of jurisdictions where electric prices have gone up faster than inflation, and I believe there are other customers on the Hydro system that are facing rate increases that are quite a bit higher than inflation.
HEARN, Q.C.:
Q. Any other example of someone facing a 28.2 percent increase, that you can point us to?
MS. TABONE:
A. Not that high. But again, those customers

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MS. TABONE:
have been receiving a very low rate for a long period of time and so if you look at the differential, they're probably worlds better off having the low rate for a long period of time and a higher rate increase now than somebody who had a higher rate earlier and a lower rate increase now.
HEARN, Q.C.:
Q. Is there any evidence that consumers in Labrador West have not been paying their cost of supply or cost of service?
MS. TABONE:
A. That's a function of whether you believe that cost of service should be postage stamp or separate for the two systems.
HEARN, Q.C.:
Q. Are you aware that, in a previous hearing, that Hydro rebated substantial monies to the Town of Wabush based on an overpayment of costs?
MS. TABONE:
A. I'm not aware of that and I don't know the specific circumstances. There could be a lot of reasons for that.

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HEARN, Q.C.:
Q. So can you present us with any evidence that the consumers in Labrador West have not been paying their cost of service?
MS. TABONE:
A. If you were to look at a cost of--if you were to take the proposed cost of service approach now, which is combined, and apply that historically, I think it would show that they had not been paying their cost of service.
HEARN, Q.C.:
Q. I believe you've already agreed that there's no policy of rate equalization on the Hydro system?
MS. TABONE:
A. There are a lot of policies that get at that, but -
HEARN, Q.C.:
Q. But we agree, do we not -
MS. TABONE:
A. - but not of the whole entire system, no.
HEARN, Q.C.:
Q. Hydro proposes five sets of rates. Would they not reflect cost differences among five different subsystems?

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MS. TABONE:
A. That's correct.
HEARN, Q.C.:
Q. And what's the--from a policy point of view, what's the difference with doing five and maintaining six that already exist?
MS. TABONE:
A. Because I think that having six is a little bit inconsistent with how they developed the other five, I guess the other four, in this case. So -
HEARN, Q.C.:
Q. Is having six consistent with continuing to have the six that exist?
MS. TABONE:
A. I'm not sure I understand your question.
HEARN, Q.C.:
Q. The experience in Labrador for the past 50 years has been different rates in Labrador East and Labrador West. That's the reality, is it not?
MS. TABONE:
A. Sure.
HEARN, Q.C.:
Q. So the reality is that we've had, for that

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past period of time, six systems not five.
MS. TABONE:
A. Perhaps if you take that approach, then things will never change and not sure -
HEARN, Q.C.:
Q. Why should they change, between two different municipal areas? We're not talking about averaging out over a whole complete system like the Island, are we?
MS. TABONE:
A. Well, in that case, you'd never make any improvements. You'd never change anything and you'd keep every system isolated from one another and what you have now is what you have going forward and you never change that, and -
HEARN, Q.C.:
Q. But if you have two systems that are discreet, that can each maintain their own infrastructure, including any requirements to upgrade, then why do you need the integration that might be required over a larger system such as the Island? If you have two areas that are naturally geographically discreet and some 500 kilometres apart, all you end up doing is making a policy decision that one

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HEARN, Q.C.:
area has to subsidize the other area.
MS. TABONE:
A. Well, I think that a similar decision has been made throughout the other four systems or I guess, really the three systems, the Island Interconnected, the Island Isolated and the Labrador Isolated, and I think that this move is to make Labrador Interconnected consistent with the other three systems and how things are done.
HEARN, Q.C.:
Q. How is it consistent? Can you point to--and I asked you this earlier, and I apologize for repeating a question, but is there another area where you'll end up having essentially two municipal areas, one subsidizing the other?
MS. TABONE:
A. I think if you--I don't have the costs in front of me to look at each particular community on let's say the Island Interconnect--or I'm sorry, the Island Isolated system. I think if you were to break those costs out between however many

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communities are served, as well as the customers that may not be within a tight, you know, small geographical area, might be more spread out, more rural, I think you'd probably see big differences based on where they happen to be located, when the facilities were built, things of that nature.
HEARN, Q.C.:
Q. How many different communities would be involved in the Isolated system that you're referring to?
MS. TABONE:
A. I don't have an exact number.
HEARN, Q.C.:
Q. Do you have an approximate number? It's more than two, is it not?
MS. TABONE:
A. Sure, quite a bit more than two.
HEARN, Q.C.:
Q. Quite a bit more than two, and is there not some common characteristic that links those particular systems, whether it's they're all supplied by local diesel generators or some such characteristic as that?
(1:30 p.m.)

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MS. TABONE:
A. Sure. They're similar in their generation source, not their particular source, but the type of source, and again, I see, in the case of Labrador, again it's the exact same generation source, whereas the Island Isolated would each have different diesel units. They'd be sized differently. They'd be built at different times. They may have different efficiency levels, even though they may all be diesel instead of some being diesel and some being hydro, for example.
HEARN, Q.C.:
Q. But there'd be more than two communities involved?
MS. TABONE:
A. Sure.
HEARN, Q.C.:
Q. And you agree that ultimately it's a matter of policy?
MS. TABONE:
A. Yes.
HEARN, Q.C.:
Q. Thank you, those are my questions.
CHAIRMAN:

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Q. Thank you, Mr. Hearn. Thank you. Mr. Kennedy, do you have any -
MR. KENNEDY:
Q. Just a couple of points.
CHAIRMAN:
Q. - idea how long? You'd be relatively short?
MR. KENNEDY:
Q. Take but a moment.
CHAIRMAN:
Q. Okay, that's fine.
MR. KENNEDY:
Q. So I don't know if you wanted to just plow ahead, Chair.
CHAIRMAN:
Q. Well, I think if you're going to be a relatively short period of time, I think we've established that we have limited questions, in any event. So if everybody's in agreement and we're not food deficient, we'll move on.
MR. KENNEDY:
Q. Actually, Mr. O'Reilly, while I'm asking a question, if you can find that map that's RDG, I think it was 3. One of the pages has the full map, and I'm looking at the map of the Island. Ms. Tabone, I'm also actually--okay,

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MR. KENNEDY:
if you could just--that's not the one I'm looking for. I'm looking for the one that's similar to the map that's right in front of you with the full grid.
GREENE, Q.C.:
Q. I think that's in a Schedule to Mr. Haynes' pre-filed.
MR. KENNEDY:
Q. Okay.
KELLY, Q.C.:
Q. Martin's, I think.
GREENE, Q.C.:
Q. Martin, is it?
MR. KENNEDY:
Q. Mr. Martin's pre-filed, is it?
KELLY, Q.C.:
Q. I think it's Martin.
MR. KENNEDY:
Q. Ms. Tabone, you got a geography lesson last night. You got another one here today.
MS. TABONE:
A. Yes.
MR. KENNEDY:
Q. Just without having the actual cost data in

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front of you, I wonder if you could speak from an intuitive level. We know--do you know where St. John's is located on this map?
MS. TABONE:
A. Sure.
MR. KENNEDY:
Q. And you know, for instance, where Corner Brook is located, over on the west coast?
MS. TABONE:
A. Yes.
MR. KENNEDY:
Q. All right. And they're both part of the Island Interconnected system, correct?
MS. TABONE:
A. Correct.
MR. KENNEDY:
Q. So a residential customer in St. John's would pay the same electric rate as a residential customer in Corner Brook?
MS. TABONE:
A. Correct.
MR. KENNEDY:
Q. Would you expect that the cost to service a residential customer in St. John's would be different than the cost to service a

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residential customer in Corner Brook, just given the dynamics of the electrical system and their location on the map?
MS. TABONE:
A. Well, sure, and that's a function of where they are located physically, compared to where the generation is and how much transmission lines or how many miles of transmission line, kilometres of transmission line to get power to them, perhaps the timing of when the distribution facilities were built in each location, as well as perhaps some physical, the density of the two areas would have an impact as well.
MR. KENNEDY:
Q. Sure, and for example, in the City of St. John's, if I'm a residential customer living in an apartment building, and just by virtue of it being less costly to service me than it would be if I was in a normal subdivision of housing, my electric rates at a cost basis would be lower if I lived in a high rise, as opposed to a subdivision intuitively, possibly?
MS. TABONE:

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A. Intuitively.
MR. KENNEDY:
Q. Yes, but I pay the same rate.
MS. TABONE:
A. You pay the same rate. You may pay a different bill because you use a different amount.
MR. KENNEDY:
Q. And is that consistent with your policy of a postage stamp system, where it makes sense to average, we do average?
MS. TABONE:
A. That's right.
MR. KENNEDY:
Q. I wonder if we could just look at CA-8, Mr. O'Reilly? It's page three. This is just, I guess, as a lead in and was a question concerning the loss of load figures, and then least cost peaking options and also asked for the marginal cost supply in the Rural Isolated systems. So I wonder if we could go to page three, Mr. O'Reilly? That's just one I could just find quickly. Ms. Tabone, this shows the short-run marginal cost of supply for the Rural Isolated systems. So these are all the

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MR. KENNEDY:
systems on the--except for the case of L'Anse au Loup, which is towards the bottom, they're all on diesel systems, I believe.
MS. TABONE:
A. Right.
MR. KENNEDY:
Q. Can you see that the marginal cost varies quite considerably from location to location?
MS. TABONE:
A. Right, from about 10 cents to 25 cents.
MR. KENNEDY:
Q. And would it be normal course to break them out and do each individual cost of service area or would it be on a policy basis, make more sense to treat the Rural Isolated systems as one zone that all the costs are averaged to?
MS. TABONE:
A. Again, based on my postage stamp philosophy, it would be more consistent to average them all out. That provides benefits to everybody. Right now, one of them is facing a higher cost than the next. When a big capital expenditure is required, that may help average it out over

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customers so they're not hit by, you know, lumpy investments.
MR. KENNEDY:
Q. Yes, I understand, for instance, I think the evidence shows that the Town of Charlottetown required some new plant, either recently or in the near future. That would, one would expect, be more expensive plant than embedded plant?
MS. TABONE:
A. I'm sure it would be, yes.
MR. KENNEDY:
Q. Right. But under your policy, that additional cost or incremental cost would be shared among all the members in the Rural Isolated group?
MS. TABONE:
A. Right, just like it is on a interconnected system. It helps buffer that out and helps everybody.
MR. KENNEDY:
Q. Sure, okay. Similarly, if there's a substantial piece of asset belonging to or used in the delivery of energy to residents in Lab City that needs to be replaced because of premature failure or increased load that that

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cost will be shared among all the customers of Labrador that are on the interconnected portion?
MS. TABONE:
A. That would be correct.
MR. KENNEDY:
Q. It wouldn't be borne just by the residents of Lab City?
MS. TABONE:
A. No, or by the particular customer in question either.
MR. KENNEDY:
Q. Mr. Chymko, there was a question that you received while under cross by, I believe it was the Consumer Advocate, concerning what responses that Newfoundland Power would have available to it if a demand wholesale rate was introduced as a result of this hearing, and I think one of them that was discussed was seasonal rates. Do you recall that?
MR. CHYMKO:
A. Yes, I do.
MR. KENNEDY:
Q. And now if Newfoundland Power was to try to introduce seasonal rates at its, for instance,

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residential customer level, I'd understand that that would require Board approval, that it would require an application. Is that your understanding as well?
MR. CHYMKO:
A. That's my understanding, yes.
MR. KENNEDY:
Q. Are there other approaches that Newfoundland Power could take or responses that it would have available to it which would potentially be an adjustment to a demand wholesale rate that would not require an actual change in their rates and trigger off a hearing before this Board?
MR. CHYMKO:
A. It's my understanding that some of the demand side management alternatives of encouraging growth at a customer level where customers have better profiles, so again fuel choice might be a good example. So I believe that they could put in programs that would lead to end customers picking a various fuel choice or at least examining it. I think that would be part of a program that would not need to come back to the Board for a specific approval of a

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MR. CHYMKO:
rate. Perhaps interruptible contracts, again, I don't know what leeway is available to the utility if they were to negotiate an agreement, whether that would have to come back to the Board for approval at the time of the agreement or whether that would be dealt with at a future hearing.
MR. KENNEDY:
Q. And just one last question and this could be handled by either one of you. You referred to the DISCOs, and other than dating ourselves by having images conjured up in our heads, you referred to the fact that Newfoundland--you have the Newfoundland Power DISCO, the distributor company. You also referred to the NLH DISCO, and I just wanted to make sure that we understood what it was that you meant there because you said there were two DISCOs. Could you just explain to the panel what you were describing?
MR. CHYMKO:
A. Sure. What I was attempting to do was unbundle basically Newfoundland Hydro into generation, transmission and distribution. So

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at the end of the day, that's what I'm calling a DISCO is the distribution utility that remains after removing generation and transmission.
MR. KENNEDY:
Q. Okay. So we know Hydro has its own residential customers?
MR. CHYMKO:
A. That's right, serving the end customer direct.
MR. KENNEDY:
Q. And so in effect, is it fair to say, that sort of internally Hydro is selling power to itself from a wholesale level to a retail level?
MR. CHYMKO:
A. Right.
MR. KENNEDY:
Q. Right, and that's the NLH DISCO that you referred to?
MR. CHYMKO:
A. Yes.
MR. KENNEDY:
Q. Okay. That's all the questions I have, Chair. Thank you, Mr. Tabone.
MS. TABONE:
A. These names are a problem today.

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MR. KENNEDY:
Q. I got it backwards again, yes. Thank you, Gail and Nigel.
CHAIRMAN:
Q. Thank you, Mr. Kennedy. We'll move to Board questions now. Commissioner Saunders?
COMMISSIONER SAUNDERS:
Q. Yes, just one question, Mr. Chair. Ms. Tabone, the postage stamp rate, is it something that's common only to the electrical utility industry? I'm thinking of, for instance, isn't it also common with telephone rates, cable television and the like or do you have any experience in those industries?
MS. TABONE:
A. We have experience in the gas industry and the water industry where postage stamp rates would be in place. Outside of that, obviously the term comes from postage which is how it started.
COMMISSIONER SAUNDERS:
Q. Yes. Okay. Thank you. That's all I have, Mr. Chair.
CHAIRMAN:
Q. Thank you, Commissioner Saunders.

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Commissioner Whalen?
COMMISSIONER WHALEN:
Q. No, I have no questions. Thank you.
CHAIRMAN:
Q. I just have one short question, I guess, for Ms. Tabone. Mr. Hearn was questioning how does the Board decide on setting rates and you mentioned considering costs. You mentioned looking at price signals, and you mentioned economic development.
MS. TABONE:
A. Um-hm.
CHAIRMAN:
Q. Which struck me. In your experience, how does a Board similar to this, in experiences elsewhere that you've had, take into account economic development in its decision making? What sort of criteria and standards have you seen applied in that situation?
MS. TABONE:
A. I'm going to refer that question to Mr. Chymko because Alberta is an excellent case of that back, I don't know, five, ten years ago. They had a system in place that did that.

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MR. CHYMKO:

A. I guess, at the time it was really being driven where we were having rate disparities where we had say four independent distribution utilities at the end of the day, and the rates in the south were becoming quite--there was quite a gap between the north and the south. The north was growing. That's where the resources were. And a system was put in place of really going from the four independent distribution utilities to averaging generation and transmission. So in the province at the time, a decision was made well, how far can we go of combining some of the independent areas or independent cost of service and what we ended up with was averaging generation and transmission. Within a utility one of the other issues to perhaps be dealt with is whether they actually do it through the end rate or contribution policy and are there ways that perhaps the utility can assist basically in doing some of the financing over a period of time through a customer contribution to assist economic development. But I don't see, and I want to clarify, I don't see a lot of

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economic development where a special deal is being made for one class of customer. What there is are some terms and conditions around how do we bring in economic development and I guess, share the load over a period of time.

CHAIRMAN:

Q. Thank you. Are there any questions or matters arising from Board questions?

HUTCHINGS, Q.C.:

Q. No questions.

CHAIRMAN:

Q. Okay. Thank you very much, Ms. Tabone and Mr. Chymko. Added to my magenta is I thought DISCOs were things that went out about 15 years ago when I had some hair, but I've learned a new definition for that today. Thank you very much. That brings an end to proceeding today. I guess we scheduled Mr. Drazen tomorrow. I understand Mr. Greneman will be back as well, Ms. Newman, is that correct?

MS. NEWMAN:

Q. Yes, I believe that Hydro plans on putting Mr. Greneman on the stand first thing in the morning and making him available for cross-

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examination on the Labrador issue, and then to be followed by Mr. Drazen.

GREENE, Q.C.:

Q. Yes, that's correct, Mr. Chair. Mr. Hearn had requested that Mr. Greneman come back to the stand on this one issue when he was present. Hydro agreed to recall Mr. Greneman only for the purpose of the policy to be used in setting rates in Labrador on the Lab East and Lab West.

CHAIRMAN:

Q. Thank you once again, and we'll see you at 9:00 tomorrow morning.

(UPON CONCLUSION AT 1:45 P.M.)

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CERTIFICATE

I, Judy Moss Lauzon, hereby certify that the foregoing is a true and correct transcript in the matter of Newfoundland and Labrador Hydro's 2003 General Rate Application for approval of, among other things, its rates commencing January, 2004 heard on the 19th day of November, A.D., 2003 before the Board of Commissioners of Public Utilities, Prince Charles Building, St. John's, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.

Dated at St. John's, Newfoundland and Labrador this 19th day of November, A.D., 2003

Judy Moss Lauzon