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<p>1 (9:04 a.m.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. Good morning, Ms. Newman. Any preliminary</p> <p>4 matters before we begin?</p> <p>5 MS. NEWMAN:</p> <p>6 Q. No, Chair.</p> <p>7 CHAIRMAN:</p> <p>8 Q. Okay. Thank you. Good morning, Mr. Hearn.</p> <p>9 Would you like to introduce your witness,</p> <p>10 please? Oh, no, I'm sorry, Mr. Greneman. I</p> <p>11 didn't even look that way. My apologies, sir,</p> <p>12 good morning. Ms. Greene, do you wish to</p> <p>13 proceed?</p> <p>14 GREENE. Q.C.:</p> <p>15 Q. Good morning -</p> <p>16 CHAIRMAN:</p> <p>17 Q. Or if there's no particular direct, if you</p> <p>18 wish to -</p> <p>19 GREENE. Q.C.:</p> <p>20 Q. Yes, I do have a short direct examination.</p> <p>21 CHAIRMAN:</p> <p>22 Q. Okay, fine.</p> <p>23 GREENE. Q.C.:</p> <p>24 Q. Thank you, Mr. Chair, Commissioners. And of</p> <p>25 course, Mr. Greneman is still under oath from</p>	<p>1 his previous testimony. Mr. Greneman -</p> <p>2 CHAIRMAN:</p> <p>3 Q. That's what a Cost of Service week does.</p> <p>4 Sorry. Go ahead.</p> <p>5 GREENE. Q.C.:</p> <p>6 Q. Wait until the end of next week after our road</p> <p>7 show. Mr. Greneman, evidence was filed in</p> <p>8 your name on October 31, 2003 dealing only</p> <p>9 with the issue of the rates for the Labrador</p> <p>10 Interconnected System. Do you adopt that pre-</p> <p>11 filed evidence as your evidence for the</p> <p>12 purpose of your testimony today?</p> <p>13 A. Yes, I do.</p> <p>14 Q. In your evidence you explained your position</p> <p>15 as to why you believe that the areas of</p> <p>16 Labrador East and Labrador West should be</p> <p>17 treated as one single interconnected system</p> <p>18 for the purpose of setting rates for the</p> <p>19 customers in that area. I wonder if you could</p> <p>20 explain, please, for the Board, why your</p> <p>21 evidence, as to why that is an appropriate</p> <p>22 position to take?</p> <p>23 A. Yes, thank you. I believe a single</p> <p>24 interconnected system in Labrador is</p> <p>25 appropriate for a number of reasons. I</p>
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<p>1 believe it's fully justified on grounds</p> <p>2 including Cost of Service, marginal costs,</p> <p>3 price signals, value of service, opportunity</p> <p>4 cost and public policy.</p> <p>5 If I can just describe the system in</p> <p>6 general to begin. I'm looking at a--either an</p> <p>7 electrical or a map of the Labrador system.</p> <p>8 There is Churchill Falls pretty much in the</p> <p>9 middle of the system. And then we observe a</p> <p>10 rather symmetrical system where there's a two</p> <p>11 twin--there are twin 230 kV lines running west</p> <p>12 from Churchill Falls to Lab City and Wabush,</p> <p>13 and in the other direction, there's a 138 kV</p> <p>14 line running east to Happy Valley-Goose Bay.</p> <p>15 So just looking at the system you observe a</p> <p>16 degree of symmetry which implies a degree of</p> <p>17 equal type of facilities coming from a common</p> <p>18 generating facility.</p> <p>19 However, in reviewing Mr. Drazen's</p> <p>20 testimony, his evidence, he brings up two</p> <p>21 facts. He brings up, number one, that the</p> <p>22 Twinco line, which is an essential element in</p> <p>23 providing service to Lab West in actuality is</p> <p>24 wheeling, over that line is provided to Hydro</p> <p>25 at essentially no cost. And that's one</p>	<p>1 salient different element that Mr. Drazen</p> <p>2 highlights. The other one is the fact that</p> <p>3 there is generation in Lab East which does not</p> <p>4 exist in Lab West, and my understanding from</p> <p>5 Mr. Drazen is the question as to whether Lab</p> <p>6 West should pay for that generation. So on</p> <p>7 one hand they believe they're entitled to the</p> <p>8 free wheeling and they should not, on the</p> <p>9 other hand, they should not pay for the</p> <p>10 generation in Lab East.</p> <p>11 Mr. Drazen goes on to estimate the Cost</p> <p>12 of Service to Happy Valley-Goose Bay at</p> <p>13 approximately \$8.9 million, this is the annual</p> <p>14 Cost of Service per year, and that's his</p> <p>15 estimate. I don't believe Hydro has done a</p> <p>16 study. And in comparison with that number he</p> <p>17 estimates the Cost of Service for Lab East--</p> <p>18 Lab West, rather, to be in the order of \$3.6</p> <p>19 million.</p> <p>20 My view is that although there are cost</p> <p>21 differences, those differences are not in and</p> <p>22 of themselves sufficient to justify two</p> <p>23 separate systems. I know of no absolute test</p> <p>24 to discern when systems should be separating</p> <p>25 based solely on cost differences and nor do I</p>

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<p>1 MR. GRENEMAN:</p> <p>2 know that there's any threshold that exists or</p> <p>3 any standard industry measurement. In</p> <p>4 response to a request for information Mr.</p> <p>5 Drazen has likewise agreed that he had no</p> <p>6 preset threshold with regard to putting forth</p> <p>7 that the system should be separate as opposed</p> <p>8 to integrated--as opposed to combined.</p> <p>9 In looking at Mr. Drazen's differences in</p> <p>10 cost, it should not lead one to conclude that</p> <p>11 there are intrinsic cost differences between</p> <p>12 systems. And in fact, I'd like to demonstrate</p> <p>13 that the systems are indeed functionally the</p> <p>14 same. In the case of Lab East, if the 138 kV</p> <p>15 transmission line is out of service, there's</p> <p>16 generation at Lab East to serve most of the</p> <p>17 load. With respect to Lab West, if one of the</p> <p>18 Twinco lines goes out of service, the other</p> <p>19 Twinco line is available to provide service to</p> <p>20 most of the--to a substantial portion of the</p> <p>21 load in Lab West. So in that regard the</p> <p>22 Twinco line in Lab West is functionally</p> <p>23 equivalent to the single 138 kV line running</p> <p>24 from Churchill Falls to Lab East even</p> <p>25 considering the generation. They functionally</p>	<p>1 have the same purpose.</p> <p>2 Now, I observed that the benefit of the</p> <p>3 free use of wheeling over the Twinco line</p> <p>4 arose due to circumstances, rather than</p> <p>5 intrinsic differences in configuration. And</p> <p>6 any claim to the benefits of that Twinco line</p> <p>7 because it lies on one side of the fence or</p> <p>8 another, in my view, is no more defensible</p> <p>9 than if Hydro owned the line and it was fully</p> <p>10 depreciated, thus providing wheeling at no</p> <p>11 cost.</p> <p>12 Cost of Service is in large part an</p> <p>13 averaging process. Now, there are always Cost</p> <p>14 of Service differences between areas and in</p> <p>15 considering one costing philosophy over</p> <p>16 another, in my view, it's very important not</p> <p>17 to lose sight of the basic role of Cost of</p> <p>18 Service, and that is to discern relative</p> <p>19 differences among customer classes within a</p> <p>20 region. And this has manifested itself indeed</p> <p>21 in policy considerations in this very</p> <p>22 jurisdiction as practised by Hydro and this</p> <p>23 Board. One example is the combining of</p> <p>24 isolated diesel areas for costing and rate</p> <p>25 purposes with pricing in part reflective of</p>
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<p>1 NP's rates. Another policy consideration</p> <p>2 which has been practised in Newfoundland is</p> <p>3 with regard to Hydro's Interconnected Rural</p> <p>4 customers whose rates are based on NP's rates.</p> <p>5 Again another example in Canada is the policy</p> <p>6 that had existed in provinces such as Manitoba</p> <p>7 to have province wide rates for similar</p> <p>8 classes of service regardless of ownership of</p> <p>9 the utility. If Lab East and Lab West were</p> <p>10 separated, it could potentially result in</p> <p>11 significant price differences for otherwise</p> <p>12 similar classes of customers. So there are,</p> <p>13 in my view, policy considerations.</p> <p>14 With respect, I believe another factor is</p> <p>15 value of service. The Twinco line is a</p> <p>16 necessary and essential element in providing</p> <p>17 reliable service to Lab West. If that line</p> <p>18 were owned by Hydro, the total costs would be</p> <p>19 greater than they are currently in the Cost of</p> <p>20 Service under a combined system. This would</p> <p>21 result in higher cost to Lab West.</p> <p>22 (9:51 a.m.)</p> <p>23 So my conclusion there with respect to</p> <p>24 value of service is pricing Lab West as a</p> <p>25 single system can in this regard be</p>	<p>1 appropriately viewed as bearing a value of</p> <p>2 service component. The Twinco line, in other</p> <p>3 words, benefits all customers. And even as a</p> <p>4 combined system would act to benefit Lab West.</p> <p>5 So there's, in my view, a value component, a</p> <p>6 value of service element in there.</p> <p>7 If I can go on, I think there are two</p> <p>8 other considerations that bear in this, and</p> <p>9 one is price signals and the other is</p> <p>10 opportunity cost. While Hydro has an</p> <p>11 obligation to first serve its own customers, a</p> <p>12 particularly low price will act to encourage</p> <p>13 wasteful consumption and deprive Hydro of</p> <p>14 additional export sales.</p> <p>15 So in summary, I see wheeling over the</p> <p>16 Twinco lines as a unique arrangement.</p> <p>17 Essentially the Labrador Interconnected System</p> <p>18 is a radial system with two radial lines and</p> <p>19 it should not be subject to separate Cost of</p> <p>20 Service any more than if it had eight radial</p> <p>21 lines, each one having its separate, its own</p> <p>22 individual Cost of Service. Therefore, it's</p> <p>23 my view that the treatment as a single system,</p> <p>24 as was reaffirmed by this Board in P.U. 7, is</p> <p>25 fair and proper.</p>

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<p>1 GREENE, Q.C.:</p> <p>2 Q. Thank you, Mr. Greneman. That concludes the</p> <p>3 direct examination.</p> <p>4 CHAIRMAN:</p> <p>5 Q. Thank you, very much, Ms. Greene. Ms. Newman,</p> <p>6 was there any discussion on a change in order</p> <p>7 in terms of cross-examination or anything of</p> <p>8 that nature?</p> <p>9 MS. NEWMAN:</p> <p>10 Q. No, there wasn't. I would propose that we</p> <p>11 just follow the usual order if people don't</p> <p>12 have a problem with that.</p> <p>13 HEARN, Q.C.:</p> <p>14 Q. That's certainly acceptable, Mr. Chairman.</p> <p>15 CHAIRMAN:</p> <p>16 Q. Thank you. If that's the case, we'll go to</p> <p>17 the Consumer Advocate. Good morning, Mr.</p> <p>18 Fitzgerald.</p> <p>19 MR. FITZGERALD:</p> <p>20 Q. Good morning, Mr. Chairman. We have no</p> <p>21 questions on that.</p> <p>22 CHAIRMAN:</p> <p>23 Q. Thank you, very much. Good morning, Mr.</p> <p>24 Kelly.</p> <p>25 KELLY, Q.C.:</p>	<p>1 Q. Good morning, Chair. We have no questions.</p> <p>2 CHAIRMAN:</p> <p>3 Q. Good morning, Mr. Seviour.</p> <p>4 MR. SEVIOUR:</p> <p>5 Q. Good morning, Mr. Chair. Similarly, the</p> <p>6 Industrials have no questions.</p> <p>7 CHAIRMAN:</p> <p>8 Q. I guess by default the order is established.</p> <p>9 Good morning, Mr. Hearn.</p> <p>10 HEARN, Q.C.:</p> <p>11 Q. Seems to have been an efficient use of time,</p> <p>12 Mr. Chairman. Mr. Greneman, I'd like to just</p> <p>13 examine each of the aspects of what you refer</p> <p>14 to as the Labrador Interconnected System and</p> <p>15 just go through the background of the system,</p> <p>16 the history of the system and the different</p> <p>17 components. First of all, is there any</p> <p>18 physical direct connection between the</p> <p>19 distribution facilities in Labrador West and</p> <p>20 any facilities wholly owned by Newfoundland</p> <p>21 Hydro, any direct physical connection?</p> <p>22 A. Well, yeah, if you're--yes, there is.</p> <p>23 Q. Where would that be?</p> <p>24 A. It's through the distribution. Just start</p> <p>25 with Lab West?</p>
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<p>1 Q. Yes. The Labrador West distribution system,</p> <p>2 does it directly connect to any facilities</p> <p>3 that are wholly owned by Newfoundland Hydro?</p> <p>4 A. The answer--wholly owned, yes.</p> <p>5 Q. Where is that connection?</p> <p>6 A. This may get into minutia, but it goes through</p> <p>7 the Lab West distribution system, goes through</p> <p>8 the Twinco transmission -</p> <p>9 Q. And who owns Twinco?</p> <p>10 A. Twinco is owned by, it's owned by Twinco,</p> <p>11 actually.</p> <p>12 Q. Who are the shareholders of Twinco?</p> <p>13 A. My understanding is there are three</p> <p>14 shareholders of Twinco and they are Churchill</p> <p>15 Falls, Labrador, Wabush, IOCC. In any event,</p> <p>16 it goes through the Twinco line, goes through</p> <p>17 Churchill Falls. Presumably there is an</p> <p>18 electrical connection at Churchill Falls and</p> <p>19 there's a connection in some fashion to,</p> <p>20 either through a switch, maybe not, maybe</p> <p>21 normally open it through a switch to the 138</p> <p>22 kV line which is wholly owned by Hydro.</p> <p>23 Q. So the -</p> <p>24 A. There is a path.</p> <p>25 Q. There's a path to get to the hydro system.</p>	<p>1 But what I would suggest to you that the</p> <p>2 Labrador West distribution system does not</p> <p>3 connect with a wholly owned facility of</p> <p>4 Newfoundland Hydro?</p> <p>5 A. The path is not totally--all elements in the</p> <p>6 path are not totally owned by Hydro. I don't</p> <p>7 consider that to be relevant to the argument.</p> <p>8 Q. What is the distance from the Labrador West</p> <p>9 distribution system, the Wabush substation to</p> <p>10 the nearest Newfoundland Hydro facility that</p> <p>11 you would say it connects to?</p> <p>12 A. This might take a few moments.</p> <p>13 Q. Well, let's not--we'd agree that it's the</p> <p>14 distance of, at least the distance of the</p> <p>15 Twinco line from Churchill Falls to Labrador</p> <p>16 West?</p> <p>17 A. That's the point, I agree.</p> <p>18 Q. So we don't--now, you're saying that there's a</p> <p>19 switch from that line to the 138 kV line?</p> <p>20 A. To the extent that it, I'm going to use the</p> <p>21 word "terminate" loosely, in Churchill Falls,</p> <p>22 I would assume that that can be some sort of</p> <p>23 common facility in Churchill Falls that</p> <p>24 separates Lab East and Lab West. I have not</p> <p>25 looked at the substation diagram. I don't</p>

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<p>1 MR. GRENEMAN: 2 believe this is relevant to the argument. I 3 think it's, in a sense, minutia. 4 HEARN, Q.C.: 5 Q. Well, perhaps we'll let the Board determine 6 the relevance. 7 A. Yeah. 8 Q. I'd just like to be certain that we understand 9 the facts on which we're making the final 10 determination. I understand that it's an 11 assumption that the line from Labrador West 12 would connect to the line from Labrador East. 13 Do you have any--you've presented no evidence 14 on that point, have you? 15 A. No. I don't think it's relevant whether one 16 could feed the other, for example. 17 Q. That's my next question. 18 A. If that's what--yeah. 19 Q. These lines have different load 20 characteristics and qualities, do they not? 21 A. Does the? 22 Q. The Twinco line is a 238--sorry, 230 kV line 23 and the line from Churchill Falls to Labrador 24 East is a 138 kV line. Would that be correct? 25 A. Right.</p>	<p>1 Q. So they would have different characteristics? 2 A. The sense--I don't think we--did you use the 3 word "profiles"? 4 Q. No, I don't think so. 5 A. No. Well, the load being carried on each one 6 is pretty much the same characteristic. The 7 physical line, the line physically, 8 electrically operates, each line operates at 9 two different voltage levels. 10 Q. Yes. That's--what's the distance from 11 Churchill Falls to Labrador East for the 138 12 kV line? If you don't have that readily, it's 13 not - 14 A. I can--it'll take a minute or two to get it. 15 Q. Well, what's the ownership of the line from 16 Labrador East to Happy Valley-Goose Bay? 17 A. In Labrador East to Happy Valley-Goose Bay? 18 Q. Yeah, the 138 kV line that we're referring to, 19 who owns that line? 20 A. Sorry, from Churchill Falls to - 21 Q. Churchill Falls to Happy Valley-Goose Bay? 22 A. It's wholly owned by Hydro. 23 Q. Yes. On the transmission aspects, Hydro 24 owning the line to Labrador East and bearing 25 the costs, would you agree that in the present</p>
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<p>1 situation that there's a different costing in 2 the transmission of power to Labrador East 3 than to Labrador West? To Labrador West it's 4 wheeled and essentially not cost to Hydro and 5 to Labrador East, Labrador East bears the cost 6 of the transmission function, does it not? 7 A. The method of costing would be the same. 8 Q. The actual costing to Hydro would be higher to 9 Labrador East than to Labrador West, I would 10 suggest? Is that - 11 A. For that transmission line by virtue of the 12 fact that there's zero cost. The methodology 13 is the same. 14 Q. One having zero cost and the other having a 15 real cost means that it's cheaper for Hydro to 16 deliver power to Labrador West than it is to 17 Labrador East? 18 A. I would agree with that. 19 Q. The distribution system, would you know when 20 the Labrador West distribution system was 21 constructed and by whom? 22 A. I believe--I would--it might have been 23 constructed by the Iron Ore--by the 24 Industrials, the Iron Ore Corporation. I'm 25 guessing at the moment.</p>	<p>1 Q. I'd suggest to you that the two components of 2 the Labrador West distribution system were 3 constructed respectively by the Iron Ore 4 Company of Canada and Wabush Mines? 5 A. That's my understanding, actually. 6 Q. Is it your understanding that Hydro 7 contributed anything to the original 8 construction of those system? 9 A. Yes, it is. Oh, that Hydro contributed? 10 Q. Anything to the original construction costs of 11 those systems? 12 A. I don't think they did, but I'd have to check. 13 Q. Would you know what the historical cost of the 14 construction of those--of the distribution 15 systems that service Labrador West by Wabush 16 Mines and IOC were? 17 A. I do not know the historical cost. I could-- 18 as a matter of fact, I'm sorry, I take that 19 back. I can check in the Cost of Service 20 Study the historical cost. 21 Q. Will you find the historical cost in the Cost 22 of Service Study? 23 A. What I could find is the remaining plant--my 24 understanding is I could find the remaining-- 25 the plant that's in the field today, which</p>

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<p>1 MR. GRENEMAN: 2 could be part historical, it could be all 3 replaced, it could be part replaced, but what 4 should be able to be found is the surviving 5 plant in the field right now, which could be 6 all historical, part historical or part--all 7 upgraded. 8 HEARN, Q.C.: 9 Q. Are you aware of the purchase price that was 10 paid for that system by Newfoundland Hydro? 11 A. I can find out. I don't have the number at 12 hand. 13 Q. I'd suggest to you that Wabush Mines turned 14 over its portion of the system in the mid '80s 15 for a nominal sum of a dollar with Wabush 16 Mines contributing to an upgrading in the 17 system of some several million dollars. Do 18 you understand that to be the case? 19 A. I'll accept that. 20 Q. If anything I say is incorrect, I'm sure 21 you'll correct me and I'm sure Ms. Greene can 22 be of assistance as well if I'm sending you in 23 the wrong direction. Do you understand that 24 the Iron Ore Company of Canada turned over its 25 portion of the distribution system to</p>	<p>1 Newfoundland Hydro in approximately the early 2 1990s, also for the nominal sum of a dollar, 3 with the Iron Ore Company of Canada 4 contributing substantially, again, I 5 understand, some millions of dollars towards 6 the upgrading of that system? 7 A. I'll accept that. 8 Q. I'm not asking you to--I'm asking you is it 9 your understanding that that's accurate? 10 A. Yes. 11 Q. So the actual cost to Newfoundland Hydro, 12 apart from any further capital investments 13 that they've made since they've acquired 14 ownership, would be relatively low? 15 A. Yes. 16 Q. Who built and paid for the distribution system 17 in Labrador East? 18 A. I would guess it was Hydro, but I'm not sure. 19 Q. I'd suggest to you that it was built, 20 maintained and operated by Newfoundland Hydro, 21 perhaps through one of its various companies 22 that may have existed at the time. Ms. Greene 23 may correct me on that if she feels that it's 24 appropriate. 25 GREENE, Q.C.:</p>
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<p>1 Q. For the record, the distribution system was 2 acquired by Hydro in the late '70s from the 3 Federal Government. It was--the original 4 distribution system in Goose Bay was not built 5 by PDD or Hydro. Again, I don't know that 6 it's relevant, but that's the factual basis. 7 CHAIRMAN: 8 Q. Thank you for that, Ms. Greene. 9 HEARN, Q.C.: 10 Q. The historical cost for the Labrador East 11 distribution facilities, how would they 12 compare to the cost of the distribution 13 facilities in Labrador West? 14 A. I didn't hear all of Ms. Greene's answer, 15 actually. It was a little bit low. If she - 16 GREENE, Q.C.: 17 Q. The distribution system on Labrador East in 18 the Happy Valley-Goose Bay area was originally 19 built by somebody else, a third party, and was 20 acquired by Hydro from the Federal Government 21 in the late '70s. That was the original 22 distribution system in the Goose Bay area. 23 A. And your question is how does the original 24 cost in Lab - 25 HEARN, Q.C.:</p>	<p>1 Q. The original cost for the system in Labrador 2 East compare to the cost to Hydro for the 3 system in Labrador West? 4 A. The original cost before anything was 5 transferred was presumably the same order of 6 magnitude. Facilities aren't built for free. 7 Q. Would you know about what investments that's 8 been required to be made by Hydro in the 9 Labrador East system? 10 A. I don't have that knowledge at this moment. 11 Q. There's been some evidence presented that 12 suggests that the--Mr. Drazen's evidence, that 13 the--in the distribution systems that the 14 costs for Labrador West are significantly 15 lower than that for Labrador East. Do you 16 disagree with that? 17 A. No, I don't. 18 Q. And we've already discussed the transmission 19 aspect that I understand you'll agree that the 20 actual transmission costs to deliver energy to 21 Labrador West are lower than they are to 22 deliver to Labrador East? 23 A. Yes. This is all manifested in Mr. Drazen's 24 estimates, so all this filters down to his two 25 estimates of Cost of Service. So, yes, I</p>

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<p>1 MR. GRENEMAN: 2 could agree to what you're saying. I don't 3 believe it to be relevant, though. 4 HEARN, Q.C.: 5 Q. Yeah, we'll come to the relevance of it. We 6 can perhaps argue that point, but perhaps if 7 we can just establish whether or not there's a 8 factual disagreement. On the generation 9 aspect, is it your understanding that there's 10 some 38 megawatts of backup or standby 11 generation on the Labrador East system? 12 A. Yes, I do. 13 Q. Who built and paid for that standby 14 generation? 15 A. I would assume that Hydro did. 16 Q. Do you know the costs associated with that 17 standby generation? 18 A. It's probably--yes, I think it's in Mr. 19 Drazen's study. I could reference it or - 20 (9:31 a.m.) 21 Q. Yes. Well, do you disagree with what Mr. 22 Drazen has said about the cost for that 23 generation? 24 A. I will accept that. I have no basis at the 25 moment to disagree.</p>	<p>1 GREENE, Q.C.: 2 Q. And it may be helpful if I advised at this 3 time, Hydro does accept that there are 4 differences in the costs between Labrador East 5 and Labrador West and after the revised 6 evidence of Mr. Drazen we accept generally the 7 costs that Mr. Drazen has outlined for 8 Labrador East and Labrador West and what the 9 differences are. 10 HEARN, Q.C.: 11 Q. Thank you, Ms. Greene. Do you know why the 12 standby generation was constructed and when it 13 was constructed in Happy Valley-Goose Bay? 14 A. I don't have at hand when it was constructed. 15 Apparently it was constructed in case the 138 16 kV line was out of service. 17 Q. There are two components to the standby 18 generation. One would be the diesel backup 19 and the other would be the gas turbine. Would 20 that be correct? Ms. Greene is free to - 21 GREENE, Q.C.: 22 Q. That is correct. The diesel plant was not 23 built by Hydro but the gas turbine was after 24 Hydro became responsible in the late '70s for 25 the Goose Bay area. The diesel was there</p>
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<p>1 prior to Hydro's assumption of ownership and 2 in the late '70s there was PDD first that went 3 in to Goose Bay. So the diesel plant was 4 there prior to that and Hydro installed the 5 gas turbine. 6 HEARN, Q.C.: 7 Q. Mr. Greneman, would you know when and why the 8 gas turbine was built? 9 A. It was probably--I would say for a combination 10 of voltage support and standby. 11 Q. When you say support and standby, is it fair 12 to say that it would be support and standby 13 for Labrador East? 14 A. Yes. 15 Q. Would you accept that the gas turbine would 16 have no role to service Labrador West? 17 A. Yes, I accept that. 18 Q. So then, if there is costs associated with the 19 construction of this turbine, and I'm sure 20 there are, and as we've seen that there are, 21 would you agree that even in the--looking at 22 the generation aspect that there are 23 significant cost differences between Labrador 24 East and Labrador West? 25 A. It all filters down to Mr. Drazen's estimate</p>	<p>1 and we have accepted that estimate. We have 2 accepted that there are cost differences, so 3 the answer is yes. 4 Q. In your evidence you've referred to cost 5 differences arise due to two situations and 6 one you referred to wheeling and essentially 7 no costs and the other the 38 megawatts of 8 generation on the Labrador East system, do you 9 not? 10 A. I do. 11 Q. That's page 2 of your evidence. Yet, Mr. 12 Drazen indicates, and I plan to take you 13 through, that there are cost differences 14 between Labrador West and Happy Valley-Goose 15 Bay in all three major components of costs, 16 generation, transmission and distribution? 17 A. I would characterize distribution as not being 18 significant with respect to cost differences 19 in comparison to generation and transmission, 20 in comparison between - 21 Q. When you say "not significant", have you done 22 any calculation of the order of magnitude of 23 that? 24 A. Once again, it all filters down to those--to 25 that estimate provided by Mr. Drazen. Hydro</p>

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<p>1 MR. GRENEMAN: 2 has accepted that there is a difference. I 3 don't believe they've done their own estimate 4 of that. And - 5 HEARN, Q.C.: 6 Q. But when you're using a phraseology such as 7 "not significant", I'd like to know more 8 precisely what that means in costing terms. 9 A. Would you give me a moment? 10 Q. Certainly. 11 A. If I look at Mr. Drazen's, and I have--I'm not 12 sure if this is his revised. This is his 13 revised table 4. And I look at distribution, 14 which is what you're focusing on and I observe 15 that Happy Valley-Goose Bay is 2.87 million 16 and Lab West is 2.7 million, that, in my view, 17 is not significant. 18 Q. So you're suggesting that there may be a 19 difference, but it's a modest difference in 20 the overall--in that component? 21 A. Yes. 22 Q. Just so we understand, but you don't disagree 23 that there may be cost differences in all 24 three major components of cost? Subject to 25 your caveat that the distribution -</p>	<p>1 A. Can you state that again? 2 Q. Do I understand that you don't disagree that 3 there may be some cost differences from 4 Labrador West and Happy Valley-Goose Bay in 5 all three major components of costs, ie, 6 generation, transmission and distribution, but 7 you would add the caveat that the cost 8 differences in distribution are not terribly 9 significant? 10 A. If I could--I see virtually no cost 11 differences in generation and distribution. 12 Q. No cost differences in generation? 13 A. Except for the 38 megawatts of generation. 14 But from Churchill Falls there's virtually no 15 difference. And what I've argued--what I've 16 put forth in my preface, if I could, is that 17 you achieve the same function in Lab West for 18 the 38 megawatts through the fact that you 19 have a dual Twincor line. So their 20 functionally equivalent. Yes, I agree with 21 respect to cost there does exist 38 megawatts 22 of generation in Lab East. 23 Q. And is that 38 megawatts a cost that you would 24 regard as significant? 25 A. In isolation it costs money to build 38</p>
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<p>1 megawatts. If you tell me what context to 2 consider it in, I may have a different answer. 3 Q. Considering it in the context of the cost of 4 electricity to Labrador East versus the cost 5 to supply electricity to Labrador West. 6 A. It depends how it mixes in in total. But it's 7 all manifested down, once again, in Mr. 8 Drazen's estimate of the two costs. 9 Q. And you don't take issue with Mr. Drazen's 10 costing in that analysis, do you? 11 A. Well, actually, I do note that it's not been 12 done in accordance with the principles that 13 Hydro would normally use and I would not say 14 it's anything other than a rough estimate. 15 For example, my understanding is he allocated 16 generation simply on kilowatt hours, which 17 would not normally be done. 18 Q. How would you expect it to be done? 19 A. There should be some--would normally, in my 20 view, be some demand or capacity element in 21 the allocation. 22 Q. It can be done in energy terms or demand and 23 energy terms, can it not? 24 A. It's a rough estimate, and I view it as a 25 rough estimate.</p>	<p>1 Q. You will accept that there is a cost for 38 2 megawatts of standby generation? 3 A. It costs money to build 38 megawatts of 4 standby generation. 5 Q. And that standby generation was designed and 6 services Labrador East. 7 A. I would say so. 8 Q. You talk about the Labrador system, what's the 9 history of the operation of Labrador East and 10 Labrador West, have they been operated as a 11 single system with common rates to date? 12 A. As a matter of fact, I understand there were 13 at least three separate systems. As late as 14 last year I understand there were three 15 systems. There was Lab East, there was Lab 16 West and Wabush. I'm sorry, prior to that 17 there were three systems in Lab West is my 18 understanding, so there--as in many utilities, 19 as they are today, you can visit the utility. 20 One I visited even a few weeks ago and looked 21 at a map on the wall that shows the evolution 22 of where they are right now and all the dozens 23 of little entities as they've been combined to 24 make it a present day utility. So there have 25 been some combinations in Lab West through</p>

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<p>1 MR. GRENEMAN: 2 today. 3 HEARN, Q.C.: 4 Q. So you would accept then that Labrador East 5 and Labrador West have not to date been 6 operated as a single system with a single set 7 of rates? 8 A. I'm not sure about the word "operated as". 9 They've had separate rates. 10 Q. Do you know how those rates roughly compare? 11 A. Yes. 12 Q. What would be the rough comparison of rates 13 between the two areas? 14 A. They're currently roughly in a 2 to 1 ratio; 15 Lab West being lower. 16 Q. Is it fair to say that they've been operated 17 in this manner for some--well, since Lab West 18 came in existence which would be some 40, 50 19 years ago? 20 A. I would surmise that Lab West has generally 21 been lower than Lab East but I don't have any 22 direct information or evidence in front of me 23 to support that. 24 Q. But would you accept that they've been 25 operated with a separate set of rates?</p>	<p>1 A. Yes, absolutely. 2 Q. For the past--the entire history of Labrador 3 West. 4 A. Yes. 5 Q. Does that history make a difference? 6 A. Not necessarily. In general, utilities have 7 evolved to larger utilities through the 8 present day by acquiring smaller utilities, 9 smaller distribution systems. And many of the 10 distribution systems had differences in prices 11 and one was higher, one was lower, they could 12 have been four to one ratios in terms of cost. 13 But ultimately in most instances, the rates 14 have been consolidated and combined into a 15 single rate. Although historical rates is a 16 factor or factor, there are other factors that 17 come into play. One of them is inflation. So 18 it's how long have the rates been in effect 19 with respect to inflation. Another one is do 20 customers or did customers have a reasonable 21 expectation that their rates were very low and 22 might likely be combined with another system 23 and thereby result in higher rates. So, 24 factors that enter into this are not only 25 historical considerations but inflation, well</p>
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<p>1 expectation of possible increase in rates, and 2 as well, the absolute rate level. 3 Q. When you say not only historical 4 considerations, do you accept then that 5 historical considerations become a factor to 6 be considered? 7 A. Historical considerations are a recognized 8 factor but so are other factors that I 9 mentioned. And in order to move forward and 10 combine things into a single system, virtually 11 all systems--I'm speaking in general about 12 large utilities within the US and perhaps in 13 Canada that have acquired dozens of little 14 systems, there have been discontinuities in 15 rates with respect to how they have been 16 charged in the past. So in a sense, if I 17 could use the expression, you have to break 18 some eggs to move forward and combine things 19 into an integrated system. 20 Q. You talk about an integrated system. Can you 21 provide us with any illustration of the system 22 where in effect to municipal areas of roughly 23 10,000 people each exist and there's no more 24 system than that, and one area is expected to 25 subsidize the other?</p>	<p>1 A. There are probably numerous examples. I note 2 that by saying 10,000 each, you're excluding 3 the Isolates. 4 Q. I'm talking about Labrador East and Labrador 5 West but we're talking about a situation where 6 you have two essentially municipal areas that 7 have a population in that order of magnitude. 8 And I'm asking if you can give us some 9 analogous system to that. 10 A. The first thing that comes to mind is separate 11 water systems around surrounding Chicago where 12 there were about 20 something systems that 13 have been combined for rate purposes. Many of 14 them have different hydraulic zones. That's a 15 water example. 16 Q. What type of population would you be talking 17 of there? 18 A. Very, very high population, the suburbs of 19 Chicago. 20 Q. So millions of people potentially? 21 A. Potentially. 22 Q. So how many systems, you say some 20 or so? 23 A. I believe it's 15 to the low 20s. I've been 24 personally involved in that. That's a water 25 example.</p>

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<p>1 HEARN, Q.C.:</p> <p>2 Q. I'm asking is there any system where you have</p> <p>3 in effect, you know, one municipal area</p> <p>4 subsidizing another municipal area in two very</p> <p>5 small population pockets, some 500 kilometers</p> <p>6 apart?</p> <p>7 A. Well in the case of Northern Indiana Public</p> <p>8 Service and subject to check, they provide</p> <p>9 service to different municipalities under very</p> <p>10 similar or the same rate schedule and they're</p> <p>11 definitely separate municipalities.</p> <p>12 Q. How many municipalities are we talking?</p> <p>13 A. There were four or three went to wheeling</p> <p>14 only, there's only one full requirement left.</p> <p>15 But the fact that they went to wheeling is not</p> <p>16 relevant in my view. There were four and the</p> <p>17 cost--they've been put into the same class for</p> <p>18 costing purposes and my recollection is they</p> <p>19 have the same rate and they're separate and</p> <p>20 discreet municipalities.</p> <p>21 Q. How many municipalities are we talking?</p> <p>22 A. Four.</p> <p>23 Q. What type of population?</p> <p>24 A. I'd have to check that.</p> <p>25 Q. How far apart are they?</p>	<p>1 A. I'd have to check that.</p> <p>2 Q. Do they have different cost characteristics</p> <p>3 for each municipality?</p> <p>4 A. They most definitely could have. Sure, they</p> <p>5 have different cost characteristics. They've</p> <p>6 been put into the same class for costing</p> <p>7 purposes for requirements, for requirements</p> <p>8 wholesale.</p> <p>9 Q. Is there one municipality expected to</p> <p>10 subsidize another roughly the same size?</p> <p>11 A. Well, we have FERC approved rates, yes. I</p> <p>12 might take exception with your</p> <p>13 characterization of subsidization and we could</p> <p>14 have a discussion on that. So I'm not sure</p> <p>15 one is subsidizing the other really, but they</p> <p>16 would have the same rates. I've other</p> <p>17 examples but I'll wait.</p> <p>18 Q. If you have other examples, then please</p> <p>19 provide it.</p> <p>20 A. As was brought out by Ms. Tabone yesterday,</p> <p>21 out in the north, Pacific northwest there are</p> <p>22 utilities that span several states and she had</p> <p>23 pointed out that they each have different</p> <p>24 grades. What I might point out a little</p> <p>25 further to Ms. Tabone's statement is that</p>
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<p>1 similar things exist in the east. For</p> <p>2 example, Delmarva Power and Light, which</p> <p>3 serves Delaware, Maryland and Virginia,</p> <p>4 although they have different rates, they have</p> <p>5 different rates not because of any type of</p> <p>6 subsidization, they have different rates</p> <p>7 because they span different regulatory</p> <p>8 jurisdictions and therefore they're forced to</p> <p>9 separate their rates. The point I was going</p> <p>10 to make is that under restructuring and open</p> <p>11 access in the United States, regional</p> <p>12 transmission organizations are being formed,</p> <p>13 otherwise known as RTOs where the individual</p> <p>14 utilities that comprise the entire system have</p> <p>15 very different transmission cost structures.</p> <p>16 But the rates have been combined into a single</p> <p>17 rate to the customer. So here's an example</p> <p>18 where the transmission customer can pay a</p> <p>19 single rate and each entity has its own cost</p> <p>20 structure, each of which can be very different</p> <p>21 from each other.</p> <p>22 Q. What sort of population are we talking about?</p> <p>23 A. Millions.</p> <p>24 Q. How many municipalities would we be talking</p> <p>25 about?</p>	<p>1 A. It's municipalities, it's Industrial</p> <p>2 Customers.</p> <p>3 Q. Would be numerous in any event?</p> <p>4 A. Yes. If I set out to research what you're</p> <p>5 asking, I'm sure I could find many examples.</p> <p>6 Q. I thought that that's--we were here to discuss</p> <p>7 it today, that if you're going to do any</p> <p>8 research you would do it before presenting</p> <p>9 your evidence.</p> <p>10 A. I've mentioned a couple of examples and I'm</p> <p>11 sure there are numerous others.</p> <p>12 Q. But you haven't deemed it worthy to research</p> <p>13 it in any more detail than that at the present</p> <p>14 time?</p> <p>15 A. With all respect, I don't think it's relevant</p> <p>16 to what I--the rationale I believe to be in</p> <p>17 support of the single system.</p> <p>18 Q. In the situation of Labrador West, would you</p> <p>19 accept that the mining companies have</p> <p>20 contributed substantially to the costs of</p> <p>21 construction of the distribution facilities in</p> <p>22 Labrador West?</p> <p>23 A. Yes, I would accept that.</p> <p>24 Q. And would you also accept that the Twin which</p> <p>25 is partially owned by the mining companies,</p>

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<p>1 HEARN, Q.C.:</p> <p>2 doesn't seem to have raised any objection to</p> <p>3 the wheeling at no cost?</p> <p>4 A. They don't raise any objection to the wheeling</p> <p>5 at no cost, okay.</p> <p>6 Q. Are the wishes or intentions of the mining</p> <p>7 companies in making contributions and in</p> <p>8 acquiescing the wheeling, are their wishes a</p> <p>9 consideration in this regard?</p> <p>10 A. My understanding is that Hydro is free to do</p> <p>11 whatever they--to restructure their rates in</p> <p>12 any fashion they feel is supportable and fair</p> <p>13 and reasonable. I don't believe--I'm not sure</p> <p>14 of their wishes--not Hydro's wishes, of the</p> <p>15 mining company's wishes but I do know that</p> <p>16 there's no cloud, if you will, over making one</p> <p>17 single system. There's no restriction against</p> <p>18 it.</p> <p>19 Q. There's no contractual commitment.</p> <p>20 A. That's my understanding, yes.</p> <p>21 Q. If the assets were perhaps passed over at</p> <p>22 nominal or no cost with the intention of the</p> <p>23 rate increases being based on additional cost</p> <p>24 to service the local Labrador West</p> <p>25 communities, even in the absence of the</p>	<p>1 contractual commitment, is that a relevant</p> <p>2 consideration for this process?</p> <p>3 A. I understand your question, the answer is no.</p> <p>4 Q. So you don't regard that as a consideration in</p> <p>5 -</p> <p>6 A. That's correct.</p> <p>7 Q. So in order for it to be a consideration, it</p> <p>8 would have had to be a firm, contractual</p> <p>9 commitment?</p> <p>10 A. Would have to be a firm -</p> <p>11 Q. The intention of the mining companies in</p> <p>12 passing over the assets for a nominal</p> <p>13 consideration to Hydro.</p> <p>14 A. I'm not an attorney. My understanding is that</p> <p>15 Hydro is free to make a single rate for</p> <p>16 Labrador and connected system with that</p> <p>17 restriction based on any contract, and behind</p> <p>18 that I'm not sure that I'm qualified to -</p> <p>19 Q. You mentioned price signals, do you know what</p> <p>20 difference the contemplated rates are expected</p> <p>21 to be in Labrador West versus what they are</p> <p>22 now with Hydro's proposed rate increases over</p> <p>23 the next five years?</p> <p>24 A. I am.</p> <p>25 Q. What would be the difference in cost for</p>
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<p>1 Labrador West in 2008 versus now, on a</p> <p>2 percentage basis?</p> <p>3 A. I'm sorry -</p> <p>4 Q. What would be the difference in projected</p> <p>5 costs for the customers in Labrador West in</p> <p>6 2008 versus the present cost?</p> <p>7 A. It's roughly, subject to check and if I'm</p> <p>8 interpreting the schedules I've looked at,</p> <p>9 properly, something in the order of 149</p> <p>10 percent. But I would add that only 102</p> <p>11 percent roughly is due to the combination of</p> <p>12 the two systems and 129 percent is due to</p> <p>13 normal increase in operating cost.</p> <p>14 Q. Sorry, would you just repeat that again?</p> <p>15 A. My understanding is that in 2008 as compared</p> <p>16 with, I'm not sure if it's 2003 or 2002 or</p> <p>17 2004, but the increase--as a matter of fact -</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. Actually, if you look at table 5 to Mr.</p> <p>20 Banfield's evidence, the difference in the</p> <p>21 existing rates and the proposed rates in 2008</p> <p>22 are broken out from Labrador West to Happy-</p> <p>23 Valley, Goose Bay by customer class. So</p> <p>24 that's table 5 to the evidence of Mr. Banfield</p> <p>25 filed with respect to Labrador, filed on</p>	<p>1 October 31st.</p> <p>2 A. Sorry, I take that back. Upon looking at this</p> <p>3 table I revise that to be 92.2 percent.</p> <p>4 HEARN, Q.C.:</p> <p>5 Q. 92.2 percent being which increase?</p> <p>6 A. That's Labrador West.</p> <p>7 Q. That's a Labrador West total from--you're</p> <p>8 relying on the full year 2008 and the</p> <p>9 cumulative total at the bottom of that chart?</p> <p>10 A. I'm noting that on--I'm observing that on</p> <p>11 table 5, the lower right hand number is 92.2,</p> <p>12 subject to how that table was created.</p> <p>13 Q. What would that translate into in average</p> <p>14 rates in Labrador West in 2008 compared to</p> <p>15 average rates in Labrador West in 2003?</p> <p>16 A. I did review it, I'd have to go through -</p> <p>17 Q. I think, again, there's a chart in Mr.</p> <p>18 Banfield's evidence that assists in that</p> <p>19 regard. Schedule 3, page 1 of 2 may be of</p> <p>20 assistance in that regard. What does that</p> <p>21 show the 2003 rates in Labrador West to be on</p> <p>22 the kilowatt hour basis?</p> <p>23 A. For which class?</p> <p>24 Q. For class--look at class 2.1, I believe that's</p> <p>25 general services.</p>

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<p>1 MR. GRENEMAN:</p> <p>2 A. \$9.10 per month and 2.2 cents per kilowatt</p> <p>3 hour.</p> <p>4 HEARN, Q.C.:</p> <p>5 Q. And in 2008 for that class, what would be the</p> <p>6 respective demand and energy charges?</p> <p>7 A. There's no demand charge in that.</p> <p>8 Q. I'm sorry, basic charge, excuse me.</p> <p>9 A. It's \$10.10 per month and 5.086 cents per</p> <p>10 kilowatt hour.</p> <p>11 Q. Would you agree that that's a significant</p> <p>12 percentage increase over five years, in</p> <p>13 absolute terms?</p> <p>14 A. One must view it in the context of inflation,</p> <p>15 expectation of the increase and the absolute</p> <p>16 level of the increase.</p> <p>17 Q. In terms of inflation, what would you project</p> <p>18 inflation to be over that period of time?</p> <p>19 A. Well I don't think it's so much within this</p> <p>20 period of time, I think it's also with respect</p> <p>21 to history -</p> <p>22 Q. I wonder if you might just answer my question,</p> <p>23 what would you project inflation to be from</p> <p>24 2003 to 2008?</p> <p>25 A. I would anticipate it would be single digit.</p>	<p>1 Q. And yet we're looking at--well the kilowatt</p> <p>2 hour charge, even excluding the basic charge</p> <p>3 going from 2.2 cents to approximately 5.1</p> <p>4 cent?</p> <p>5 A. Yes. The point I was trying to make is I</p> <p>6 don't think this period, this five-year period</p> <p>7 is the relevant period upon which to look at</p> <p>8 inflation, and inflation is only one factor.</p> <p>9 Q. During this, while inflation, that one factor</p> <p>10 is in the single digits as you would project,</p> <p>11 we're seeing the price of electricity in</p> <p>12 Labrador West being almost two and a half</p> <p>13 times as much.</p> <p>14 A. I see that.</p> <p>15 Q. Would you accept that that is a significant</p> <p>16 rate shock for the consumers in Labrador West?</p> <p>17 A. Not necessarily, because it's still a very,</p> <p>18 very low rate.</p> <p>19 Q. You obviously don't live in Labrador West.</p> <p>20 A. I'm paying about .25 a kilowatt hour in Con</p> <p>21 Edison, that's rate shock.</p> <p>22 Q. You obviously don't live in Labrador West.</p> <p>23 From 2.2 to 5.1 kilowatt hour charge plus a</p> <p>24 basic charge could be seen as significant rate</p> <p>25 shock for Labrador West.</p>
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<p>1 A. Rate shock is a subjective--it's the customers</p> <p>2 that perceive rate shock, and as I had</p> <p>3 mentioned, there are many--the number of</p> <p>4 considerations that enter into that, and one</p> <p>5 of them is whether or not they had a</p> <p>6 reasonable expectation that there might be a</p> <p>7 change. My understanding is these customers</p> <p>8 have had a reasonable expectation of the</p> <p>9 change. In a sense, they've been subsidized</p> <p>10 in the past. Now they're paying really the</p> <p>11 legitimate cost of service. So it's very hard</p> <p>12 to characterize it in the way you are, out of</p> <p>13 context.</p> <p>14 Q. I wonder if--you've said that customers have</p> <p>15 reasonable expectations of this change, is</p> <p>16 that what you just said?</p> <p>17 A. My understanding is they may have known this</p> <p>18 was coming for a couple of years, at least</p> <p>19 since P.U.7.</p> <p>20 Q. Are you saying simply that they've been</p> <p>21 informed that Hydro wishes to do this?</p> <p>22 A. Yes. And also perhaps the realization that</p> <p>23 they have been for many years enjoying what I</p> <p>24 would term subsidized rates.</p> <p>25 Q. How were the rates subsidized?</p>	<p>1 A. Well, maybe subsidized is not the correct word</p> <p>2 but knowledge of the fact that there was</p> <p>3 essentially no cost wheeling over the Twinco</p> <p>4 lines and that there were contributions made.</p> <p>5 So -</p> <p>6 Q. They've enjoyed the benefit of the subsidies</p> <p>7 from the mining companies.</p> <p>8 A. I would agree.</p> <p>9 Q. But apart from that, is there any indication</p> <p>10 that the consumers in Labrador West have not</p> <p>11 been paying the full Cost of Service?</p> <p>12 A. It depends what is defined as the full Cost of</p> <p>13 Service, how the full Cost of Service is</p> <p>14 defined.</p> <p>15 Q. When Wabush was a separate system and was</p> <p>16 taken over by Hydro, and it was operated for a</p> <p>17 considerable number of years, tracking its</p> <p>18 costs, what was the result of the last hearing</p> <p>19 request to rebate excess monies back to Wabush</p> <p>20 consumers?</p> <p>21 A. The result was that the monies were refunded</p> <p>22 to the later existing customers and that was</p> <p>23 based upon a different basis of measurement at</p> <p>24 that time.</p> <p>25 Q. Was the measurement a measurement set by this</p>

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<p>1 HEARN, Q.C.:</p> <p>2 Board in terms of costs to service Wabush?</p> <p>3 A. I would think so.</p> <p>4 Q. Were the monies that were refunded excess</p> <p>5 monies over and above those defined costs from</p> <p>6 that time?</p> <p>7 A. If I understand you correctly I think that's</p> <p>8 my understanding as well.</p> <p>9 Q. What was the order of magnitude of that</p> <p>10 rebate?</p> <p>11 A. Per customer or total?</p> <p>12 Q. Total, aggregate. I suggest that it was</p> <p>13 approximately three million dollars.</p> <p>14 A. I probably have that somewhere but I'll accept</p> <p>15 it.</p> <p>16 Q. What would be the annual revenues collected by</p> <p>17 Hydro from Wabush during that period of time,</p> <p>18 approximately?</p> <p>19 A. I don't know offhand.</p> <p>20 Q. Do you have any order of magnitude?</p> <p>21 A. The annual revenues collected by -</p> <p>22 Q. From Hydro, from the Wabush customers during</p> <p>23 the period of time that the rebate was</p> <p>24 accumulated.</p> <p>25 A. I'd have to research that, I don't have that</p>	<p>1 at hand.</p> <p>2 Q. Could it have been in the order of magnitude</p> <p>3 of gross revenues of a million, two million,</p> <p>4 three million?</p> <p>5 A. I don't know.</p> <p>6 Q. I'd suggest to you that on the costs as they</p> <p>7 were defined at that time, that the rebate</p> <p>8 showed that there was a significant annual</p> <p>9 surplus generated each year, based on costs as</p> <p>10 they were defined at that time. Would you</p> <p>11 accept that?</p> <p>12 A. Yes.</p> <p>13 Q. Do you have any evidence to say that apart</p> <p>14 from the subsidies provided by the mining</p> <p>15 companies, that the Labrador West area was not</p> <p>16 paying its costs as they were defined at that</p> <p>17 time?</p> <p>18 A. No, as it was defined at that time, I have no</p> <p>19 evidence.</p> <p>20 Q. You've mentioned that factor--I'll just check</p> <p>21 my notes about the--you talked about Hydro, we</p> <p>22 have to send the appropriate signals and that</p> <p>23 if it's priced, energy is priced too low in a</p> <p>24 different area, it may deprive Hydro of export</p> <p>25 sales.</p>
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<p>1 A. Yes.</p> <p>2 Q. Two aspects of that. One, is there any</p> <p>3 evidence of wasteful consumption in Labrador</p> <p>4 West?</p> <p>5 A. Only to the extent that there is some</p> <p>6 elasticity, if there's some correlation</p> <p>7 between price and consumption.</p> <p>8 Q. And is there--are you seeing that correlation</p> <p>9 in Labrador West?</p> <p>10 A. Have I seen it? I've not seen anything</p> <p>11 personally, it may have been suggested, I</p> <p>12 don't know.</p> <p>13 Q. How does the price charged in Labrador West</p> <p>14 and projected to be charged in Labrador West</p> <p>15 compare to Hydro's export price?</p> <p>16 A. My understanding is at certain points it could</p> <p>17 be lower than the export price and there's a</p> <p>18 possibility it can be greater than the export</p> <p>19 price, but I think it's right around, plus and</p> <p>20 minus, right around the export price. At</p> <p>21 times it can be less. My understanding is at</p> <p>22 times it can be less than the export price.</p> <p>23 My understanding is that the export price is</p> <p>24 up for renegotiation and I don't know what</p> <p>25 that value is going to be.</p>	<p>1 Q. What power is Hydro exporting?</p> <p>2 A. It's exporting power from Churchill Falls to</p> <p>3 Hydro Quebec.</p> <p>4 Q. How much?</p> <p>5 A. Pardon?</p> <p>6 Q. How much energy?</p> <p>7 A. I understand it's the production plus what's</p> <p>8 taken in its own service territory, in Hydro's</p> <p>9 service territory.</p> <p>10 Q. So you're referring to the production of</p> <p>11 CF(L)Co are you?</p> <p>12 A. I'm sorry, I didn't hear you.</p> <p>13 Q. Are you referring to the production of</p> <p>14 CF(L)Co?</p> <p>15 A. Yes, I am.</p> <p>16 Q. Do you know the CF(L)Co export price?</p> <p>17 A. I think it's in the order of three point</p> <p>18 something cents, subject to check. I don't</p> <p>19 know the exact number. I did know the exact</p> <p>20 number -</p> <p>21 Q. CF(L)Co's export price is in the order of</p> <p>22 three point something cents?</p> <p>23 A. I'd have to check that.</p> <p>24 Q. Well let me suggest to you and Ms. Greene will</p> <p>25 certainly correct me if I'm incorrect, that</p>

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<p>1 HEARN, Q.C.:</p> <p>2 the present export price for Churchill Falls</p> <p>3 is more in the range of 2.56 mills.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. There's confusion, obviously, between the line</p> <p>6 of cross-examination. Mr. Greneman believes</p> <p>7 that--there are two things going on here. Mr.</p> <p>8 Hearn is talking about the CF(L)Co export</p> <p>9 price with which he is familiar, which is the</p> <p>10 power contract between Churchill Falls and</p> <p>11 Hydro Quebec which has a very low mill rate.</p> <p>12 What Mr. Greneman is referring to is the</p> <p>13 recall block of 300 megawatts that has been</p> <p>14 recalled from the power contract at Hydro's</p> <p>15 request, Newfoundland and Labrador Hydro,</p> <p>16 Newfoundland and Labrador Hydro used the 300</p> <p>17 megawatts available under the power contract</p> <p>18 and has recalled it to supply customers in</p> <p>19 Labrador and then it resells the balance at a</p> <p>20 much higher price than the original power</p> <p>21 contract price, and I think there's been</p> <p>22 confusion in the -</p> <p>23 HEARN, Q.C.:</p> <p>24 Q. Well, I'm asking the witness what he referred</p> <p>25 to and I appreciate Ms. Greene's comments but</p>	<p>1 with respect, the witness indicated that he</p> <p>2 was talking about the CF(L)Co export price.</p> <p>3 So if there's a confusion, it's not on my part</p> <p>4 and I'm asking the witness to explain what he</p> <p>5 meant by his comments and what he means by his</p> <p>6 evidence. So if there's a confusion then -</p> <p>7 GREENE, Q.C.:</p> <p>8 Q. I think the problem is he's talking about the</p> <p>9 price where Hydro sells CF(L)Co power. And</p> <p>10 whether you call it CF(L)Co power or Hydro</p> <p>11 power, it is confusing.</p> <p>12 HEARN, Q.C.:</p> <p>13 Q. With respect, perhaps we could hear from the</p> <p>14 witness as opposed to Ms. Greene on this</p> <p>15 point.</p> <p>16 GREENE, Q.C.:</p> <p>17 Q. And the other thing is I do believe this is</p> <p>18 irrelevant evidence in any event. I've been</p> <p>19 trying--in order to get as many questions as</p> <p>20 Mr. Hearn would like to ask on the record, we</p> <p>21 have an objective but a lot of the questions</p> <p>22 have been irrelevant and the export revenue</p> <p>23 that CF(L)Co derived on this power contract</p> <p>24 sales is one of those issues that's</p> <p>25 irrelevant.</p>
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<p>1 HEARN, Q.C.:</p> <p>2 Q. With respect, Mr. Chairman, if I may, I mean</p> <p>3 it's Mr. Greneman that's referred to one of</p> <p>4 the factors as being Hydro's opportunity to</p> <p>5 export and I'm canvassing what that factor</p> <p>6 means. So if this is seen as irrelevant, then</p> <p>7 it's simply because Mr. Greneman has referred</p> <p>8 to it as a relevant factor that I regard it as</p> <p>9 relevant. So I find it rather confusing if</p> <p>10 Ms. Greene is now saying this line of inquiry</p> <p>11 is irrelevant when it's being presented by her</p> <p>12 very own expert as being one of the</p> <p>13 considerations.</p> <p>14 GREENE, Q.C.:</p> <p>15 Q. The point I was making is that the arrangement</p> <p>16 between Churchill Falls Labrador Corporation</p> <p>17 Limited and the power contract and the mill</p> <p>18 rate to which Mr. Hearn referred is irrelevant</p> <p>19 to this hearing. The issue of any profit that</p> <p>20 Newfoundland Hydro may make on its sales to</p> <p>21 Hydro Quebec is what Mr. Greneman was</p> <p>22 referring to and I am not saying that that is</p> <p>23 irrelevant. There is a difference, my</p> <p>24 position.</p> <p>25 CHAIRMAN:</p>	<p>1 Q. I'm not going to get into the relevancy of</p> <p>2 specific questions, I think if we get into</p> <p>3 that we'll be here for a long, long time. I</p> <p>4 think there's an opportunity for Mr. Hearn to</p> <p>5 ask the question. I think this is an awkward</p> <p>6 aspect of the proceeding and I think that the</p> <p>7 questions, in fairness, Mr. Hearn, that you're</p> <p>8 asking the witness, I think he's trying to do</p> <p>9 his best to answer them, would have probably</p> <p>10 been better put to Hydro witnesses, either</p> <p>11 previously or subsequent witnesses to</p> <p>12 establish the facts and the evidence on the</p> <p>13 record. I think in fairness to Mr. Greneman</p> <p>14 we should give him the opportunity to respond</p> <p>15 to the questions which I think he's trying to</p> <p>16 do in the best fashion certainly he can. I</p> <p>17 think in relation to some of the details of</p> <p>18 the information, it would be as I say, more</p> <p>19 appropriate for Hydro witnesses and refer to</p> <p>20 the record on that. So I appreciate the fact</p> <p>21 that Ms. Greene is trying to clarify any</p> <p>22 confusions that are coming up and in fairness,</p> <p>23 I think that's the only way to proceed and we</p> <p>24 should probably appreciate that fact in</p> <p>25 putting the questions to the witness. Indeed,</p>

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<p>1 CHAIRMAN:</p> <p>2 if you have knowledge of information in</p> <p>3 respect to the answer to the question and the</p> <p>4 answer to the information by way of a factual</p> <p>5 basis that it could be done on an acceptance</p> <p>6 or agreement between yourself and the witness,</p> <p>7 if you could be guided by that, please.</p> <p>8 HEARN, Q.C.:</p> <p>9 Q. Mr. Chairman, I'd certainly be guided by the</p> <p>10 Chair's comments, but I would point out that</p> <p>11 it's Mr. Greneman that referred to depriving</p> <p>12 Hydro of additional export sales, and what I</p> <p>13 want to canvas here is what Mr. Greneman</p> <p>14 understood by that. So that's why I'm asking</p> <p>15 what his understanding is of Hydro's</p> <p>16 opportunity price and actual price in export</p> <p>17 versus the price charged in Labrador West. So</p> <p>18 with respect, I think that the questions are a</p> <p>19 useful probing of what's been put forward as a</p> <p>20 rationale.</p> <p>21 CHAIRMAN:</p> <p>22 Q. I never commented, Mr. Hearn, on the relevancy</p> <p>23 of the questions. I commented on the nature</p> <p>24 of the facts that are trying to be explored</p> <p>25 here and how they're getting explored, and in</p>	<p>1 fairness to the witness, the best way to bring</p> <p>2 them out.</p> <p>3 HEARN, Q.C.:</p> <p>4 Q. But with respect, Mr. Chairman, I'm asking the</p> <p>5 witness' understanding of those facts because</p> <p>6 this is the rationale that he has put forward,</p> <p>7 and that's why I intended, and it won't be</p> <p>8 terribly lengthy to go--what I did intend to</p> <p>9 probe what Mr. Greneman's understanding is of</p> <p>10 Hydro's export sales. So if I may, and I'll</p> <p>11 try to keep the questions focused in that</p> <p>12 regard.</p> <p>13 CHAIRMAN:</p> <p>14 Q. And in fairness, some of those understandings,</p> <p>15 I'm sure Mr. Greneman has at his fingertips</p> <p>16 and others he doesn't, and I want to be fair</p> <p>17 to the witness here as well.</p> <p>18 HEARN, Q.C.:</p> <p>19 Q. Well, and I'm trying to be fair to the</p> <p>20 witness, but at the same time, this witness is</p> <p>21 putting forward depriving Hydro of additional</p> <p>22 export sales as a consideration for this Board</p> <p>23 in setting rates for Labrador West.</p> <p>24 CHAIRMAN:</p> <p>25 Q. Understand.</p>
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<p>1 HEARN, Q.C.:</p> <p>2 Q. That's why it's regarded as important to</p> <p>3 clearly probe this area, with respect, Mr.</p> <p>4 Chairman. Thank you.</p> <p>5 CHAIRMAN:</p> <p>6 Q. Thank you.</p> <p>7 HEARN, Q.C.:</p> <p>8 Q. Mr. Greneman, we won't unduly belabour it, but</p> <p>9 I did want to understand what you meant by</p> <p>10 Hydro's export sales, and you referred to an</p> <p>11 understanding of a price of some three point</p> <p>12 something cents. I asked you whether you were</p> <p>13 referring to the sales of CF(L)Co. Did I</p> <p>14 understand you to say that you were referring</p> <p>15 to the sales of CF(L)Co?</p> <p>16 A. Okay, if I could explain it in my own words?</p> <p>17 Q. Certainly, certainly.</p> <p>18 A. I understand that there's a block of power</p> <p>19 being made by Hydro from Churchill Falls to</p> <p>20 Hydro Quebec at a level such that from that</p> <p>21 block, it's serving it's own customers in the</p> <p>22 Labrador system and whatever is left over is</p> <p>23 going to Churchill Falls.</p> <p>24 Q. Are you saying whatever is left over is going</p> <p>25 to Hydro Quebec?</p>	<p>1 A. I'm sorry, is going to Hydro Quebec. So the</p> <p>2 dynamics I was referring to is that if the</p> <p>3 Labrador system uses more, there's less to</p> <p>4 sell.</p> <p>5 (10:15 a.m.)</p> <p>6 Q. Less to sell by Hydro?</p> <p>7 A. Yes, or vice versa, and that's simply what I</p> <p>8 was referring to.</p> <p>9 Q. What is the order of magnitude or what's the</p> <p>10 actual price of Hydro's export sales?</p> <p>11 A. The price for the type of power that I was</p> <p>12 referring to, something in the mid threes</p> <p>13 stays in my mind. I don't know if it's a</p> <p>14 possible number after it's negotiated or the</p> <p>15 current number, but what I'm trying to convey</p> <p>16 is the mechanism rather than the absolute</p> <p>17 price and the fact that the price that I'm</p> <p>18 referring to, in relation to the rate, could</p> <p>19 be a little--the rate could be a little under</p> <p>20 or it could be a little over, so the</p> <p>21 possibility does exist. It's this mechanism I</p> <p>22 was trying to -</p> <p>23 Q. Have you examined whether the price is a</p> <p>24 little higher or a little lower?</p> <p>25 A. Yes, I have, and at one point, in early years,</p>

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<p>1 MR. GRENEMAN: 2 the price was lower. 3 HEARN, Q.C.: 4 Q. Which price was lower? 5 A. The price to Lab West if they stayed--if Lab 6 West remained a separate system, my 7 understanding is that price would be lower. 8 Q. If it remained a separate system at what rate? 9 A. At the existing rate, I would say. 10 Q. So let's choose the general service rate of a 11 kilowatt hour charge of 2.2 cents a kilowatt 12 hour. How does the export price of Hydro 13 compare to 2.2 cents a kilowatt hour? 14 A. Could you advise me of the export price of 15 Hydro? 16 Q. No, I'm asking do you know. 17 A. I don't know the number at hand. 18 Q. I don't know the - 19 A. I did know the number and I don't have it at 20 hand. 21 Q. Did you examine that in reaching this 22 conclusion? 23 A. I believe that was my process, yes. 24 Q. But you haven't tendered it, and you're not 25 aware of it?</p>	<p>1 A. Say again? 2 Q. You haven't put it in your evidence? 3 A. No, only qualitatively. 4 Q. But there's not quantitative figure that we've 5 been presented with by you? 6 A. No, because the concept was qualitative to 7 begin with. 8 Q. Can you tell us the difference? 9 A. The difference between? 10 Q. The difference between the basic price and 11 what you understood to be the higher export 12 price, can you give us a percentage difference 13 between 2.2 cents - 14 A. Like I said, if somebody could advise me, I 15 don't--I had the price and I somehow don't 16 have it with me this morning. 17 Q. How does that price, that export price 18 presently compare to a projected kilowatt hour 19 charge in 2008 of 5.086 cents? 20 A. My recollection is that 5.086 is higher. 21 Q. By what order of magnitude? 22 A. Once again, I don't know the export price at 23 hand. I don't have that at hand. 24 Q. May I suggest to you that that's probably in 25 the range of double the export price, at</p>
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<p>1 least? 2 A. My understanding is that it may be double the 3 current export price, but that may--I'm not 4 sure if that contract is subject to 5 renegotiation until 2008. 6 Q. I'm sure it'll be welcome news if we find that 7 Hydro is somehow getting Hydro Quebec to pay 8 more than five cents a kilowatt hour. Do you 9 have any evidence of that? 10 A. I have none. 11 Q. My point is when you're saying depriving Hydro 12 of additional export sales, I would suggest to 13 you that there's no evidence that these export 14 sales would produce any additional revenue to 15 Hydro. 16 A. There's no evidence - 17 Q. There's no evidence that decreasing 18 consumption in Labrador West will increase 19 revenue to Hydro by getting a higher price in 20 export sales. 21 A. Didn't we just demonstrate that currently that 22 can happen? 23 Q. Well, I'm not sure you demonstrated that, 24 because you've said you're not certain of the 25 present rate.</p>	<p>1 A. I thought you demonstrated it for us, 2.2 2 versus what was the other number? 3 Q. You haven't provided us with the other number. 4 You've just said you think it's lower, and I 5 don't think it's - 6 A. No, you--I'm sorry, I thought you had 7 mentioned a number just now. 8 Q. No, we talked about the export price of 9 CF(L)Co which is in the range of 2.56 mills, 10 not cents, and Ms. Greene suggests that you 11 must have been referring to the export price 12 of Hydro from the recall, the unused recall, 13 and that's not in evidence, as I understand 14 it, before this Board. I'm not certain it's 15 even in the public domain. It may be, I don't 16 know. You've said--you haven't given us a 17 number in that regard, but you indicated that 18 you think it's lower? 19 A. I haven't given you the number. I had the 20 number. I don't have it with me this morning. 21 My prior investigation showed that yes, there 22 is a distinct possibility that a incremental 23 increase or decrease in consumption in Lab 24 West can result in additional revenue or loss 25 of revenue with respect to the recall power.</p>

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<p>1 HEARN, Q.C.:</p> <p>2 Q. I suggest to you that even the present export</p> <p>3 price is not far removed from the present 2.2</p> <p>4 cents that we're referring to in that customer</p> <p>5 class in Labrador West.</p> <p>6 A. I'll accept that. My point was that it could</p> <p>7 be on one side or the other.</p> <p>8 Q. I would suggest to you that there's no</p> <p>9 indication that the present price signals</p> <p>10 deprive Hydro of any significant additional</p> <p>11 export sales.</p> <p>12 A. Sorry, I still think the possibility can</p> <p>13 exist.</p> <p>14 Q. What about of energy are we talking about</p> <p>15 here?</p> <p>16 A. It's qualitative. I think even for one</p> <p>17 kilowatt hour, I think the possibility--my</p> <p>18 examination showed that the possibility can</p> <p>19 exist. That was the only point.</p> <p>20 Q. How much power has been exported from</p> <p>21 Churchill Falls to Hydro Quebec?</p> <p>22 A. I don't have that at hand.</p> <p>23 Q. If we included Hydro and CF(L)Co, would it be</p> <p>24 in the range of some 30 billion kilowatt hours</p> <p>25 annually?</p>	<p>1 A. I think your point is probably going to go to</p> <p>2 the fact that what we're discussing is De</p> <p>3 minimis.</p> <p>4 Q. Absolutely.</p> <p>5 A. Yes, that's possible.</p> <p>6 Q. In your evidence on page two, line 9, you say</p> <p>7 "the total cost is certainly a factor. There</p> <p>8 are other and perhaps equally relevant factors</p> <p>9 that should be considered," and you mentioned</p> <p>10 price signals, value of service, opportunity</p> <p>11 costs. Is that a general statement or are you</p> <p>12 referring only to Newfoundland and Labrador</p> <p>13 Hydro?</p> <p>14 A. Some of them perhaps could be general and some</p> <p>15 were very specific with respect to</p> <p>16 Newfoundland and Labrador Hydro. For example,</p> <p>17 one point I have left out, and I'm sorry, is</p> <p>18 with respect to marginal costs, and I had</p> <p>19 asked a request for information on this.</p> <p>20 There's been a lot of discussion on the island</p> <p>21 with respect to marginal--the Island</p> <p>22 Interconnected system with respect to marginal</p> <p>23 cost, and here, Mr. Drazen is focusing on</p> <p>24 embedded costs. But looking forward, I</p> <p>25 understand that both lines are pretty near</p>
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<p>1 capacity and to add additional capacity on the</p> <p>2 west or the east, either way, is pretty close</p> <p>3 to 55 million dollars for a transmission line,</p> <p>4 regardless of whether it goes east or west and</p> <p>5 they would be 230 kV lines. So with respect</p> <p>6 to marginal costs, we're looking at</p> <p>7 effectively the same cost of power, the same</p> <p>8 cost of transmission, and as we discussed</p> <p>9 before, virtually insignificant distribution</p> <p>10 differences. So -</p> <p>11 Q. Mr. Greneman, is that a realistic possibility?</p> <p>12 A. I'm sorry, is what?</p> <p>13 Q. Is expansion of either the lines to Churchill</p> <p>14 Falls, from Churchill Falls to Lab East or</p> <p>15 Labrador West, is that a reasonable</p> <p>16 possibility?</p> <p>17 A. 55 million does it. If it's pretty close to</p> <p>18 fully loaded now, it depends upon growth.</p> <p>19 Q. Yes. Do you know something about growth that</p> <p>20 those of us in Labrador don't know?</p> <p>21 A. No, but I know something about marginal cost.</p> <p>22 Q. But is there any -</p> <p>23 A. And there's -</p> <p>24 Q. - projected new development for Labrador West</p>	<p>1 contemplated? Is there any reasonable</p> <p>2 contemplation of construction of a new line at</p> <p>3 the present time?</p> <p>4 A. I'm not aware of that.</p> <p>5 Q. Is there any contemplation of new industry in</p> <p>6 Labrador East that requires a new run?</p> <p>7 A. I have not inquired about that.</p> <p>8 Q. So there's nothing in evidence to indicate</p> <p>9 that that's a reasonable possibility at the</p> <p>10 present time, is there?</p> <p>11 A. There's been nothing in evidence. I don't</p> <p>12 know whether it's a reasonable possibility at</p> <p>13 the present time.</p> <p>14 Q. You'd accept there's nothing in evidence?</p> <p>15 A. Yes.</p> <p>16 Q. Would you say that aligning rates with cost of</p> <p>17 service is the most widely recognized measure</p> <p>18 of rates that are equitable and non-</p> <p>19 discriminatory?</p> <p>20 A. Sounds like my own words.</p> <p>21 Q. Yes, you may recall those words. So I take it</p> <p>22 you would agree with what you said in Iowa in</p> <p>23 1980?</p> <p>24 A. What did I say then?</p> <p>25 Q. You said that "rates that"--"Mr. Greneman</p>

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<p>1 HEARN, Q.C.:</p> <p>2 testified that rates that recover revenues</p> <p>3 that are in relative alignment with class</p> <p>4 revenue requirements determining using a Cost</p> <p>5 of Service Study are the most widely</p> <p>6 recognized measure of rates that are equitable</p> <p>7 and non-discriminatory." By the way, I've</p> <p>8 given to the clerk some excerpts from that</p> <p>9 Iowa hearing. So I don't want to surprise you</p> <p>10 with anything where you can't refer to it and</p> <p>11 I wonder if she might have passed them out to</p> <p>12 counsel and to yourself. I don't want to</p> <p>13 refer you to things and you not having the</p> <p>14 reference in front of you.</p> <p>15 CHAIRMAN:</p> <p>16 Q. Ms. Newman, Information Item -</p> <p>17 HEARN, Q.C.:</p> <p>18 Q. These are excerpts from a 1980 -</p> <p>19 CHAIRMAN:</p> <p>20 Q. I was just asking Ms. Newman information -</p> <p>21 HEARN, Q.C.:</p> <p>22 Q. - Iowa proceeding.</p> <p>23 A. 1990?</p> <p>24 Q. Sorry, I said 1980. I should say 2000. I</p> <p>25 misspoke, pardon me. 2000 Iowa proceeding.</p>	<p>1 MS. NEWMAN:</p> <p>2 Q. If there's no objection, it would be</p> <p>3 information item No. 21.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. The rules require that if anything was to be</p> <p>6 put to the witness, other than testimony he</p> <p>7 had given himself, it was to provide it in</p> <p>8 advance and the opportunity was to be provided</p> <p>9 to the witness to refresh his memory. That</p> <p>10 was under the rules of procedure for this</p> <p>11 hearing. Mr. Hearn has not followed that rule</p> <p>12 of procedure. I haven't seen this before. I</p> <p>13 don't know what it is. I mean, I don't want</p> <p>14 to delay where we are, and maybe if Mr. Hearn</p> <p>15 could -</p> <p>16 HEARN, Q.C.:</p> <p>17 Q. We won't -</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. - but that was the rule of procedure that was</p> <p>20 set by the Board for this hearing.</p> <p>21 HEARN, Q.C.:</p> <p>22 Q. I don't think we're going to get into any</p> <p>23 substantial disagreements on these points and</p> <p>24 it's not anything that we're--we're just</p> <p>25 applying--I'm putting some principles to -</p>
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<p>1 CHAIRMAN:</p> <p>2 Q. I beg to differ, Mr. Hearn. The rules are the</p> <p>3 rules. If I start to go down that road on the</p> <p>4 basis of that these may not be terribly</p> <p>5 significant, I don't know where that could end</p> <p>6 up. I'm prepared to not enter these in at</p> <p>7 this point in time.</p> <p>8 HEARN, Q.C.:</p> <p>9 Q. I respect that, Mr. Chairman, and I'll simply</p> <p>10 be asking general questions is what I'm saying</p> <p>11 in relation to that. So I'm not suggesting--</p> <p>12 if we're not to refer to those, that's fine.</p> <p>13 Would you agree--well, perhaps we can</p> <p>14 just go back to the earlier question. Do you</p> <p>15 agree that aligning rates with cost of service</p> <p>16 can be said to be the most widely recognized</p> <p>17 measure of rates that are equitable and non-</p> <p>18 discriminatory?</p> <p>19 A. I wholly agree.</p> <p>20 Q. Would you agree that maintaining historical</p> <p>21 relationships is also an important factor?</p> <p>22 A. I have indicated that before. It's a factor.</p> <p>23 Q. Would you agree that it's a widely recognized</p> <p>24 rate design principle that the utility should</p> <p>25 recover costs from the customers that cause</p>	<p>1 them to be incurred?</p> <p>2 A. Yes.</p> <p>3 Q. Is it your position that the rates for</p> <p>4 Labrador West customers and Labrador East</p> <p>5 customers should be equal?</p> <p>6 A. Yes.</p> <p>7 Q. Is it not true that equal rates may not be</p> <p>8 equitable rates?</p> <p>9 A. Those have always been my words, but I'd like</p> <p>10 to explain what that means, if I may?</p> <p>11 Q. Certainly.</p> <p>12 A. In rate making, equal rates are not equitable</p> <p>13 rates and the real basis for that statement</p> <p>14 refers to the three types of cause causation</p> <p>15 that a utility incurs, namely energy related</p> <p>16 costs or those costs that vary in a one-to-one</p> <p>17 proportion with the number of kilowatt hours</p> <p>18 produced or sold. The second type of cost</p> <p>19 related to cause causation are demand or</p> <p>20 capacity costs which are related to the</p> <p>21 quantity of kilowatt hours produced or sold</p> <p>22 per unit of time, how many kilowatt hours are</p> <p>23 produced per hour at the maximum. And the</p> <p>24 third is related to, in fact, is a customer</p> <p>25 cost related to whether or not--related to the</p>

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<p>1 MR. GRENEMAN:</p> <p>2 fact that there is a customer on the system</p> <p>3 and there are financial carrying costs</p> <p>4 associating with the meter and the service and</p> <p>5 meter reading and billing. The statement that</p> <p>6 equal rates are not equitable rates refers to</p> <p>7 the manner in which customers use their</p> <p>8 capacity, whether they use it efficiently and</p> <p>9 have a higher load factor or inefficiently and</p> <p>10 have a lower load factor, and further by the</p> <p>11 customer cause. That's the basic rationale in</p> <p>12 support of that statement and you can go that</p> <p>13 one level deeper and say those customers that</p> <p>14 take service at transmission should not pay</p> <p>15 distribution. That's pretty much the genesis</p> <p>16 and extent of that statement that I agree</p> <p>17 wholly with it.</p> <p>18 (10:30 a.m.)</p> <p>19 HEARN, Q.C.:</p> <p>20 Q. Is the rate equitable if it's consistent with</p> <p>21 the cost of service?</p> <p>22 A. To the extent that that is the basic measure,</p> <p>23 it doesn't--it has to be--it should be</p> <p>24 reasonably aligned with cost. There are other</p> <p>25 factors that come into play.</p>	<p>1 Q. If there's a difference, and Mr. Drazen has</p> <p>2 estimated, based on the figures I think that</p> <p>3 were then before the Board and they may have</p> <p>4 been changed somewhat since, but he referred</p> <p>5 to a difference between 8.9 million for cost</p> <p>6 of service for Labrador East and 3.6 million</p> <p>7 for Labrador West. Does that in itself</p> <p>8 justify two separate systems?</p> <p>9 A. Absolutely not, and the reason is, you can</p> <p>10 take any system and split it into two and you</p> <p>11 could even choose which two, and there'll be a</p> <p>12 cost difference, and two to one or two and a</p> <p>13 half to one, in my view, is not significant.</p> <p>14 The view mentioned yesterday by Ms. Tabone</p> <p>15 about postage stamp rates and her view of</p> <p>16 costing, I find to be consistent with what</p> <p>17 I've believed for many, many years, and it's</p> <p>18 indeed my point of view as well that you don't</p> <p>19 necessarily tear apart a system and say this</p> <p>20 is on my side of the fence and I don't use</p> <p>21 that, because there are always offsetting</p> <p>22 differences when you do that. That's to say</p> <p>23 you need to be very, very, very cautious when</p> <p>24 you start doing these assignments, and</p> <p>25 furthermore, if you look at all these larger</p>
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<p>1 utilities in the United States and each little</p> <p>2 entity that they acquired maintained their own</p> <p>3 identity, it would be an unmanageable quagmire</p> <p>4 of rates and considerations and each having</p> <p>5 their own separate cost of service. I believe</p> <p>6 it's fair to cost east and west as a single</p> <p>7 entity.</p> <p>8 Q. In what circumstances would--or what</p> <p>9 difference of magnitude would justify two</p> <p>10 systems?</p> <p>11 A. I don't think there's a difference of</p> <p>12 magnitude at all that justifies two separate</p> <p>13 systems, even if it's ten to one, not in and</p> <p>14 of itself.</p> <p>15 Q. Did you play a role in determining that the</p> <p>16 cost of the Island Interconnected system</p> <p>17 should not be averaged with the cost to the</p> <p>18 Labrador Interconnected system? Because you</p> <p>19 could make the same argument, couldn't you,</p> <p>20 that you could include -</p> <p>21 A. I'm sorry, I heard the first -</p> <p>22 Q. - you could make the argument that you include</p> <p>23 all of the province in that?</p> <p>24 A. No, I wouldn't make that argument. I've done</p> <p>25 quite a number of cost of service studies.</p>	<p>1 I've visited a number of clients. I observe</p> <p>2 that different jurisdictions, different</p> <p>3 companies have different practices. I listen</p> <p>4 to what their rationale is and I heard Hydro's</p> <p>5 rationale and I agreed that the Island</p> <p>6 Interconnected system should not be combined</p> <p>7 with the Labrador Interconnected system. They</p> <p>8 are two very different sources of generation.</p> <p>9 They're different latitudes. They're not</p> <p>10 connected in any fashion. So I believe they</p> <p>11 should be separate.</p> <p>12 Q. You'd agree that there's no policy of rate</p> <p>13 equalization on the entire Hydro system,</p> <p>14 including -</p> <p>15 A. Just to -</p> <p>16 Q. Yes.</p> <p>17 A. At the very beginning, my preface, if you</p> <p>18 will, said there are very--with respect to</p> <p>19 your question, yes, not with respect to all</p> <p>20 systems, but there are very specific policies</p> <p>21 for rate equalization as practised by this</p> <p>22 Board and Hydro, and other provinces such as</p> <p>23 Manitoba.</p> <p>24 Q. Manitoba has universal rate classes, does it</p> <p>25 not?</p>

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<p>1 MR. GRENEMAN:</p> <p>2 A. I was involved in Manitoba about a year and a</p> <p>3 half ago and before the purchase of Winnipeg</p> <p>4 Hydro, it was a province wide policy for same</p> <p>5 classes of customers to have the same rate</p> <p>6 regardless of ownership.</p> <p>7 HEARN, Q.C:</p> <p>8 Q. But here, even in this hearing, Hydro is</p> <p>9 proposing five sets of rates involving cost</p> <p>10 differences among five different subsystems.</p> <p>11 Would that be correct?</p> <p>12 A. Well, they are, I mean, but there's a</p> <p>13 rationale behind them. It's not just</p> <p>14 arbitrary in a sense.</p> <p>15 Q. What's the difference between having six sets</p> <p>16 of rates, based on the different cost</p> <p>17 structure?</p> <p>18 A. The six being east versus -</p> <p>19 Q. Having Labrador East and Labrador West as two</p> <p>20 separate systems as they have been in the</p> <p>21 past.</p> <p>22 A. The similarities and rationale for combining</p> <p>23 them in balance are greater than, and I think</p> <p>24 far greater than the evidence and rationale</p> <p>25 for separating them. They are the same</p>	<p>1 latitude. They are the same type of mix of</p> <p>2 customers. They are served from a common</p> <p>3 generating source. The similarity in line and</p> <p>4 backup going east and west are functionally</p> <p>5 identical. They're so identical that it, in</p> <p>6 my view, outweighs having them separate, and</p> <p>7 especially when viewed in context of the</p> <p>8 rationale for what is being done with all the</p> <p>9 other systems. It's my view that they should</p> <p>10 definitely be combined.</p> <p>11 Q. In what sense are customers in Labrador East</p> <p>12 similar to those in Labrador West?</p> <p>13 A. It's basically the same type of mix of</p> <p>14 domestic and general service, with no large</p> <p>15 industrials.</p> <p>16 Q. How does a residential customer in Happy</p> <p>17 Valley-Goose Bay differ from a residential</p> <p>18 customer in St. John's?</p> <p>19 A. There could be different--by virtue of the</p> <p>20 latitude and any potential temperature effects</p> <p>21 or wind chill effects, there might be</p> <p>22 differences. Latitude, I'm suggesting, is a</p> <p>23 possible factor.</p> <p>24 Q. Can you give us some sense of the magnitude of</p> <p>25 that factor?</p>
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<p>1 A. In terms of?</p> <p>2 Q. What difference it makes in rates.</p> <p>3 A. Latitude, temperature, wind chill, what?</p> <p>4 Q. Yes, well, those factors that you're referring</p> <p>5 to.</p> <p>6 A. I just note that it's a higher latitude.</p> <p>7 CHAIRMAN:</p> <p>8 Q. Mr. Hearn, I'm just trying to get a handle on</p> <p>9 timing here. We generally had two types of</p> <p>10 timing around a short day and a long day, and</p> <p>11 I'm not sure which today is going to bring.</p> <p>12 Do you have any idea of how much longer you're</p> <p>13 going to be with this witness?</p> <p>14 HEARN, Q.C.:</p> <p>15 Q. I'm only a few more minutes with this witness,</p> <p>16 Mr. Chairman, and then I have Mr. Drazen who</p> <p>17 will be adopting his evidence and be available</p> <p>18 for cross-examination.</p> <p>19 CHAIRMAN:</p> <p>20 Q. Thank you.</p> <p>21 HEARN, Q.C.:</p> <p>22 Q. I don't expect, from our perspective, that</p> <p>23 this will be a long day.</p> <p>24 CHAIRMAN:</p> <p>25 Q. Mr. Kennedy, you don't have any extended -</p>	<p>1 MR. KENNEDY:</p> <p>2 Q. For Mr. Greneman?</p> <p>3 CHAIRMAN:</p> <p>4 Q. Yes.</p> <p>5 MR. KENNEDY:</p> <p>6 Q. No, Chair, no questions.</p> <p>7 CHAIRMAN:</p> <p>8 Q. Okay. Well, I was just looking at the break.</p> <p>9 So we'll continue on until we end this cross-</p> <p>10 examination, which will give Mr. Drazen the</p> <p>11 opportunity to assume the witness stand after</p> <p>12 the break, I guess. It looks pretty good for</p> <p>13 -</p> <p>14 HEARN, Q.C.:</p> <p>15 Q. That's fine. Thank you, Mr. Chair.</p> <p>16 CHAIRMAN:</p> <p>17 Q. Thank you.</p> <p>18 HEARN, Q.C.:</p> <p>19 Q. If you equalize rates between Labrador West</p> <p>20 and Labrador East, does that mean that rates</p> <p>21 in Labrador East are now lower than they</p> <p>22 otherwise would be or will be lower than they</p> <p>23 otherwise would be?</p> <p>24 A. You say the breaks?</p> <p>25 Q. The rates.</p>

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1 MR. GRENEMAN:
 2 A. Oh, the rates.
 3 HEARN, Q.C.:
 4 Q. I'm sorry, I misspoke.
 5 A. I'm sorry, I heard breaks.
 6 Q. Perhaps I'm misspeaking.
 7 CHAIRMAN:
 8 Q. Wishful thinking.
 9 A. I misheard you.
 10 HEARN, Q.C.:
 11 Q. If you equalize the rates between Labrador
 12 West and Labrador East, does that mean that
 13 the rates in Labrador East will then be lower
 14 than they otherwise would be?
 15 A. They'll be lower than they're currently--I'm
 16 sorry. There would tend to be a lowering in
 17 the east and an elevating in west.
 18 Q. Yes. If you lower the rates in Labrador East,
 19 does that encourage wasteful consumption over
 20 there?
 21 A. Not necessarily.
 22 Q. Is it your position that customers in Labrador
 23 West are engaged in wasteful consumption?
 24 A. I have no specific evidence that there is any
 25 wasteful consumption. I've heard things as I

1 walk by. I don't--I have no evidence of
 2 anything.
 3 Q. Those are my questions, Mr. Chairman.
 4 CHAIRMAN:
 5 Q. Thank you, Mr. Hearn.
 6 HEARN, Q.C.:
 7 Q. Thank you, Mr. Greneman.
 8 CHAIRMAN:
 9 Q. Thank you, Mr. Greneman.
 10 MR. KENNEDY:
 11 Q. No questions, Chair, as indicated. Thank you.
 12 CHAIRMAN:
 13 Q. No questions, thank you. Any -
 14 COMMISSIONER SAUNDERS:
 15 Q. No questions, Mr. Chair.
 16 GREENE, Q.C.:
 17 Q. I did have a couple.
 18 CHAIRMAN:
 19 Q. Sorry, you did in redirect, Ms. Greene?
 20 GREENE, Q.C.:
 21 Q. Yes.
 22 CHAIRMAN:
 23 Q. Sorry.
 24 GREENE, Q.C.:
 25 Q. The first related to Mr. Hearn's questions

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1 with respect to the lines to Lab East and Lab
 2 West being at different voltages.
 3 A. Yes.
 4 Q. The one to Lab East is at 138 kV and the one
 5 to Labrador West is at 230 kV. Would that be
 6 common in any system?
 7 A. Oh yes, with respect to transmission, it could
 8 be in either voltage. I don't think the
 9 voltage level in itself is significant.
 10 Q. And in fact, it's quite common on the island
 11 to have lines interconnecting that are at
 12 different voltages?
 13 A. Absolutely.
 14 Q. The other issue that Mr. Hearn referred to is
 15 the fact that a wheeling over the Twinco lines
 16 to Labrador West is at no charge. In your
 17 view, would that be similar to if the wheeling
 18 was done over a line that was owned by Hydro
 19 that had been fully depreciated?
 20 A. If I had neglected to say that at the
 21 beginning, yes, absolutely.
 22 Q. Mr. Hearn also referred to the fact that the
 23 mining companies had contributed to the
 24 original construction of the distribution
 25 facilities and had also made a capital

1 contribution towards the upgrading at the time
 2 Hydro took over each of the systems. How is
 3 that reflected in the cost of service?
 4 A. That's been subtracted from cost of service so
 5 it has no relevancy. Everything flows down
 6 to, in a sense, Mr. Drazen's two estimates.
 7 It reflects the subtraction of all
 8 contributions.
 9 Q. So in fact, the contributions are reflected as
 10 a benefit to the customers in the cost of
 11 service?
 12 A. Yes, absolutely.
 13 Q. And those are all the questions that I have on
 14 redirect.
 15 CHAIRMAN:
 16 Q. Thank you, Ms. Greene. Commissioner Saunders,
 17 you have no questions, you indicated.
 18 COMMISSIONER SAUNDERS:
 19 Q. I have no questions.
 20 CHAIRMAN:
 21 Q. Commissioner Whalen?
 22 COMMISSIONER WHALEN:
 23 Q. I just have one question, I think, Mr.
 24 Greneman. It's really just to get your
 25 understanding of the definition of what your

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<p>1 COMMISSIONER WHALEN: 2 view would be of a - 3 A. I'm sorry, the definition of what? 4 Q. - of what would you consider to be 5 substantially similar circumstances and 6 conditions in respect of customers? Would you 7 consider customers in Lab West and Lab East to 8 fit that criteria? 9 A. Yes, I would. I think they're similar types 10 of customers. There's a similar type of 11 customer mix. As I had mentioned, what I 12 believe to be important in cost of service, as 13 a matter of fact even Bonbright states that 14 the role of cost of service is to discern the 15 relative cost differences, not the absolute, 16 but the relative cost differences between 17 customer classes. I believe them to be very 18 similar mix and that would be reflected as a 19 single system. If one were to cost east and 20 west separately, it would cause a 21 discontinuity in the rates to each customer, 22 so that a typical domestic in the west and a 23 typical domestic in the east could have very 24 significantly different rates and I think 25 that's a--it's sort of a twist of cost of</p>	<p>1 service, I think that basically the same types 2 of customers, and that's best reflected as a 3 single system, as has been the policy and 4 practice of this Board as well as Hydro. 5 Q. And that was the other point. I think lines 8 6 to 12 there, on page one of your evidence, 7 which is still on the screen, the last lines 8 11 and 12, Mr. Hearn referred you to these. 9 These include price signals, value of service, 10 opportunity costs and public policy. 11 A. Yes. 12 Q. Public policy would be what you've just 13 referred to, in the sense of that's the policy 14 of this Board and certainly of this 15 jurisdiction? 16 A. Well, what I've been referring to is the fact 17 that the isolated diesel areas are combined-- 18 even though they are independent systems, they 19 are combined and costed as a single entity. 20 So in doing so, there is some recognition or 21 in my view, some desire of this Board to try 22 to see a consistent type of rate, even though 23 these systems are separate. And in doing so, 24 you also recognize that they're served by 25 diesel. They're isolated. Let's not have a</p>
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<p>1 separate rate for each system. So I think 2 that's a policy consideration which has been 3 implemented and practised. Also, on the 4 Island Interconnected system, Hydro serves its 5 rural customers and it charges the rates not 6 of its own costs but of Newfoundland Power's 7 costs. So that's a policy decision which has 8 been used by this Board and practised by 9 Hydro, and I note as well that in provinces 10 such as Manitoba, Winnipeg Hydro customers are 11 charged the same rates throughout the province 12 and as well as Manitoba's customers on an 13 equivalent rate basis. 14 (10:45 a.m.) 15 So I observe this type of policy in 16 Canada, as evidenced in Manitoba, and as well 17 in these two instances, namely isolated areas 18 in Hydro's service areas, as well as its 19 Island Interconnected rural customers being 20 served on NP's rates. Also, if I may add, the 21 Isolated Diesels are combined but they're also 22 in part--their rates are in part reflective of 23 Newfoundland Power's rates. So these three 24 things I observe as being common policy. 25 Q. You don't see anything in that policy</p>	<p>1 inconsistent with basic cost of service 2 principles? 3 A. No, and as was brought out by Ms. Tabone 4 yesterday, I think basic cost of service 5 principles are to combine--cost of service is 6 an averaging process and it's not so much 7 picking and choosing. This is my side of the 8 fence and that's on my side of the fence. 9 It's in very large part an averaging process. 10 If you were to take any system and cut it in 11 half, you would see price difference easily 12 two to one, three to one or greater. There's, 13 in a sense, a socialization aspect of cost of 14 service where--and as I have pointed out in my 15 earlier evidence and Ms. Tabone has also 16 pointed out, for example, if an Industrial 17 customer wanted something beyond what a 18 customer would normally have, say an extra 19 substation or a feeder line for reliability, 20 that's something that may specifically be 21 recognized in costing, but there are always-- 22 no two customers have exactly the same cost of 23 service and I think the main twist here, if 24 you will, is the fact that there's essentially 25 freewheeling over the Twinco line and that's</p>

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1 MR. GRENEMAN:
 2 like a very unique kind of arrangement, and in
 3 my view, the benefit of that doesn't accrue to
 4 whose side of the fence it's on. It accrues
 5 to Hydro as a single entity and I think, in my
 6 view, that supports a single cost of service.
 7 Q. Thank you. That's all my questions.
 8 CHAIRMAN:
 9 Q. Thank you, Commissioner Whalen. I have no
 10 questions. Are there any matters on questions
 11 arising from the Board? Mr. Hearn, no? Once
 12 again, Mr. Greneman, thank you very much for
 13 your testimony.
 14 A. Thank you.
 15 Q. I guess I'm looking at time for the break.
 16 Mr. Hearn, do you know how much--how long
 17 you'll be on direct? Do you have any idea?
 18 HEARN, Q.C.:
 19 Q. Well, we'll simply be adopting -
 20 CHAIRMAN:
 21 Q. I guess it'll be fairly short, relatively.
 22 Okay, that's fine.
 23 HEARN, Q.C.:
 24 Q. Yes, adopting Mr. Drazen's evidence.
 25 CHAIRMAN:

1 Q. That's fine.
 2 HEARN, Q.C.:
 3 Q. And asking him to make any general summary
 4 comments and then -
 5 CHAIRMAN:
 6 Q. Yes, okay, that's fine.
 7 HEARN, Q.C.:
 8 Q. - I guess, the question could be referred to
 9 Ms. Greene, if she's going to be doing the -
 10 CHAIRMAN:
 11 Q. Yes. Ms. Greene, how much -
 12 GREENE, Q.C.:
 13 Q. I do have questions for Mr. Drazen. I don't
 14 anticipate that it would require us to have a
 15 long day, but I will have some questions, and
 16 I don't know if the other parties do.
 17 CHAIRMAN:
 18 Q. Mr. Kelly, would you have many?
 19 KELLY, Q.C.:
 20 Q. I do not currently anticipate questions,
 21 Chair.
 22 CHAIRMAN:
 23 Q. Okay.
 24 MR. FITZGERALD:
 25 Q. Mr. Chair, we may or may not have questions.

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1 CHAIRMAN:
 2 Q. Okay. I think we'll--you wouldn't be long,
 3 Mr. Kennedy, would you?
 4 MR. KENNEDY:
 5 Q. No, Chair.
 6 CHAIRMAN:
 7 Q. We'll take a 15-minute break actually.
 8 (BREAK - 10:48 A.M.)
 9 (RESUME - 11:10 A.M.)
 10 CHAIRMAN:
 11 Q. Thank you. Any items, Ms. Newman, before we
 12 begin?
 13 MS. NEWMAN:
 14 Q. No.
 15 CHAIRMAN:
 16 Q. No. Thank you. Mr. Hearn, would you, this
 17 time around, like to introduce your witness,
 18 please.
 19 HEARN, Q.C.:
 20 Q. Certainly, Mr. Chairman, thank you very much.
 21 We have Mr. Drazen here to present his
 22 evidence to the Board. Mr. Drazen has been
 23 before this Board in this past, so I think he
 24 needs no introduction. I wonder if someone
 25 take the time to affirm.

1 CHAIRMAN:
 2 Q. Good morning, Mr. Drazen, and welcome back,
 3 sir.
 4 A. Good morning. Thank you.
 5 MR. MARK DRAZEN, SWORN
 6 CHAIRMAN:
 7 Q. Thank you very much. When you're ready, Mr.
 8 Hearn.
 9 HEARN, Q.C.:
 10 Q. Mr. Drazen, you have pre-filed evidence before
 11 this Board dated October 3rd, 2003. Do you
 12 adopt that as your evidence to be presented
 13 before this Board?
 14 A. Yes, I do.
 15 Q. Is it your view that rates ought to be
 16 equalized between Labrador East and Labrador
 17 West?
 18 A. Do you want the short answer or the long
 19 answer?
 20 Q. Well, whatever answer you regard as thorough.
 21 A. Well, the short answer is no. The longer
 22 answer is that in the evidence I show that
 23 there is a material difference in the cost
 24 between serving Labrador East and Labrador
 25 West. The difference, it shows 8.9 million

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<p>1 MR. DRAZEN:</p> <p>2 for Labrador East for a load of 218,000</p> <p>3 megawatt hours or for sales of 218,000. For</p> <p>4 Labrador West, it's 3.6 million for a higher</p> <p>5 level of sales of 260,000, so that the cost</p> <p>6 per megawatt hour is \$41.00 in the east and</p> <p>7 \$14.00 in the west, roughly three to one, and</p> <p>8 my understanding from listening to Mr.</p> <p>9 Greneman is that Hydro doesn't have any</p> <p>10 quarrel with the calculations per se.</p> <p>11 The higher level issue is really that</p> <p>12 Hydro has placed before the Board a policy</p> <p>13 proposal, and the policy proposal is that the</p> <p>14 cost difference between the east and the west</p> <p>15 should be ignored and the historical</p> <p>16 difference between the two should be ignored,</p> <p>17 and that the east and west should be forced to</p> <p>18 have the same rate. When you raise a policy</p> <p>19 proposal like that, put it forth, there really</p> <p>20 are two more basic questions. Number one is</p> <p>21 why, and what's the purpose of the policy.</p> <p>22 Who's going to benefit from this particular</p> <p>23 policy? So it's easy to say well other</p> <p>24 provinces have postage stamp rates, which in</p> <p>25 some cases is true. In some cases, it's not</p>	<p>1 entirely true. But what's the benefit of it</p> <p>2 here? And that's the issue.</p> <p>3 So I can explain the differences between</p> <p>4 the cost of service, but it really boils down,</p> <p>5 in the end, to the fact that since there is a</p> <p>6 difference, you either ignore it or you accept</p> <p>7 it. And in the past, heretofore it's been</p> <p>8 accepted, and now the proposal is to ignore it</p> <p>9 and phase it out over five years. So that's</p> <p>10 the longer answer. I could amplify on that a</p> <p>11 little bit more, if you like.</p> <p>12 HEARN, Q.C.:</p> <p>13 Q. No, I think that that's fine. I think that</p> <p>14 there be some questions from, certainly from</p> <p>15 Newfoundland Hydro and maybe some others. So,</p> <p>16 those are my questions, Mr. Chair.</p> <p>17 CHAIRMAN:</p> <p>18 Q. Thank you, Mr. Hearn. Once again, Ms. Greene</p> <p>19 are you undertaking the cross?</p> <p>20 GREENE, Q.C.:</p> <p>21 Q. Yes. Thank you, Mr. Chair. Good morning, Mr.</p> <p>22 Drazen.</p> <p>23 A. Good morning.</p> <p>24 Q. As you stated in your pre-filed evidence, and</p> <p>25 again, just there this morning, your only</p>
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<p>1 reason for saying that Labrador East and</p> <p>2 Labrador West should not be used or considered</p> <p>3 as a single system for rate setting purposes</p> <p>4 is the fact that there are material costs</p> <p>5 differences between the two and the fact that</p> <p>6 because of different ownership in the area,</p> <p>7 they were offered separately for a number of</p> <p>8 years? Is that a correct summary of your</p> <p>9 position?</p> <p>10 (11:15 a.m.)</p> <p>11 A. I said there is material cost difference</p> <p>12 between the two and historically, they've been</p> <p>13 separate. So what I'm suggesting is not that</p> <p>14 we take a currently combined system and</p> <p>15 separate them into two parts. I'm saying the</p> <p>16 parts are separate right now, they have been</p> <p>17 for many years, and that there's no good</p> <p>18 reason to combine them, given that the costs</p> <p>19 are so much different.</p> <p>20 Q. And you also stated this is basically a policy</p> <p>21 decision for this Board? Is that correct?</p> <p>22 A. It's always a policy issue of the Board to</p> <p>23 recognize or ignore cost information, but</p> <p>24 policy decisions should be, I think, number</p> <p>25 one, informed by the technical information and</p>	<p>1 number two, should have a reasonable basis.</p> <p>2 Hydro didn't present--you say Hydro didn't</p> <p>3 look for any cost differences, so it didn't</p> <p>4 have the technical information to say how much</p> <p>5 are we going to shift onto the Lab West</p> <p>6 customers over and above cost and as far as I</p> <p>7 could tell, has not presented any benefits of</p> <p>8 such an equalization.</p> <p>9 Q. I wanted to talk to you about your view that</p> <p>10 the fact that there was a material difference</p> <p>11 in cost, and I wanted first to look at your</p> <p>12 response to NLH-233.</p> <p>13 A. Um-hm.</p> <p>14 Q. You point out the differences in your</p> <p>15 evidence, that there are differences between</p> <p>16 Labrador East and Labrador West and as we</p> <p>17 stated earlier today, Hydro accepts the</p> <p>18 principle that there are differences in the</p> <p>19 cost of supplying both areas. We asked you,</p> <p>20 in the request for information, what, in your</p> <p>21 view, makes a cost material enough that it</p> <p>22 should be considered as one of the--the reason</p> <p>23 not to combine your -</p> <p>24 A. I'm sorry, the question was?</p> <p>25 Q. What, in your view, makes something material?</p>

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<p>1 GREENE, Q.C.:</p> <p>2 Is there a guideline or a rule of thumb or</p> <p>3 something that you can offer to the Board as</p> <p>4 to why these differences in cost are material</p> <p>5 enough that it should influence the Board?</p> <p>6 A. I say a three to one difference in the cost is</p> <p>7 certainly material. If we could go forward to</p> <p>8 -</p> <p>9 Q. So the answer when we asked you the question</p> <p>10 was that you didn't--you weren't offering to</p> <p>11 the Board any guideline or you, yourself, had</p> <p>12 no preset determination as to what would</p> <p>13 constitute a material difference?</p> <p>14 A. That's true, but what I meant there, you can't</p> <p>15 say if it's a--probably if it's a one percent</p> <p>16 difference, it's not worth worrying about. If</p> <p>17 it's five percent, it's not worth worrying</p> <p>18 about. When it comes to the area of let's say</p> <p>19 15 to 20 percent differences in cost, people</p> <p>20 do start to worry about that and in one of the</p> <p>21 later responses, the number of which escapes</p> <p>22 me at the moment, but it's maybe 240 or so,</p> <p>23 maybe Mr. Hearn, could you help -</p> <p>24 HEARN, Q.C.:</p> <p>25 Q. I wonder, Mr. O'Reilly, if you'd bring up 240.</p>	<p>1 A. Well, I'm guessing it's 240.</p> <p>2 GREENE, Q.C.:</p> <p>3 Q. No, it wouldn't be.</p> <p>4 A. Let's keep going. Pardon me, sir, if I can -</p> <p>5 Q. What is it you're looking for, Mr. Drazen?</p> <p>6 Perhaps I can help you.</p> <p>7 A. It's the one that shows the cost differences</p> <p>8 amongst the general service classes.</p> <p>9 HEARN, Q.C.:</p> <p>10 Q. Perhaps if I provide Mr. Drazen with my copies</p> <p>11 of the -</p> <p>12 A. Thank you.</p> <p>13 CHAIRMAN:</p> <p>14 Q. It doesn't refer to any specific number, does</p> <p>15 it?</p> <p>16 HEARN, Q.C.:</p> <p>17 Q. He can then refer to the number and perhaps we</p> <p>18 can bring it up, Mr. Chairman, once -</p> <p>19 MR. KENNEDY:</p> <p>20 Q. I believe it might be 245 and 246.</p> <p>21 CHAIRMAN:</p> <p>22 Q. Would that be it?</p> <p>23 GREENE, Q.C.:</p> <p>24 Q. No, that's not with respect to the general</p> <p>25 service customers. I actually don't think</p>
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<p>1 there's an RFI there on that.</p> <p>2 HEARN, Q.C.:</p> <p>3 Q. Yes, there may not be.</p> <p>4 A. It's 234. And just scroll down a little bit</p> <p>5 more, thank you. Mr. Greneman observed, and I</p> <p>6 agree, the reason you do a Cost of Service</p> <p>7 Study is to differentiate amongst the cost of</p> <p>8 serving the different classes and what it says</p> <p>9 is that you've got three different rate</p> <p>10 classes in Labrador West. You've got a</p> <p>11 difference between the Island Industrial and</p> <p>12 Newfoundland Power. Those differences are in</p> <p>13 the order of 25 percent. So if a 25 percent</p> <p>14 differential is big enough to justify a</p> <p>15 separate rate for different general service</p> <p>16 customers and as between Newfoundland Power</p> <p>17 and the Island Industrials, I would say a</p> <p>18 three to one ratio is certainly big enough to</p> <p>19 justify differential between Lab East and Lab</p> <p>20 West.</p> <p>21 GREENE, Q.C.:</p> <p>22 Q. And this would be your personal view as to</p> <p>23 what would be sufficiently material to justify</p> <p>24 different areas?</p> <p>25 A. Apparently, it's Newfoundland Hydro's view as</p>	<p>1 to what justifies establishing different rate</p> <p>2 classes.</p> <p>3 Q. No, I'm asking you--you're saying that three</p> <p>4 to one is what you believe is sufficient that</p> <p>5 the Board should look at. Is that correct?</p> <p>6 A. I say it's more than sufficient.</p> <p>7 Q. I wanted now, if we could bring up the math to</p> <p>8 Mr. Martin's pre-filed evidence, Mr. O'Reilly.</p> <p>9 Mr. Drazen, I'd like--no, I'd like to see the</p> <p>10 Island system first, Mr. O'Reilly.</p> <p>11 A. Fine.</p> <p>12 Q. I was talking to Mr. O'Reilly, to bring up the</p> <p>13 full map of the island there on the screen so</p> <p>14 you could have a look at it. That shows the</p> <p>15 island portion of the province, and it</p> <p>16 outlines the Newfoundland Hydro system on the</p> <p>17 island. Would you agree that first St.</p> <p>18 John's, over here on the east coast, is the</p> <p>19 most highly populated area of the province?</p> <p>20 A. Yes.</p> <p>21 Q. Would you agree, at a general policy level,</p> <p>22 that it would be cheaper to supply a customer-</p> <p>23 -and I think yesterday Mr. Kennedy used the</p> <p>24 example of an additional apartment in an</p> <p>25 already existing building and I'll use the</p>

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<p>1 GREENE, Q.C.:</p> <p>2 example that it's easier--not easier, but it</p> <p>3 would be less costly to supply a customer in</p> <p>4 an existing subdivision here in St. John's</p> <p>5 versus supplying a rural customer, if you're</p> <p>6 going to do a comparison of the cost of</p> <p>7 supplying that one additional customer in the</p> <p>8 urban area versus one out in a very remote</p> <p>9 rural area of the province?</p> <p>10 A. Yes, that could well be the case.</p> <p>11 Q. That's what you would normally expect to see,</p> <p>12 wouldn't you, in these types of situations, if</p> <p>13 we actually broke down cost of service to the</p> <p>14 cost of serving an individual customer?</p> <p>15 A. Yes.</p> <p>16 Q. Now what about if we looked at different areas</p> <p>17 of the province that are all served from the</p> <p>18 Interconnected grid. Again, if we did do</p> <p>19 individual cost of service for supplying one</p> <p>20 area versus another area, would you expect to</p> <p>21 see differences in cost between the two areas?</p> <p>22 A. If you're talking about Interconnected system,</p> <p>23 where it's truly interconnected, the</p> <p>24 generation supply would be a common cost.</p> <p>25 Q. But the transmission and the distribution</p>	<p>1 could well be different?</p> <p>2 A. The transmission would also be much of a</p> <p>3 common cost, in the sense that to serve a</p> <p>4 customer off an Interconnected system, you</p> <p>5 can't assume that the customer gets the power</p> <p>6 from the closest generation plant, because</p> <p>7 from time to time generation plants go out of</p> <p>8 service and usually back up from other</p> <p>9 generation plants. That's why an</p> <p>10 interconnected system is assumed to be a</p> <p>11 common source of supply for all the customers</p> <p>12 attached to that.</p> <p>13 Q. That's why, because we average those costs</p> <p>14 over all of the customers regardless of where</p> <p>15 they live in relationship to the distance to</p> <p>16 the generation source. Is that right?</p> <p>17 A. What I suggested is that the reason you treat</p> <p>18 the generation as a single system, as opposed</p> <p>19 to differentiating by distance, is that a</p> <p>20 customer who is located, let's say, two</p> <p>21 kilometres away from a generation plant could</p> <p>22 argue, "I'm getting all my power from that</p> <p>23 generation plant. I shouldn't pay for much</p> <p>24 transmission" and then the response to that is</p> <p>25 "okay, when the generation plant goes out of</p>
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<p>1 service, what do you do?" The answer is, "I</p> <p>2 get my power from a more distant plant"</p> <p>3 because all the generation plants are operated</p> <p>4 as a common resource to serve all the loads.</p> <p>5 So you can't take this closest plant and say</p> <p>6 that's all the transmission you need. You</p> <p>7 actually need more if you're going to get</p> <p>8 reliable service. If the circumstances are</p> <p>9 such that that customer would be willing to be</p> <p>10 interrupted whenever that plant goes out of</p> <p>11 service, then you could justify a different</p> <p>12 treatment, and that's what is done in certain</p> <p>13 jurisdictions. So on most systems, what you</p> <p>14 find is that the generation and transmission</p> <p>15 is in fact interconnected and that is a cost</p> <p>16 that's much larger than the distribution</p> <p>17 costs, so that the differences in the</p> <p>18 distribution cost are not as material relative</p> <p>19 to each other.</p> <p>20 Q. At a policy level -</p> <p>21 A. Relative to different areas.</p> <p>22 Q. I'm sorry.</p> <p>23 A. I'm sorry. I'm finished.</p> <p>24 Q. Okay. At a policy level, if we actually did</p> <p>25 do cost of service, say for Port aux Basques,</p>	<p>1 which is over there on the left-hand side,</p> <p>2 down in the corner, would you expect the cost</p> <p>3 to serve the small number of customers in Port</p> <p>4 aux Basques to be the same as the cost to</p> <p>5 serve the customers say in Grand Falls?</p> <p>6 A. Well, I don't know without looking the cost.</p> <p>7 I wouldn't assume that they would be the same</p> <p>8 or different.</p> <p>9 Q. But would you agree that generally, if you did</p> <p>10 manage to do separate cost of service by area</p> <p>11 that you would expect to see differences in</p> <p>12 cost?</p> <p>13 A. If you took the existing system and started to</p> <p>14 differentiate the areas, yes, you might find</p> <p>15 that.</p> <p>16 Q. So you wouldn't be surprised that there would</p> <p>17 be significant differences between the cost of</p> <p>18 supplying different areas, if we actually went</p> <p>19 back and broke them out, separate Cost of</p> <p>20 Service Study for a separate area?</p> <p>21 A. I wouldn't be surprised to find there are</p> <p>22 differences. I'd be surprised if there were</p> <p>23 three to one differences.</p> <p>24 Q. But you don't know that, do you? Because that</p> <p>25 isn't done.</p>

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<p>1 MR. DRAZEN:</p> <p>2 A. No, until you do it, you don't know. That's</p> <p>3 right.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. Now you mentioned in your--and actually, I'd</p> <p>6 like to go to the Isolated systems and there's</p> <p>7 already been some discussion here about that.</p> <p>8 You are aware that it is a policy here in</p> <p>9 Newfoundland that all of the isolated systems</p> <p>10 are blended together to come up with the rates</p> <p>11 from the costs associated with supplying the</p> <p>12 Isolated System? Are you familiar with that</p> <p>13 policy?</p> <p>14 A. Pardon? Am I aware of?</p> <p>15 Q. Are you familiar with the policy that the</p> <p>16 Isolated Systems in Newfoundland are treated</p> <p>17 as one system for the purpose of determining</p> <p>18 rates?</p> <p>19 A. Yes.</p> <p>20 Q. Would you agree that the cost of the</p> <p>21 individual systems would be significantly</p> <p>22 different if each area was looked at</p> <p>23 individually?</p> <p>24 A. The cost of the local portion of the system</p> <p>25 would be different. The cost, let's say, of</p>	<p>1 the fuel for generation would probably be much</p> <p>2 the same.</p> <p>3 Q. But if you looked at each one, perhaps you--</p> <p>4 again, you weren't here yesterday, but if we</p> <p>5 could look at CA-8 which shows the cost for</p> <p>6 the Isolated System, page 3 of 3 of CA-8. It</p> <p>7 sets out the individual isolated systems and</p> <p>8 what the costs are on the short-run marginal</p> <p>9 basis, and you can see there are significant</p> <p>10 differences, depending on the community? Is</p> <p>11 that correct?</p> <p>12 A. Sorry, these are the marginal costs?</p> <p>13 Q. Yes, just as an example.</p> <p>14 A. Well, yes, there are differences, with a</p> <p>15 couple of exceptions. The costs are -</p> <p>16 Q. I was just wondering for -</p> <p>17 A. - 13 to--let's say for 2004, 13 to 14 cents,</p> <p>18 plus or minus a couple of pennies.</p> <p>19 Q. But then if you go down to Paradise River, for</p> <p>20 example, you see it as .25, so you can see</p> <p>21 there's significant differences within the</p> <p>22 Isolated areas, is that correct?</p> <p>23 A. Yes, I don't know how these were calculated,</p> <p>24 so -</p> <p>25 Q. But again, if you did do a separate Cost of</p>
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<p>1 Service Study for each area, you would expect</p> <p>2 to see differences between the cost of</p> <p>3 supplying each of the areas, is that correct?</p> <p>4 A. Yes, accepting these figures at face value.</p> <p>5 Q. So the fact that there are material</p> <p>6 differences was one of your reasons why it</p> <p>7 should be kept separate and apart between</p> <p>8 Labrador East and West, and I think you</p> <p>9 mentioned another--the second reason was the</p> <p>10 fact that historically they have been treated</p> <p>11 separately, is that correct?</p> <p>12 A. That's correct.</p> <p>13 Q. Now, if one were to accept your position,</p> <p>14 would that mean that there would never have</p> <p>15 been the development of the rates on an</p> <p>16 average basis and cost of service for a common</p> <p>17 area? If you look back in history, let's look</p> <p>18 at what happened in Newfoundland. At one</p> <p>19 time, prior to Newfoundland Power becoming the</p> <p>20 primary distribution utility, there were a</p> <p>21 number of different utilities serving</p> <p>22 different parts of the Province, were you</p> <p>23 aware of that?</p> <p>24 A. Yes.</p> <p>25 Q. Were you aware that they charged different</p>	<p>1 rates in different parts of the Province based</p> <p>2 on the cost of serving that area?</p> <p>3 A. I'm not that familiar with the history, but</p> <p>4 I'll accept that.</p> <p>5 Q. So that if we had taken your position that</p> <p>6 because historically it had been done that way</p> <p>7 and should be carried forward, we wouldn't be</p> <p>8 in the situation today where there would be</p> <p>9 the same rates charged on the Island</p> <p>10 Interconnected System, would we? If history</p> <p>11 is to play the predominant role?</p> <p>12 (11:30 a.m.)</p> <p>13 A. It's not just the history, it's the history</p> <p>14 plus the cost. As you take separate systems</p> <p>15 and combine them and interconnect them, you do</p> <p>16 have a larger and larger portion of common</p> <p>17 costs, common in the sense that they are</p> <p>18 shared by all the systems and when the</p> <p>19 generation and the transmission costs become</p> <p>20 common and larger than the distribution costs,</p> <p>21 those cost differentials that existed before</p> <p>22 are narrowed. The difference here is that the</p> <p>23 cost differential between the east and the</p> <p>24 west, in Labrador, is--doesn't change because</p> <p>25 the--unless you start to install standby</p>

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<p>1 MR. DRAZEN:</p> <p>2 capacity in Lab West, you've got that as the</p> <p>3 major difference between the two, that's an</p> <p>4 enduring difference.</p> <p>5 GREENE, Q.C.:</p> <p>6 Q. And I guess we're going to come to what some</p> <p>7 of the differences are, but at the policy</p> <p>8 level, if history were the primary driving</p> <p>9 factor for these types of policy decisions, we</p> <p>10 would be left, not only in Newfoundland but</p> <p>11 elsewhere with separate rates, almost per</p> <p>12 community, isn't that correct?</p> <p>13 A. If history were the only factor.</p> <p>14 Q. And in fact at one time, it was only in the</p> <p>15 2002 General Rate Application that there was</p> <p>16 rates in Wabush and Labrador City were</p> <p>17 combined, prior to that, the rates for Wabush</p> <p>18 and Labrador City were separate and different</p> <p>19 rates, is that correct?</p> <p>20 A. That's correct.</p> <p>21 Q. But you don't object to combining Wabush and</p> <p>22 Labrador City, is that correct, even though</p> <p>23 historically they may have been separate?</p> <p>24 A. At the time I said, although the rates were</p> <p>25 somewhat different, the systems were similar</p>	<p>1 enough and the costs were similar enough that</p> <p>2 consolidating those two made sense, but they</p> <p>3 were a lot closer than you have today between</p> <p>4 Lab West and Lab West.</p> <p>5 Q. I don't think you were here yesterday when Ms.</p> <p>6 Tabone testified, but Mr. Greneman made</p> <p>7 similar comments this morning when you were</p> <p>8 here that this, the process of averaging and</p> <p>9 coming up with what Mr. Bowman referred to as</p> <p>10 "postage stamp" rates is very common in</p> <p>11 setting rates, whether in Canada or the United</p> <p>12 States, is that correct? The trend is to try</p> <p>13 to average wherever possible across the</p> <p>14 system?</p> <p>15 A. It's common but you have very few systems that</p> <p>16 look like Newfoundland Labrador Hydro.</p> <p>17 Q. I just want to spend a moment looking at the</p> <p>18 first--the type of system that's there in</p> <p>19 Labrador. First with respect to generation,</p> <p>20 would you agree that the source of firm power</p> <p>21 available in Labrador West and Labrador West</p> <p>22 is the same?</p> <p>23 A. Churchill Falls is the source of power for</p> <p>24 both Lab East and Lab West, but because you</p> <p>25 have outages on the transmission line to Lab</p>
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<p>1 East, in order to provide firm power, you need</p> <p>2 the standby generation in Lab East, so the</p> <p>3 source of firm power in Lab East is Churchill</p> <p>4 Falls, plus the standby generation, diesel and</p> <p>5 turbine; whereas to Lab West, it's just</p> <p>6 Churchill Falls.</p> <p>7 Q. All right, let's step back a step then, where</p> <p>8 does Hydro get the power that it supplies to</p> <p>9 Labrador East and Labrador West as the primary</p> <p>10 source of supply to supply the load in both</p> <p>11 east and west, if it's from the power that</p> <p>12 Hydro buys from CF(L)Co for the recall, is</p> <p>13 that correct?</p> <p>14 A. That's correct.</p> <p>15 Q. Now, you mentioned standby generation in Goose</p> <p>16 Bay, is it normal for a utility to have</p> <p>17 standby generation in certain areas of its--</p> <p>18 areas of supply? For example, are you aware</p> <p>19 that Newfoundland Hydro has standby generation</p> <p>20 on the GNP and there's additional standby</p> <p>21 generation down on the Burin Peninsula?</p> <p>22 A. It's normal for a utility to have standby</p> <p>23 generation, where Hydro differs from other</p> <p>24 utilities is the extent to which the standby</p> <p>25 generation might be localized.</p>	<p>1 Q. You may not have been here for some of the</p> <p>2 discussion with respect to whether the</p> <p>3 generation here was local--on the GNP and on</p> <p>4 the Burin was localized or not, but there has</p> <p>5 been a series of questions about that. Would</p> <p>6 you agree that if there were a problem with</p> <p>7 the power supply in Churchill Falls that the</p> <p>8 standby diesel generation could be run in</p> <p>9 Goose Bay to free up the needs to supply power</p> <p>10 to Labrador East, which would then make more</p> <p>11 power available to Labrador West, even with no</p> <p>12 impact on the mine?</p> <p>13 A. No, the reason is two-fold.</p> <p>14 Q. Technically first, Mr. Drazen, technically if</p> <p>15 the standby diesel generation was run in Goose</p> <p>16 Bay to supply the load in Goose Bay, would</p> <p>17 that free up the need in Churchill Falls to</p> <p>18 supply power to Labrador East?</p> <p>19 A. I guess you could say technically you're</p> <p>20 proposing that Churchill Falls experience</p> <p>21 something like--and Churchill Falls is 5428</p> <p>22 megawatts.</p> <p>23 Q. Would you agree first that from a technical</p> <p>24 engineering perspective or an operating</p> <p>25 perspective that that is possible? The</p>

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<p>1 GREENE, Q.C.:</p> <p>2 standby-diesel generation being run in Goose</p> <p>3 Bay would lighten the load required out of</p> <p>4 Churchill for Labrador West?</p> <p>5 A. No, because in order for you to be in that</p> <p>6 situation, the generation out of Churchill</p> <p>7 Falls would have to be less than, since we got</p> <p>8 the numbers, you have--you've got 11</p> <p>9 generators at Churchill Falls, something like</p> <p>10 that, so 500 megawatts each. As long as one</p> <p>11 generator is running, you've got 500 megawatts</p> <p>12 of power which is more than enough to serve</p> <p>13 both Lab East and Lab West, so what you'd have</p> <p>14 to be proposing in order for that to be even</p> <p>15 technically conceivable is that you be down to</p> <p>16 a fraction of one generator operating at</p> <p>17 Churchill Falls, which doesn't make any sense.</p> <p>18 Q. So your answer is that it may not need to</p> <p>19 occur because of the size of the source of</p> <p>20 power, you're not saying that it would not</p> <p>21 occur, that from practical--not practical, but</p> <p>22 from an operation's perspective that that is a</p> <p>23 possibility if that were to occur?</p> <p>24 A. I'm saying from an operating perspective it's</p> <p>25 not possible.</p>	<p>1 Q. It's not possible because the source of power</p> <p>2 is greater in Churchill Falls, not because of</p> <p>3 the standby diesel generation would not be of</p> <p>4 benefit? I'm just saying there may not need</p> <p>5 to be a benefit.</p> <p>6 A. The reason you have the standby generation in</p> <p>7 Labrador East has nothing to do with Churchill</p> <p>8 Falls, it's because of the transmission line</p> <p>9 being down.</p> <p>10 Q. And I guess, are you familiar with the</p> <p>11 situation on the GNP here on the Island?</p> <p>12 A. No, I read about--I read some of the evidence</p> <p>13 on it, but I'm not that familiar with it.</p> <p>14 Q. So the primary difference with respect to</p> <p>15 generation is that there is standby generation</p> <p>16 that's available in Goose Bay that's not</p> <p>17 available in Labrador West, and you say that</p> <p>18 is a very significant difference, in your</p> <p>19 view?</p> <p>20 A. I didn't say it's available in Labrador East</p> <p>21 and not available in Labrador West, I said</p> <p>22 it's needed in Labrador East and not relevant</p> <p>23 to Labrador West.</p> <p>24 Q. I accept that. Were you here this morning</p> <p>25 with respect to Mr. Greneman's position that</p>
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<p>1 the second line to Labrador West in effect</p> <p>2 operates in the same area of the standby</p> <p>3 diesel generation in Labrador East?</p> <p>4 A. Yes, I think that was one of many reasons why</p> <p>5 he said my cost study was not relevant;</p> <p>6 however, Mr. Greneman is factually incorrect</p> <p>7 on that respect. You can't take one line out</p> <p>8 of service--one of the two lines going to</p> <p>9 Labrador West out of service and say we'll</p> <p>10 serve the load from the other line. The lines</p> <p>11 going to Lab West are, at times, fully loaded</p> <p>12 in the winter. If you take the load of Lab</p> <p>13 City and Wabush which is about 60 megawatts,</p> <p>14 of IOCC which is 200 megawatts, plus or minus</p> <p>15 something, depending on summer and winter and</p> <p>16 Wabush Mines. So he's saying that you can</p> <p>17 take one line on the service and serve the</p> <p>18 load with the other line and therefore, you're</p> <p>19 getting functionally the same thing as you're</p> <p>20 getting with the single line for its</p> <p>21 generation in Lab East is not correct.</p> <p>22 Q. Are you aware that in the contractual</p> <p>23 arrangements between the mining companies that</p> <p>24 priority has been given to supply the</p> <p>25 customers of Newfoundland Hydro over the</p>	<p>1 Industrial load so that if there is an outage,</p> <p>2 the Industrial load gets dropped first to</p> <p>3 supply the towns?</p> <p>4 A. The Industrial load will take the shortfall.</p> <p>5 Q. So if there was a situation and there was not</p> <p>6 enough power available to supply everybody,</p> <p>7 the fact that it can be supplied over one line</p> <p>8 to a town is of benefit, isn't it?</p> <p>9 A. Is of benefit to the residents of the towns,</p> <p>10 except that means that their livelihood has</p> <p>11 been diminished.</p> <p>12 Q. For the period of the outage which would</p> <p>13 happen in many situations.</p> <p>14 A. For the period of the outage and what that</p> <p>15 means is that IOCC and Wab Mines are bearing</p> <p>16 the cost of providing that standby. It's not</p> <p>17 a cost to Hydro; whereas Hydro is incurring a</p> <p>18 significant cost to provide a similar service</p> <p>19 to the customers in Happy Valley/Goose Bay.</p> <p>20 Q. And I guess that's your point as well with</p> <p>21 respect to the wheeling arrangement to</p> <p>22 Labrador West. In your view, it is</p> <p>23 significant is it, who owns the line as</p> <p>24 opposed to the fact of the service being</p> <p>25 provided -</p>

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<p>1 MR. DRAZEN:</p> <p>2 A. The difference in the ownership means a</p> <p>3 significant difference in the cost.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. But did you hear Mr. Greneman's position that</p> <p>6 that's no different than if the line had been</p> <p>7 fully depreciated?</p> <p>8 A. That's what he said, I don't think I agree.</p> <p>9 Q. So in your view, whoever owns the line, that's</p> <p>10 the most important factor?</p> <p>11 A. That's no different than saying whoever owns</p> <p>12 the facilities in general makes a difference.</p> <p>13 Why are the rates in Labrador different than</p> <p>14 the rates across the boarder in Quebec?</p> <p>15 Different ownership. They say, well, of</p> <p>16 course, different utilities have different</p> <p>17 costs and therefore the rate should be</p> <p>18 different, but -</p> <p>19 Q. But if you're looking at the one utility and</p> <p>20 in this particular case, Newfoundland Hydro -</p> <p>21 A. Can I finish?</p> <p>22 Q. Sorry, yes, go ahead. I think you're getting</p> <p>23 into another province where they even have</p> <p>24 constitutional issues around this one.</p> <p>25 A. Political issues too. The point is that when</p>	<p>1 you regulate based on cost of service, which</p> <p>2 is the way utilities are regulated, the</p> <p>3 ownership does make a difference in the cost</p> <p>4 and therefore, makes a difference in the</p> <p>5 rates. Here you have a difference as between</p> <p>6 how the west and the east are served.</p> <p>7 Q. But is it the important thing of who owns it</p> <p>8 or is the important thing what is the value or</p> <p>9 the cost of whether it's a transmission line</p> <p>10 or a terminal station? If you have a right to</p> <p>11 use it, isn't the issue the value that's paid</p> <p>12 for it as the mere legal ownership--I don't</p> <p>13 understand why the issue of ownership is</p> <p>14 relevant in the cost of service, as opposed to</p> <p>15 the actual cost incurred of the asset.</p> <p>16 A. What you're suggesting is that we should set</p> <p>17 the rates based on the value of the service,</p> <p>18 at least as a consideration, not just on the</p> <p>19 cost of service, is that -</p> <p>20 Q. No, I'm not suggesting that, I'm suggesting -</p> <p>21 A. Well when you refer value, what are you</p> <p>22 talking about?</p> <p>23 Q. Well in this particular case you would agree</p> <p>24 that because there is no wheeling fee, there</p> <p>25 is no cost in the cost of service being</p>
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<p>1 proposed to cover that, that the fact that</p> <p>2 it's done at no cost has already been</p> <p>3 recognized. I don't understand what the</p> <p>4 significance of ownership then is?</p> <p>5 A. The significance of ownership, in this case,</p> <p>6 is that it affects the cost of service to</p> <p>7 Hydro.</p> <p>8 Q. Because there's no value and if that value of-</p> <p>9 - the fact that it's done at no cost has been</p> <p>10 recognized in the cost of service, is that</p> <p>11 correct?</p> <p>12 A. By "value" do you mean the value to the</p> <p>13 customers or the accounting value?</p> <p>14 Q. In setting the rates to be charged on the</p> <p>15 Labrador Interconnected System, Hydro has not</p> <p>16 included a cost associated with wheeling the</p> <p>17 energy from Churchill Falls to Labrador West,</p> <p>18 is that correct?</p> <p>19 A. That's right.</p> <p>20 Q. Similarly with respect to the contributions</p> <p>21 that have been received from the mining</p> <p>22 companies, either on the renovation and</p> <p>23 upgrading costs that were incurred when the</p> <p>24 systems were taken over, or the actual</p> <p>25 original construction, has that contribution</p>	<p>1 been recognized by Hydro in the cost of</p> <p>2 service?</p> <p>3 A. Yes.</p> <p>4 Q. And the benefit is flowing to the customers.</p> <p>5 A. Right, as happens with any contribution by</p> <p>6 customers.</p> <p>7 Q. If we were to leave Labrador East and Labrador</p> <p>8 West as separate areas, if there were future</p> <p>9 additional capital cost required, who, in your</p> <p>10 view, should pay those costs?</p> <p>11 A. Those costs should be assigned to the east or</p> <p>12 the west as they are incurred, consistent with</p> <p>13 the cost of service principle.</p> <p>14 Q. I'd like to look at the EES report here for a</p> <p>15 moment, Mr. O'Reilly. The EES report, page</p> <p>16 17. At the top of that page, beginning on</p> <p>17 line 2, they say, "If rates are set on a city-</p> <p>18 by-city basis, large capital expenditures</p> <p>19 required to maintain the system are likely to</p> <p>20 hit hard in small communities and cause</p> <p>21 significant rate volatility. And with a</p> <p>22 Single Interconnected System, all customers</p> <p>23 benefit from the ability to smooth capital</p> <p>24 expenditures across different areas over</p> <p>25 time." Do you agree with that statement?</p>

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<p>1 MR. DRAZEN:</p> <p>2 A. It's a general statement. I don't see that</p> <p>3 that's a reason--that a potential cost is a</p> <p>4 reason to ignore the real cost difference that</p> <p>5 exists at this time.</p> <p>6 GREENE, Q.C.:</p> <p>7 Q. And you do see that if there's capital</p> <p>8 required in the future requiring rates to go</p> <p>9 up in Labrador West, that that should be borne</p> <p>10 solely by Labrador West?</p> <p>11 A. Yes, it would be and then your costs would be</p> <p>12 averaged with the existing costs.</p> <p>13 (11:45 a.m.)</p> <p>14 Q. How do you reconcile your position with the</p> <p>15 evidence of Mr. Bowman and Mr. Greneman that</p> <p>16 the trend is where possible to average costs</p> <p>17 over a common system?</p> <p>18 A. Average cost over -</p> <p>19 Q. Where you have common cost over a system where</p> <p>20 the customers are similar and the facilities</p> <p>21 are interconnected, that you--would you</p> <p>22 combine them for rate saving purposes?</p> <p>23 A. Looking for common ground, I'd say I could</p> <p>24 agree with them or do agree with them, but--if</p> <p>25 you have that degree of commonality which I</p>	<p>1 suggest that you do not have here. You don't</p> <p>2 have a common transmission system between Lab</p> <p>3 East and Lab West because of the configuration</p> <p>4 of the system. Now, Mr. Greneman, this</p> <p>5 morning, was asked by Mr. Hearn, he said,</p> <p>6 well, how is a customer in Happy Valley or</p> <p>7 customers in Happy Valley similar to those in</p> <p>8 Lab West, but different than those in St.</p> <p>9 John's? And he said, well there's a</p> <p>10 difference in latitude between St. John's and</p> <p>11 Happy Valley and so there is. There's also a</p> <p>12 difference in longitude between Happy Valley</p> <p>13 and Lab West and that has climatic effects as</p> <p>14 well. So, if you're talking about whether</p> <p>15 customers are the same or different, you'd</p> <p>16 have to look at the factors that would make</p> <p>17 them the same or different in this respect.</p> <p>18 So, I would say that I don't agree that you</p> <p>19 have similar customers served off of a common</p> <p>20 system. If you did, then I would agree with</p> <p>21 them that your principle of averaging the</p> <p>22 costs would be more appropriate.</p> <p>23 Q. One small point, you just mentioned the</p> <p>24 transmission system, the lines are at</p> <p>25 different voltages, are they connected at the</p>
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<p>1 230 kV bus and the CF(L)Co switch yard in</p> <p>2 Churchill Falls?</p> <p>3 A. Was connected to the 230 kV bus, they're not</p> <p>4 connected at that point.</p> <p>5 Q. And that would be similar to where you have</p> <p>6 other lines beginning to connect at different</p> <p>7 voltages at different terminal stations on the</p> <p>8 Island Interconnected System, is that correct?</p> <p>9 A. No, I don't think so.</p> <p>10 Q. It's not -</p> <p>11 A. No, to say that they're connected--I pointed</p> <p>12 out in, I think it was one of the responses,</p> <p>13 you have low voltage lines connected to high</p> <p>14 voltage lines, power flows from the</p> <p>15 transmission system to the distribution</p> <p>16 system. To say that because lines are</p> <p>17 interconnected, the costs should be averaged,</p> <p>18 would be like saying that the customers served</p> <p>19 off the high voltage system should be</p> <p>20 allocated cost of the low voltage system</p> <p>21 because the lines are interconnected. Well,</p> <p>22 the fact is, in that case, they are actually</p> <p>23 interconnected, but you don't--because of the</p> <p>24 direction of the flow, you say that</p> <p>25 interconnection is not a material factor or</p>	<p>1 not a relevant factor in the cost to</p> <p>2 allocation.</p> <p>3 Here, a similar sort of thing. The fact</p> <p>4 that the 230 lines going west are connected to</p> <p>5 the 230 kV bus at CF(L)Co and the 138 line is</p> <p>6 connected to that same bus, doesn't mean that</p> <p>7 the Twinco lines and the Hydro lines are</p> <p>8 themselves, interconnected.</p> <p>9 Q. No, but it's the same as in another terminal</p> <p>10 station where you have one line of one voltage</p> <p>11 and another line you have a transformer there</p> <p>12 that has to actually transforming the 138 up</p> <p>13 to 230 or 230 down to 138, isn't that--it</p> <p>14 would be done, fully transformed, but their</p> <p>15 both interconnected at the terminal station.</p> <p>16 In CF(L)Co's case, it happens to be at the</p> <p>17 switch yard in Churchill Falls.</p> <p>18 A. Okay, I'm sorry.</p> <p>19 Q. You're saying that the difference is you don't</p> <p>20 have power normally flowing between east and</p> <p>21 west, but you're not saying that there cannot</p> <p>22 electrically be power flow between east and</p> <p>23 west, I assume.</p> <p>24 A. I said not--you said you don't have power</p> <p>25 normally flowing between east and west.</p>

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<p>1 GREENE, Q.C.:</p> <p>2 Q. That's what--yes.</p> <p>3 A. I didn't say that; you said that.</p> <p>4 Q. All right.</p> <p>5 A. What I said is you don't have power flowing</p> <p>6 between east and west period. It's not a</p> <p>7 question of normally; it's a question of ever.</p> <p>8 Q. But it can be done?</p> <p>9 A. It could be done only in circumstances where</p> <p>10 the system would--where Churchill Falls would</p> <p>11 be totally down. And even in that case, you</p> <p>12 couldn't have power flowing from east to west</p> <p>13 unless you shut down Happy Valley because</p> <p>14 there's not enough standby capacity in Happy</p> <p>15 Valley to satisfy the load there.</p> <p>16 Q. No, that's correct. And I guess, I'm just--</p> <p>17 you would agree that they're physically</p> <p>18 interconnected. Your distinction is the fact</p> <p>19 as to whether power flows one way or the</p> <p>20 other. We've had a similar discussion with</p> <p>21 respect to the GNP transmission lines as well.</p> <p>22 A. I'd say they're connected only in a--okay,</p> <p>23 they're physically interconnected in the sense</p> <p>24 that you could move along the metal from one</p> <p>25 to the other. Electrically, they do not serve</p>	<p>1 a purpose of interconnected system.</p> <p>2 Q. Because power does not flow over electrons</p> <p>3 because of the transformation only east or</p> <p>4 they go west. In your view, they don't--</p> <p>5 there's not, flowing back and forth across the</p> <p>6 line?</p> <p>7 A. Right.</p> <p>8 Q. I was only dealing with the physical</p> <p>9 interconnection there, that's all. So, I</p> <p>10 agree that normally the power flows to</p> <p>11 Labrador East and normally flows to Labrador</p> <p>12 West and there is a transformation required at</p> <p>13 the 230 kV switch yard in Churchill. So, you</p> <p>14 would agree basically, this is a policy</p> <p>15 decision for the Board to make as to whether</p> <p>16 this should be one system to Labrador or, I</p> <p>17 guess, if it's historically, it had been a</p> <p>18 system--we may have continued with three</p> <p>19 different areas, rates for three different</p> <p>20 areas in Labrador. You -</p> <p>21 A. Which question do you want me to answer?</p> <p>22 Q. You would agree that this is a policy decision</p> <p>23 for the Board as to whether there is two areas</p> <p>24 in Labrador, three areas or one area in</p> <p>25 Labrador served on the Labrador Interconnected</p>
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<p>1 System.</p> <p>2 A. Yes, I already said this was ultimately a</p> <p>3 policy issue, but that policy should be formed</p> <p>4 by what the cost data are and question of what</p> <p>5 the policy achieves. I mean, if you want to</p> <p>6 take in another setting, it's a policy issue--</p> <p>7 the Board, just say, what return should Hydro</p> <p>8 get? What's the capital structure? What's</p> <p>9 the deemed--what coverage ratio or what return</p> <p>10 on equity should it get? Or I can say, well,</p> <p>11 we think three percent return on equity from a</p> <p>12 policy standpoint is appropriate. The Utility</p> <p>13 might say, well, if you look at markets,</p> <p>14 that's not a real good policy issue; that's</p> <p>15 not a good policy decision. So, when you say</p> <p>16 something is a policy issue, we also have to</p> <p>17 say, from a social perspective or regulatory</p> <p>18 perspective or an economic perspective, what's</p> <p>19 a good policy and what's not a good policy.</p> <p>20 Q. I agree and I won't get into the rate of</p> <p>21 return with you, Mr. Drazen. And the two</p> <p>22 factors you believe that you're saying to the</p> <p>23 Board, that they should take into account is</p> <p>24 the fact that there are material differences</p> <p>25 in cost between the areas and the fact of</p>	<p>1 history. Those are the two reasons you're</p> <p>2 advancing to the Board to support two areas in</p> <p>3 Labrador east and Labrador West, is that</p> <p>4 correct?</p> <p>5 A. That's what I've said.</p> <p>6 Q. Thank you. That concludes the cross-</p> <p>7 examination.</p> <p>8 CHAIRMAN:</p> <p>9 Q. Thank you, Ms. Greene. Good morning, Mr.</p> <p>10 Fitzgerald, any questions.</p> <p>11 MR. FITZGERALD:</p> <p>12 Q. Good morning, Mr. Chairman. Just a couple of</p> <p>13 brief questions. Good morning, Mr. Drazen.</p> <p>14 A. Good morning.</p> <p>15 Q. Just picking up on the last question or the</p> <p>16 last point that Ms. Greene put to you that the</p> <p>17 two factors that you considered</p> <p>18 differentiating Labrador West are the cost and</p> <p>19 the historic, sort of, background to that</p> <p>20 system. The historic separation or the</p> <p>21 historic aspect of the Labrador West system,</p> <p>22 is that related to the ownership of the system</p> <p>23 as one of the criteria why you think that it</p> <p>24 should be a non-interconnected system?</p> <p>25 A. Ask me that in reverse, whether--when you say</p>

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<p>1 MR. DRAZEN:</p> <p>2 non-interconnected system, that's a matter of</p> <p>3 the physics, if you will, or the topology of</p> <p>4 the system. As to why they were different,</p> <p>5 the historical aspect, I mean, you got the</p> <p>6 fact that these were--the systems were</p> <p>7 originally owned by the mines and, I guess,</p> <p>8 the people who live in that area are, to an</p> <p>9 extent, tied to the fate of the mines.</p> <p>10 MR. FITZGERALD:</p> <p>11 Q. Okay, just, I'll rephrase the question, just</p> <p>12 looking at your evidence at page four, lines</p> <p>13 23 and 24. I'm not sure if I'm looking at</p> <p>14 the--is this the revised? Perhaps if you</p> <p>15 could just scroll up, Mr. O'Reilly, okay,</p> <p>16 sorry, lines 14 and 15. "The separation</p> <p>17 transmission lines are both fed off the 230 kV</p> <p>18 bus at Churchill Falls". Could you describe</p> <p>19 briefly for the record what a bus is.</p> <p>20 A. A big wire.</p> <p>21 Q. A big wire, so it's a physical connection.</p> <p>22 A. Yes.</p> <p>23 Q. But that does not make them an "interconnected</p> <p>24 system"? And I understood, perhaps</p> <p>25 incorrectly that the reason why you don't</p>	<p>1 believe it's an interconnected system is</p> <p>2 because the costs are so different, west</p> <p>3 versus east and also because of the history?</p> <p>4 A. No, sir, the fact that it's not an</p> <p>5 interconnected system has to do with what I</p> <p>6 call the topology of the system. It's the</p> <p>7 flow of the power on the facilities.</p> <p>8 Q. Is ownership a relevant issue in your</p> <p>9 determination as to whether a system is</p> <p>10 interconnected or not?</p> <p>11 A. Not necessarily. You had--the systems,</p> <p>12 Alberta was one, as example, the US Northeast</p> <p>13 was another, and the state of New York was</p> <p>14 another where it was called a tight power</p> <p>15 pool, where all of the generation plants,</p> <p>16 which were owned by different owners, were</p> <p>17 operated as a single fleet to meet the load</p> <p>18 and they were all connected in one way or</p> <p>19 another by transmission lines, again by</p> <p>20 different owners. In Alberta, in fact, they</p> <p>21 took all the costs and averaged them so you</p> <p>22 had what was called the Alberta Interconnected</p> <p>23 Electric System, which was the interconnected</p> <p>24 system with different owners and in fact you</p> <p>25 had cost averaging, which was overlay on that</p>
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<p>1 physical interconnection. So the ownership</p> <p>2 does not determine whether it's</p> <p>3 interconnected.</p> <p>4 Q. Okay. Does the operational control of the</p> <p>5 system determine whether it's interconnected</p> <p>6 or not?</p> <p>7 A. Yes, you're getting into another refinement,</p> <p>8 and this was in one of the responses to one of</p> <p>9 the questions I got from Hydro. Was there a</p> <p>10 difference between interconnected and</p> <p>11 integrated? And in fact, you can have systems</p> <p>12 that are interconnected, in the sense that</p> <p>13 power flows back and forth between them, and</p> <p>14 then you can take that to a higher level which</p> <p>15 is what I was describing with integrated, that</p> <p>16 an integrated system is operated as one,</p> <p>17 usually have different owners. Interconnected</p> <p>18 system you can have different owners and the</p> <p>19 power flows back and forth, but they're not</p> <p>20 necessarily operated as a single system. You</p> <p>21 have different control areas.</p> <p>22 Q. Okay. So the fact that Hydro maintains</p> <p>23 operational control of the line going from</p> <p>24 Churchill Falls to Labrador West, you don't</p> <p>25 weigh that as a factor as bringing Labrador</p>	<p>1 West into the integrated system?</p> <p>2 A. The operational control doesn't make it--</p> <p>3 wouldn't make it interconnected, whoever has</p> <p>4 it.</p> <p>5 Q. Did you analyze the additional administration</p> <p>6 costs of conducting additional Cost of Service</p> <p>7 studies and administering separate rates?</p> <p>8 A. From the perspective of customers in Lab West,</p> <p>9 I would say that they'd be probably more than</p> <p>10 happy to pay for any extra costs if that's</p> <p>11 what it took to maintain the rate</p> <p>12 differential, based on the other costs. The</p> <p>13 answer is the additional cost is minimal, and</p> <p>14 by minimal, I would say it's maybe a few</p> <p>15 thousand dollars. Once you've got your Cost</p> <p>16 of Service information in the spreadsheet or</p> <p>17 in the computer, to print out an extra 15</p> <p>18 pages because you've got Lab West separate</p> <p>19 from Lab East is not a big cost.</p> <p>20 Q. And in your view, when would it be appropriate</p> <p>21 for a region or for Hydro to study separate</p> <p>22 cost of service studies for, you know,</p> <p>23 different zones in the province? Is it when</p> <p>24 the costs get to a certain level or when the</p> <p>25 savings for the consumers get to a certain</p>

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1 MR. FITZGERALD:
 2 level that justifies disintegration?
 3 A. And disintegration has somewhat a pejorative
 4 sound to it. I think deintegration might be -
 5 Q. Okay.
 6 A. - a better term. You do have historically
 7 cases where costs were lumped together, and at
 8 some point, because of pressure from the
 9 customers or for other reasons, the utility
 10 said it's appropriate now to deaverage the
 11 costs and look at them separately. Exactly
 12 when that happens, I can't say.
 13 (12:00 p.m.)
 14 Q. For example, if the City of St. John's as a
 15 major municipality in the province, approached
 16 the Board about a separate cost of service
 17 study, how would you expect the Board would
 18 respond?
 19 A. I've always stayed away from predicting how
 20 Boards respond, even to my own evidence, to
 21 say nothing of somebody else's evidence.
 22 Q. Well, I won't pursue that. Okay. Thank you,
 23 Mr. Chairman. Those are all my questions.
 24 CHAIRMAN:
 25 Q. Thank you, Mr. Fitzgerald. Good morning, good

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1 Drazen.
 2 CHAIRMAN:
 3 Q. I have no questions. Thank you very much, Mr.
 4 Drazen.
 5 A. Thank you for listening to me.
 6 Q. That brings today's proceeding, I believe, to
 7 a conclusion. Is that correct?
 8 MS. NEWMAN:
 9 Q. Yes, Mr. Chairman. That's the conclusion for
 10 the cost of service evidence in St. John's,
 11 and I guess we're scheduled to begin at 10:00
 12 a.m. in Stephenville on Monday.
 13 CHAIRMAN:
 14 Q. It looks like a fairly hectic week next week.
 15 We may have--I am aware of the fact that we
 16 have a long list of presenters in certain
 17 areas and we may have to adjust the morning
 18 times, but I guess we best do that as we
 19 proceed through the process next week.
 20 MS. NEWMAN:
 21 Q. Yes. Currently, we're scheduled to begin at
 22 10:00 on Monday and the rest of the week at
 23 9:30 in the morning.
 24 CHAIRMAN:
 25 Q. Okay.

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1 afternoon, Mr. Kelly.
 2 KELLY, Q.C.:
 3 Q. Good afternoon, Chair. I have no questions
 4 for this witness.
 5 CHAIRMAN:
 6 Q. Thanks very much. Good afternoon, Mr.
 7 Seviour.
 8 MR. SEVIOUR:
 9 Q. Good afternoon, Chair. I similarly have no
 10 questions for Mr. Drazen.
 11 CHAIRMAN:
 12 Q. Thank you. Mr. Kennedy?
 13 MR. KENNEDY:
 14 Q. Chair, no questions. I think the evidence is
 15 fully canvassed.
 16 CHAIRMAN:
 17 Q. Mr. Hearn, do you have any redirect?
 18 HEARN, Q.C.:
 19 Q. None, Mr. Chairman.
 20 CHAIRMAN:
 21 Q. Questions?
 22 COMMISSIONER SAUNDERS:
 23 Q. No questions, Mr. Chair.
 24 COMMISSIONER WHALEN:
 25 Q. No questions. Thank you. Thank you, Mr.

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1 GREENE, Q.C.:
 2 Q. Excuse me, Mr. Chair.
 3 CHAIRMAN:
 4 Q. Sure.
 5 GREENE, Q.C.:
 6 Q. I do have two undertakings and remember I
 7 mentioned yesterday we had two we hoped to
 8 have ready to file today, and I do have them
 9 available. The first undertaking arises or
 10 arose on November 12th and it was Undertaking
 11 No. 28 to reconcile the accumulated
 12 depreciation, and I have that ready now to
 13 distribute, and that was an undertaking to
 14 Newfoundland Power.
 15 The second one was not listed as an
 16 undertaking in the transcript, but in reading
 17 the transcript, Mr. Roberts had said that he
 18 was unsure of a number in Schedule 8 and that
 19 he wanted to leave that with him. In
 20 reviewing Schedule 8, there was an error in
 21 Schedule 8 to Mr. Roberts' evidence. We have
 22 now a revised Schedule 8 to reflect the
 23 accrued interest for 2003 and 2004. So there
 24 is a correction and the explanation for the
 25 correction is provided with the revised

<p style="text-align: right;">Page 133</p> <p>1 GREENE, Q.C.:</p> <p>2 exhibit. So I have that ready now as well to</p> <p>3 distribute.</p> <p>4 Thank you, Mr. Chair. So that completes</p> <p>5 all of the undertakings that have been</p> <p>6 provided to date by Hydro.</p> <p>7 CHAIRMAN:</p> <p>8 Q. Thank you, Ms. Greene, very much.</p> <p>9 COMMISSIONER SAUNDERS:</p> <p>10 Q. Did you say Roberts' Schedule 8?</p> <p>11 GREENE, Q.C.:</p> <p>12 Q. It's Mr. Roberts' Schedule 8 and this will be</p> <p>13 the third revision. There is a change in the</p> <p>14 accrued interest, and if you recall, and I</p> <p>15 still haven't figured this out, the accounts</p> <p>16 payable and accrued liability is a balancing</p> <p>17 factor and I would like to try that in my own</p> <p>18 chequing account some time, but the main</p> <p>19 reason is there was a change in the accrued</p> <p>20 interest number, which is explained with the</p> <p>21 exhibit, and that causes a change in the</p> <p>22 balancing number. So that is why that has</p> <p>23 changed as well.</p> <p>24 MS. NEWMAN:</p> <p>25 Q. And that came from which date of the</p>	<p style="text-align: right;">Page 134</p> <p>1 transcript?</p> <p>2 GREENE, Q.C.:</p> <p>3 Q. It is from November 12th at page 141. It was</p> <p>4 not listed as an undertaking, but Mr. Roberts</p> <p>5 had said that he wished to leave it with him</p> <p>6 and he would get back on that area. So it was</p> <p>7 November 12th, page 141, relating to the</p> <p>8 accrued interest on Schedule 8.</p> <p>9 MS. NEWMAN:</p> <p>10 Q. So we'll add that as an undertaking and</p> <p>11 include it on our list. It will be</p> <p>12 undertaking U-Hydro No. 33, or 34, sorry.</p> <p>13 CHAIRMAN:</p> <p>14 Q. Thank you, Ms. Greene, once again, very much,</p> <p>15 and look forward to seeing you in Stephenville</p> <p>16 10:00 on Monday morning. Have a safe journey</p> <p>17 out. Have a good weekend. Thank you.</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. Thank you, Mr. Chair.</p> <p>20 UPON CONCLUSION AT 12:05 P.M.</p>
<p style="text-align: right;">Page 135</p> <p>1 CERTIFICATE</p> <p>2 I, Judy Moss Lauzon, hereby certify that the</p> <p>3 foregoing is a true and correct transcript in the</p> <p>4 matter of Newfoundland and Labrador Hydro's 2003</p> <p>5 General Rate Application for approval of, among</p> <p>6 other things, its rates commencing January, 2004</p> <p>7 heard on the 20th day of November, A.D., 2003</p> <p>8 before the Board of Commissioners of Public</p> <p>9 Utilities, Prince Charles Building, St. John's,</p> <p>10 Newfoundland and Labrador and was transcribed by me</p> <p>11 to the best of my ability by means of a sound</p> <p>12 apparatus.</p> <p>13 Dated at St. John's, Newfoundland and Labrador</p> <p>14 this 20th day of November, A.D., 2003</p> <p>15 Judy Moss Lauzon</p>	