

Page 1	Page 2
<p>1 LIST OF UNDERTAKINGS</p> <p>2 1. Undertaking Pg. 59</p>	<p>1 (9:03 a.m.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. Thank you. Good morning, out there. Good</p> <p>4 morning, Ms. Newman, are there any items</p> <p>5 before we begin?</p> <p>6 MS. NEWMAN:</p> <p>7 Q. Yes, good morning, Chair, Commissioners. I</p> <p>8 believe that Maureen Greene has a couple of</p> <p>9 preliminary matters she'd like to speak to in</p> <p>10 terms of filing.</p> <p>11 CHAIRMAN:</p> <p>12 Q. Good morning, Ms. Greene.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. Good morning, Mr. Chair, Commissioners. I</p> <p>15 have two undertakings that I would like to</p> <p>16 file at this time. Copies have already been</p> <p>17 distributed to the parties and I've left</p> <p>18 copies with the clerk for the panel members.</p> <p>19 The first undertaking is in response to a</p> <p>20 request from Mr. Kelly that arose on October</p> <p>21 7th. Mr. Kelly asked Hydro to provide the</p> <p>22 breakdown of the operating expenses that were</p> <p>23 shown in the June 30th quarterly report in the</p> <p>24 same format and in the same categories as</p>
Page 3	Page 4
<p>1 outlined in Mr. Roberts' schedule two. We</p> <p>2 have prepared that and the clerk is</p> <p>3 circulating it at this time.</p> <p>4 MS. NEWMAN:</p> <p>5 Q. That will be undertaking number one.</p> <p>6 GREENE, Q.C.:</p> <p>7 Q. The second item arises from the cross-</p> <p>8 examination of Mr. Hutchings, yesterday,</p> <p>9 October 9th and Mr. Hutchings asked that Hydro</p> <p>10 reproduce chart one in Mr. Wells' evidence</p> <p>11 with 1997 as the starting point. So the</p> <p>12 second undertaking is a response to that</p> <p>13 request and, again, we have filed copies with</p> <p>14 the parties this morning, as well as with the</p> <p>15 Board clerk.</p> <p>16 MS. NEWMAN:</p> <p>17 Q. And that will be called undertaking number</p> <p>18 two.</p> <p>19 GREENE, Q.C.:</p> <p>20 Q. Thank you, Mr. Chair, that concludes -</p> <p>21 CHAIRMAN:</p> <p>22 Q. Thank you, Ms. Greene. Good morning, Mr.</p> <p>23 Wells.</p> <p>24 A. Good morning.</p> <p>25 Q. Good morning Mr. Hutchings. When you're</p>	<p>1 ready, please.</p> <p>2 HUTCHINGS, Q.C.:</p> <p>3 Q. Thank you, Mr. Chair. Just by way of</p> <p>4 clarification in terms of the numbering of the</p> <p>5 documents that were just filed. I think last</p> <p>6 time we had like U-Hydro 1 and U-NP 1 and</p> <p>7 those types of things. Are we just going to</p> <p>8 go U-1 and U-2 now?</p> <p>9 MS. NEWMAN:</p> <p>10 Q. Be U-Hydro No. 1, U-Hydro No. 2.</p> <p>11 CHAIRMAN:</p> <p>12 Q. Thank you for that. When you're ready -</p> <p>13 HUTCHINGS, Q.C.:</p> <p>14 Q. Thank you, Mr. Chair. Good morning, Mr.</p> <p>15 Wells.</p> <p>16 A. Good morning.</p> <p>17 Q. Just returning quickly to my question of</p> <p>18 yesterday relative to your chart and what is</p> <p>19 now U-Hydro 2, nothing more I guess than a</p> <p>20 confirmation of the question that I asked you</p> <p>21 earlier that had the chart started in 1997,</p> <p>22 then the core wage expense would be showing in</p> <p>23 excess of the rate of inflation on that chart</p> <p>24 and that's what this shows, correct?</p> <p>25 A. Yes.</p>

Page 5	Page 6
<p>1 HUTCHINGS, Q.C.:</p> <p>2 Q. So it all depends on where you choose to start</p> <p>3 your chart from.</p> <p>4 A. Yes.</p> <p>5 Q. I'd like, Mr. Wells, to refer to your evidence</p> <p>6 of October 6th and page 62 of the transcript.</p> <p>7 You are referring to the drivers of the</p> <p>8 increase that we're facing here in terms of</p> <p>9 costs to your customers. You note that "Power</p> <p>10 purchase costs", at line one, "are forecast to</p> <p>11 increase in 2004 by \$18 million dollars",</p> <p>12 that's over the cost used to set the current</p> <p>13 rates. You say, as well, "additional</p> <p>14 financial charges associated with the</p> <p>15 development of Granite Canal are forecast to</p> <p>16 be approximately \$11 million dollars in 2004."</p> <p>17 Could I take you now in the context of those</p> <p>18 remarks to page 17 of the pre-filed evidence</p> <p>19 of C.F. Osler and Patrick Bowman.</p> <p>20 A. Yes.</p> <p>21 Q. I want to refer to the table, number 5.2 that</p> <p>22 appears on that chart. Perhaps, first of all</p> <p>23 you can confirm for me that the 11 million</p> <p>24 dollars that you refer to in the case of</p> <p>25 Granite Canal, that doesn't take into account</p>	<p>1 any of the benefits that arise from the</p> <p>2 construction of Granite Canal, does it, fuel</p> <p>3 savings or anything of that nature?</p> <p>4 A. The 11 million dollars attributed to Granite</p> <p>5 Canal is related to the interest cost because</p> <p>6 of the debt incurred in the building of</p> <p>7 Granite Canal as set out in Mr. Roberts'</p> <p>8 evidence and schedules.</p> <p>9 Q. Right, okay. And the table that's shown on</p> <p>10 Mr. Osler's evidence, deals with the changes</p> <p>11 arising from the major issues here in the</p> <p>12 hearing and columns D and E deal with Granite</p> <p>13 Canal; column D listing the costs which were</p> <p>14 produced from IC-251, which I don't think we</p> <p>15 need to look at. But the costs include the</p> <p>16 operating and maintenance, administration</p> <p>17 expense, the depreciation, as well as the</p> <p>18 return on debt and return on equity and the</p> <p>19 costs total 11.840 million. The difference in</p> <p>20 the numbers presumably being the fact that</p> <p>21 depreciation and operating expenses were not</p> <p>22 included in your 11 million, is that correct?</p> <p>23 A. No, the 11 million relates to the 135 million</p> <p>24 dollar cost of Granite Canal against our</p> <p>25 average weighted cost of capital as set out in</p>
Page 7	Page 8
<p>1 Mr. Roberts' evidence.</p> <p>2 Q. Yes, okay. And that would be approximately</p> <p>3 the total of lines 11 and 12 under column D</p> <p>4 which is the 9.5 million dollars return on</p> <p>5 debt and the 1.7 million dollars return on</p> <p>6 equity, correct?</p> <p>7 A. Yes, whatever that is -</p> <p>8 Q. That's a little over 11 million.</p> <p>9 A. Yes.</p> <p>10 Q. And the total, the 11,840 results from the</p> <p>11 fact that for purposes of presentation here,</p> <p>12 we're trying to include all the costs from</p> <p>13 Granite Canal, we're putting in an amount for</p> <p>14 depreciation and an amount for operating and</p> <p>15 maintenance expense, correct? You see where</p> <p>16 that totals to the \$11,840,000?</p> <p>17 A. Yes, I see that.</p> <p>18 Q. Okay.</p> <p>19 A. This is Mr. Osler's schedule.</p> <p>20 Q. Yes, and the numbers as you'll see from</p> <p>21 footnote 42 are derived from the answer to IC-</p> <p>22 251. Now, what is shown under column E in</p> <p>23 this table are the benefits that arise from</p> <p>24 the construction of Granite Canal in terms of</p> <p>25 savings in operating expenses, power purchase</p>	<p>1 expenses and primarily, fuel, in excess of 10</p> <p>2 million dollars. And those total at the</p> <p>3 bottom \$12,788,000, you see that number?</p> <p>4 A. Obviously the numbers are as you're pointing</p> <p>5 out, but that's Mr.--again, I point out that's</p> <p>6 Mr. Osler's numbers.</p> <p>7 Q. Yes. I mean these are Mr. Osler's numbers</p> <p>8 which are taken from the material that Hydro</p> <p>9 has filed in connection with the application.</p> <p>10 A. I would grant you that they're taken from</p> <p>11 material filed. How they're used though, I'm</p> <p>12 reluctant to endorse.</p> <p>13 Q. Would you agree with me at least that the</p> <p>14 existence of Granite Canal displaces</p> <p>15 \$10,000,000 worth of fuel?</p> <p>16 A. The way that is calculated is that you take</p> <p>17 Granite Canal's production as forecast and you</p> <p>18 would say how much fuel would you have to burn</p> <p>19 to duplicate that amount of electricity -</p> <p>20 Q. Right.</p> <p>21 A. And assuming a price per barrel of fuel, you</p> <p>22 come up with a cost which would be--you could</p> <p>23 say was a fuel saving. The fact of the matter</p> <p>24 is though that our fuel expenses, despite</p> <p>25 Granite Canal and the purchases from the NUGS,</p>

Page 9	Page 10
<p>1 MR. WELLS:</p> <p>2 these new additional purchases, our fuel costs</p> <p>3 are actually going to increase. But the</p> <p>4 calculation of the--what it means is that had</p> <p>5 Granite Canal not been built, we would have</p> <p>6 had to buy even that much more fuel to produce</p> <p>7 the same amount of electricity. So it's not a</p> <p>8 savings in that extent, but you can always</p> <p>9 take a source of generation other than thermal</p> <p>10 and say what would it take to replace that or</p> <p>11 produce that amount of electricity from</p> <p>12 another source.</p> <p>13 Q. I mean what this is showing is that Granite</p> <p>14 Canal is a good thing in that it saves money</p> <p>15 as a project.</p> <p>16 A. Granite Canal is a good thing in our terms</p> <p>17 because it provides electricity at a cost at</p> <p>18 the bus bar of about 5.5 cents a kilowatt</p> <p>19 hour, which to our knowledge is the best Hydro</p> <p>20 resource available to us on the island at the</p> <p>21 time that the decision was made to go to--</p> <p>22 ahead with Granite Canal.</p> <p>23 Q. And on the basis of the numbers that Hydro has</p> <p>24 produced and have been inserted into this</p> <p>25 table by Mr. Osler, the benefits of Granite</p>	<p>1 Canal in 2004 outweigh the costs of it by</p> <p>2 approximately a million dollars, do you agree</p> <p>3 with that?</p> <p>4 (9:15 a.m.)</p> <p>5 A. No, see, and--so, again, I've read your</p> <p>6 opening statement, Mr. Hutchings, and I've</p> <p>7 read Mr. Osler's evidence in part, and we've</p> <p>8 discussed it. And what it seems to conclude</p> <p>9 is that somehow we're 22 million dollars or</p> <p>10 something better off or 25 in your</p> <p>11 calculations, which I don't think we agree</p> <p>12 with, but that's not the point. The point is</p> <p>13 that in all of this exercise, that as our cost</p> <p>14 of service requirements show, that in fact our</p> <p>15 fuel costs in terms of our revenue</p> <p>16 requirement, and this is what the</p> <p>17 Commissioners have to be concerned with, with</p> <p>18 respect to the cost of service, that our fuel</p> <p>19 costs, because of Granite Canal and because of</p> <p>20 the power purchases from the NUGS are lower</p> <p>21 than they otherwise would be.</p> <p>22 Q. Exactly.</p> <p>23 A. In other words, if we didn't have these</p> <p>24 projects our fuel costs would be even higher,</p> <p>25 but there are no savings, we are spending</p>
Page 11	Page 12
<p>1 more. And, you know, there's been--the whole</p> <p>2 suggestion because when I first saw this</p> <p>3 testimony from Mr. Osler and Mr. Bowman, I</p> <p>4 would ask Mr. Roberts why are we applying,</p> <p>5 sure we're going ahead so far we don't need</p> <p>6 any applications, we're saving so much money.</p> <p>7 And of course when we went through it we said</p> <p>8 well that was a great relief because otherwise</p> <p>9 we had to trouble the Board and everybody else</p> <p>10 for nothing.</p> <p>11 So there are no savings here in terms--</p> <p>12 you're just getting a good deal on cheaper</p> <p>13 electricity than if we had to replace it with</p> <p>14 oil. Like there are no savings in the sense</p> <p>15 that somehow the bill for 2004 is going to be</p> <p>16 less than otherwise would be.</p> <p>17 Q. Where we're trying to get, Mr. Wells, is the</p> <p>18 source of the additional cost and you're</p> <p>19 suggesting that 11 million dollars of the</p> <p>20 additional cost is coming from Granite Canal.</p> <p>21 A. It is, yes.</p> <p>22 Q. I'm suggesting to you that if you take both</p> <p>23 the costs and the benefits associated with</p> <p>24 Granite Canal and if that was the only thing</p> <p>25 that happened between last year and this year,</p>	<p>1 you should be in here looking for a rate</p> <p>2 decrease because you've got a million dollars</p> <p>3 more than you need.</p> <p>4 A. But you're operating on a false premise and</p> <p>5 indeed that's why we're in here looking for a</p> <p>6 rate increase, is because our costs are</p> <p>7 higher.</p> <p>8 Q. I didn't say that that's what happened. All</p> <p>9 I'm putting to you is the hypothetical that if</p> <p>10 the only thing that changed in Hydro's world</p> <p>11 between 2003 and 2004 or 2002 and 2004, was</p> <p>12 the introduction of Granite Canal, your</p> <p>13 overall costs would be down.</p> <p>14 A. Yes, but that hypothetical is not going to</p> <p>15 help either Hydro, our customers or the</p> <p>16 Commissioners because we're not in a</p> <p>17 hypothetical world. Unfortunately -</p> <p>18 Q. But you agree with the result of the</p> <p>19 hypothetical, as a hypothetical.</p> <p>20 A. But why would I agree with a hypothetical</p> <p>21 question anyway, you know. You state a</p> <p>22 hypothetical question which has absolutely no</p> <p>23 relevance to this proceeding and you want me</p> <p>24 to agree with it. I'm going to be on the</p> <p>25 stand till Tuesday, aren't I.</p>

Page 13	Page 14
<p>1 HUTCHINGS, Q.C.:</p> <p>2 Q. No, Mr. Wells, your willingness to agree with</p> <p>3 it is a sufficient answer in itself. If we</p> <p>4 look at the issue of the power purchase</p> <p>5 agreements, you suggest that those increase</p> <p>6 Hydro's costs by about 11 million dollars.</p> <p>7 A. That's correct.</p> <p>8 Q. Would you agree with me that the savings</p> <p>9 associated with them are about 12 million</p> <p>10 dollars?</p> <p>11 A. Avoided potential costs, yes.</p> <p>12 Q. I don't think we need to run down the other</p> <p>13 lane any further since you're reluctant to</p> <p>14 admit the obvious. I want to talk, Mr. Wells,</p> <p>15 at the end of our little discussion here about</p> <p>16 the policy of Hydro in putting together its</p> <p>17 rate application here. Does Hydro take into</p> <p>18 account the impact on customers in determining</p> <p>19 what rate increases to seek?</p> <p>20 A. Very much so.</p> <p>21 Q. How does it do that?</p> <p>22 A. Well I think if we look back in--as Hydro is a</p> <p>23 fully regulated utility, at our last General</p> <p>24 Rate Application coming forward, we have</p> <p>25 exhibited very much a concern to the detriment</p>	<p>1 of our own bottom line with respect to the</p> <p>2 rates for customers as exhibited by proposing</p> <p>3 a nominal return on equity of three percent</p> <p>4 which took millions of dollars out of our</p> <p>5 revenue requirement, put us in a very tight</p> <p>6 operating position in that sense, and has</p> <p>7 resulted--and we--in a loss, to the benefit of</p> <p>8 all customers, through the year 2003, which</p> <p>9 loss will continue until some other rate</p> <p>10 structure is approved by the Public Utilities</p> <p>11 Board. That's evidence of taking into account</p> <p>12 as far as one can carry the can, issues with</p> <p>13 respect to rate increases. Our whole proposal</p> <p>14 is with respect to what had been put before</p> <p>15 the Board at the Board's request on the rural</p> <p>16 rates and aspects of rural rates to have phase</p> <p>17 in where the dollar value wouldn't affect</p> <p>18 consumers unduly. The same principle applied</p> <p>19 with respect to our proposals on the uniform</p> <p>20 rates in the Labrador Interconnected system.</p> <p>21 The same attitude is reflected in the actions</p> <p>22 that Hydro has taken with respect to how it</p> <p>23 operates internally, the displacement of some</p> <p>24 211 jobs from the Hydro system.</p> <p>25 All of these efforts, the efficiency</p>
Page 15	Page 16
<p>1 improvements in Holyrood, the upgrading of the</p> <p>2 systems, everything that we do is directed to</p> <p>3 provide something for customers at the lowest</p> <p>4 possible cost consistent with that requirement</p> <p>5 that there has to be a certain level of</p> <p>6 service and reliable service throughout the</p> <p>7 system. So, I think that there's ample</p> <p>8 demonstration in here. We've looked very</p> <p>9 closely at the effect that rates are going to</p> <p>10 have. As we say, there are some significant</p> <p>11 increases here and unfortunately, some over</p> <p>12 which we have absolutely no control, such as</p> <p>13 the huge impact that the price of fuel has had</p> <p>14 on our whole electricity cost in this</p> <p>15 province.</p> <p>16 These are significant issues of price,</p> <p>17 but well beyond anybody's control. And in</p> <p>18 trying to meet the demands of the system, we</p> <p>19 work very hard to make sure that the natural</p> <p>20 advantage that was there in Granite Canal, the</p> <p>21 amount of electricity that could be produced</p> <p>22 from that water, using the Bay D'Espoir water</p> <p>23 that was already encaptured and getting five</p> <p>24 and a half cents per kilowatt hour into the</p> <p>25 system as the marginal cost, was a good move</p>	<p>1 for consumers. And now, the issue there where</p> <p>2 we can take some pride in is that we brought</p> <p>3 it in on what it was engineering--what the</p> <p>4 projection could be. The fact that that site</p> <p>5 happened to be in Bay D'Espoir is just an act</p> <p>6 of nature and we happened to be there. If</p> <p>7 you're on another river somewhere else you</p> <p>8 can--but the thing to do is to take advantage</p> <p>9 of the resource that's available to you. And</p> <p>10 in the sense of Holyrood, well Holyrood is</p> <p>11 very complex, very difficult plant to operate,</p> <p>12 an old plant, and there are all sorts of</p> <p>13 issues there. In Holyrood, we have shown and</p> <p>14 I think it's to one of our greatest credits</p> <p>15 that I would look for is that since 1996</p> <p>16 bringing the incapability factor of Holyrood</p> <p>17 down to the mid twenty--if Holyrood was not</p> <p>18 available at 75 percent or plus of the time,</p> <p>19 which we've achieved and producing at the</p> <p>20 efficiencies that we have had, then I think</p> <p>21 that we would have some grave repercussions in</p> <p>22 this province. We are entirely dependent on</p> <p>23 certain things to ensure that we have</p> <p>24 electricity in the winter and the only fly in</p> <p>25 the ointment for all of us is that oil instead</p>

Page 17	Page 18
<p>1 MR. WELLS:</p> <p>2 of being somewhere in a reasonable range, gets</p> <p>3 very high. And that's a circumstance we have</p> <p>4 to live with, whether it's in Holyrood or in</p> <p>5 your own home furnace or at the gas pump. You</p> <p>6 know, we just can't help ourselves there.</p> <p>7 Q. Mr. Wells, that's not unlike, I guess the</p> <p>8 answer that, or part of the answer at least</p> <p>9 that you gave to me on September 26th of 2001</p> <p>10 at page five of the transcript and I'll just</p> <p>11 quote little portions of it here. "Given the</p> <p>12 circumstances and financial situation in</p> <p>13 relation to costs and operations and rates, we</p> <p>14 are trying to reduce the effect of the rate</p> <p>15 impact on the customers" and you suggested</p> <p>16 that if you "had then asked for a normal rate</p> <p>17 of return, had we done that, we were looking</p> <p>18 at in the case of your clients, Mr. Hutchings,</p> <p>19 rates that would have exceeded 20 percent."</p> <p>20 And that is the explanation you gave at that</p> <p>21 time for restricting your rate of return to</p> <p>22 three percent, correct?</p> <p>23 A. That's correct.</p> <p>24 Q. What are the rates this time?</p> <p>25 A. Unfortunately, your rates are higher and we</p>	<p>1 cannot carry the can further. We're now</p> <p>2 incurring losses in trying to help the</p> <p>3 situation. We, as I'm sure your client had</p> <p>4 not anticipated it, or the Commissioners, that</p> <p>5 the fuel prices were going beyond. It's like</p> <p>6 trying to cross a river. The river that we</p> <p>7 attempted to cross in helping customers on the</p> <p>8 actual rates in the last rate application</p> <p>9 turned out to be much too wide, much too deep.</p> <p>10 And in a well intentioned attempt to help</p> <p>11 consumers with that three percent return on</p> <p>12 equity, we are in a loss position. Now all</p> <p>13 Newfoundlanders and Labradorians have an</p> <p>14 interest that this Crown corporation is not</p> <p>15 supposed to operate a loss, cannot continue on</p> <p>16 operating losses and its financial integrity</p> <p>17 is very important. We're too much a</p> <p>18 percentage of the debt of this province to</p> <p>19 have this utility suddenly become financially</p> <p>20 unviable.</p> <p>21 So, that decision really in 2001 was not</p> <p>22 a business decision in the strict sense, it</p> <p>23 was a decision of the heart to try. We said</p> <p>24 this is only going to happen once, you know,</p> <p>25 that we're going to see a doubling in fuel</p>
Page 19	Page 20
<p>1 rates. We can help here and we'll shorten our</p> <p>2 own income and live with that consequence.</p> <p>3 But it would now not be a matter of the heart,</p> <p>4 it would be absolutely foolhardy for us not to</p> <p>5 take the prudent and legitimate expenses and</p> <p>6 have them set in rates, for a variety of</p> <p>7 reasons, not the least being our financial</p> <p>8 integrity and not the least being that</p> <p>9 consumers in Newfoundland, everybody has to</p> <p>10 understand our circumstance. And I don't mean</p> <p>11 Hydro. This is a collective thing for all</p> <p>12 Newfoundlanders and Labradorians, what are we</p> <p>13 going to do about electricity, from where are</p> <p>14 we going to source it and how are we going to</p> <p>15 stand to that expense and share it equitably</p> <p>16 under the normal regulatory principles.</p> <p>17 That's our issue in Newfoundland.</p> <p>18 Q. I don't think I have great disagreement with</p> <p>19 anything you've said there, Mr. Wells, but</p> <p>20 wouldn't you agree also that it's in the</p> <p>21 interests of all the people of Newfoundland</p> <p>22 and Labrador to ensure that other industries</p> <p>23 in the province remain viable?</p> <p>24 A. Absolutely.</p> <p>25 Q. So, in your balance of the importance of these</p>	<p>1 factors, you have produced a proposal that</p> <p>2 calls for a 9.75 percent rate of return on</p> <p>3 equity for Hydro, instead of the three percent</p> <p>4 that you proposed last time and how does that</p> <p>5 play into the threat presented by these 20, or</p> <p>6 perhaps, 30 plus percent rate increases to the</p> <p>7 viability of the industrial customers?</p> <p>8 (9:30 a.m.)</p> <p>9 A. The issue of the viability of the industrial</p> <p>10 customers is one thing and--well, there's</p> <p>11 three issues in play here. One is the</p> <p>12 viability of industrial, certain industrial</p> <p>13 customers. Hydro's rate of return and who</p> <p>14 bears the costs, because if we arbitrarily</p> <p>15 reduce Hydro's legitimate revenue requirement</p> <p>16 to assist say an industrial customer, then</p> <p>17 you're asking other rate payers to subsidize</p> <p>18 the enterprise. And that is a big question,</p> <p>19 who should properly subsidize the industrial</p> <p>20 enterprise if it has a problem. From the</p> <p>21 point of view of the rate of return, we did</p> <p>22 not have the Board and the Board did not</p> <p>23 undertake to declare to the financial markets</p> <p>24 of the world, the regulatory principles under</p> <p>25 which you're going to overview the Crown</p>

Page 21	Page 22
<p>1 MR. WELLS:</p> <p>2 corporation, which is Hydro. And it's this</p> <p>3 hearing, we're saying the Board now has to</p> <p>4 make a decision with respect to what is the</p> <p>5 view of the Board on Hydro's regulated rate of</p> <p>6 return. And as I said earlier, your message</p> <p>7 is--we'll all hear the message and we'll all</p> <p>8 live by it, but your real message is to the</p> <p>9 bond markets of the world that the Public</p> <p>10 Utilities Board in this jurisdiction says the</p> <p>11 capital dollars that are contributed by the</p> <p>12 owner to the enterprise will be--have a</p> <p>13 return. And you will determine that return</p> <p>14 and you have a lot of expert evidence before</p> <p>15 you on which to base that decision. And my</p> <p>16 contribution, I've already made and that</p> <p>17 argument is that you're looking at the risk of</p> <p>18 the capital deployed.</p> <p>19 Now, that rate of return, you don't</p> <p>20 determine a rate of return for a utility based</p> <p>21 on well the sun is shining today and it should</p> <p>22 be this or it's raining tomorrow, it should be</p> <p>23 that, or the mill in Stephenville is in</p> <p>24 trouble. Those are not the factors that go</p> <p>25 into the determination of a rate of return.</p>	<p>1 There are a lot of principles. Ms. McShane</p> <p>2 has, you know, dealt with the risks and she's</p> <p>3 given--and you have other opinions, but it's</p> <p>4 not--one of the factors that you just can't</p> <p>5 take into consideration is that the effect on</p> <p>6 any one company or enterprise or for that</p> <p>7 matter, rate payers. This is a question of in</p> <p>8 the known principles of financing, what is it</p> <p>9 that those dollars that are put into the</p> <p>10 capital structure of an enterprise should</p> <p>11 attract. And we know it's not the debt</p> <p>12 figure. So the question is what is it.</p> <p>13 Q. So you're telling me now, Mr. Wells, that you</p> <p>14 don't, in fact, take into account the effect</p> <p>15 on customers in determining the rate of return</p> <p>16 that you're going to seek?</p> <p>17 A. The Board has to make a declaration in this</p> <p>18 jurisdiction now that we're fully regulated,</p> <p>19 that they haven't made.</p> <p>20 Q. I understand -</p> <p>21 A. And they're going to do that.</p> <p>22 Q. The Board understands its role, I'm sure, but</p> <p>23 my question to you was, do you, as Hydro, take</p> <p>24 into account the effect on your customers when</p> <p>25 you determine what rate of return to ask for</p>
Page 23	Page 24
<p>1 before this Board?</p> <p>2 A. I've already answered that question and we</p> <p>3 have taken into account that, but we now have</p> <p>4 to establish since--I'm not--you know,</p> <p>5 whichever Industrial Customer you're talking</p> <p>6 about, Hydro at this moment is losing money.</p> <p>7 And Hydro's financial integrity and its</p> <p>8 importance in this jurisdiction is extreme and</p> <p>9 we have to ensure Hydro's financial integrity.</p> <p>10 There are jobs in Hydro that are actually</p> <p>11 important, but more importantly, everything</p> <p>12 else in terms of our energy requirements and</p> <p>13 the electricity in this province is dependent</p> <p>14 on Hydro. Very important. And all we're</p> <p>15 saying is that the Board has to make a</p> <p>16 statement with respect to the return on equity</p> <p>17 to Hydro, very little equity in terms of the</p> <p>18 dollar cost and you have to protect Hydro's</p> <p>19 financial integrity.</p> <p>20 Q. And if Hydro now, in its situation of losing</p> <p>21 money is granted by this Board, an increase</p> <p>22 that will allow it to recoup its increased</p> <p>23 expenses, subject to forecasting error, then</p> <p>24 it will cease to lose money, correct?</p> <p>25 A. There will be some point where the revenue</p>	<p>1 requirement will be met, yes.</p> <p>2 Q. You suggested at one point that if something--</p> <p>3 if the rate of return was reduced in</p> <p>4 consideration of the situation of an</p> <p>5 Industrial Customer, then rate payers would be</p> <p>6 subsidizing one particular customer. Now,</p> <p>7 isn't it true that all the customers of Hydro</p> <p>8 contribute to the rate of return?</p> <p>9 A. Yes, all the customers of Hydro contribute.</p> <p>10 Q. So there's no cross subsidization among rate</p> <p>11 payers if your rate of return is three percent</p> <p>12 as opposed to 9.75 percent?</p> <p>13 A. I'm sorry?</p> <p>14 Q. There is no cross subsidization among rate</p> <p>15 payers if your rate of return is three percent</p> <p>16 as opposed to 9.75 percent?</p> <p>17 A. We were talking a few moments ago about what</p> <p>18 was Hydro's intention in crafting the</p> <p>19 application and the rate of return and I</p> <p>20 pointed out the distinctions there. But if we</p> <p>21 are to take less within Hydro, then</p> <p>22 legitimately, it should have been decided.</p> <p>23 What you seem to be proposing is that somehow</p> <p>24 the rate for at least one of your clients</p> <p>25 should be different, than it otherwise would</p>

Page 25	Page 26
<p>1 MR. WELLS:</p> <p>2 be, and that would be in the form of a subsidy</p> <p>3 in my mind.</p> <p>4 Q. No, your answering a question that was not</p> <p>5 asked because that was not suggested in the</p> <p>6 question that -</p> <p>7 A. Okay, my misinterpretation.</p> <p>8 Q. - any one customer should be treated</p> <p>9 differently. My questions were directed</p> <p>10 towards your rate of return. So -</p> <p>11 A. Well the rate of return in terms of the</p> <p>12 message as I said earlier, is a determination</p> <p>13 in this jurisdiction what the Crown</p> <p>14 corporation should get. And the issues</p> <p>15 related to that and the argument and the</p> <p>16 decision cannot be related to the particular</p> <p>17 situation of individual circumstances at that</p> <p>18 time.</p> <p>19 Q. You're saying that as a matter of regulatory</p> <p>20 principle there should be a just and</p> <p>21 reasonable return to Hydro.</p> <p>22 A. Yes.</p> <p>23 Q. Is it not also a matter of legislated</p> <p>24 regulatory principle in this jurisdiction that</p> <p>25 power be provided to customers at the lowest</p>	<p>1 possible costs, consistent with reliable</p> <p>2 service?</p> <p>3 A. Yes, and that the provider of that power would</p> <p>4 be entitled to a "just and reasonable return".</p> <p>5 Q. There are two separate principles, are there</p> <p>6 not?</p> <p>7 A. That's right.</p> <p>8 Q. Yes. And those two principles, are to some</p> <p>9 extent, in conflict in that the higher your</p> <p>10 rate of return is, the higher the cost of</p> <p>11 electricity is, correct?</p> <p>12 A. No, I see no conflict in that. The issues</p> <p>13 related to the cost of producing electricity</p> <p>14 are--will be as the circumstances unfold in</p> <p>15 this particular jurisdiction, what our options</p> <p>16 are and how effectively we can take advantage</p> <p>17 of them. And the legislation clearly says,</p> <p>18 and it doesn't differentiate between a Crown</p> <p>19 corporation or any other entity, it says in</p> <p>20 effect that the entity providing the service</p> <p>21 is entitled to a just and reasonable return.</p> <p>22 Q. Okay. I'm not going to argue the</p> <p>23 interpretation of that section of the</p> <p>24 Electrical Power Control Act with you, but</p> <p>25 that's something we'll obviously be talking to</p>
Page 27	Page 28
<p>1 the Board about before we're through. Thank</p> <p>2 you, Mr. Wells. Those are all the questions I</p> <p>3 have, Mr. Chair.</p> <p>4 CHAIRMAN:</p> <p>5 Q. Thank you, Mr. Hutchings. Once again, thank</p> <p>6 you, Mr. Wells. Good morning, Mr. Kennedy.</p> <p>7 MR. KENNEDY:</p> <p>8 Q. Good morning, Chair.</p> <p>9 CHAIRMAN:</p> <p>10 Q. When you're ready, please.</p> <p>11 MR. KENNEDY:</p> <p>12 Q. Thank you. Mr. Wells, I wonder if we could</p> <p>13 just start with the discussion about the</p> <p>14 Holyrood generating station, and I guess, is</p> <p>15 it fair to say that there's been a fair amount</p> <p>16 of activity at Holyrood in the last couple of</p> <p>17 years, I guess, since 2001, towards improving</p> <p>18 your operations at Holyrood?</p> <p>19 A. I think that, Mr. Kennedy, that there's been a</p> <p>20 lot of activity, not just 2000, but if you go</p> <p>21 back to--well, any time you're operating a</p> <p>22 mechanical plant like that, there's activity</p> <p>23 and there's a curve that Mr. Haynes has</p> <p>24 described in his evidence about new facilities</p> <p>25 coming on stream, but I think that certainly</p>	<p>1 looking at from 1996, following coming out of</p> <p>2 1995, that there was a change in approach with</p> <p>3 respect to Holyrood, to ensure that its</p> <p>4 incapability factor was reduced and targeted</p> <p>5 to make sure that the plant was available at</p> <p>6 least 75 percent of the time and programs were</p> <p>7 undertaken then that have proven to be</p> <p>8 successful.</p> <p>9 Q. And some of the efforts that have been made at</p> <p>10 Holyrood in the last while have been aimed at</p> <p>11 improving the overall efficiency of the plant?</p> <p>12 A. Yes, we have improved the overall efficiency</p> <p>13 of the plant and I just caution, and Mr.</p> <p>14 Haynes will speak to it directly, but the</p> <p>15 efficiency of the plant is much related from</p> <p>16 the operation of the turbines themselves and</p> <p>17 the generator.</p> <p>18 Q. Sure, and I think just for illustrative</p> <p>19 purposes, I'm going to ask you to turn to some</p> <p>20 specific data on it, but I agree, we won't get</p> <p>21 into engineering based discussion, if you</p> <p>22 will. And I wonder if we could just turn to</p> <p>23 the Grant Thornton report? It's a report on</p> <p>24 Hydro's General Rate Application, and page 31,</p> <p>25 please. Yes, that's it. Thank you.</p>

Page 29	Page 30
<p>1 MR. KENNEDY:</p> <p>2 So, Mr. Wells, beginning at page 31,</p> <p>3 there's a discussion of the No. 6 fuel</p> <p>4 conversion factor, and that stretches on for</p> <p>5 just a little over a couple of pages, and</p> <p>6 there's been a number of RFIs that have been</p> <p>7 asked and answered in regards to some of the</p> <p>8 data that Grant Thornton provided, but if we</p> <p>9 just go over to page 32, there's a chart there</p> <p>10 indicating what the conversion factor actuals</p> <p>11 being for the Hydro generating station from</p> <p>12 1996 to 2002, and just so we're clear, as I</p> <p>13 understand it, Hydro in their application are</p> <p>14 proposing that the conversion factor for</p> <p>15 Holyrood, for the test year, should be set at</p> <p>16 624 kilowatt hours per barrel?</p> <p>17 A. That's correct.</p> <p>18 Q. Ring a bell, yes. And that that 624 kilowatt</p> <p>19 hours per barrel is based in large measure on</p> <p>20 the operating performance of the Holyrood</p> <p>21 generating station as shown here in this</p> <p>22 table, the period 1996 to 2002?</p> <p>23 A. Yes. To the extent that -</p> <p>24 Q. That's where the 624 comes from?</p> <p>25 A. - that duplicates Mr. Haynes' evidence, yes.</p>	<p>1 Q. Right, okay. And there's a discussion at the</p> <p>2 bottom of page 32 there going to throw out</p> <p>3 about some additional--actually good place to</p> <p>4 go to, Mr. O'Reilly, would be NP-269. Mr.</p> <p>5 Wells, this was a question put to Grant</p> <p>6 Thornton by Newfoundland Power, through the</p> <p>7 RFIs, so this is not a reply you have to stand</p> <p>8 by or behind, it not being one of Hydro's.</p> <p>9 But it provided in table format some of the</p> <p>10 most important information concerning the</p> <p>11 conversion factor in Holyrood. If you could</p> <p>12 just scroll down a little bit, there we go.</p> <p>13 I'm just waiting for people just to have a</p> <p>14 chance to read the table first. And as we can</p> <p>15 see, there was an addition to the performance</p> <p>16 of the Holyrood generating station to date</p> <p>17 which was the previous information we looked</p> <p>18 at showing an average of 624 kilowatt hours</p> <p>19 per barrel, that there's also some additional</p> <p>20 work that's been done at Holyrood, the last</p> <p>21 two there, the improvements due to the impact</p> <p>22 of the water lens installation and the second</p> <p>23 point is the impact of the continuous</p> <p>24 emissions monitoring system, and that these</p> <p>25 are, as I understand it, the forecast or</p>
Page 31	Page 32
<p>1 projected further improvements that might be</p> <p>2 obtained at Holyrood, based on these</p> <p>3 individual projects.</p> <p>4 A. Yes. We have improved the potential for the</p> <p>5 efficiency of the plant, but that efficiency</p> <p>6 will depend on the operating characteristics</p> <p>7 in a given year.</p> <p>8 (9:45 a.m.)</p> <p>9 Q. And I'm sure Mr. or one of the Hydro witnesses</p> <p>10 will be able to provide testimony on how</p> <p>11 that's all reflected in the proposed 624</p> <p>12 kilowatt hours per barrel. Clearly though,</p> <p>13 the initiatives at Holyrood that were aimed at</p> <p>14 improving the efficiency are, on their face,</p> <p>15 aimed at decreasing the amount of fuel that</p> <p>16 you have to burn at Holyrood in order to</p> <p>17 generate a set amount of energy.</p> <p>18 A. You're trying to increase the efficiency of</p> <p>19 what you get out of a barrel of oil, in terms</p> <p>20 of the energy transfer, one energy to another,</p> <p>21 using--you know, the engineers have a</p> <p>22 calculation for that.</p> <p>23 Q. And if we just go to NP-80, I just want to</p> <p>24 pull up one more table for us just to get a</p> <p>25 flavour of what's taking place out there. And</p>	<p>1 these are the actual conversion factors, if we</p> <p>2 could just scroll down so we get the full</p> <p>3 table there, thank you. The actual conversion</p> <p>4 factors achieved at Holyrood for the 2002-2003</p> <p>5 and they're all based off of the 2002 test</p> <p>6 year data, which was the Board determined</p> <p>7 conversion factor to be used by Hydro in its</p> <p>8 cost of service of 615 kilowatt hours per</p> <p>9 barrel, correct?</p> <p>10 A. Yes.</p> <p>11 Q. Okay. And there's been a fairly significant</p> <p>12 improvement throughout 2002 over that 615</p> <p>13 benchmark? The actuals for 2002 were, in each</p> <p>14 month, above the 615.</p> <p>15 A. That's correct, yes.</p> <p>16 Q. And you'd agree with me that these efficiency</p> <p>17 gains that were achieved at Holyrood benefit</p> <p>18 everybody that uses electricity in the</p> <p>19 Province of Newfoundland?</p> <p>20 A. Yes.</p> <p>21 Q. Would you like to comment just on the fact</p> <p>22 that sort of a cause and effect type of</p> <p>23 connection between the regulatory process and</p> <p>24 the scrutiny that Holyrood, as a generating</p> <p>25 plant, received in the 2001 hearing and then</p>

Page 33	Page 34
<p>1 MR. KENNEDY:</p> <p>2 Hydro's efforts to improve the efficiencies at</p> <p>3 the plant? You alluded to the fact that there</p> <p>4 were some efforts that were taking place prior</p> <p>5 to 2001 and I guess I just want to get a</p> <p>6 flavour for, if you will, is what in your</p> <p>7 opinion--or how much of this efficiency gains</p> <p>8 were driven by the change of focus in the</p> <p>9 company as a result of the scrutiny that was</p> <p>10 received?</p> <p>11 A. I take your point. Without--let me speak it</p> <p>12 from the point of view--I want to speak for</p> <p>13 Hydro on this, and without--and then not in</p> <p>14 derogatory remarks with regard to the Board or</p> <p>15 anybody outside of Hydro. The people within</p> <p>16 Hydro, the professionals, the managers and the</p> <p>17 engineers and support, in terms of operating</p> <p>18 Hydro and the general corporate decision that</p> <p>19 we have to take Holyrood to a higher level of</p> <p>20 availability because we could see that if</p> <p>21 events changed, the importance of Holyrood, I</p> <p>22 mean, it's integral now to the base load of</p> <p>23 the province on the Island Interconnected</p> <p>24 system. It's not a peaking plant. Somebody</p> <p>25 described that recently as Holyrood is a</p>	<p>1 peaking plant. It is anything but. When I</p> <p>2 look at my, going back to 1996, and my first</p> <p>3 involvement with issues related to Holyrood,</p> <p>4 the impetus for all of the actions taken at</p> <p>5 Holyrood are not because of some regulatory</p> <p>6 influence. We're dealing here with a</p> <p>7 mechanical plant and the people involved,</p> <p>8 going everywhere from since my time into the</p> <p>9 input, the water that goes into the plant and</p> <p>10 the water treatment plant that was built, the</p> <p>11 upgrades in the chemical area related to that,</p> <p>12 if you go out, you see a whole bunch of</p> <p>13 physicalities that relate to that. The waste</p> <p>14 water disposal, the waste from the plant</p> <p>15 disposal and every critical aspect of that</p> <p>16 process has been examined by production</p> <p>17 engineering staff and with management, all to</p> <p>18 ensure that (a) the plant will work, and that</p> <p>19 the plant will be most efficient. Now there</p> <p>20 are limitations onto whether that type of</p> <p>21 burning No. 6 fuel, what you can achieve in</p> <p>22 efficiency.</p> <p>23 When I ask about these things, because I</p> <p>24 caught onto it during the last hearing, why</p> <p>25 everybody was so anxious to have the</p>
Page 35	Page 36
<p>1 efficiency increased, because it reduced</p> <p>2 rates, and the issue becomes what is</p> <p>3 realistically achievable. And we were coming</p> <p>4 out of what were high water years, where there</p> <p>5 wasn't such a dependency on Holyrood, because</p> <p>6 we go hydraulic and Holyrood, you know, the</p> <p>7 efficient dispatch and the economical dispatch</p> <p>8 of power. What I was told by the engineers,</p> <p>9 you have to be very careful. These units, you</p> <p>10 know, at 175 megawatts, if they're operating</p> <p>11 at 40-50-60-70 megawatts, your efficiency goes</p> <p>12 down, no matter what the projected efficiency.</p> <p>13 Now that water lance treatment and the stack</p> <p>14 emissions monitoring will do is give you a</p> <p>15 better opportunity to increase efficiency, but</p> <p>16 the operating characteristics, that's my term,</p> <p>17 the operating characteristics will depend a</p> <p>18 lot on whether that unit is operating at</p> <p>19 capacity or if it's operating at 50 percent of</p> <p>20 capacity, then you're going to get some</p> <p>21 results out of this, and I would suggest that</p> <p>22 Mr. Haynes can explain all the rationality of</p> <p>23 that.</p> <p>24 But you have to be very careful in</p> <p>25 setting an efficiency. Everybody wants to</p>	<p>1 reduce rates, but you're going to have to rely</p> <p>2 on sound engineering judgment as to are you</p> <p>3 doing something that's beyond the realm of</p> <p>4 what is physically achievable, just in blind</p> <p>5 hope that somehow we can affect rates here,</p> <p>6 and that's why, I think, you have to look at</p> <p>7 the efficiency of Holyrood very cautiously in-</p> <p>8 -I know we're all achieving--we're all trying</p> <p>9 to get a lower rate and we think that if--I</p> <p>10 mean, if we said the efficiency of Holyrood</p> <p>11 is, you know, let's take it to 600 or 700</p> <p>12 kilowatt hours a barrel of fuel, and you know,</p> <p>13 somebody will give you what the result would</p> <p>14 be. But it's pie in the sky.</p> <p>15 And what I can say from my position that</p> <p>16 we have, and I've said this before, some very-</p> <p>17 -it's not only just being an engineer, an</p> <p>18 electrical engineer. We have--or mechanical.</p> <p>19 We have many, many years of experience built</p> <p>20 up within Hydro with individuals that are</p> <p>21 examining these things. Their performance</p> <p>22 over the years now is speaking for itself.</p> <p>23 We're taking a very old plant, 32 years old,</p> <p>24 two of those units, and we're keeping it</p> <p>25 together. We have good management out there.</p>

Page 37	Page 38
<p>1 MR. WELLS:</p> <p>2 You know, in a nice room like this where</p> <p>3 everything is nice and we're all around with</p> <p>4 shirts and ties and we're not out at Holyrood</p> <p>5 on a February morning when everything is on</p> <p>6 bust and everything is under pressure, to sit</p> <p>7 around and say what we decide is going to be</p> <p>8 the efficiency of Holyrood, you have to go</p> <p>9 with your best engineering. That's what we</p> <p>10 would do. I would not--I'm never going to</p> <p>11 second guess. I'd replace them if I didn't</p> <p>12 like their judgment, but I'm never going to</p> <p>13 second guess an engineer, and especially with</p> <p>14 the stature that these people have built up</p> <p>15 over the years of experience, and I don't know</p> <p>16 anything more I can say about that.</p> <p>17 Q. No, that was quite helpful. Do I take it from</p> <p>18 your reply then that the scrutiny and</p> <p>19 initiatives to improve the efficiency at</p> <p>20 Holyrood, from your perspective, are being</p> <p>21 conducted irrespective of what's taking place</p> <p>22 in this arena?</p> <p>23 A. We are a--it's new for me when I came to this</p> <p>24 experience of regulatory, but if you have any</p> <p>25 respect for yourself, as a manager and an</p>	<p>1 operator, and in life, whatever the business</p> <p>2 you're running, you're trying to make a</p> <p>3 success of it, and trying to make--you know,</p> <p>4 if you're in private enterprise, you're trying</p> <p>5 to increase your profits. In this particular</p> <p>6 issue, in Hydro, our job is not to increase</p> <p>7 our profits. Our job is to ensure the</p> <p>8 financial integrity of Hydro and meet our</p> <p>9 mandate, and that's what we discuss in Hydro</p> <p>10 is what--is trying to provide a reliable</p> <p>11 service in very difficult circumstances, given</p> <p>12 the nature of what we're operating and where</p> <p>13 we're operating it, and we have to report, and</p> <p>14 because there's no competition, we have this</p> <p>15 regulatory process. So we take it very</p> <p>16 seriously, and we take very seriously what the</p> <p>17 Board says. But if I thought that the driver</p> <p>18 for me and the driver for the people in Hydro</p> <p>19 was the regulatory process, I'd quit.</p> <p>20 Q. So you've made it clear then that--have you,</p> <p>21 that from your perspective, Hydro is in the</p> <p>22 best place, Hydro and I mean its employees,</p> <p>23 its executives, its workers, are in the best</p> <p>24 position to be able to identify and implement</p> <p>25 gains or improvements in your operation and</p>
Page 39	Page 40
<p>1 achieve operational--greater operational</p> <p>2 efficiency?</p> <p>3 A. In terms of running an electrical system?</p> <p>4 Q. Yes.</p> <p>5 A. I think that's--and with the advice of</p> <p>6 consultants and, you know, you go and get the</p> <p>7 expertise you need if you don't have it in</p> <p>8 house, and you try to--also mindful of the</p> <p>9 fact that there are cost constraints, because</p> <p>10 it's reliable, least cost power. I could</p> <p>11 think of any number of dollars that, in a</p> <p>12 perfect world, that we could spend in Holyrood</p> <p>13 in addition to what we propose for capital</p> <p>14 expenditures. There are a lot of things that</p> <p>15 could be done at Holyrood, and one of the</p> <p>16 challenges in the future is how we're going to</p> <p>17 handle this very complicated issue with</p> <p>18 respect to Holyrood, and the dollars that are</p> <p>19 going to be involved. It's not for lack of</p> <p>20 knowledge.</p> <p>21 Q. So these efficiency gains that we see in the</p> <p>22 table that's there before us now, these</p> <p>23 increase the efficiency at which Holyrood was</p> <p>24 able to provide power and energy to its</p> <p>25 customers, correct? The cost of power and</p>	<p>1 energy delivered in 2002 was lower than it</p> <p>2 would have otherwise have been if you only got</p> <p>3 615 kilowatt hours per barrel throughout 2002?</p> <p>4 A. If the plant had a better performance, yes.</p> <p>5 Q. And that increase in efficiency and lowering</p> <p>6 of costs was not based on job losses, correct?</p> <p>7 A. In the actual conversion of oil to</p> <p>8 electricity?</p> <p>9 Q. Yes.</p> <p>10 A. Was not based on job loss, no.</p> <p>11 Q. In other words, the lowering of costs of</p> <p>12 electricity by virtue of improving the</p> <p>13 efficiency of Holyrood wasn't based--that</p> <p>14 lowering of costs was because of an increase</p> <p>15 in your efficiency at Holyrood? It wasn't</p> <p>16 because you chopped or -</p> <p>17 A. No, no.</p> <p>18 Q. - eliminated positions?</p> <p>19 A. We're talking just the transfer of energy from</p> <p>20 an efficiency of--we've got more electricity</p> <p>21 out of the same barrel of oil.</p> <p>22 Q. So it was a productivity gain that Hydro</p> <p>23 achieved without resorting to eliminating</p> <p>24 positions?</p> <p>25 A. No, it was just the keen use of intellect and</p>

Page 41	Page 42
<p>1 MR. WELLS:</p> <p>2 applying some capital dollars and operating</p> <p>3 dollars.</p> <p>4 Q. In relying on your expertise, as you've just</p> <p>5 described -</p> <p>6 A. Yes, that's right.</p> <p>7 Q. - in knowing what to do. So just want to go</p> <p>8 back then to a comment that you made a couple</p> <p>9 of times concerning the Board having set a</p> <p>10 productivity allowance in 2001.</p> <p>11 A. Yes.</p> <p>12 Q. And I guess, reading the papers and of course,</p> <p>13 you don't believe half of what you read and</p> <p>14 none of what you hear, so it seems like</p> <p>15 Holyrood or Hydro was taking the position that</p> <p>16 the productivity allowance set by the Board</p> <p>17 was, in effect, requiring you to decrease your</p> <p>18 workforce.</p> <p>19 A. No, the productivity allowance, in the context</p> <p>20 of the discussion we've had here this week, I</p> <p>21 am saying when we went through Mr. Roberts'</p> <p>22 Schedule 2, which is much in view, that if you</p> <p>23 look at where the opportunities are for Hydro</p> <p>24 to come up with the substantial block dollars</p> <p>25 of savings, there's only one way we can</p>	<p>1 achieve it, and that's through reducing</p> <p>2 salaries and fringe benefits, and the only way</p> <p>3 we can achieve that is really to have less</p> <p>4 people. You know, unless we advocate that</p> <p>5 suddenly we go out and ask everybody in Hydro,</p> <p>6 who are not paid at market, and you know, as</p> <p>7 we stand at, to take a cut or do something</p> <p>8 like that. We don't have any great areas of</p> <p>9 flexibility when you look at Schedule 2 to</p> <p>10 influence the costs of the electricity finally</p> <p>11 produced. Nothing in comparison say to the</p> <p>12 issue of the cost of fuel. That's all I've</p> <p>13 been saying this week.</p> <p>14 Q. Okay. I wonder if we could just have a look</p> <p>15 at CA-46 for a moment. Mr. Wells, CA- 46</p> <p>16 indicates that the annual savings from the</p> <p>17 initiatives completed to date, and which are</p> <p>18 reflected in the 2004 forecast, is \$600, 000</p> <p>19 and that relates to the productivity</p> <p>20 initiatives that the company has been</p> <p>21 undertaking for the past while, correct?</p> <p>22 A. That's correct.</p> <p>23 Q. I'm not sure, I couldn't find it. Is there</p> <p>24 reference to where the \$600,000 arises from</p> <p>25 specifically?</p>
Page 43	Page 44
<p>1 A. Yes, the specific initiatives where one would</p> <p>2 -</p> <p>3 Q. So you'd be able to identify where that 600 -</p> <p>4 A. - yes, the issues that we addressed in our</p> <p>5 supply chain management and our handling of</p> <p>6 inventory and accounts payable and those</p> <p>7 changes. There are changes that we've</p> <p>8 implemented, a variety of changes, that we</p> <p>9 would expect to achieve that kind of savings</p> <p>10 for that activity, and there are other</p> <p>11 activities, you know, ongoing is \$600,000.</p> <p>12 Q. For instance, I noticed in one of your charts</p> <p>13 on controllable costs that your office</p> <p>14 material expenses decreased significantly,</p> <p>15 forecast from 2004 over the test year 2002.</p> <p>16 A. Office supplies and expense, yes.</p> <p>17 Q. And -</p> <p>18 A. Are we talking about the same thing? I'm</p> <p>19 sorry, what was -</p> <p>20 Q. Yes, I just want--sort of generally that there</p> <p>21 are line items in your controllable cost</p> <p>22 budget which don't involve wages, don't</p> <p>23 involve people per se, but none the less,</p> <p>24 Hydro is able to achieve greater efficiency by</p> <p>25 managing those better.</p>	<p>1 A. Yes. Very limited opportunities though to</p> <p>2 achieve dollar savings that would have any</p> <p>3 appreciable impact on rates, because of the</p> <p>4 nature of the items we're talking about.</p> <p>5 Q. Sure, well -</p> <p>6 A. Where there's a possibility is in--if you're</p> <p>7 talking in terms of the dollars, see we're</p> <p>8 talking at any point in time 25 to 30 percent</p> <p>9 of Hydro's total cost that affect rates.</p> <p>10 Q. Sure.</p> <p>11 A. And of that 25 or 30 percent, 60 percent is</p> <p>12 wages and salaries. So if you're going to</p> <p>13 appreciably have any impact in terms of</p> <p>14 controllable--should use the term costs over</p> <p>15 which we can influence matters. If you don't</p> <p>16 deal with the 63 percent, and I always caution</p> <p>17 everybody, stay away from system equipment</p> <p>18 maintenance. So you have to look elsewhere,</p> <p>19 and the elsewhere is really salaries.</p> <p>20 Otherwise we're--if we save, you know, \$800 on</p> <p>21 postage year over year, that's not going to</p> <p>22 help. Now that we wouldn't try to save it,</p> <p>23 but it's not going to have any appreciable</p> <p>24 impact.</p> <p>25 (10:00 a.m.)</p>

Page 45	Page 46
<p>1 MR. KENNEDY:</p> <p>2 Q. No one's going to see a change in their light</p> <p>3 bill as a result of you saving \$800 in</p> <p>4 postage.</p> <p>5 A. Yes.</p> <p>6 Q. But I'm not talking about it in the context</p> <p>7 though of the end rates that Hydro is charging</p> <p>8 to its customers, and talking about this more</p> <p>9 in relation to the setting of the productivity</p> <p>10 allowance, as was done in 2001, of two million</p> <p>11 dollars.</p> <p>12 A. But you're talking as though a productivity</p> <p>13 allowance is somehow systemic to the</p> <p>14 regulatory process with Hydro?</p> <p>15 Q. Well, what I'm indicating is that in CA- 46</p> <p>16 you've indicated that as a result of</p> <p>17 optimizing your corporate performance and this</p> <p>18 productivity initiatives that you've already</p> <p>19 earmarked, for instance, annual savings of</p> <p>20 \$600,000 as a result of some things that</p> <p>21 you've done, correct?</p> <p>22 A. Yes.</p> <p>23 Q. And that if, for instance, there was a \$ 2</p> <p>24 million productivity allowance that you were</p> <p>25 trying to move towards achieving, as set by</p>	<p>1 the Board, that's a good step in that</p> <p>2 direction?</p> <p>3 A. All these initiatives were undertaken without</p> <p>4 reference to the Board's productivity--</p> <p>5 actually, we're all--see, in any company,</p> <p>6 whether it's a Crown corporation or private</p> <p>7 enterprises, you're always trying to operate</p> <p>8 efficiently and effectively. I mean, there's</p> <p>9 millions of--hundreds of millions of dollars</p> <p>10 in management books and all this kind of.</p> <p>11 There's an industry in that. But in a</p> <p>12 competitive world, you have to ensure that</p> <p>13 you're operating, no matter what your</p> <p>14 business, efficiently and effectively. I've</p> <p>15 earlier said and I won't repeat it, that it's</p> <p>16 a constant struggle to make sure that your</p> <p>17 business is operating with the least amount of</p> <p>18 cost, and if you're in private enterprise, the</p> <p>19 highest amount of profit. I mean, because</p> <p>20 that's your job, but what we have to look at</p> <p>21 in this jurisdiction with respect to our</p> <p>22 electricity supply, and the two utilities, I</p> <p>23 understood earlier on that Newfoundland Power,</p> <p>24 which was much further ahead in the regulatory</p> <p>25 process than we are, had a productivity</p>
Page 47	Page 48
<p>1 allowance imposed and none since. And we had</p> <p>2 a productivity allowance imposed, as I</p> <p>3 understood it, because the Board had</p> <p>4 difficulty in knowing is this utility being</p> <p>5 operated efficiently and effectively. We</p> <p>6 don't really have a way to measure that, so</p> <p>7 we're going to take a stab and in fact in the</p> <p>8 dark, and clear warning that we had to be able</p> <p>9 to demonstrate that we are indeed focused on</p> <p>10 issues related to efficiencies and</p> <p>11 productivity in the conduct of the business.</p> <p>12 Q. And that -</p> <p>13 A. But if you're going to set up a framework</p> <p>14 where that kind of thing is--that to me, as a</p> <p>15 matter of policy or procedure, that's not the</p> <p>16 way to control a business enterprise. You can</p> <p>17 get untoward results if you, not knowing the</p> <p>18 mechanics--the Board has also said, in its</p> <p>19 P.U. 7, that they did not want to get into the</p> <p>20 management of the business and the detail, but</p> <p>21 they certainly wanted to have compliance as</p> <p>22 one of the pillars of regulation was</p> <p>23 compliance and the Board being aware of what's</p> <p>24 going on. And if you put a group of people in</p> <p>25 a position where there's just arbitrarily and</p>	<p>1 capriciously some sort of thing as a</p> <p>2 productivity allowance every year, human</p> <p>3 beings will react to that, and instead of</p> <p>4 getting a very positive approach, then you're</p> <p>5 going to get things done that will eventually</p> <p>6 be to the detriment of the system, because in</p> <p>7 sheer desperation to meet the productivity</p> <p>8 allowance, where else can you take it. You</p> <p>9 would be doing things that are not prudent.</p> <p>10 You would be doing things for some external</p> <p>11 force, instead of doing things that assure all</p> <p>12 our equipment and our systems and our people</p> <p>13 are motivated and the job, at my level, is to</p> <p>14 motivate and tell people what is the greater</p> <p>15 cause we're working for and how do you protect</p> <p>16 the job security in Newfoundland and Labrador</p> <p>17 Hydro. I tell them all the times it's very</p> <p>18 much dependent on the public's view that this</p> <p>19 corporation is providing them with an</p> <p>20 essential service and they're getting a good</p> <p>21 result for their dollars invested in the</p> <p>22 Corporation.</p> <p>23 Q. Okay. So you know, you've touched on the</p> <p>24 quandary, if you will, of the Board as</p> <p>25 expressed, in your interpretation of it, as</p>

Page 49	Page 50
<p>1 MR. KENNEDY: 2 expressed in P.U. 7 in setting a productivity 3 allowance because it felt it never had, as I 4 could gather your impressions, it never had 5 the information available to it to be able to 6 assess Hydro against other things to see how 7 efficient it was operating, and so it wanted 8 to incentivize Hydro to achieve greater 9 efficiencies in its operations? 10 A. Well, it wanted to ensure that we had the 11 message and you know, from page 74 to 77 of 12 the report, the issue, as I understood the 13 Board, and they quoted Mr. Justice Green, as 14 he was then, that there was a presumption, you 15 know, in the managerial good faith that should 16 be exercised by a regulatory board, and 17 therefore, if the evidence and the facts and 18 the figures that we present or any regulatory 19 body or body subject to regulatory direction, 20 if you don't find evidence that the--if all 21 the information presented is correct, if 22 there's clear, and I would say compelling 23 evidence, and this is our whole plea in this 24 case to the Board of Commissioners, is that 25 you can see, it's demonstrable that there's a</p>	<p>1 great effort in here to control costs, where 2 we have influence. Those 211 positions don't 3 come without a lot of internal reorganization 4 and consternation and having to do this, and 5 in the context of rural Newfoundland, every 6 job that we displace is questioned by some 7 public body, by a community, because that--you 8 know, so in a regulatory environment, I think 9 that the Board, if they are satisfied with the 10 information that they're getting, if there's 11 evidence that something is going on in that 12 organization to ensure that costs are kept to 13 a minimum, then to impose an arbitrarily-- 14 because that's like a dart. 15 Q. I understand, Mr. Wells. So let's just go to 16 the issue of the information that's been 17 provided to the Board, and we just--we were 18 dealing with the Holyrood conversion factor, 19 and I think sometimes that's also referred to 20 as the thermal conversion factor, and that was 21 addressed in Grant Thornton's report on the 22 KPI. I wonder if we could--it's the report on 23 regulatory performance measures for 24 Newfoundland and Labrador Hydro. Are you 25 familiar with that document, Mr. Wells?</p>
Page 51	Page 52
<p>1 A. Yes. 2 Q. And Grant Thornton goes through a description 3 there, through the report, about the efforts 4 that had been made at Hydro, prior to Grant 5 Thornton becoming directly involved in this 6 KPI project, it's actually indicated at page 3 7 that prior to the commencement of the 2001 8 hearing, Hydro had initiated an internal 9 project dealing with key performance 10 indicators. So this was the process that you 11 had already gotten, sort of, the ball rolling 12 on, sometime in 2001, presumably, and then at 13 page 5, if we could just go to the bottom? 14 Actually, if we could just scroll up, just by 15 way of explanation, they have review of key 16 performance indicators and then said as part 17 of their identification and assessment 18 process, Hydro has broken down the KPI's into 19 three categories: performance measures 20 currently reported to the Board; performance 21 measures which may be suitable for the Board, 22 from a regulatory perspective. These would be 23 also relevant for internal use by management. 24 And three, performance measures which would be 25 more relevant for internal use. And then</p>	<p>1 Grant Thornton explained that they're looking 2 at just number one and two there, that the 3 performance measures for internal use are, I 4 guess, Hydro's concern only. And then at the 5 bottom of page 5, there's six key performance 6 indicators that are currently reported to the 7 Board: SAIDI, SAIFI, SARI, the duration 8 adjustment forced outage rates, I'm not sure 9 how you pronounce the acronym, DAFOR; weighted 10 incapability factor and your customer 11 satisfaction index, correct? 12 A. That's correct. 13 Q. Okay. And then Grant Thornton went on, at 14 page 6 there, to look at other performance 15 measures that could be reported by Hydro to 16 the Board which would assist the Board in 17 monitoring Hydro through the--just part of the 18 regulatory oversight process and they are as 19 stated at page--if we can just scroll down, 20 you'll be able to get all six--there you go. 21 The thermal conversion factor; the hydraulic 22 conversion factor; the corporate operating 23 maintenance per megawatt hour; and then the 24 three are the generating, operating and 25 maintenance per megawatt hour, transmission,</p>

Page 53	Page 54
<p>1 MR. KENNEDY: 2 operating and maintenance for transmission-- 3 per kilometer of transmission line; and then 4 distribution, OM & A per Rural customer. And 5 then there's a discussion, Mr. Wells on the 6 ensuing pages, which you're probably familiar 7 with, about what each of those are, and the 8 very first one is the thermal conversion 9 factor. And then you see that Grant Thornton 10 has indicated, "We recommend that Hydro report 11 its thermal conversion factor to the Board on 12 an annual basis." 13 A. Yes. 14 Q. Now, you had indicated on October 6th, I think 15 it was--in the transcript please, October 6th, 16 page 69. There we go. This was in your 17 opening portion of your testimony, Mr. Wells, 18 when you were under direct by your counsel. 19 You can tell by the nicely framed questions 20 and replies. 21 A. A little more order in the proceeding, yes. 22 Q. Yes, it seemed to be, I was reading it last 23 night, I said, boy, he's very concise and - 24 A. What are you implying? (laughter) 25 Q. That it was late at night and it was</p>	<p>1 appreciated. (laughter). And the question at 2 line 2 there is, "Mr. Wells, at the last 3 hearing, the Board imposed a productivity 4 allowance on Hydro. Do you believe it is 5 appropriate now for the Board to consider the 6 imposition of another productivity allowance 7 during this hearing?" And your reply is 8 "Absolutely not". And then you go on to 9 explain why that's the case, and you already 10 stated that here today, but there was one 11 portion there where you go, line 10, "There 12 are also means by which performance within 13 Hydro can be measured on a corporate and 14 divisional level. In P.U. 7, the Board stated 15 that it believed the onus was on Hydro to 16 bring forward measures which clearly 17 demonstrate the efficiency of its operation. 18 In our view, this has been done. And as 19 directed by the Board, performance measures 20 had been reviewed with the Board's accounting 21 firm, Grant Thornton, which has reported 22 favourably with respect to the performance 23 measures proposed by Hydro." So, I guess what 24 I'm trying to determine is the KPI report of 25 Grant Thornton indicated that, well yes, there</p>
Page 55	Page 56
<p>1 are these existing performance measures that 2 Hydro reports to the Board on, but that 3 there's recommendations to expand those, to 4 include these six additional - 5 A. And to exclude the ones that we had developed 6 as well, because when Grant Thornton arrived, 7 we already had something for them to look at. 8 Q. Right. 9 A. Yeah. 10 Q. So am I gathering correctly then that, is it 11 Hydro is agreeing that it will, subject to the 12 Board's order, that Hydro agrees that these 13 six additional performance measures will be 14 reported as part of the normal course of the 15 regulatory process? 16 A. Yes, and the only caveat is the appreciation 17 that the Grant Thornton report was only 18 received relatively a short while ago, and 19 there's been no follow-up discussion, either 20 with the Board or, you know, between Hydro and 21 the Board and Grant Thornton. But the 22 recommendations of the Grant Thornton report 23 show a clear path that the Board will accept 24 it, as to how we can go forward with the 25 review of Hydro's performance in the future,</p>	<p>1 you know, this is the mechanism that Grant 2 Thornton is recommending and this could be set 3 up and put in place. And we have, to the 4 extent, like some of the new things, the 5 kilowatt hours, the normalized, you know, and 6 the dollars related to a kilowatt hour, but 7 these types of things will hopefully--and this 8 depended on the view of the Board as to is 9 that the approach to measure certain things, 10 those that were in the past and those that 11 would be incorporated into the process in the 12 future. Now, and on the basis of that, is of 13 course what we're saying is that would be a 14 far more effective approach, in terms of the 15 Board having a reasonable degree of comfort as 16 to what efforts are going on within Hydro to 17 ensure that electricity is indeed at least 18 cost, which, you know, if your capital cost 19 structure is right and you have deficiencies 20 within the organization and all that equals, 21 you know, the Board has spelled this out in a 22 little formula, it's spelled out in Bonbright 23 Reliable Least Cost Electricity, what does it 24 mean? 25 Q. Now there's also a discussion in this report</p>

Page 57	Page 58
<p>1 MR. KENNEDY: 2 by Grant Thornton about the use of internal 3 benchmarking verses external benchmarking, 4 correct? 5 A. (No audible response.) 6 Q. And the thermal conversion factor, for 7 instance, I'm assuming that that would be an 8 indices that's peculiar to Holyrood as a plant 9 and that it may be rather difficult to find 10 some external data in order for you to be able 11 to compare the operating efficiency of 12 Holyrood to some other plant? 13 A. No, there is benchmarking within the industry 14 and Mr. Haynes should speak directly to this, 15 it would be better because there are 16 possibilities with external comparisons, but 17 again, like the operating characteristics, 18 what--but people reviewing these things can 19 have a way to normalize it, so it makes some 20 sense. 21 Q. Okay. 22 A. You don't want to create misinformation. 23 Q. No, and I understand and I guess, just so 24 we're clear, the mediator's report that was 25 filed yesterday, at paragraph AA, it was--on</p>	<p>1 one of the points that was agreed between the 2 parties was that "Hydro will propose a peer 3 group of utilities and measures upon which to 4 compare its performance, not later than six 5 months following the date of the Board order 6 in this proceeding. And upon approval, Hydro 7 will collect and report such measures for 8 itself and the peer group annually, beginning 9 in 2005." 10 A. Yes. 11 Q. So that would be the external benchmarking, 12 correct? 13 A. That would be, yes, going to explore that and 14 try and come up with reliable indicators, yes. 15 Q. Now, the internal benchmarking, that would be 16 a process of sort of historically tracking 17 your information to see what your thermal 18 conversion factor has been or is being year 19 over year, similarly your hydraulic conversion 20 factor, your corporate OM & A per megawatt 21 hour. As an internal measure this is--what 22 was it in 2004, what is it in 2005 and so on, 23 correct? 24 A. Yes, and these are, you know, there's an old 25 adage in management, what get's measured,</p>
Page 59	Page 60
<p>1 get's managed. And if you can, in terms of 2 the management of the organization, if you can 3 focus on--but you have to have the appropriate 4 measurements and what, from my perspective, 5 you know, or for any CEO in a company, you 6 want to be able to look at a whole set of 7 indicators relative from where your corporate 8 objectives are and what you can achieve, and 9 have the focus on being able to have some sort 10 of objective management measures--or measures, 11 you know, objective measures are better than 12 subjective. 13 Q. So as an assistance to the Board, Mr. Wells, 14 in analysing, if you will, your statement that 15 a productivity allowance, at this point in 16 time, would be punitive, I think your words 17 were yesterday, on the basis that Hydro is 18 already undertaking a number of initiatives to 19 try to improve its efficiency, decrease the 20 cost of the electricity that it is providing. 21 Would it not be of assistance to them to know 22 now where your 2004 figures sit, from an 23 historical perspective for 2000, 2001, 2002, 24 2003, for instance? 25 A. We could come forward, say, from 2000 on a</p>	<p>1 variety of those measures, yeah. 2 Q. Would you be able to provide the data for 3 these six indices that Grant Thornton has 4 recommended in their performance report for 5 that period, 2000 to 2003? 6 A. Yes, we could do that, I think, yes. 7 Q. Okay, if I could have that, counsel, that 8 would be - 9 GREENE, Q.C.: 10 Q. I'm not sure what you're asking Mr. Kennedy. 11 Are you asking that this be provided as an 12 undertaking in this hearing or are you asking 13 that we provide in on a go-forward-basis when 14 we start reporting the measures? I'm not sure 15 what you're asking. 16 (10:19 a.m.) 17 MR. KENNEDY: 18 Q. I'm sorry, I was thinking of it now, counsel, 19 at some point in the hearing - 20 A. Oh, okay, at some point in the hearing, 21 because I'm not sure what the demand I just 22 put in. 23 Q. I don't know how much effort is involved in 24 putting this together, and I appreciate, I 25 don't want to place any more burden on Hydro's</p>

Page 61	Page 62
<p>1 MR. KENNEDY: 2 back than I know that they're already under. 3 But it's just you have to recognize, I'm 4 assuming that what you're indicating to the 5 Board is that for your 2004 test year, there's 6 no productivity allowance needed. You 7 recognize that in 2001, the reason that the 8 Board set the productivity allowance was 9 because it never had these benchmarking - 10 A. They didn't have the measurements, yes. 11 Q. It still doesn't have those benchmarking, so 12 other than your, you know, your statement in 13 and of itself that you don't want a 14 productivity allowance, it would be punitive - 15 A. No, I - 16 Q. - that information would be of assistance to 17 the Board? 18 A. I take your points and I think that we can co- 19 operate and I think we can, you know, and I 20 didn't anticipate--we'll find out and let you 21 know how soon we can come with, say go back to 22 2000 and start to paint the picture. But, you 23 know, what we stand on, in this Application, 24 is the facts that we have in this Application, 25 and you can see clearly and as yet uncontested</p>	<p>1 evidence, I mean, we've explained the position 2 with respect to wages and salaries going 3 forward, we've explained all of these things. 4 If you look at our projections for 2004, you 5 will notice in that there's an enhanced 6 vacancy allowance than what you would see from 7 normal. And that's not because we, you know, 8 we expect that many vacancies to normally 9 occur, that's where we put a number, which is 10 in a sense, we set our own objectives for 11 2004. We've already provided the result to 12 you and you'll find, if you're looking for the 13 accounting of it, it's in the vacancy 14 allowance, which you'll notice is more than 15 normal. And so in effect, if you look at 16 keding, let's use a nautical term, we've 17 already kedged ourselves, we've thrown out the 18 anchor and we're coming to it, you know, so we 19 have our own objectives for 2004. The issue 20 is if we achieve them, that's great, dependant 21 on the Board--if we don't achieve them, we 22 live with the consequence. You know, the 23 rates will be set. If the Board accepted our 24 Application, it's set on the rates, and 25 something like, I think Mr. Hutchings, we were</p>
Page 63	Page 64
<p>1 talking about yesterday afternoon, but I mean, 2 all his client paid as a result of the 2001 3 application, were the rates that were set by 4 the Board; nothing more, nothing less. 5 Q. So perhaps if we could do it as two steps, 6 counsel, and if you could report back on the 7 effort involved and the availability of these 8 key performance indicators from an internal 9 benchmarking for that period, 2000 to 2003, 10 and the ones selected by Grant Thornton, which 11 is I understand it, Mr. Wells, you're agreeing 12 are appropriate and can be provided by Hydro 13 going forward as well? 14 A. Well there's a lot of work that's got to be 15 done on these three others for the comparison, 16 but that's what we undertook and I think is 17 reflected in the document you had on the 18 screen. What's the heading of that? Is that 19 the mediation report? Yes. 20 Q. The mediator's report? Well they're the 21 external benchmarking and I'm just requesting 22 the internal benchmarking at this point. 23 A. Yes, for now, yes. 24 Q. Your externals aren't going to kick in until 25 at the earliest, 2005, according to that</p>	<p>1 mediator's report. 2 A. Yeah. 3 Q. Okay. Mr. Wells, again, I think it's sort of 4 indicated, in its simplest form, your 5 initiatives at Holyrood to improve the 6 efficiency there and generate more kilowatt 7 hours per barrel, were based on saving fuel, 8 that you're burning less fuel there and that's 9 always good. And I just thought that if we 10 could have a discussion about DSM initiatives. 11 And NP-52, and if you could just scroll 12 through that, Mr. O'Reilly, I didn't--it's 13 early into the report, it's a section on DSM 14 and it's at the top, so if you could just 15 quickly scroll, I would be able to find it. 16 Just keep going, you can flip through it 17 quick. Actually, if you just do a find, then 18 go DSM. 19 COMMISSIONER SAUNDERS: 20 Q. Page 2, I think is where you will find it. 21 MR. KENNEDY: 22 Q. Just scroll down. I was trying to find sort 23 of an accepted--not definition, but 24 description of what the chief ways through 25 which a utility implements DSM initiatives.</p>

Page 65	Page 66
<p>1 MR. KENNEDY:</p> <p>2 It's in this document and I think it's, I'm</p> <p>3 not sure if it's there, but the four that I</p> <p>4 copied down were: load control, peak shaving,</p> <p>5 interruptible B programs, and fuel switchings?</p> <p>6 And I guess, can we agree that demand side</p> <p>7 management, as a program, as both a potential</p> <p>8 short term aspect to it, as well as a long</p> <p>9 term, that in the short term, the objective</p> <p>10 is, in the case of an utility to save fuel</p> <p>11 usually, and then in the long term, it's aimed</p> <p>12 at deferring when new plant would need to be</p> <p>13 added to the system?</p> <p>14 A. Yes, generally yes, that's right. Well</p> <p>15 certainly your latter part is much clearer</p> <p>16 than the fuel one, depending on your</p> <p>17 circumstance, yeah.</p> <p>18 Q. Right. Exactly, demand side management is not</p> <p>19 a simple matter, at least not as simple as it</p> <p>20 would appear on its face, and I think there's</p> <p>21 a discussion, CA-23, this is where you refer</p> <p>22 to your Hydro Wise Program?</p> <p>23 A. That particular question related to</p> <p>24 conservation initiatives in the isolated</p> <p>25 diesel system, not specifically Hydro Wise.</p>	<p>1 Q. Right.</p> <p>2 A. And Hydro Wise is incorporated in the answer,</p> <p>3 yeah.</p> <p>4 Q. Right. It was the first sentence, "Diesel</p> <p>5 systems are assessed on a regular basis and</p> <p>6 are targeted for conservation initiatives when</p> <p>7 it is considered to make economic sense if the</p> <p>8 short-run marginal cost is greater than</p> <p>9 marginal revenue and the difference between</p> <p>10 the two is sufficient to fund the DSM</p> <p>11 initiative." So, in its simplest terms, just</p> <p>12 decreasing the amount of electricity that</p> <p>13 people use on a diesel isolated system, may</p> <p>14 not necessarily save money because the short-</p> <p>15 run marginal cost of producing that</p> <p>16 electricity may in fact be less than the</p> <p>17 short-run marginal revenue that you're</p> <p>18 receiving, correct?</p> <p>19 A. Okay, yes, correct.</p> <p>20 Q. And that that's why--and that's because it's a</p> <p>21 capital intensive business you're in, that</p> <p>22 there's a fixed large up-front cost that's</p> <p>23 incurred which all customers have to pay for?</p> <p>24 A. That's correct.</p> <p>25 Q. All right. But as far as the long term goes,</p>
Page 67	Page 68
<p>1 any--would you agree with me that any growth</p> <p>2 in electricity, at the customer level, as</p> <p>3 we're seeing on the diesel isolated system and</p> <p>4 as we're seeing on the Island interconnected</p> <p>5 system, will necessarily always eventually</p> <p>6 lead to capacity constraints?</p> <p>7 A. Eventually, yes.</p> <p>8 Q. Eventually.</p> <p>9 A. Inevitably is probably a better word.</p> <p>10 Q. Inevitably. And that a DSM initiative is</p> <p>11 aimed at, in part, deferring when that</p> <p>12 capacity constraint will occur?</p> <p>13 A. That's one of the factors.</p> <p>14 (10:30 a.m.)</p> <p>15 Q. And the deferring of plant, elongating out</p> <p>16 when you have to put that new plant into your</p> <p>17 system, has a value to us today. Depending on</p> <p>18 how long it is when the plant is forecasted to</p> <p>19 go into the system and how much you've</p> <p>20 deferred having to put that new plant into the</p> <p>21 system, the value today may be small or it may</p> <p>22 be large, but it would have a value today?</p> <p>23 A. There would be a value. Today, in the sense</p> <p>24 of benefiting consumers of right now, when you</p> <p>25 don't have that expense--the benefit would</p>	<p>1 have to be achieved later on.</p> <p>2 Q. But if I'm the same rate payer, just leaving</p> <p>3 aside the inter-generational issues for the</p> <p>4 moment.</p> <p>5 A. Yeah.</p> <p>6 Q. If I'm the same rate payer today as I'm going</p> <p>7 to be in 20 years time, the fact that I've</p> <p>8 been able to defer when you have to put new</p> <p>9 plant into the system -</p> <p>10 A. You will get the benefit.</p> <p>11 Q. I would get the benefit of that, and that's of</p> <p>12 value to me, today, to get the benefit of that</p> <p>13 later. Time value -</p> <p>14 A. It doesn't mean that your current electricity</p> <p>15 bill will go down.</p> <p>16 Q. No, but there's a time value to money, so that</p> <p>17 if I know I won't incur costs later, I'm</p> <p>18 willing to pay a certain amount of money for</p> <p>19 that now.</p> <p>20 A. Who are we going to explain this to</p> <p>21 (laughter).</p> <p>22 Q. Well I'll leave that to the economists, but -</p> <p>23 A. The dismal science.</p> <p>24 Q. So you're agreeing with me that the deferral</p> <p>25 of when new plant is to be added to the</p>

Page 69	Page 70
<p>1 MR. KENNEDY:</p> <p>2 system, does have a value to your rate payers</p> <p>3 currently, presuming that they're the same</p> <p>4 rate payers that will be saddled with the cost</p> <p>5 of that new plant when it does get put into</p> <p>6 place?</p> <p>7 A. If you were forward looking, you know, because</p> <p>8 there is no actual dollar saved and let's just</p> <p>9 take a situation that if in 2010 there's new</p> <p>10 capacity and energy required, which will come</p> <p>11 at a cost of whatever that is, and you could</p> <p>12 defer that to 2012, there's a two-year period</p> <p>13 there, assuming that there's enough</p> <p>14 electricity within the system to satisfy</p> <p>15 everybody, where the additional, the marginal</p> <p>16 cost coming into the average cost would help</p> <p>17 consumers during that two-year period. You</p> <p>18 don't defer it indefinitely, they will</p> <p>19 eventually have to pay that cost. But are you</p> <p>20 suggesting that, in that example, that an</p> <p>21 actual consumer could save today as a result</p> <p>22 of that? No.</p> <p>23 Q. No, no. In actual fact, the consumer--well</p> <p>24 you're saying that the deferral of that plant,</p> <p>25 from 2010 to 2012, has -</p>	<p>1 A. Will benefit you in that period, from 2010 to</p> <p>2 2012.</p> <p>3 Q. But knowing that, if I do something now, I can</p> <p>4 defer when that plant's going to be put in,</p> <p>5 from 2010 to 2012, that that has a value to me</p> <p>6 now, that in its simplest terms, let's say the</p> <p>7 new plant is going to put an extra five</p> <p>8 dollars in cost to me, as a rate payer, that</p> <p>9 if I can pay a dollar now -</p> <p>10 A. To save a dollar in 2010? And I think I</p> <p>11 understand where you're coming from and not</p> <p>12 to, you know, try to help the conversation,</p> <p>13 we're going to go out and sell that concept</p> <p>14 that, you know, five, ten, fifteen dollars now</p> <p>15 will save you thirty, thirty-five dollars in</p> <p>16 2010? Well, at my age, it's starting to</p> <p>17 diminish the possibility (laughter). A bird</p> <p>18 in the hand is worth two in the bush, you</p> <p>19 know.</p> <p>20 Q. You're not buying green bananas.</p> <p>21 A. I'm not sure exactly what you, would this</p> <p>22 result in some program that could be</p> <p>23 realistically effective, but I mean, the</p> <p>24 principles of demand side management, which</p> <p>25 are much talked about, but as I understand it</p>
Page 71	Page 72
<p>1 and I could be not the correct result,</p> <p>2 conclusion, that they have been fairly</p> <p>3 ineffectual in achieving in what was intended</p> <p>4 over in various jurisdictions over time. And</p> <p>5 that the best determinant of having consumers</p> <p>6 certainly focused on their cost of their</p> <p>7 energy services, is a price consideration.</p> <p>8 That is one that will really attract</p> <p>9 attention, but that's not to say that to</p> <p>10 varying degrees, demand side management</p> <p>11 programs would have some effect. You</p> <p>12 certainly have to look at what you're</p> <p>13 targeting and the cost of what you're doing</p> <p>14 and, you know, the potential benefit. What</p> <p>15 you just described, talking to consumers</p> <p>16 today, that it's worth a few dollars now to</p> <p>17 save on your electrical bill five years hence</p> <p>18 or ten years hence, if you can pull that one</p> <p>19 off, there's an election coming in the spring</p> <p>20 that you should definitely run in (laughter).</p> <p>21 Q. You mentioned one thing about the demand side</p> <p>22 management programs in the past having met</p> <p>23 with what you would call resounding success.</p> <p>24 It's been suggested by representatives of the</p> <p>25 conservation core in testimony here at the</p>	<p>1 Board, that one of the reasons for that can be</p> <p>2 attributed to the fact that it's usually left</p> <p>3 to the utility to be the one pitching the DSM,</p> <p>4 and that the public, being the public, are</p> <p>5 necessarily cynical and jaundice in the eye</p> <p>6 about messages that they receive from the</p> <p>7 utility about ways to save energy. And could</p> <p>8 you give me your impressions, as a CEO of</p> <p>9 Hydro, about what mechanisms this Board could</p> <p>10 employ or implement to encourage demand side</p> <p>11 management among the consumers of electricity</p> <p>12 in the Province of Newfoundland, that would</p> <p>13 address that underlying issue?</p> <p>14 A. Well it's very difficult. We've set out, you</p> <p>15 know, in terms of our Hydro Wise program,</p> <p>16 which is basically directed at our customers</p> <p>17 and over time, you drag their attention around</p> <p>18 to the issues of their electricity cost and</p> <p>19 how they can do it. It's like the Green</p> <p>20 programs with respect to greenhouse gas--</p> <p>21 recycling, some programs have some success;</p> <p>22 some don't. If you look in the system in</p> <p>23 Newfoundland, one of the--if you look at, like</p> <p>24 the cost of power beyond a lifeline block in</p> <p>25 the Isolated diesel system, that type of thing</p>

Page 73	Page 74
<p>1 MR. WELLS:</p> <p>2 is a restraint on consumption, the price. And</p> <p>3 in the context of Newfoundland, I think that</p> <p>4 you have to look at the issues. If it is true</p> <p>5 and we have said, you know, that's what we</p> <p>6 think, is that electric space heating has</p> <p>7 increased the demand on our system that</p> <p>8 required new sources of supply because our</p> <p>9 Industrial customers weren't looking for</p> <p>10 anything untoward in that sense, there's no</p> <p>11 big industry was established, so in the new</p> <p>12 housing, it seems that there's overwhelming,</p> <p>13 as we've described, preference for electric</p> <p>14 heat. But then you have to look at the</p> <p>15 position of individuals. No matter how well</p> <p>16 intentioned your program, if young couples are</p> <p>17 trying to get into that first house and</p> <p>18 they're trying to bring their downpayment and</p> <p>19 their mortgage and the cost in line and</p> <p>20 finance their furniture and everything else,</p> <p>21 and somebody says you can put in electric</p> <p>22 baseboard heating for a total cost of, you</p> <p>23 know, \$1,200 to \$1,500 or whatever, you know,</p> <p>24 \$35.00 for a 2000 watt heater, whatever, but</p> <p>25 you would be better off and you would be</p>	<p>1 helping Newfoundland and all electrical</p> <p>2 consumers in the long run if you were to make</p> <p>3 that \$8,000 or \$9,000 investment and go to</p> <p>4 another source of heating. And you got to</p> <p>5 look at the individuals and the circumstances</p> <p>6 they are in at the moment and that's not going</p> <p>7 to influence them. And it's not really good</p> <p>8 evidence for you, but I've talked to</p> <p>9 individuals, people who were building houses,</p> <p>10 people who were doing things with their</p> <p>11 houses, suggested that, you know, you want to</p> <p>12 reconsider that electric heat thing. I can't</p> <p>13 get anywhere with it.</p> <p>14 Q. Let's look at the customer that already has</p> <p>15 electric heat and already has electric hot</p> <p>16 water boiler in their house. It's been</p> <p>17 suggested, for instance, that a load shifting</p> <p>18 initiative aimed at hot water heater, at</p> <p>19 residential level, could have a significant</p> <p>20 impact on the peak experienced by the system</p> <p>21 at likely coincident peak levels during the</p> <p>22 winter months. And that would simply be by</p> <p>23 shifting when that hot water boiler is heating</p> <p>24 the water back up inside the device.</p> <p>25 A. It's heating it after the shower takes place.</p>
Page 75	Page 76
<p>1 Q. Well, right now it does, doesn't it? If</p> <p>2 someone takes a shower, empties out their hot</p> <p>3 water boiler, it heats up immediately,</p> <p>4 correct?</p> <p>5 A. Yes. And you're saying we should put a delay</p> <p>6 on that or something.</p> <p>7 Q. So, there are devices available on the -</p> <p>8 A. It's going to be some--who gets in the shower</p> <p>9 first. (Laughter)</p> <p>10 Q. Yes, well, you can have a lottery, but there</p> <p>11 are devices that would change when that hot</p> <p>12 water kicks back in to heat up the water in</p> <p>13 it, correct?</p> <p>14 A. Yes, I'm sure, I'm not personally familiar</p> <p>15 with that, yeah. But the point being as one</p> <p>16 of the other issues that's has been pointed</p> <p>17 out here and in this proceeding and earlier,</p> <p>18 that in a lot of those time management things</p> <p>19 and selecting when you draw on your</p> <p>20 electricity requirement, is not going to</p> <p>21 affect the total draw on the system. And</p> <p>22 therefore, you still need the capacity and the</p> <p>23 energy to fulfil it.</p> <p>24 Q. Two different things, right, capacity and</p> <p>25 energy obviously. And one is the shifting of</p>	<p>1 load is addressing your capacity constraint.</p> <p>2 A. Yes, it does, yes.</p> <p>3 Q. And that could, under some circumstances,</p> <p>4 delay when you would have to buy a new plant,</p> <p>5 correct?</p> <p>6 A. Yes, but the whole thing and with demand side</p> <p>7 management is what is the efficacy of what</p> <p>8 you've put your effort into and will it</p> <p>9 actually create a difference so that it's</p> <p>10 meaningful. It's like my postage stamps, you</p> <p>11 know. We put a big effort into change</p> <p>12 consumers' habits in terms of how they operate</p> <p>13 their system, their electricity use and you</p> <p>14 have to, you know, will this be meaningful?</p> <p>15 Now, if you change somebody from electricity</p> <p>16 into oil space heating, for that individual</p> <p>17 unit of consumption, you're making a fairly</p> <p>18 dramatic change. If they changed out their</p> <p>19 hot water systems to some other source other</p> <p>20 than electricity, a dramatic change. But in</p> <p>21 terms of usage patterns within the household,</p> <p>22 and you totalled it all up, what are our</p> <p>23 opportunities? I have no idea, but all I'm</p> <p>24 making it a point is that if you think that</p> <p>25 this is going to be realistic, in a short</p>

Page 77	Page 78
<p>1 MR. WELLS:</p> <p>2 term, it's highly unlikely and in a long term,</p> <p>3 it can have some effect. There's people</p> <p>4 picked up on the environmental issues and</p> <p>5 participation, people do get into things over</p> <p>6 time, but a lot of the stuffings in power</p> <p>7 bills or other utility bills go straight to</p> <p>8 the waste paper basket. They're not even read</p> <p>9 by consumers; they focus on the bill.</p> <p>10 Q. This whole issue of DSM and the possible</p> <p>11 impact that it can have on when capacity</p> <p>12 and/or energy constraints are felt in the</p> <p>13 system is related to your overall system</p> <p>14 planning, correct?</p> <p>15 A. Yes, but that's how we determine what is</p> <p>16 happening and forecast what will happen.</p> <p>17 Q. And you indicated in the 2001 hearing that--</p> <p>18 and I'm paraphrasing here and if you're not</p> <p>19 comfortable with it--I'd just like to comment</p> <p>20 on it, is that the government of the province</p> <p>21 of Newfoundland relies on Hydro to advise it</p> <p>22 on system planning.</p> <p>23 A. That's correct.</p> <p>24 Q. And you provide -</p> <p>25 A. Well, they rely on us to provide information</p>	<p>1 to them and then they make their decisions,</p> <p>2 yes.</p> <p>3 Q. And in 2001 you provided an explanation as to</p> <p>4 why Granite Canal, for instance, and the NUG</p> <p>5 contracts were exempted from the Board's</p> <p>6 jurisdiction. And it had to do with a sudden</p> <p>7 identified capacity and energy constraint.</p> <p>8 A. Sudden?</p> <p>9 Q. Well, at the time it was thought that there</p> <p>10 was a smelter related to the Voisey's Bay</p> <p>11 project going into the province and that this</p> <p>12 was going to put an immediate constraint on</p> <p>13 your system, both capacity and energy and that</p> <p>14 Hydro had to address that quickly and that</p> <p>15 there wasn't enough time to go through a full</p> <p>16 process before this Board relating to system</p> <p>17 planning and -</p> <p>18 A. Yeah, well the smelter thing did not go ahead,</p> <p>19 but there was an intense period of activity to</p> <p>20 find out how one would be able to meet those</p> <p>21 requirements. And by the time we had</p> <p>22 concluded the review of the RFIs reported on</p> <p>23 the options, then the smelter itself started</p> <p>24 to drift away. So, it never, ever got any</p> <p>25 further than that.</p>
Page 79	Page 80
<p>1 Q. No. The decision at the time to exempt the</p> <p>2 system planning aspect of the regulation of</p> <p>3 electricity in the province of Newfoundland</p> <p>4 insofar as Granite was concerned and the NUGS</p> <p>5 was driven by a sudden need for capacity and</p> <p>6 energy that wouldn't have allowed for the</p> <p>7 normal process to take place.</p> <p>8 A. No, it was not because of the capacity and</p> <p>9 energy issue. The issue was that, in my 2001</p> <p>10 evidence, was that we said in light of the</p> <p>11 fact, because the smelter, as I said, drifted</p> <p>12 off is about the best--we weren't certain</p> <p>13 whether it was going to happen or not and we</p> <p>14 weren't certain about an infeed from a</p> <p>15 possible lower Churchill development. And all</p> <p>16 we said was that it would be better in the</p> <p>17 interest of everyone to make the most informed</p> <p>18 decision possible, we should await and see how</p> <p>19 events unfolded and was that smelter going to</p> <p>20 be in our picture because that would influence</p> <p>21 a lot? Is the lower Churchill coming because</p> <p>22 if you're planning for either the demand on</p> <p>23 the system or a possible source of supply,</p> <p>24 that would influence you in your short term--</p> <p>25 what would you do in a short term? You</p>	<p>1 wouldn't build a plant that, you know, put a</p> <p>2 lot of money into something that you wouldn't</p> <p>3 need in so many years if something else was</p> <p>4 coming from somewhere else more cost</p> <p>5 effectively. It was just a delay in relation</p> <p>6 to when a decision is made, let's see what the</p> <p>7 facts disclosed. By doing that, we sort of,</p> <p>8 foreshortened the time period in which to</p> <p>9 bring projects into play.</p> <p>10 (10:45 a.m.)</p> <p>11 Q. So, in this case, Hydro has identified that</p> <p>12 there could be a capacity and energy</p> <p>13 constraint by 2009, 2010.</p> <p>14 A. That's correct.</p> <p>15 Q. And I think your testimony has been that from</p> <p>16 planning stage to actual turning the switch on</p> <p>17 is about a five year period?</p> <p>18 A. If one were to take the full measure of the</p> <p>19 process and go through a period of determining</p> <p>20 if, you know before the Public Utilities Board</p> <p>21 if we're involved in hearings and things like</p> <p>22 that, then allowing for the construction</p> <p>23 period for the projects that may be</p> <p>24 contemplated, you'd have to get on with it, I</p> <p>25 think within--you know, a five year time frame</p>

Page 81	Page 82
<p>1 MR. WELLS:</p> <p>2 is one of the things that systems planning has</p> <p>3 advised us. And then if we could make a</p> <p>4 decision tomorrow, our engineers, construction</p> <p>5 people will tell you to build a plant like</p> <p>6 Granite Canal within a three-year time frame,</p> <p>7 we've done it. The same thing as the Exploit</p> <p>8 River partnership, development of--you know,</p> <p>9 what the time frames are if you're building a</p> <p>10 mechanical plant, they can tell you then. But</p> <p>11 the issue is what do you have to put in to--</p> <p>12 what inputs go into making the final decision,</p> <p>13 if, yes, that's the plant we're going to</p> <p>14 build, and having it there in time.</p> <p>15 Q. You've identified in your testimony over the</p> <p>16 last couple of days that the issue of system</p> <p>17 planning in the jurisdiction of the Board.</p> <p>18 You indicated that, I think, yesterday.</p> <p>19 A. No, well, what I was indicating was that it's</p> <p>20 spelled out clearly in the legislation. So,</p> <p>21 let's look--I'm not sure, you say I said that,</p> <p>22 if I did--but the key thing is we must</p> <p>23 remember what the Board's responsibility as</p> <p>24 expressed in the legislation. And the Board</p> <p>25 has the authority to make a decision with</p>	<p>1 respect to additions to the system.</p> <p>2 Q. So, from that perspective, I guess, is a long</p> <p>3 term prospect. If we've got new plant that</p> <p>4 may be needed by 2009, 2010 and we have a five</p> <p>5 year preparation period, then we're really</p> <p>6 looking -</p> <p>7 A. It could be. I mean, let's say a plant only</p> <p>8 takes two years to build -</p> <p>9 Q. Um-hm.</p> <p>10 A. - and if however the decision is finally</p> <p>11 arrived at to build that plant, you wouldn't</p> <p>12 have to make your decision any more than two</p> <p>13 years in advance of the requirement. But if</p> <p>14 you're involved in a process leading to that</p> <p>15 decision and mindful of the opportunities of</p> <p>16 the plant you have to build, like how long</p> <p>17 does it take to build--in our case, our next</p> <p>18 project that we could advance would Island</p> <p>19 Pond, would be something the same period as</p> <p>20 Granite Canal. So, it's not sense making a</p> <p>21 decision, you know, two years from the time</p> <p>22 you need it if you're going to build an Island</p> <p>23 Pond, you got to make it three years.</p> <p>24 Q. Mr. Wells, there's a reply to one of the RFIs</p> <p>25 by Hydro that your long term financial plan</p>
Page 83	Page 84
<p>1 was for the period 2004 - 2008.</p> <p>2 A. You're speaking to the one, the information</p> <p>3 that's been filed in--yes.</p> <p>4 Q. And I guess what I'm wondering is if you could</p> <p>5 give us some heads up, if you will, on what</p> <p>6 the long term issues Hydro is facing in</p> <p>7 addition to the ones that we've already</p> <p>8 discussed, over a two-year time frame and</p> <p>9 five-year time frame. And I'm sure the</p> <p>10 crystal ball get pretty murky, but even a</p> <p>11 stretch out to a ten-year time frame might be</p> <p>12 helpful.</p> <p>13 A. Well, the issues that, as Hydro sees them, we</p> <p>14 have--what's going to be important for Hydro</p> <p>15 going forward from here occurs in a number of</p> <p>16 areas. First of all and most importantly in</p> <p>17 terms of our operations, the aging system that</p> <p>18 we're in, everything came in during a</p> <p>19 relatively short period in the electrification</p> <p>20 process. And all of the assets deployed, you</p> <p>21 know, are coming of an age and having to be</p> <p>22 renewed. So, that's very important and it</p> <p>23 relates to our transmission and distribution</p> <p>24 systems and our production facilities are of</p> <p>25 an age. And we have issues with respect to</p>	<p>1 the environment. And if you look at our</p> <p>2 environmental issues with the changes of laws</p> <p>3 and regulations and public expectation, we've</p> <p>4 set up the programs to deal with it, but we</p> <p>5 have challenges of Holyrood, emission</p> <p>6 challenges. We have the effects, if they ever</p> <p>7 get it straightened out about Kyoto and while</p> <p>8 I think Newfoundland is about 2 percent of</p> <p>9 green house gas emissions in Canada, Canada</p> <p>10 may be 2 percent of the world or whatever.</p> <p>11 You know, everybody steps to do something, but</p> <p>12 we have major challenges with respect to the</p> <p>13 environment and with Holyrood. We don't have</p> <p>14 scrubbers in our stacks, you know, there's</p> <p>15 physical things that could be done at great</p> <p>16 cost. And we're going to have to wrestle</p> <p>17 those issues to the ground. We have,</p> <p>18 throughout Hydro's total operations, as part</p> <p>19 of our environmental management program and</p> <p>20 system, we had over 100 sites where Hydro has</p> <p>21 operated. The nature of our operations we</p> <p>22 leave--there's an environmental footprint, you</p> <p>23 know, with where--the handling of diesel fuel</p> <p>24 and things like that. So, we have a set</p> <p>25 program to review and assess and do things</p>

Page 85	Page 86
<p>1 MR. WELLS:</p> <p>2 with respect to site re-mediation that's</p> <p>3 ongoing and will take years to complete. But</p> <p>4 it exposes you to surprises that you may not</p> <p>5 have seen. And one of the things that</p> <p>6 affected one of our changes in cost in this--i</p> <p>7 was questioned about it earlier, you know, how</p> <p>8 good we are at forecasting. We had estimated</p> <p>9 \$50,000.00 to do some re-mediation in Petite</p> <p>10 Forte. We got into it and it ballooned, I</p> <p>11 don't know 250, 300, anyway, you make your</p> <p>12 best judgment and get in and find out that</p> <p>13 your suddenly struck with another 200,000 plus</p> <p>14 of costs that had not been anticipated. It</p> <p>15 makes your forecasting look like it's off, but</p> <p>16 these are unanticipated events.</p> <p>17 So, aging equipment, environmental issues</p> <p>18 with respect to Holyrood and throughout the</p> <p>19 system and related to the past as we</p> <p>20 decommission places. The customers, if we</p> <p>21 look at customer and customer expectations,</p> <p>22 the tolerance now for power interruptions and</p> <p>23 the quality of power is decreasing amongst</p> <p>24 customers mainly because, you know, computers</p> <p>25 and systems like that, going back in time, if</p>	<p>1 the lights went out momentarily or for a</p> <p>2 while, people lived with it. But today's</p> <p>3 business environment and the way the</p> <p>4 penetration of personal computers and the</p> <p>5 whole system, people are looking for reliable</p> <p>6 power. And then the robustness of a system,</p> <p>7 the systems that were built back in the '60s</p> <p>8 not only age, but what they were intended to</p> <p>9 achieve relative to the cost because</p> <p>10 everything was based on cost. And there's</p> <p>11 going to have to be, in areas, substantial</p> <p>12 upgrading. And we also have to look at the</p> <p>13 issues of capacity and transmission lines. In</p> <p>14 particular, in Labrador, the line from</p> <p>15 Churchill Falls to Labrador West is pretty</p> <p>16 well at its maximum. And if there's any other</p> <p>17 great, you know, draw in terms of that, you're</p> <p>18 going to have to look at replacement. The</p> <p>19 line from Churchill Falls into Happy</p> <p>20 Valley/Goose Bay, a lot of that line going</p> <p>21 down to be abreast of Gull Island was built in</p> <p>22 contemplation of the development of Gull</p> <p>23 Island back in history which didn't occur,</p> <p>24 then the line continued on to Goose Bay.</p> <p>25 But there are--in terms of the system</p>
Page 87	Page 88
<p>1 itself, issues that are going to inevitably</p> <p>2 add considerable cost as we go forward in</p> <p>3 terms of circumstances. Another big issue</p> <p>4 that we face is the position of Hydro. You</p> <p>5 know, we've always, since I've been there,</p> <p>6 it's be--for me, the clarification of the role</p> <p>7 of Newfoundland and Labrador Hydro within our</p> <p>8 jurisdiction. There's much public comment now</p> <p>9 related to the election and political--we're</p> <p>10 hearing a lot of public comment. The energy</p> <p>11 policy review was first announced, I think, on</p> <p>12 August 12, 1998 and that has not been brought</p> <p>13 to a conclusion. There's a great area of</p> <p>14 debate and how do we want to look after our</p> <p>15 electrical needs; who is going to be</p> <p>16 responsible for what; and under what basis is</p> <p>17 it going to be operated. And when you're</p> <p>18 managing the company and the day-to-day</p> <p>19 affairs, you like to know exactly where it</p> <p>20 leads because your planning in terms of the</p> <p>21 role that Hydro could play and the role that</p> <p>22 others--and there's some competing interest</p> <p>23 here, and how we could structure our</p> <p>24 utilities, how you design your rates. I think</p> <p>25 all these are important things that the</p>	<p>1 population of Newfoundland and Labrador is</p> <p>2 going to have to come to grips with it, you</p> <p>3 know. So, the industry structure is an issue.</p> <p>4 Going forward from today and internally in the</p> <p>5 company, the issue for us in this regulatory</p> <p>6 environment is to be able to demonstrate what</p> <p>7 we are doing. The work is going on, the</p> <p>8 effort is there to make sure that we're not</p> <p>9 unduly costing consumers. But in any</p> <p>10 organization, you're never perfect and there's</p> <p>11 always and should be an effort to make sure</p> <p>12 you are operating as efficiently and</p> <p>13 effectively as possible.</p> <p>14 In any company you'd want to be able to</p> <p>15 prove that to yourself. So, you know, if the</p> <p>16 measurements--we're going to have measurements</p> <p>17 to be able to know what we're doing. In the</p> <p>18 regulatory context, we have to have</p> <p>19 appropriate measurements for, as we've</p> <p>20 discussed, the regulatory to have a degree of</p> <p>21 confidence that the things that the regulatory</p> <p>22 has the legislated mandate and jurisdiction</p> <p>23 and responsibility to go through the elements</p> <p>24 that lead to what is the determination of</p> <p>25 least cost reliable electricity. So, that's</p>

Page 89	Page 90
<p>1 MR. WELLS: 2 where we're focused. 3 The issue, if I might, --you want to me 4 to--it's not a yes and no answer, is it? 5 Just a couple--one of the things that we do in 6 Newfoundland sometimes and Labrador, we create 7 rods for our back. And this is personal now, 8 my view, it's not part of our application, let 9 me say it that way. We have anomalies, you 10 know that we don't get any return on our non- 11 performing assets. And we know that 12 Newfoundland Power has non-performing assets 13 and they do get a return. That's an anomaly. 14 But that's not the issue I want to talk about. 15 Within Newfoundland Power's structure, there 16 173,000 people in the St. John's area, that's 17 a little point on the Avalon Peninsula. And 18 you know whether it's Newfoundland Power or 19 anybody else, that the cost of hooking them up 20 per unit of households is a lot less than over 21 in the southwest corner of the island where 22 you got Kippens, Doyles, all those little 23 communities. So, within the Newfoundland 24 Power system, the residents of St. John's, in 25 terms of their contribution to the total cost</p>	<p>1 of the service, is supporting the cost of the 2 service out in Kippens and Doyles. And yet, 3 we don't talk about non-performing rural 4 assets. And if we only had one distribution 5 utility on this island, the island--the rural 6 interconnected subsidy would have never, ever- 7 -this is my proposition--would never ever have 8 come up. Because in Nova Scotia you know that 9 the people in the Halifax, Dartmouth area are 10 supporting upper Kennetcook and Eekum Seekum, 11 you know. We average the cost over the whole 12 system. So, we have a \$19,000,000.00 deficit, 13 we call the rural deficit and because Hydro is 14 operating in the rural areas and it's these 15 areas--and we have no offsetting St. John's 16 and the deficit is focused on Port Saunders or 17 Hawkes Bay and not focused on in Doyles or 18 Kippens or other little places where, in the 19 Burin Peninsula, where Newfoundland Power 20 operates. Look what we put ourselves through 21 with respect to the rural deficit. And we 22 could clear that up, we don't have change the 23 utilities, but we can just recognize that in 24 the total cost of service on the island 25 interconnected system, we're going to share</p>
Page 91	Page 92
<p>1 those costs. And we know that some units are- 2 -it's easier to service St. John's than it is 3 to do an isolated community in any are. And 4 that's the public policy of the province, like 5 the public policy in other provinces where 6 they share on a common interconnected system. 7 Then we could, then isolate what is the rural 8 deficit really? It's the isolated communities, 9 we'd have (a) a lot less dollars to be 10 concerned and not worrying about it, and 11 accepting what other people in other 12 jurisdictions don't have to go through the 13 exercises that we go through. When it comes 14 to our isolated systems, we know that in the 15 isolated communities in Newfoundland, 16 consumption is dropped, the number of 17 customers in the community is dropping. We 18 know now that Petites is going to be another 19 community that's going to be vacated. Great 20 Harbour Deep was vacated. And eventually it 21 seems as though there's going to be lesser 22 number of isolated communities in the 23 province. 24 On the Labrador isolated system, there's 25 a demand and the demand is increasing as, you</p>	<p>1 know, percentage, the expectations, one of the 2 things that is going to have to be dealt with 3 are the expectations of the people especially 4 in southern Labrador, a very difficult issue. 5 They want electricity--i was questioned about 6 he cost of the fish plant and, you know, why 7 don't we do something about marginal cost 8 coming it. That's not the way our system 9 operates. But they want electricity at rates 10 that would make them competitive in attracting 11 commercial enterprise and industry in their 12 area. And the issues are very large, they're 13 not going to go away and they're going to have 14 to be addressed. And that is going to affect, 15 you know, what we're going to look like and 16 what's going to be happening and who's going 17 to be doing what to whom as we go ahead in 18 this decade. 19 So, these are the types of things that we 20 see. 21 Q. Thank you, Mr. Wells. Chair, this would be a 22 good point to break. I did have one last area 23 that I was going to cover with Mr. Wells, but 24 I'll just review my notes during the break and 25 be able to advise the witness -</p>

Page 93	Page 94
<p>1 CHAIRMAN: 2 Q. From what I understand, Mr. Kennedy, you're 3 going to be relatively - 4 MR. KENNEDY: 5 Q. Yes, I'll be quite short, if at all, after the 6 break. 7 CHAIRMAN: 8 Q. Thank you. It's five after, we'll reconvene at 9 11:30. 10 (BREAK - 11:05 A.M.) 11 (RESUME - 11:38 a.m.) 12 CHAIRMAN: 13 Q. Mr. Kennedy, what's your verdict? 14 MR. KENNEDY: 15 Q. Chair, as I was explaining to some of the 16 counsel, my questions will take a total of ten 17 minutes to ask. 18 CHAIRMAN: 19 Q. Okay. 20 A. Incoming. (Laughter) 21 Q. But I do have just one other area that I'd 22 like to cover with Mr. Wells, with your 23 indulgence, Mr. Wells. This relates to some 24 comments that you've been making over the last 25 couple of days relating generally to the cost</p>	<p>1 of capital--relating generally to the cost of 2 capital issue and the financial perspective, 3 if you will. And you've indicated on a couple 4 of occasions, I think, that this--from your 5 perspective this Board must ensure the 6 financial integrity of Hydro. That's been 7 your statement position consistent over that 8 last few days, correct? 9 A. That's correct. 10 Q. Now, and would you agree with me that when 11 looking at the financial integrity of Hydro 12 there's a host of factors involved. For 13 instance, there's the rate of return that is 14 set for Hydro to be able to achieve in a given 15 test year based on the rates that are 16 approved, correct? That's one of the elements 17 that goes into - 18 A. Yes. One element. 19 Q. - the determination of ultimately the 20 financial integrity of the Company? 21 A. Yes. 22 Q. Agreed? And that all these being related 23 issues, there's also the question of the debt 24 to equity ratio or structure of the Company? 25 A. Yes.</p>
Page 95	Page 96
<p>1 Q. That has a direct impact on the financial 2 integrity of the Company? 3 A. Yes. How that capital structure is treated, 4 yes. 5 Q. You agree too that the--certain aspects of 6 Hydro's operations relating to its more social 7 policy oriented initiatives because of their 8 nature can also have an impact on the 9 financial integrity of the Company? You're 10 selling some energy at below cost, for 11 instance, correct? 12 A. Yes. 13 Q. Okay. Now, in P.U. 7, page 34, the Board in 14 its decision provided some commentary 15 concerning the treatment of the Provincial 16 Government guarantee fee. And that the 17 guarantee fee for the test year in 2002--if 18 you just go to page 34, and yes, just towards 19 the bottom there, Mr. O'Reilly. Thank you. 20 It's indicated in that first paragraph the 21 guarantee fee for the 2002 test year was 22 \$12,336,000. And I think there's a similar 23 guarantee fee for your 2004 test year, it's in 24 the \$12 million range, correct? 25 A. That's correct.</p>	<p>1 Q. All right. And then if we could just go over 2 to the next page, Mr. O'Reilly, after the 3 Board--second full paragraph says, "The Board 4 acknowledges the fundamental importance of the 5 provincial guarantee to Newfoundland and 6 Labrador Hydro's financial status." And "The 7 Board recognized the need to maintain the 8 provincial guarantee until such time as 9 Newfoundland and Labrador Hydro is in a 10 position to achieve and maintain a sound 11 credit rating in the financial markets of the 12 world on a stand alone basis." And the Board 13 quoted from a passage that Ms. McShane had 14 provided. And then it held, at the bottom 15 there in the bold print, "The Board accepts 16 that the government guarantee fee plays an 17 essential role in Newfoundland and Labrador 18 Hydro's ability to maintain a sound credit 19 rating in the financial markets of the world." 20 And then "The Board concurs that the guarantee 21 fee of 12 million, 336 in the 2002 test year 22 is appropriate." So I guess what I'm trying 23 to do is reconcile, you know, your statement 24 that, you know, the Board has to ensure the 25 financial integrity of Hydro and you seem to</p>

Page 97	Page 98
<p>1 CHAIRMAN:</p> <p>2 speak about that in relation to, more relating</p> <p>3 to the rate of return that ultimately Hydro</p> <p>4 would be provided with. But I'm wondering, in</p> <p>5 orders of importance, wouldn't the guarantee</p> <p>6 fee provided by the Provincial Government,</p> <p>7 which it's paid for providing really be the</p> <p>8 underlying base or method through which this</p> <p>9 Board, by approving that fee, ensures the</p> <p>10 financial integrity of Hydro?</p> <p>11 A. The issue is the results of the costs of the</p> <p>12 capital structure that are incorporated into</p> <p>13 Hydro's cost of service and then the rate of</p> <p>14 return that Hydro gets. The guarantee fee</p> <p>15 allows us to raise money at attractive or</p> <p>16 competitive interest rates that would</p> <p>17 otherwise not be attainable without the fee.</p> <p>18 So the cost of the fee, I think, as Ms.</p> <p>19 McShane has referred to, and the result in the</p> <p>20 bond market puts us at a very competitive</p> <p>21 position. To achieve a similar position we</p> <p>22 would have to sort of have a 60 percent debt</p> <p>23 to capital structure to be able to achieve the</p> <p>24 same result. So, that looks after our debt at</p> <p>25 a good--now, the other side of the issue is</p>	<p>1 what do we do with equity, yes. So -</p> <p>2 Q. Okay. Just leaving that aside for the moment.</p> <p>3 Because you say--at one point you indicated</p> <p>4 that your real message is to the bond markets</p> <p>5 of the world. And I guess -</p> <p>6 A. From the Board's perspective, yes.</p> <p>7 Q. Yes. When you said "your real message", you</p> <p>8 were referring to the Board, presumably.</p> <p>9 A. Yes.</p> <p>10 Q. That the Boards real message is to the bond</p> <p>11 markets of the world. But the bond markets of</p> <p>12 the world, in providing debt capitalization to</p> <p>13 Hydro -</p> <p>14 A. Providing equity to Hydro.</p> <p>15 Q. Well, the bond markets aren't providing equity</p> <p>16 to Hydro, they're providing -</p> <p>17 A. I'm sorry, providing debt to -</p> <p>18 Q. - debt to Hydro.</p> <p>19 A. Yes. Yes, I'm sorry.</p> <p>20 Q. So the bond markets when providing debt to</p> <p>21 Hydro, is it not clear that they look to the</p> <p>22 fact that there is a provincial guarantee?</p> <p>23 A. Yes.</p> <p>24 Q. In assessing the risk?</p> <p>25 (11:45 a.m.)</p>
Page 99	Page 100
<p>1 A. Yes. The danger for all of us with respect on</p> <p>2 that particular point is that, like, debt has</p> <p>3 priority over equity and then the security of</p> <p>4 your debt relates to your capital structure.</p> <p>5 In the normal course, the guarantee fee</p> <p>6 definitely obviates that, but the bond markets</p> <p>7 of the world will want to know is this utility</p> <p>8 intended to be self-sustaining and earning a</p> <p>9 return and where is (sic.) that equity sit,</p> <p>10 because that can affect the entire provincial</p> <p>11 credit rating, given that our debt is part of</p> <p>12 the overall provincial obligation.</p> <p>13 Q. So that the bond markets would be concerned</p> <p>14 not with the rate of return on your equity</p> <p>15 portion of your capital structure, for the</p> <p>16 equity portion of your capital structure or</p> <p>17 for that rate of return, but for the fact that</p> <p>18 there's enough margin for Hydro to satisfy its</p> <p>19 own debt interest, correct? As a bondholder?</p> <p>20 A. They have the comfort of the guarantee.</p> <p>21 Because if you--I'm not sure of your point.</p> <p>22 Q. Okay.</p> <p>23 A. But the issue is if you take that to an</p> <p>24 extreme, if the government guarantees the debt</p> <p>25 and we have 100 percent and no equity, and</p>	<p>1 we'll never go to the bond markets, but the</p> <p>2 Provincial Government's situation, if Hydro</p> <p>3 were 100 percent debt and not earning any</p> <p>4 other revenue over and above its, you know,</p> <p>5 its operational costs, that in the whole</p> <p>6 context of the provincial situation could</p> <p>7 radically alter. Because they perceive then</p> <p>8 that the province is highly leveraged. And</p> <p>9 it's the same way you look at private</p> <p>10 enterprise, your comfort in holding the debt</p> <p>11 is that the leverage--your in preference to</p> <p>12 the shareholders, and of all the assets</p> <p>13 represented by the capital structure, you've</p> <p>14 got your kick at the cat, hope to recover at</p> <p>15 least 60 percent out of the 100 percent of the</p> <p>16 assets. In our case the debt has got to be</p> <p>17 looked at that you've got to get 86 percent</p> <p>18 out, that's your first kick. Although the</p> <p>19 whole of 86 is only a margin of 14 left over</p> <p>20 for error from the point of view of the debt</p> <p>21 holder absent the government guarantee. So</p> <p>22 then it gets back to the issue of you don't</p> <p>23 want to impinge on the credit rating of the</p> <p>24 province, because then if the province's debt</p> <p>25 rating goes up, we rise with it. You know,</p>

Page 101	Page 102
<p>1 MR. WELLS:</p> <p>2 that's going to float everybody, and that's</p> <p>3 not in the interest of consumers.</p> <p>4 Q. Okay.</p> <p>5 A. For electrical consumers, let along taxpayers.</p> <p>6 Q. I think we're not that far apart in what I'm</p> <p>7 suggesting and what you're saying. But this</p> <p>8 margin, if you will, that the bondholder would</p> <p>9 see at 86/14, that there's this 14 percent of</p> <p>10 your capital structure that constitutes a</p> <p>11 cushion in a way for the bondholder, that that</p> <p>12 relates directly to the dividend policy of</p> <p>13 Hydro and whether it's followed by the</p> <p>14 Provincial Government, doesn't it? In other</p> <p>15 words, this Board in P.U. 7, I think,</p> <p>16 indicated to Hydro that it agreed with Hydro's</p> <p>17 proposal of moving towards and 80/20 capital</p> <p>18 structure. And if I could suggest that that</p> <p>19 initiative is being undermined somewhat by the</p> <p>20 Provincial Government drawing down dividends</p> <p>21 at a rate in excess of the policy that was</p> <p>22 determined by Hydro to be the correct one?</p> <p>23 A. Well -</p> <p>24 Q. Favoured one?</p> <p>25 A. We all agree, I think, in these proceedings</p>	<p>1 that an 80/20 or an 80 debt to capital ratio</p> <p>2 would be good. That's where the Board is,</p> <p>3 that's where the Hydro Board's targets are,</p> <p>4 Ms. McShane, as the expert, says that's in the</p> <p>5 high range, but that would be appropriate.</p> <p>6 And the only fly in the ointment is this one</p> <p>7 time special dividend that has sort of</p> <p>8 departed from--with respect to the</p> <p>9 shareholder, you know.</p> <p>10 Q. But it was one time that was a rather large</p> <p>11 amount, but I think it's been more than one</p> <p>12 time where the 75 percent rule was exceeded?</p> <p>13 A. But very insignificant. The table is in--we</p> <p>14 were looking at it yesterday.</p> <p>15 Q. Yeah.</p> <p>16 A. And the overall effect has been on Hydro's</p> <p>17 regulated income retained earnings, the</p> <p>18 government has taken out 35 percent, which is,</p> <p>19 you know -</p> <p>20 Q. Yeah. Now -</p> <p>21 A. Yeah.</p> <p>22 Q. And that's--and when you say that, because</p> <p>23 clearly you indicated the first dividends were</p> <p>24 actually from '95--in 1995. So this was</p> <p>25 you're indicating that there were no dividends</p>
Page 103	Page 104
<p>1 taken out since the inception of Hydro up to</p> <p>2 1995?</p> <p>3 A. That's correct.</p> <p>4 Q. And that if we look at all the retained</p> <p>5 earnings since its inception to 2003, that's</p> <p>6 where you get your 35 percent number?</p> <p>7 A. Yes.</p> <p>8 Q. But that the most recent dividend payments</p> <p>9 made by Hydro to government on the specific</p> <p>10 request of the shareholders, you've indicated,</p> <p>11 has worked against the objective of moving</p> <p>12 towards an 80/20 capital structure, correct?</p> <p>13 A. Yes. The results have moved it higher per</p> <p>14 debt.</p> <p>15 Q. And that that--so really we've got more than</p> <p>16 one person with their hand on the wheel here?</p> <p>17 The Board has got a hand on the wheel and</p> <p>18 government's got a hand on the wheel and</p> <p>19 they're kind of pulling in two separate</p> <p>20 directions, aren't they?</p> <p>21 A. And Hydro has no hand on the wheel, is it?</p> <p>22 Q. Yeah.</p> <p>23 A. Actually, I would prefer just leave us with</p> <p>24 the wheel and we'll--no. The--well, you know,</p> <p>25 nobody--you can't speak for government. But,</p>	<p>1 the issue of return on equity, which I think</p> <p>2 is an issue in this proceeding, is to the</p> <p>3 extent that there is equity in the capital</p> <p>4 structure of the organization, what is the</p> <p>5 appropriate return on that equity. I mean,</p> <p>6 that is the issue.</p> <p>7 Q. Okay. And I just want to make sure that that</p> <p>8 issue is, although in some cases related</p> <p>9 specifically to the financial integrity of the</p> <p>10 Company, in Hydro's case because of the</p> <p>11 provincial debt guarantee, which gets paid for</p> <p>12 as part of the cost of service, is not--is</p> <p>13 decoupled from your fair and reasonable rate</p> <p>14 of return on your equity, whatever that is</p> <p>15 determined ultimately to be?</p> <p>16 A. Well, yeah. But mindful of that fact that the</p> <p>17 government is the shareholder, unlike the</p> <p>18 situation, say, in an investor owned utility.</p> <p>19 What we see in effect because the government</p> <p>20 is guaranteeing all the debt and government is</p> <p>21 on the hook for the equity, so in our</p> <p>22 situation the shareholder is on the hook for</p> <p>23 everything, isn't it?</p> <p>24 Q. Exactly.</p> <p>25 A. And the issue then becomes given the</p>

Page 105	Page 106
<p>1 MR. WELLS:</p> <p>2 significant dollars we're talking about here</p> <p>3 in relation to the total provincial debt, we,</p> <p>4 Hydro, can influence, if we don't present the</p> <p>5 right picture outside the province to the</p> <p>6 financial markets that the government, the</p> <p>7 cost of government debt and therefore Hydro's</p> <p>8 debt could go up, and that's not in the</p> <p>9 interest of consumers. That's why I think</p> <p>10 that we're all agreed to present the right</p> <p>11 picture, an 80/20 debt equity ratio be highly</p> <p>12 desirable and to show that Hydro--government</p> <p>13 as shareholder of Hydro is getting a return on</p> <p>14 the dollars that it has deployed in the</p> <p>15 enterprise and that the whole thing is not 100</p> <p>16 percent government get back debt. And that's</p> <p>17 just how I understand it.</p> <p>18 Q. Now, when we take our retained earnings, what</p> <p>19 we in effect have to--what Hydro in effect has</p> <p>20 to replace that with is new debt?</p> <p>21 A. That's correct.</p> <p>22 Q. That's all the questions I have, Chair. Thank</p> <p>23 you, very much, Mr. Wells.</p> <p>24 CHAIRMAN:</p> <p>25 Q. Thank you, Mr. Kennedy, Mr. Wells. Ms.</p>	<p>1 Greene, are you ready for redirect, please?</p> <p>2 GREENE, Q.C.:</p> <p>3 Q. Yes. Thank you, Mr. Chair. The first</p> <p>4 question that I have for you, Mr. Wells, in</p> <p>5 redirect, arises from the cross-examination of</p> <p>6 Mr. Browne on October 7th. And wonder, Mr.</p> <p>7 O'Reilly, please, if you'll bring it up,</p> <p>8 October 7th, page 22? And beginning in line 6</p> <p>9 Mr. Browne asked you a question with respect</p> <p>10 to joint coordination with Newfoundland</p> <p>11 Power. And there in the beginning of line 8</p> <p>12 he said there's no--this is a question from</p> <p>13 Mr. Browne. "There's no ongoing committees at</p> <p>14 Newfoundland Power, Newfoundland Hydro to</p> <p>15 further that effort?" And your answer was,</p> <p>16 "The '98--no, there is not." And I wonder,</p> <p>17 Mr. Wells, could you explain what you were</p> <p>18 talking about there?</p> <p>19 A. Yes. It's more of a matter of what I think</p> <p>20 he--I thought the question was. And in my</p> <p>21 mind I was thinking of the joint coordination</p> <p>22 committee, the major committee that had been</p> <p>23 established earlier and subject at the last</p> <p>24 hearing with 15 subcommittees. And when I</p> <p>25 said that had come to a conclusion, that's</p>
Page 107	Page 108
<p>1 what I was talking about. But obviously the</p> <p>2 question, when one reads it, says there are no</p> <p>3 ongoing committees, so my answer is not</p> <p>4 correct. The joint coordination committee and</p> <p>5 the 15 subcommittees that were reported on</p> <p>6 came to a conclusion, but ongoing as a result</p> <p>7 of that there are now some four committees,</p> <p>8 some like related to training and switching</p> <p>9 and other matters that are continuing between</p> <p>10 Newfoundland Hydro and Newfoundland Power. So</p> <p>11 I answered wrongly on that one. There are a</p> <p>12 number of committees, we filed it in the</p> <p>13 evidence, the ongoing work.</p> <p>14 Q. And what would be the purpose of that ongoing</p> <p>15 work of those committees?</p> <p>16 A. Well, there's currently a review with respect</p> <p>17 to in 2003 there were ongoing reviews on the</p> <p>18 benefits of a 1-800 number was one of them.</p> <p>19 There was a review, the print services</p> <p>20 recommendations to confirm savings with</p> <p>21 respect to Newfoundland Power providing print</p> <p>22 services to Hydro. They're working on a</p> <p>23 coordination of a switching plan between the</p> <p>24 two utilities. And we're also reviewing, as</p> <p>25 the Board is aware, the VHF radio system</p>	<p>1 replacement. So there is activity ongoing and</p> <p>2 there are other activities to which I had</p> <p>3 referred earlier in my main evidence.</p> <p>4 Q. Okay. The next question on redirect arises</p> <p>5 from the cross-examination of Mr. Kelly on</p> <p>6 October 9 with respect to the payment of</p> <p>7 dividends. And I wonder here, Mr. O'Reilly,</p> <p>8 if you could bring up Schedule 9 of Mr.</p> <p>9 Roberts, because this the schedule Mr. Kelly</p> <p>10 was reviewing with you? And you'll see</p> <p>11 Schedule 9 there on the screen, Mr. Wells.</p> <p>12 And there was a fair bit of discussion between</p> <p>13 you and Mr. Kelly with respect to the payment</p> <p>14 of dividends. I'd like to ask you first with</p> <p>15 respect to 2003, the dividends that are</p> <p>16 indicated on this schedule, which is, if you</p> <p>17 look at the top, is a statement of retained</p> <p>18 earnings. The dividend of \$5.6 million for</p> <p>19 2003, at least I in reading the transcript was</p> <p>20 somewhat confused because--with respect to it.</p> <p>21 I wonder if you could explain what the \$5.6</p> <p>22 million is there for 2003?</p> <p>23 (12:00 p.m.)</p> <p>24 A. Yes. I answered Mr. Kelly's questions</p> <p>25 correctly at least three times, but he kept</p>

Page 109	Page 110
<p>1 MR. WELLS:</p> <p>2 flipping three slides and the fourth time I</p> <p>3 can understand the confusion because I said</p> <p>4 you add that to the 2003 dividends and you</p> <p>5 don't. The answer that I was giving was that</p> <p>6 dividend payments related to 2002 activity in</p> <p>7 terms of our regulated operations were</p> <p>8 declared with respect to 2002 results, and</p> <p>9 that in 2003 the regulated activity of Hydro,</p> <p>10 there will be no dividends coming from the</p> <p>11 regulated activity of Hydro for 2003. In this</p> <p>12 statement of related to the retained earnings</p> <p>13 of Hydro that \$5,564,000 which will actually</p> <p>14 be paid over to government or was paid in the</p> <p>15 first quarter of 2003 has nothing to do with</p> <p>16 our 2003 operations. That is the part of the</p> <p>17 60 million dividend payment that came out of</p> <p>18 our regulated activities in the 2002. And one</p> <p>19 of the ongoing, and I probably should have</p> <p>20 picked that up earlier, because of the--as I</p> <p>21 was trying to explain the difference between</p> <p>22 the government's fiscal year and our fiscal</p> <p>23 year that we make payments in one of our</p> <p>24 years, it would go past, the government says,</p> <p>25 we want a payment in the third quarter of</p>	<p>1 their fiscal year, we make that payment, but</p> <p>2 the dollars are coming out of our operations</p> <p>3 of the previous calendar year, which is our</p> <p>4 fiscal year. And so that \$5,564 is not coming</p> <p>5 out of our 2003 regulated activities or money</p> <p>6 or retained earnings.</p> <p>7 Q. So as I understood your answer, Mr. Wells, is</p> <p>8 it fair to say it's a timing thing, it related</p> <p>9 to 2002 year, but was not paid until 2003 as a</p> <p>10 result -</p> <p>11 A. That's correct, it's a timing issue.</p> <p>12 Q. Now, you also just mentioned in your answer</p> <p>13 that there would be no dividends on the</p> <p>14 regulated earnings of Hydro paid in 2003.</p> <p>15 Will there be dividends paid by Hydro to</p> <p>16 government in 2003 for any circumstance?</p> <p>17 A. Yes. The flow through of income from</p> <p>18 Churchill Falls, Labrador Corporation and the</p> <p>19 flow through of income from our export sales</p> <p>20 will be paid to Hydro related to 2003</p> <p>21 activities of those two matters.</p> <p>22 Q. You mentioned in your answer paid to Hydro,</p> <p>23 you meant paid by Hydro to government?</p> <p>24 A. Paid by Hydro to government, yes.</p> <p>25 Q. So any dividends that are paid in 2003 will be</p>
Page 111	Page 112
<p>1 from non-regulated activities?</p> <p>2 A. That's correct.</p> <p>3 Q. The next question in redirect arises from the</p> <p>4 cross-examination of Mr. Hutchings of</p> <p>5 yesterday, and it related to the capacity of</p> <p>6 the Holyrood thermal plant. And we were</p> <p>7 talking about the 38 percent of the average</p> <p>8 energy capability. And I wonder, Mr. Wells,</p> <p>9 could you explain where the 38 percent came</p> <p>10 from, because again, I was confused when I</p> <p>11 read the transcript?</p> <p>12 A. Yes. And in my mind I was answering another</p> <p>13 question maybe to the one that was asked. But</p> <p>14 if you--the issue really is what is the 38</p> <p>15 percent, and it related to the capability of</p> <p>16 Hydro in total. And if you go to the</p> <p>17 schedule, there's a schedule in Mr. Haynes'</p> <p>18 evidence that shows the numbers with respect</p> <p>19 to the generating capability of Hydro plus our</p> <p>20 purchases and what percentage Holyrood is of</p> <p>21 that and it comes out to 38 percent.</p> <p>22 Q. So you were talking about the Holyrood as a</p> <p>23 percentage of Hydro's capability, including</p> <p>24 its own facilities and power purchases?</p> <p>25 A. I was--I thought that the questioning was</p>	<p>1 centred on the variability of Holyrood in a</p> <p>2 given year and what it was last year and what</p> <p>3 it might be next year. But the figure Mr.--</p> <p>4 the 38 percent refers to a set, set of facts</p> <p>5 that the total capability of Hydro plus power</p> <p>6 purchases for a year will give us this bottom</p> <p>7 line number. It's in one of the schedules to</p> <p>8 his evidence.</p> <p>9 Q. I think that's Schedule -</p> <p>10 A. Schedule 2 or--yeah, if you look at Schedule 2</p> <p>11 and then you just take the roughly 2900 figure</p> <p>12 of Holyrood as a percentage of the bottom of</p> <p>13 the schedule and it comes to 38 percent, so</p> <p>14 it's a fixed figure.</p> <p>15 Q. As opposed to the experience of any particular</p> <p>16 year?</p> <p>17 A. That's right. And my mind was on experiences</p> <p>18 of particular years in trying to--I thought</p> <p>19 the question was different than what it was.</p> <p>20 Q. The next question on redirect arises from Mr.</p> <p>21 Kennedy's questioning this morning when he was</p> <p>22 talking to you about the productivity</p> <p>23 allowance. I wonder if we could look at CA-</p> <p>24 46, which is where Mr. Kennedy took you at one</p> <p>25 point? Now, in the answer to CA-46 it states</p>

Page 113	Page 114
<p>1 GREENE, Q.C.:</p> <p>2 that savings from certain initiatives</p> <p>3 completed to date are reflected--are \$600,000.</p> <p>4 The impression at least that I was left with</p> <p>5 from the line of questioning was that there</p> <p>6 was additional monies available to Hydro that</p> <p>7 they could already meet a certain productivity</p> <p>8 allowance. And I just wanted you to comment</p> <p>9 on how the \$600,000 has been treated in the</p> <p>10 2004 revenue requirement?</p> <p>11 A. We have taken advantage of those--that</p> <p>12 \$600,000, there's no flexibility left. We</p> <p>13 have put that in our cost of--that's in our</p> <p>14 revenue requirement, deducted from our revenue</p> <p>15 requirement for 2004, in the same sense that</p> <p>16 the vacancy allowance is up by \$1.5 million</p> <p>17 over what you would see as a normal vacancy</p> <p>18 allowance. So that means that we are</p> <p>19 obviously planning some action, and I used the</p> <p>20 term "kedge" in being examined, that we have</p> <p>21 already taken advantage of that. And if the</p> <p>22 Board were to assume that the--that, you know,</p> <p>23 there's room here for a productivity allowance</p> <p>24 then we have 1.5 million reduction in our</p> <p>25 vacancy allowance reflecting lesser amounts of</p>	<p>1 dollars that would have been paid out in</p> <p>2 salaries and fringe benefits and the \$600,000</p> <p>3 is also in there. So, what we've done is</p> <p>4 taken out in these two things 2.1 million of</p> <p>5 what would otherwise have been our revenue</p> <p>6 requirement already.</p> <p>7 Q. You mentioned it was 1.5 million reduction in</p> <p>8 the productivity allowance.</p> <p>9 A. Did I say productivity allowance?</p> <p>10 Q. Or in the vacancy allowance.</p> <p>11 A. Vacancy allowance.</p> <p>12 Q. You said a reduction in the vacancy allowance.</p> <p>13 A. No, it's added to the vacancy allowance. 1.5,</p> <p>14 I said higher vacancy allowance than normal,</p> <p>15 and it's 1.5 million, when you look at the</p> <p>16 figure for vacancy allowance, you should--you</p> <p>17 would say that "that's extremely high, what's</p> <p>18 going on there?" and that's what you would not</p> <p>19 normally expect in terms of vacancies</p> <p>20 throughout the year. That's where we put the</p> <p>21 1.5 million dollars that we took out of our</p> <p>22 revenue requirement and it's related to our</p> <p>23 costs, and it's related--well, in that sense,</p> <p>24 it's specifically related to wages and</p> <p>25 salaries and fringe benefits.</p>
Page 115	Page 116
<p>1 Q. So I take from your answer that those are the</p> <p>2 savings Hydro anticipates to achieve and put</p> <p>3 it in the increased vacancy allowance, as</p> <p>4 opposed to in specific categories?</p> <p>5 A. Yes, that is where it was assigned, and that</p> <p>6 would be what we have done, and in our mind,</p> <p>7 in just these two items is taken out in just</p> <p>8 the--mention again, in just these two items,</p> <p>9 we've taken 2.1 million out of our revenue</p> <p>10 requirement and if the rates are set on that,</p> <p>11 the risk is all Hydro's.</p> <p>12 Q. The last question that I have in redirect</p> <p>13 arises from Mr. Kennedy's questioning this</p> <p>14 morning, and I haven't had the benefit of the</p> <p>15 transcript, but at least it was confusing to</p> <p>16 me during the course of the discussion on DSM</p> <p>17 and the issue with respect to showering and my</p> <p>18 mind kind of drifted as I was thinking of my</p> <p>19 teenagers at home with showers too. But I did</p> <p>20 want to, because I'm not--without having the</p> <p>21 benefit of the transcript, in my mind, it was</p> <p>22 left a little bit unclear, and that is with</p> <p>23 respect to DSM and electric water heaters, and</p> <p>24 I wondered if you could comment again about</p> <p>25 that, because at least I took your comments</p>	<p>1 differently than I know you would have</p> <p>2 intended.</p> <p>3 A. Well, there was maybe a bit of a frivolous</p> <p>4 statement there with respect to who gets in</p> <p>5 the shower, but there are two things that are</p> <p>6 important here. One is that electric hot</p> <p>7 water heating, I mean, after baseboard</p> <p>8 radiation heating, is a very important</p> <p>9 component of consumption in the household and</p> <p>10 there are indeed ways to manage that, in</p> <p>11 effect, to try to reduce the demand on the</p> <p>12 system or the usage of the system, in terms of</p> <p>13 electricity, through hot water. There is</p> <p>14 potential there and it's been taken advantage</p> <p>15 of in other jurisdictions and there's an</p> <p>16 element there that can be worked on or should</p> <p>17 be worked on, because it is--it offers a</p> <p>18 fairly large demand, in terms of household</p> <p>19 consumption.</p> <p>20 Q. Thank you, Mr. Wells. That concludes my</p> <p>21 redirect.</p> <p>22 CHAIRMAN:</p> <p>23 Q. Thank you, Ms. Greene. We now go and move to</p> <p>24 Board questions. Commissioner Saunders?</p>

<p style="text-align: right;">Page 117</p> <p>1 COMMISSIONER SAUNDERS:</p> <p>2 Q. Yes, thank you, Chair. Mr. Wells, how are you</p> <p>3 today? I wanted to refer to the Covenco</p> <p>4 Consultants activity, if you like. You've</p> <p>5 already explained to Mr. Hutchings, I think it</p> <p>6 was, that there wasn't any report. I'm</p> <p>7 wondering what the terms of reference were</p> <p>8 that you gave them?</p> <p>9 A. The engagement of Covenco started with</p> <p>10 meetings with representatives of Covenco and</p> <p>11 talking about the fact that now that we had</p> <p>12 our base systems in place, the JD Edwards</p> <p>13 system and where we had gotten with our</p> <p>14 strategic planning and reviews and what we</p> <p>15 were focusing on performance, and the</p> <p>16 measurement of performance, and they fall in</p> <p>17 the category in the trade of proficiency</p> <p>18 experts or efficiency experts. So we went</p> <p>19 with them.</p> <p>20 What we wanted to review all our</p> <p>21 processes and how would one go about that to--</p> <p>22 what assistance they could provide. Of</p> <p>23 course, they outlined their work and their</p> <p>24 expertise and this and that, and over the</p> <p>25 course of some weeks and with their</p>	<p style="text-align: right;">Page 118</p> <p>1 suggestions following up to start in supply</p> <p>2 chain management, and they came in and did a</p> <p>3 preliminary review and looked at the issue of</p> <p>4 metrics in the company, which was an issue,</p> <p>5 and then we started on the process by forming</p> <p>6 a Hydro team to work with the Covenco team, as</p> <p>7 they were doing their work. Because they can</p> <p>8 do so much of this themselves. They didn't,</p> <p>9 you know, but we got into the cross</p> <p>10 fertilization day one and we went through the</p> <p>11 supply chain management, in terms of our</p> <p>12 warehousing, materials handling, inventory,</p> <p>13 accounts payable and that's where the process</p> <p>14 started. And they went down and they examined</p> <p>15 all these over a course of weeks during the</p> <p>16 year, from April through, and when we'd</p> <p>17 finished the discreet programs that they were</p> <p>18 engaged in, then our team is carrying on after</p> <p>19 that.</p> <p>20 So that the terms of engagement were</p> <p>21 defined, and we set up a program and related</p> <p>22 to numbers of weeks and what the activity</p> <p>23 would be.</p> <p>24 Q. What was your goal, in terms of hiring</p> <p>25 Covenco?</p>
<p style="text-align: right;">Page 119</p> <p>1 A. Well, in the previous year, in 2001, as</p> <p>2 following over from 2000, as we brought our</p> <p>3 strategic issues into play and clarified</p> <p>4 everything throughout the whole Hydro</p> <p>5 organization, there was a meeting of our key</p> <p>6 management people, about 18 people, and in</p> <p>7 looking at how we were going to review</p> <p>8 performance within the organization, we made</p> <p>9 two decisions in June of 2001. One was to not</p> <p>10 attempt to try anything in the fall of 2001</p> <p>11 because of the rate hearing, and two, that</p> <p>12 depending on events, we had said that no later</p> <p>13 than June of 2002, we would have our own</p> <p>14 committees in place, you know, and structure</p> <p>15 to deal with this, and there was subnote then</p> <p>16 that said, because we had thought about it,</p> <p>17 there is an option to get external help here</p> <p>18 and advance the cause. And as I testified</p> <p>19 earlier, coming into January and the rate</p> <p>20 hearing, it was into argument then and other</p> <p>21 things, so in January, I thought that we could</p> <p>22 gain substantially by getting outside</p> <p>23 assistance to get a good head start in 2002 on</p> <p>24 the program, to review all our processes, and</p> <p>25 that's why we--that's when the discussions--</p>	<p style="text-align: right;">Page 120</p> <p>1 there are any number of consultants out there</p> <p>2 in that business, but we got into it with</p> <p>3 Covenco and we were able to establish an</p> <p>4 active program as early as May, and the</p> <p>5 results which came, are coming through are</p> <p>6 advanced by that much, and that was the reason</p> <p>7 we went outside.</p> <p>8 Q. Let me ask you the question another way. I'm</p> <p>9 not sure you answered the question that I had</p> <p>10 asked you, and that was what were your goals.</p> <p>11 A. Well -</p> <p>12 Q. Let me ask you another way. What were the</p> <p>13 ailments that you were hoping to cure?</p> <p>14 (12:15 p.m.)</p> <p>15 A. Well, one of the--the issue is when you're in</p> <p>16 the management of corporation, we'd gone</p> <p>17 through everything from revisiting our vision</p> <p>18 mission values, in conjunction with a series</p> <p>19 of people, then broadened out over the entire</p> <p>20 organization. We wanted to be able to ensure</p> <p>21 that we were leveraging the investment in</p> <p>22 technology that we had made and that we were</p> <p>23 able to migrate systems into that, that we</p> <p>24 were able to improve the performance. I mean,</p> <p>25 the issue became: are we achieving the</p>

Page 121	Page 122
<p>1 MR. WELLS:</p> <p>2 efficiencies from the investment in our</p> <p>3 technology? Are there things in the</p> <p>4 technology that we're not talking advantage</p> <p>5 of? And how can our business processes</p> <p>6 change? Because we, inside Hydro, know that</p> <p>7 the real opportunity for us to save money is</p> <p>8 through the issue of, unfortunately, wages and</p> <p>9 salaries and compensation. That's the big</p> <p>10 block that we have some influence over, and if</p> <p>11 we can change processes, eliminate non-value</p> <p>12 adding work, and reorganize and use the</p> <p>13 technology, then there should be savings here</p> <p>14 because--and that's what we're looking for to</p> <p>15 meet our mandate, you know, of reliable, least</p> <p>16 cost power to the extent that we can influence</p> <p>17 events.</p> <p>18 So it's like the engineers' work on the</p> <p>19 Holyrood efficiencies, we have people working</p> <p>20 on our business process efficiencies and, in</p> <p>21 part, like related to, because everything is</p> <p>22 not just business improvement processes</p> <p>23 organized. Everywhere, we're looking for what</p> <p>24 we can do, but an adjunct of it, like we</p> <p>25 worked on accounts payable and we achieved</p>	<p>1 some success. The meter reading, a small</p> <p>2 thing, but when we looked at meter reading,</p> <p>3 looked at the routes, looked at the--we did a</p> <p>4 route optimization study and we were able to</p> <p>5 reconstruct our meter reading and if we're</p> <p>6 successful, the savings would be about</p> <p>7 \$128,000. So that's the type of activity</p> <p>8 that's going on in the organization and is</p> <p>9 continuing to go on.</p> <p>10 Q. Have you identified the potential savings over</p> <p>11 time that it will accrue as a result of</p> <p>12 Covenco's efforts?</p> <p>13 A. Not as--well, Covenco, they're gone, and they</p> <p>14 only worked on -</p> <p>15 Q. I realize that, but the program is ongoing.</p> <p>16 A. Yes, but each aspect of the program will</p> <p>17 produce another result or a differing result.</p> <p>18 So we don't have a target that in 2006, this</p> <p>19 is the dollar figure. We don't know exactly</p> <p>20 what the dollar figure will be until we get in</p> <p>21 and examine the program that we're</p> <p>22 undertaking. When we looked at our materials,</p> <p>23 for instance, as an example, and consumables</p> <p>24 that are used by say mechanics, gloves, for</p> <p>25 instance. Well, we got right down in the</p>
Page 123	Page 124
<p>1 detail of how much does it actually cost to</p> <p>2 get a new pair of gloves in the hands of a</p> <p>3 tradesman that may need them, and what is our</p> <p>4 procedure? Well, we had good control</p> <p>5 procedures. He would have to go to a counter.</p> <p>6 The stock clerk would take--you know, sign out</p> <p>7 a pair of gloves. That would all be recorded,</p> <p>8 and we looked at that whole process and said,</p> <p>9 this is costing a lot of money when you look</p> <p>10 at it, the time that he spends going to get</p> <p>11 the gloves, the pay of the person who's</p> <p>12 filling in the forms, good record keeping,</p> <p>13 grand. How about we just get a bin out there</p> <p>14 and we'll fill it full of gloves? When a</p> <p>15 mechanic needs the gloves, come and get them</p> <p>16 and go. Get more wrench time. That should</p> <p>17 reflect in more efficiencies in our operation.</p> <p>18 So it's very minutia, you know. It's down in</p> <p>19 the detail of each process.</p> <p>20 Q. Well, step back for a moment. I asked you a</p> <p>21 question about what your goal was. Maybe I</p> <p>22 could get into it a little more specifically.</p> <p>23 Covenco cost Hydro a million dollars</p> <p>24 approximately.</p> <p>25 A. Um-hm.</p>	<p>1 Q. Somewhere back in time prior to your engaging</p> <p>2 them, you must have had some goal in mind with</p> <p>3 respect to what that million dollars could</p> <p>4 save you. Certainly, it had to save you more</p> <p>5 than a million dollars.</p> <p>6 A. Yes, the other thing you think about in</p> <p>7 management in the payback period.</p> <p>8 Q. Yes.</p> <p>9 A. If you spend \$100.00 to save \$200.00, but it's</p> <p>10 over 25 years -</p> <p>11 Q. So, over time which was the question I asked,</p> <p>12 what is it that Hydro is going to benefit?</p> <p>13 A. Yes, but what we--well, we will have that</p> <p>14 million dollars--the payback here, if you look</p> <p>15 at the million dollars related to Covenco,</p> <p>16 we're going to have \$600,000.00 related to</p> <p>17 that activity in 2004 and that cost is to the</p> <p>18 benefit of the rate payer immediately because</p> <p>19 if the rates are set on that, the risk is ours</p> <p>20 and the benefit is to the rate payer. So, if</p> <p>21 we can get anything inside of a two to three</p> <p>22 year payback on any expenditure, that would be</p> <p>23 extremely good. It's the same way, relate to</p> <p>24 isolate diesel systems, what's the payback if</p> <p>25 we spend the money to connect them and how</p>

Page 125	Page 126
<p>1 MR. WELLS:</p> <p>2 long would it take to recover the dollars</p> <p>3 spent to, say, connect a community to the</p> <p>4 island interconnected system and avoid the</p> <p>5 isolated diesel expense.</p> <p>6 Q. Did Covenco indicate to what they could save</p> <p>7 you in terms of dollars cost on your variable</p> <p>8 cost?</p> <p>9 A. If Covenco, if they had been allowed to stay</p> <p>10 with their whole program, they made various</p> <p>11 representations, but that was not of interest</p> <p>12 to us. We wanted Covenco to be, to assist us</p> <p>13 in getting established within the</p> <p>14 organization, systems where our business</p> <p>15 analysts and our online people can work on</p> <p>16 improvements and that this would be part,</p> <p>17 hopefully, of the culture of Hydro and the way</p> <p>18 we do business. That we're focused at all</p> <p>19 times on what we're doing and how we're going</p> <p>20 about to do it and focusing on doing it better</p> <p>21 and more efficiently. And then we have</p> <p>22 measures by which you can track your progress</p> <p>23 internally and some externally as we've</p> <p>24 discussed. That's the idea of it.</p> <p>25 Q. Maybe we're going about this is reverse order.</p>	<p>1 Somewhere back in time, there had to be some</p> <p>2 set of circumstances existing within Hydro</p> <p>3 that convinced you it was necessary to spend a</p> <p>4 million dollars to go through this exercise.</p> <p>5 What were the set of circumstances?</p> <p>6 A. The set of circumstances that--that process of</p> <p>7 trying to be efficient and effectively was</p> <p>8 going on at Hydro. There were numbers of</p> <p>9 reductions in the staff and there was</p> <p>10 reorganization--all things that we had been</p> <p>11 doing prior to Covenco, the catalyst there was</p> <p>12 that we analyze within our organization, where</p> <p>13 are we, where are we going, what are our</p> <p>14 objectives and revisited everything. And we</p> <p>15 also had the--none of this with Covenco, to</p> <p>16 the extent that we're going to take well</p> <p>17 beyond Covenco--none of this could have taken</p> <p>18 place without the fact that we got the JD</p> <p>19 Edwards system in, took us three years to get</p> <p>20 it in and we had it in by 2000. The process</p> <p>21 of getting it in, in an ideal world, you would</p> <p>22 have visited all your business processes when</p> <p>23 you were setting it up, but that's in an ideal</p> <p>24 world. So, a lot of the issues that we're</p> <p>25 talking about here and focusing on are, in</p>
Page 127	Page 128
<p>1 terms of our handling supply chain management</p> <p>2 which--that was their suggestion, they said if</p> <p>3 you're going to start this process, this is</p> <p>4 good are in which to start it first and we can</p> <p>5 help you get off the ground. Now, you know as</p> <p>6 consultants, they would like to help us until</p> <p>7 the end of time. But what we wanted to do was</p> <p>8 to be able to have them, sort of, point away,</p> <p>9 come up with a methodology that would help and</p> <p>10 that we--when they started the work--Covenco,</p> <p>11 two or three people, we had a Hydro team in</p> <p>12 place to work with them on it. And, you know,</p> <p>13 that eight million there in that slide is the</p> <p>14 just the salaries of regular Hydro employees</p> <p>15 that were, you could say, involved in that</p> <p>16 year. But a lot of what they're doing is part</p> <p>17 of the work that they should be doing. These</p> <p>18 are the business analysts and some of the</p> <p>19 managers. There's got to be a marriage here</p> <p>20 to take processes from start to finish,</p> <p>21 especially cross functional. A lot of this</p> <p>22 dealt with the cross-functional issues, not</p> <p>23 departmental or divisional, you know, supply</p> <p>24 chain management is right across the board.</p> <p>25 So we had to have the components of the</p>	<p>1 company involved in this. And that exercise,</p> <p>2 the benefit of it, what we think is the</p> <p>3 benefit, it's far more formal and systematic</p> <p>4 and specified and specific than saying to</p> <p>5 everybody, as of a day, now let's try to cost</p> <p>6 conscious. That's great, but what does that</p> <p>7 mean? We are focused on every, you know, as</p> <p>8 we proceed through this, every issue. And by</p> <p>9 doing that, you're engaging employees in a</p> <p>10 different way of approaching their work and a</p> <p>11 different culture within the company focused</p> <p>12 on performance and the way to measure that</p> <p>13 performance because again, out of the text</p> <p>14 books, it's only simple stuff. What gets</p> <p>15 measured, gets managed. If there's clear</p> <p>16 issues of, like, what does it cost us to pay</p> <p>17 an account. What are the processes? What</p> <p>18 things physically happen to an invoice when it</p> <p>19 comes it? Where have approvals got to be</p> <p>20 sought, at what level? How do you eliminate</p> <p>21 the involvement in that and reduce peoples'</p> <p>22 time that could be used for other purposes?</p> <p>23 Or by reorganizing you can eliminate</p> <p>24 positions.</p> <p>25 Q. Is there a connection between JD Edwards and</p>

Page 129	Page 130
<p>1 COMMISSIONER SAUNDERS: 2 Covenco? 3 A. A business? 4 Q. Yes. 5 A. None that I'm aware of, no. JD Edwards is one 6 of the big service suppliers. 7 Q. No, you've mentioned JD Edwards twice in your 8 answers, I wondered if there was any tie in. 9 A. No, back in '96/'97, they were chosen as the 10 supplier for our business processes. They are 11 one of five and we happen to choose JD 12 Edwards. PeopleSoft is another one I hear 13 now, maybe PeopleSoft is going to buy JD 14 Edwards. That has nothing to do with Covenco 15 per se. 16 Q. Just one more question and that is in relation 17 to the corporate objectives that you talked 18 about with Mr. Kennedy. What are your 19 objectives as CEO in relation to changes that 20 are being brought about within Hydro's 21 procedures and practices and so on and 22 processes? What are your objectives in terms 23 of what you want that million dollars to 24 achieve for you? 25 A. I want to ensure that we have the most</p>	<p>1 effective processes that eliminate waste or 2 non-value added work that for the dollars that 3 we have to expend, that we're expending the 4 minimal dollars to get the work performed as 5 efficiently as possible. That's no different 6 than what should happen in any organization. 7 And in a competitive world, it would have to 8 happen in this regulatory world, well as you 9 know, Commissioner, you put the hammer down 10 and we're under scrutiny and we have to be 11 able to show you that we're operating 12 effectively. 13 Q. Thank you, Mr. Wells. 14 CHAIRMAN: 15 Q. Thank you, Commissioner Saunders. 16 Commissioner Whalen? 17 COMMISSIONER WHALEN: 18 Q. Yes, good afternoon, Mr. Wells. 19 A. Good afternoon. I just wanted to pick up, 20 very briefly, just on your responses to 21 questions of Mr. Kelly with respect to the-- 22 and we can't see each other, can we--with 23 respect to the rural subsidy and Tuesday, I 24 think that was. And specifically in reference 25 to page 154 of the transcript, October 7, Mr.</p>
Page 131	Page 132
<p>1 O'Reilly, which might be helpful. And just 2 looking there, the middle of page, line 12 and 3 on and you were responding to some questions 4 that Mr. Kelly was putting to you, I think, in 5 a general way, in respect of the rural subsidy 6 and the history. But you made the comment, 7 "we are concerned about the subsidy and oddly 8 enough, this whole setup is imposed on us". I 9 take it from that, it's not imposed on you by 10 the Board, it's imposed on you by public 11 policy or government policy. 12 (12:30 p.m.) 13 A. What I was trying to say there, perhaps 14 ineffectually, was that we have this issue, 15 the way our setup up as in our electrical 16 system that, what we call the rural subsidy 17 and the rural subsidy certainly affects other 18 rate payers and there'd be a concern about the 19 magnitude of the subsidy. Subsidies 20 themselves or cross-subsidies are not such a 21 big issue, but the magnitude--and the results 22 from government policy as to what's, you know, 23 as circumstances that this is to be paid by 24 other rate payers. What I was trying to say 25 there was that because we're the operators in</p>	<p>1 the areas of the rural areas of the province 2 where isolated and rural interconnected, the 3 whole of the pressure on the rural subsidy 4 falls on us. And we're looked at to say, what 5 are you doing to reduce that cost. And is 6 there any--all I'm saying is that all that 7 pressure, 100 percent seems to fall on us, 8 nobody else is lending a hand to the wheel to 9 try to reduce the cost. And we know that the 10 demands of people that are being serviced in 11 the rural areas, in the isolated diesel 12 system, especially in Labrador are increasing. 13 And we, and this goes back to the Board's 14 direction and concerns expressed back in '92. 15 There was two reports of the PUB. When I got 16 to Hydro, this was very much in play and we 17 had started to reorganize within Hydro. We 18 eliminated within TRO various operations and 19 the regional offices. We started to go into a 20 multi-skilling program. We worked on our 21 maintenance philosophies. We decreased the 22 number of people involved. We got semi- 23 attended plant. Mr. Martin will speak to all 24 of this as Mr. Reeves did at the last hearing. 25 It's a very difficult thing because the</p>

Page 133	Page 134
<p>1 MR. WELLS:</p> <p>2 service still has to be supplied and the costs</p> <p>3 are increasing. But there's nobody else here</p> <p>4 that's being forced, you know, we're the only</p> <p>5 ones that people are looking at to say somehow</p> <p>6 you got to increase costs in those Isolated</p> <p>7 diesel systems. We put three engines on a</p> <p>8 bed, we get them to operate, we hook up, you</p> <p>9 know, the little community and we string the</p> <p>10 wires around and we have the least amount of</p> <p>11 manpower that we can get. We have specialty</p> <p>12 teams strategically located to go out and fix</p> <p>13 things when the time comes, and there's not</p> <p>14 much more we can do, you know. We work very</p> <p>15 hard and we've constrained costs, but if</p> <p>16 somebody thinks that we can bring down the</p> <p>17 cost of the, you know, the Isolated diesel</p> <p>18 systems, it's almost impossible. But nobody</p> <p>19 is looking at anybody else is what I'm trying</p> <p>20 to say. I may be self-serving, I'm just</p> <p>21 saying that any time anybody wants to talk</p> <p>22 about the cost of Rural diesel systems, the</p> <p>23 spotlight goes square on our forehead. Why</p> <p>24 us?</p> <p>25 Q. Who else would we look at though?</p>	<p>1 A. Well we happen to be the operators of the</p> <p>2 system, that's true, and we think we're doing</p> <p>3 as good a job, but still a lot of others who</p> <p>4 have to pay for this express some</p> <p>5 consternation about the cost and the subsidy</p> <p>6 and we're doing our best. But, you know,</p> <p>7 that's what I was speaking about in those</p> <p>8 particular lines.</p> <p>9 Q. And you did go on saying you just repeated it,</p> <p>10 that we've been working diligently on it, but</p> <p>11 the costs are inevitably going to increase.</p> <p>12 So your statement a few seconds ago is you've</p> <p>13 done everything you can -</p> <p>14 A. Well, it's pretty presumptuous to say you've</p> <p>15 done everything you can, but to the extent</p> <p>16 that -</p> <p>17 Q. Not much else left to do, I mean, other than,</p> <p>18 in terms of -</p> <p>19 A. Yeah, it's very difficult.</p> <p>20 Q. But the magnitude of the subsidy is going to</p> <p>21 continue to increase, despite your efforts to</p> <p>22 keep the cost -</p> <p>23 A. We think that to be the case, yes.</p> <p>24 Q. Who else gets involved in trying to reduce</p> <p>25 those costs? If you've done everything you</p>
Page 135	Page 136
<p>1 can and the costs are inevitably going to</p> <p>2 increase, I don't think the Board has no say</p> <p>3 in, really, it's a government direction in</p> <p>4 terms of the way the subsidy gets passed on.</p> <p>5 A. That's right.</p> <p>6 Q. Are we faced with a fait accompli in a sense</p> <p>7 of we're going to have to live with these</p> <p>8 increasing costs and continue to pass them on</p> <p>9 to Newfoundland Power and Labrador</p> <p>10 Interconnected customers year over year?</p> <p>11 A. If that is the overall policy, that is what</p> <p>12 will happen. The only comfort that we all</p> <p>13 might be able to take is that in our report on</p> <p>14 the Rural subsidy when we were asked to</p> <p>15 compare with other jurisdictions, you can see</p> <p>16 from the results there, that our operation of</p> <p>17 the Isolated diesel system is very favourably</p> <p>18 comparable to what happens in other Isolated</p> <p>19 diesel systems. It's not a big complex thing</p> <p>20 we're talking about. The difference, I think,</p> <p>21 in other provinces is that there's more people</p> <p>22 around to bear the cost of that subsidy. If</p> <p>23 Newfoundland Power, for argument sake, had</p> <p>24 840,000 customers, then the unit cost per</p> <p>25 customer would be a lot less and one of the</p>	<p>1 things, like in the conclusion of the</p> <p>2 Corporate evidence, which I think is--sums up</p> <p>3 the whole thing for Hydro, is that we have no</p> <p>4 economies of scale. You know, the city of</p> <p>5 Calgary has 800,000 people, it's soon going to</p> <p>6 be double the population of Newfoundland, and</p> <p>7 if we had to put in place the generators and</p> <p>8 the transmission lines and the distribution</p> <p>9 and everything to satisfy 800,000 people at a</p> <p>10 radius of what, 20, 30 square--20 or 30 miles,</p> <p>11 look at how much more effective we'd be in</p> <p>12 terms of unit of cost. Our cost of the</p> <p>13 Isolated diesel system, if something goes flat</p> <p>14 in Hopedale and it can't be fixed by the two</p> <p>15 people on the ground there who are looking</p> <p>16 after--they're really plant operators, then we</p> <p>17 can't wait, we've got to get either mechanics</p> <p>18 or linemen out there to get the service</p> <p>19 restored. They're in a helicopter.</p> <p>20 Helicopters cost a lot of money and they get</p> <p>21 out there and they've got to get the job done,</p> <p>22 so then there's overtime and there's all these</p> <p>23 sorts of things that I don't--it doesn't</p> <p>24 matter who is actually operating the system,</p> <p>25 you can't get away from those types of costs.</p>

Page 137	Page 138
<p>1 COMMISSIONER WHALEN:</p> <p>2 Q. Does your 2004 projection for the magnitude of</p> <p>3 the Rural deficit assume a status quo, in the</p> <p>4 sense of no more fish plants and no more of</p> <p>5 those kinds of one ops.</p> <p>6 A. Yes, because we don't know and sometimes we're</p> <p>7 the last to hear about a new fish plant and</p> <p>8 we're scrambling, but no, we don't project,</p> <p>9 there's no speculative aspect of the</p> <p>10 projection.</p> <p>11 Q. I just, I don't know if this will lead to a</p> <p>12 question, but it's really, I think I might</p> <p>13 have posed a similar question to you the last</p> <p>14 time, but previous to 1990, the subsidy was</p> <p>15 funded directly by government, which would, in</p> <p>16 essence, I guess, be a taxation directly. But</p> <p>17 we went to Labrador and we were petitioned by</p> <p>18 those very people who received the subsidy,</p> <p>19 that their rates were too high, you know, I</p> <p>20 mean, the impact of any rate increase on those</p> <p>21 people was similar petitions we get, when we</p> <p>22 were in Grand Falls, we get similar petitions,</p> <p>23 when we were in Corner Brook, and we get</p> <p>24 petitioned on basically on the ability to pay</p> <p>25 principle from single parents, low income</p>	<p>1 earners, pensioners, students who are here</p> <p>2 going to university, living in apartments and</p> <p>3 paying Newfoundland Power for the cost of</p> <p>4 their electricity. Prior to 1990, those</p> <p>5 people would not have contributed to the Rural</p> <p>6 subsidy, but right now, I guess what we have</p> <p>7 is those people coming before us and</p> <p>8 petitioning, you know, that they can't just</p> <p>9 bear another one dollar increase in their</p> <p>10 electrical rates and I remember one senior, I</p> <p>11 mean, the impact has stayed with me, but I</p> <p>12 mean, you know, I'm choosing between can I buy</p> <p>13 a tin of fruit and, you know, I mean, it's</p> <p>14 that kind of -</p> <p>15 A. Heat.</p> <p>16 Q. Yeah, and I wonder if people, the people who</p> <p>17 are receiving the subsidy know who pays the</p> <p>18 subsidy and if the people who are paying the</p> <p>19 subsidy know they're paying it? I mean, do</p> <p>20 those low income people who, at the end of the</p> <p>21 day, right now I assume because of the our</p> <p>22 taxation system don't pay any taxes perhaps by</p> <p>23 the time it all washes out, do they know that</p> <p>24 a material portion of their electrical bill at</p> <p>25 the end of each month actually contributes to</p>
Page 139	Page 140
<p>1 the cost of providing electricity to someone</p> <p>2 perhaps on the coast of Labrador, on the south</p> <p>3 coast of this Island? And do those people</p> <p>4 receiving the subsidy actually know that there</p> <p>5 is a portion--there is a significant portion</p> <p>6 of their electricity cost that gets paid by</p> <p>7 these people? It's a social -</p> <p>8 A. Yeah, I wonder whether they do indeed know,</p> <p>9 although, you know, if you were focused on it,</p> <p>10 it's been clearly made--you know, there's been</p> <p>11 enough public pronouncement, but I did give a</p> <p>12 presentation in June in West St. Modeste to a</p> <p>13 conference, Labrador people were there, but</p> <p>14 there were a number of people up from the</p> <p>15 university and government, various like</p> <p>16 finance and whatnot, and when I made the</p> <p>17 presentation and put up the slides and showed</p> <p>18 the deficit and who was paying the deficit, a</p> <p>19 number of residents of St. John's who are, you</p> <p>20 know, professionals and working with the</p> <p>21 government or Memorial, came over and said you</p> <p>22 know, we had no idea that we were providing a</p> <p>23 level of subsidy of 46 or \$4,700.00 on our</p> <p>24 electrical bill and that it was 16 percent, as</p> <p>25 it was under the old order, 19 projected--16</p>	<p>1 percent of the costs or the other way around,</p> <p>2 they said we had no idea that we were paying</p> <p>3 that, and you know, to the extent of what you</p> <p>4 posed, if that level of people are unaware and</p> <p>5 others may not be aware of that fact.</p> <p>6 Q. If the fish plant in Charlottetown, for</p> <p>7 example, if the quota is taken away from the</p> <p>8 fish plant in Charlottetown, those costs are</p> <p>9 there?</p> <p>10 A. We have sunk cost then in the equipment that</p> <p>11 we would now, in that particular type of case,</p> <p>12 if there was a sudden drop in the demand in</p> <p>13 Charlottetown, then we could remove the</p> <p>14 capacity that we put into, you know, move that</p> <p>15 engine somewhere else.</p> <p>16 Q. Just one other question, assuming that things</p> <p>17 remain as they are in terms of, I don't want</p> <p>18 to ask a political question, so I'm just going</p> <p>19 to--assuming things remain as they are, in</p> <p>20 terms of structure and the status quo</p> <p>21 continues post October 21st, and this rate</p> <p>22 application is accepted, your proposals are</p> <p>23 accepted and you get the relief you're</p> <p>24 seeking, when are you--what specific events</p> <p>25 would trigger your next application to this</p>

Page 141	Page 142
<p>1 COMMISSIONER WHALEN:</p> <p>2 Board, in terms of rate relief?</p> <p>3 A. Well depending on the outcome of this</p> <p>4 Application and in going forward, if Hydro can</p> <p>5 operate within the revenue requirement, you</p> <p>6 know, the issue would be what is happening</p> <p>7 with respect to Hydro's costs and events and</p> <p>8 are we able to operate within that revenue</p> <p>9 requirement and for how long, or depending on,</p> <p>10 you know, this proceeding, before it's</p> <p>11 concluded, may have things in terms of</p> <p>12 adjustments in revenue or different treatment</p> <p>13 of the rate stabilization plan, that could</p> <p>14 enable things to happen automatically, some</p> <p>15 adjustment, to avoid the expense of a full-</p> <p>16 blown general rate application because indeed,</p> <p>17 that's another issue with respect to all the</p> <p>18 costs in a very small jurisdiction, if we keep</p> <p>19 coming back every two years at the expense and</p> <p>20 effort that we've seen, you know, that's</p> <p>21 happening, you know, that's also a problem for</p> <p>22 electrical consumers in terms of cost. And</p> <p>23 how we handle that is another issue going</p> <p>24 forward in this jurisdiction. I don't know if</p> <p>25 I'm answering your question.</p>	<p>1 Q. That's fine, I know you wouldn't be able to</p> <p>2 identify specific sort of window, but I guess</p> <p>3 the worse possible scenario or the best</p> <p>4 possible scenario, in your case, would be, I</p> <p>5 guess, would be next to the generation source,</p> <p>6 everything else sort of stays as -</p> <p>7 A. Well I'm not sure, because if I learned</p> <p>8 anything from the almost eight years with</p> <p>9 Hydro, is that to leave a gap between</p> <p>10 applications was not good. The '92 to 2001</p> <p>11 application, you get no credit for all the</p> <p>12 benefit of the years that we never increased</p> <p>13 rates, we got absolutely no credit for that.</p> <p>14 And then we take it on the chin for the two</p> <p>15 increases that are, you know, so maybe from a</p> <p>16 regulatory perspective as well, so that things</p> <p>17 work properly within the system. But I don't</p> <p>18 know if we can have a hearing on a specific</p> <p>19 point, like the Rate Stabilization Plan</p> <p>20 without involving us with all this material</p> <p>21 having to be dealt with as well. If we focus</p> <p>22 on one issue, the price of fuel or something,</p> <p>23 and deal with that and not have, you know,</p> <p>24 1,100 responses to Requests for Information</p> <p>25 and 20,000 pages of filed evidence, trying to</p>
Page 143	Page 144
<p>1 cope with the issue of the moment.</p> <p>2 Q. And between rate hearings then, as the Rural</p> <p>3 deficit increases, does Hydro--Hydro absorbs</p> <p>4 that difference, I assume, because -</p> <p>5 A. As we go forward on the cost of the Rural--</p> <p>6 well, the only revenue we get is as determined</p> <p>7 by the rate, you know.</p> <p>8 Q. Yes, so the energy rate for Newfoundland Power</p> <p>9 will have an amount built in for 2004 test</p> <p>10 year, so as the Rural deficit increases, year</p> <p>11 over year post 2004, that just comes off of</p> <p>12 Hydro's -</p> <p>13 A. Yes, that's right, yes.</p> <p>14 Q. That's all the questions I have, thank you</p> <p>15 very much, Mr. Wells.</p> <p>16 CHAIRMAN:</p> <p>17 Q. Thank you Commissioner Whalen. Thank you very</p> <p>18 much, Mr. Wells for your testimony during the</p> <p>19 week. I have a couple of questions, hopefully</p> <p>20 I won't be long and certainly we won't come</p> <p>21 close, I don't think, to 1:30. I don't know</p> <p>22 what will arise after that. I noticed your</p> <p>23 comment this morning where you indicated, I</p> <p>24 think in response to Mr. Kennedy's questioning</p> <p>25 that on Holyrood that you would quit if</p>	<p>1 regulation were to drive some of the decisions</p> <p>2 that you make in respect of Holyrood and I</p> <p>3 would agree with that, I wouldn't go near the</p> <p>4 light switch either, I don't think, if that</p> <p>5 were the case. (laughter). People say to me,</p> <p>6 in reading articles in the media and that,</p> <p>7 what takes 40 days for you to deal with an</p> <p>8 application like this, and in any event, I try</p> <p>9 as best I can to explain it and I end up by</p> <p>10 reciting, which I have done many a times, it's</p> <p>11 like I think it was Churchill said about the</p> <p>12 government is the worse form of democracy</p> <p>13 until you consider the alternative. Well,</p> <p>14 regulation is probably the worse form of</p> <p>15 setting rates, until you consider the</p> <p>16 alternatives, as well. So we both have got a</p> <p>17 job to do and I guess what we have to find is</p> <p>18 the best way to do that. And to be honest</p> <p>19 with you, I am--I've been looking at some of</p> <p>20 the mediation reports here with a view to the</p> <p>21 recommendations here, in terms of external</p> <p>22 benchmarking and at least a study or a report</p> <p>23 to be done on performance based regulation.</p> <p>24 Certainly from our perspective, I suppose, you</p> <p>25 credit people, I think in the back of the room</p>

Page 145	Page 146
<p>1 CHAIRMAN:</p> <p>2 with knowing all the, having the technical</p> <p>3 knowledge in relation to Holyrood and your</p> <p>4 various systems, and certainly, I think you've</p> <p>5 indicated that you had to rely on them and</p> <p>6 you're far removed. Well, we're even further</p> <p>7 removed from that and there's an asymmetry of</p> <p>8 information here that I think the focus in</p> <p>9 that sense has to be on performance measures</p> <p>10 and benchmarking, if indeed this is going to</p> <p>11 work at all, there has to be a reliance on</p> <p>12 that.</p> <p>13 So with that in mind, I would wish to</p> <p>14 thank you for looking at, at least some of</p> <p>15 the--in relation to your discussion with Mr.</p> <p>16 Kennedy, some of the performance benchmarks</p> <p>17 that have been recommended by Grant Thornton</p> <p>18 in that report and at least for this</p> <p>19 proceeding, seeing what you can do with that.</p> <p>20 I guess having said that, and I jotted</p> <p>21 down this morning when I was thinking about</p> <p>22 some of the questions that I might ask you, I</p> <p>23 jotted down "what gets measured, gets done"</p> <p>24 and I think you subsequently said, "what gets</p> <p>25 measured, gets managed". And the SAIDI and</p>	<p>1 SAIFI statistics, some of what Mr. Kennedy</p> <p>2 reviewed this morning, dealt with some of the</p> <p>3 operational characteristics and cost</p> <p>4 efficiencies that might reflect how well Hydro</p> <p>5 manages. What are your--as CEO, what are your</p> <p>6 four or five key performance indicators? How</p> <p>7 do you measure, at the end of the day and how</p> <p>8 do you reflect, I guess, upon Hydro and see</p> <p>9 whether they've done a good or there's room</p> <p>10 for improvement there, in terms of the job</p> <p>11 they have done? What are your--and again,</p> <p>12 with a view to what gets measured, I guess,</p> <p>13 gets managed, as opposed to general</p> <p>14 objectives. What do you look at? Because</p> <p>15 ultimately at the end of the day, I think</p> <p>16 there's going to be a variety of performance</p> <p>17 indicators at various levels, some of them</p> <p>18 will be technical, some of them will be cost</p> <p>19 oriented, others will be managerial and they</p> <p>20 all contribute and lead to likely the things</p> <p>21 that you want to see at the end of the day, in</p> <p>22 terms of how Hydro performs or otherwise.</p> <p>23 A. Well, the major issues of Hydro, in my</p> <p>24 perspective, first of all is the reliability</p> <p>25 of, you know, the services. The electricity</p>
Page 147	Page 148
<p>1 is there and it's delivered as it should be,</p> <p>2 so you're looking at the measurements that are</p> <p>3 pretty standard in the industry with respect</p> <p>4 to the technical measurements of SAIDI/SAIFI</p> <p>5 and the four components they break out into,</p> <p>6 that's one thing, but overarching all that,</p> <p>7 the first concern and if you had to say it's</p> <p>8 reliability, safety and the environment, I've</p> <p>9 been preaching that in Hydro for eight years.</p> <p>10 We've come a long way in terms of having a</p> <p>11 good, sound environmental management system</p> <p>12 and separate environmental report. Now that</p> <p>13 doesn't mean that we don't have environmental</p> <p>14 issues, but one of the ways now that we can</p> <p>15 manage ourselves on the environment under the</p> <p>16 ISO 14001 is the number of audits that are</p> <p>17 taken and where exception reports are noted.</p> <p>18 And the other thing is changing the culture of</p> <p>19 people over time, you know, especially older</p> <p>20 people, like myself, with respect to the</p> <p>21 attitude towards the environment. So, you</p> <p>22 know, I'm pleased with the efforts that we've</p> <p>23 done on the environment, not to defer in any</p> <p>24 extent the amount of issues that I see coming</p> <p>25 and the costs with respect to the environment.</p>	<p>1 Safety, absolutely number one. We don't want</p> <p>2 to put anybody beyond a risk for which they're</p> <p>3 trained or equipped to do. We are fortunate,</p> <p>4 we've had some bad experiences, you know, but</p> <p>5 if you look at the record, what I look at is</p> <p>6 if we can stay in our group in the Canadian</p> <p>7 Electricity Association at a level below our</p> <p>8 peers, then that, if it can continue, and</p> <p>9 we're going to have what we call, as we've</p> <p>10 termed an exemplary safety record, we're</p> <p>11 almost going to be in the first quartile on</p> <p>12 the good side and that's where we strive to</p> <p>13 get. The reliability of the system comes down</p> <p>14 to the balancing of the costs, because it's</p> <p>15 not that some--our people don't know what to</p> <p>16 do. It's a question of how much is reasonable</p> <p>17 at a particular point in time and so when</p> <p>18 you're assessing performance of the</p> <p>19 reliability in the Rural, Interconnected</p> <p>20 system, we've had it in the evidence like</p> <p>21 Canadian Ohio brass insulators were a problem</p> <p>22 and everybody got them in place and we're</p> <p>23 involved in a major change out, which has gone</p> <p>24 over a period of years and in total would cost</p> <p>25 some twenty-five million dollars or in that</p>

Page 149	Page 150
<p>1 MR. WELLS:</p> <p>2 vicinity. The question you ask--I ask, why</p> <p>3 don't we change the things out tomorrow and</p> <p>4 get rid of that? But if you listen to the</p> <p>5 sensible advice you get, depending on the</p> <p>6 nature of the problems and how, that overtime</p> <p>7 you're going to do it in a more cost-effective</p> <p>8 way, and then our capital programs related to</p> <p>9 areas on the northwest coast where we have</p> <p>10 significant problems. If we're going to have</p> <p>11 our statistics go awry, that's where they're</p> <p>12 going to happen. And how much we change out</p> <p>13 in each year with respect to more robust</p> <p>14 systems, you know, replacing the low voltage</p> <p>15 transmission lines and conduct--in the</p> <p>16 communities and all that sort of thing, what</p> <p>17 I'm comforted by is the amount of expertise</p> <p>18 that's there technically within the system and</p> <p>19 otherwise, and the concentration of getting</p> <p>20 people focused that their activity can relate</p> <p>21 to a cost and are we getting the dollars and</p> <p>22 are we organized in the proper way to meet the</p> <p>23 requirements of the system. And on the</p> <p>24 financial side, you're working to your budget</p> <p>25 and you're reviewing as to where you are in</p>	<p>1 the budget, but I find in this business, there</p> <p>2 are, as we've talked about earlier, issues</p> <p>3 related to lag times when your dollars come</p> <p>4 in, and the other thing is the capital program</p> <p>5 and private enterprise, the issue of whether</p> <p>6 you've spent your approved capital program</p> <p>7 within a year is not an issue. And when this</p> <p>8 struck us at the last hearing, I was taken</p> <p>9 back by, you know--and Mr. Martin would be an</p> <p>10 absolutely good one to question on this,</p> <p>11 because he was involved in the large part of</p> <p>12 the capital program over the years in his</p> <p>13 position as director of TRO Engineering and is</p> <p>14 now vice-president of TRO. And he could</p> <p>15 become a bit apoplectic about the requirement</p> <p>16 that somehow I have to devise the capital</p> <p>17 program, get the preliminary studies and cost</p> <p>18 estimates in, get the materials ordered and</p> <p>19 have the job done all in the space of 12</p> <p>20 months. He said, you know, the encapsulation</p> <p>21 of this in a one-year thing doesn't make any</p> <p>22 sense to somebody on the ground who has to do</p> <p>23 it. And I must say, over time he's--I have a</p> <p>24 great deal of sympathy for that position, but</p> <p>25 we still have the regulatory issue and the</p>
Page 151	Page 152
<p>1 issue of, you know, we're not spending our</p> <p>2 capital dollars in the year when they're</p> <p>3 approved. It makes a big issue in the test</p> <p>4 year. I appreciate that. But then halfway</p> <p>5 through the year, something goes wrong</p> <p>6 somewhere, and then the focus within TRO will</p> <p>7 change and we got to go fix that, you know.</p> <p>8 The Rencontre plant burnt down. We got to</p> <p>9 move engines in. We got to do--and now we</p> <p>10 find that part of the capital program is</p> <p>11 slipping into the next year, and I can tell</p> <p>12 you then we come up with a certain party who's</p> <p>13 responsible for our regulatory proceedings and</p> <p>14 what are we doing with the capital</p> <p>15 expenditures if they don't get into the years</p> <p>16 directed by the Board.</p> <p>17 So you know, various ways to deal with</p> <p>18 the performance of people, aside from the</p> <p>19 financial. But I can tell you that the senior</p> <p>20 management, and when I say "senior" that's</p> <p>21 managers of plants and hydro and thermal</p> <p>22 directors, vice presidents. We have spent a</p> <p>23 lot of time over 2000, you know, and since, in</p> <p>24 thinking through the real issues that we</p> <p>25 confront and where we want to get and how</p>	<p>1 we're going to get there, and we came to a</p> <p>2 conclusion, prior to our hearing back in 2000</p> <p>3 or 2001, and it's, you know, what does get</p> <p>4 measured gets managed.</p> <p>5 So we said if we're going to be fully</p> <p>6 effective, we've got to come up with new</p> <p>7 processes, new systems and we've got to be</p> <p>8 able internally to be able to manage and</p> <p>9 measure what's going on, not that you're</p> <p>10 always going to get improvement, but to ensure</p> <p>11 that what you're doing is getting the right</p> <p>12 result, because you can only make a circle so</p> <p>13 round, you know. You can't--there's</p> <p>14 limitations here. But now with the capability</p> <p>15 of JD Edwards, you know, people can, on a</p> <p>16 screen, punch down through a whole set of</p> <p>17 information. It's an enormous amount of</p> <p>18 information available, real line on time, and</p> <p>19 in our five major corporate categories, at any</p> <p>20 point in time, you can--I can press a button</p> <p>21 my desk and know, in the five major</p> <p>22 categories, corporate performance, where we</p> <p>23 are. And if I've got a question on it, I can--</p> <p>24 -you know, I need help sometimes with the</p> <p>25 computer, but I can go wherever I want to go</p>

Page 153	Page 154
<p>1 MR. WELLS:</p> <p>2 and find out what costs.</p> <p>3 When we're finished what we called our</p> <p>4 Combi program in this business approval</p> <p>5 process, and we're going to have all our</p> <p>6 assets laid out, and we're going to have all</p> <p>7 the costs, whether capital or operating, and</p> <p>8 then we know about a piece--we're going to be</p> <p>9 able to come up with maintenance philosophies</p> <p>10 related to individual pieces and compare what-</p> <p>11 -to take out a piston on such and such a</p> <p>12 Caterpillar engine and what time it takes to</p> <p>13 do that should be the same in one area of the</p> <p>14 operation, whether it's down in McCallum or up</p> <p>15 in Nain, and if the people involved in that</p> <p>16 kind of activity have the comparators, then</p> <p>17 they can always--we can benchmark internally.</p> <p>18 We can find out what is the appropriate</p> <p>19 maintenance philosophy. Do you go beyond the</p> <p>20 fifth overall of a diesel engine or do you</p> <p>21 replace the diesel engine, that kind of thing.</p> <p>22 So that's what's happening in the</p> <p>23 organization.</p> <p>24 So when people say to me, did you set a</p> <p>25 target of X dollars? I'm really not--that</p>	<p>1 doesn't influence me whatsoever personally.</p> <p>2 You like to target things, but what you want</p> <p>3 to know is that the issues and the actual</p> <p>4 physicals of everything is being examined and</p> <p>5 you're working your way through a program, and</p> <p>6 you have a way to measure the result, and</p> <p>7 we've done that now and we're getting results</p> <p>8 and there's a lot more to come in terms of</p> <p>9 we're going to be more efficient. Are our</p> <p>10 revenue requirements going to decrease as a</p> <p>11 result? I don't think so, but there's going</p> <p>12 to be a lot of dollars that won't be in the</p> <p>13 revenue requirement that if we weren't doing</p> <p>14 this would be there. And as I've taken great</p> <p>15 pains to try to point out, in terms of the</p> <p>16 dollars where we can substantially influence</p> <p>17 rates, you know, it really comes down to, in</p> <p>18 our circumstance, the salary and fringe</p> <p>19 benefit things, and we'll try to make our</p> <p>20 diesels more efficient, our rotating equipment</p> <p>21 more efficient, that there's finite limits to</p> <p>22 that. But we can measure those types of</p> <p>23 things, and so measurement is very important</p> <p>24 inside the corporation and all what you're</p> <p>25 doing and in a regulatory sense, I do</p>
Page 155	Page 156
<p>1 appreciate, and it was a lesson for us the</p> <p>2 last time around when it started to come out</p> <p>3 from the Board that in order for the Board to</p> <p>4 fulfil its mandate, it had to have some means,</p> <p>5 and you did not have it, and unfortunately we</p> <p>6 never even talked about it, at least not while</p> <p>7 I was on the stand. We just passed each other</p> <p>8 there in the night or day.</p> <p>9 Q. You have an incentive program, I think, within</p> <p>10 your corporation?</p> <p>11 A. We have--the incentive program that the Board,</p> <p>12 our--Hydro's Board wanted to introduce that we</p> <p>13 described twice now in the evidence, but is</p> <p>14 for--it was brought in for a limited number of</p> <p>15 people and senior people. It was very much in</p> <p>16 a project way and the dollar values and the</p> <p>17 incentive, it's related to the income of the</p> <p>18 individual as a percentage and it's fairly</p> <p>19 low. So one of the decisions -</p> <p>20 Q. I guess my question is in relation to the</p> <p>21 performance.</p> <p>22 A. Oh yes, okay.</p> <p>23 Q. How is it tied into that and year over year</p> <p>24 how -</p> <p>25 A. Well, we set--well, this is still an--this is</p>	<p>1 not confirmed on a go-forward basis by the</p> <p>2 Hydro Board yet, and we're going to have to do</p> <p>3 a further review at the end of this year as to</p> <p>4 where that goes and to whom it would apply or</p> <p>5 if it's discontinued. But the objectives that</p> <p>6 we have in like this year, relate to the key</p> <p>7 performance of the company in safety, customer</p> <p>8 satisfaction, reliability and income, and</p> <p>9 environment, and they're all based, as</p> <p>10 described in the evidence, on corporate</p> <p>11 matters or corporate issues, and the</p> <p>12 measurement of those is going to be objective.</p> <p>13 There's no subjective element in any of those</p> <p>14 things. But coming from private enterprise</p> <p>15 and going into--I have, you know, a lot of</p> <p>16 concerns of how you can successfully implement</p> <p>17 incentives in the company in, you know, this</p> <p>18 type of a regulated monopoly, and there are</p> <p>19 ways--that's what we're wrestling with, how to</p> <p>20 do that, to incentivize people. But the best</p> <p>21 results you're going to get, I think, in any</p> <p>22 enterprise is you can have it clearly</p> <p>23 understood by the people what it is we're</p> <p>24 trying to achieve and for what purpose, so</p> <p>25 that they understand some of these things.</p>

Page 157	Page 158
<p>1 MR. WELLS:</p> <p>2 The morale in Hydro can't be good when</p> <p>3 they see--which is relatively new in the past,</p> <p>4 you know, seven, eight, ten years, the numbers</p> <p>5 of jobs that are disappearing from the</p> <p>6 Corporation. That is a concern to</p> <p>7 individuals, and when they--they know and I've</p> <p>8 been pretty blunt about it, I've visited every</p> <p>9 location of Hydro. I've had every--you know,</p> <p>10 and talked to them about the fact that if</p> <p>11 we're going to live to our mandate of being</p> <p>12 innovative and adaptive and providing least</p> <p>13 cost power, then we're going to, at times,</p> <p>14 face difficult decisions because we're going</p> <p>15 to take technology and if that can replace,</p> <p>16 you know, leveraging that can replace jobs, if</p> <p>17 we're going to live to our mandate, that's</p> <p>18 what we're going to have to do. But that</p> <p>19 doesn't lessen their concern. And when we put</p> <p>20 in a--you know, as we've described now more</p> <p>21 bluntly in the vacancy allowance that number,</p> <p>22 that number relates to things that are going</p> <p>23 to happen in Hydro, and therefore there's a</p> <p>24 level of concern as well.</p> <p>25 So you have to try to fortify employees</p>	<p>1 that what is the mission here, what are we</p> <p>2 trying to do, what are we trying to</p> <p>3 accomplish, and to get everybody--because if</p> <p>4 everybody thinks of Hydro dollars as their own</p> <p>5 dollars, we're not going to have much of a</p> <p>6 problem, you know, in terms of issues of costs</p> <p>7 and management. It's if people don't care</p> <p>8 that you can get into--where you lose money</p> <p>9 that you shouldn't or you have extra costs</p> <p>10 that you shouldn't have, and I'm absolutely</p> <p>11 confident, with any organization, that people</p> <p>12 know exactly what's going on. Your employees--</p> <p>13 the question is to try to illicit that</p> <p>14 information and get them involved in</p> <p>15 correcting issues, but it's very difficult</p> <p>16 also to get employees to come up with systems</p> <p>17 that will displace them from their job or</p> <p>18 somebody else, some colleague, and I know in</p> <p>19 the process that we've been through in the</p> <p>20 last twelve months or so, that there's a point</p> <p>21 when they're going through the mapping process</p> <p>22 and the things start to emerge of what could</p> <p>23 be done, that immediately comes to mind, well</p> <p>24 that means this is going to change here, and</p> <p>25 that's going to effect so many individuals,</p>
Page 159	Page 160
<p>1 and you can see it coming right at you, and</p> <p>2 these are the employees that we've involved in</p> <p>3 reviewing this thing, because we want to</p> <p>4 internalize that.</p> <p>5 Q. Okay. Thank you. I guess in just listening</p> <p>6 to another area just I want to explore briefly</p> <p>7 because the thought occurred to me in sitting</p> <p>8 down, I guess, and reflecting over the last</p> <p>9 day or so on some of the things that you've</p> <p>10 been saying during the week, and indeed what</p> <p>11 regulatory flexibility that we would have, in</p> <p>12 terms of some of the things that you would be</p> <p>13 advancing. And I guess, I was driven probably</p> <p>14 in looking at the income statement, and I'd</p> <p>15 just ask Mr. O'Reilly if he could put up on</p> <p>16 the screen for me, I think it was CA-3, page</p> <p>17 17, Mr. O'Reilly, please.</p> <p>18 This is your forecast proforma income</p> <p>19 statement, I guess, from 2003 to 2007 to</p> <p>20 incorporate into the test years, and in</p> <p>21 looking at some of this, and as I say, hearing</p> <p>22 your comments during the week, the revenue is</p> <p>23 a question of forecasting and to a degree, in</p> <p>24 terms of what's to be incorporated in there</p> <p>25 and ultimately whether those forecasts are</p>	<p>1 correct or not, and I'm sure we'll hear some</p> <p>2 evidence on that over the next several days.</p> <p>3 But in any event, it's questions and issues to</p> <p>4 a large degree around forecasting which will</p> <p>5 have some impact. Whether it will be</p> <p>6 significant or not would remain to be seen.</p> <p>7 In terms of the expenses side, I suppose</p> <p>8 what I've heard there is that if 63 percent is</p> <p>9 salary and fringe benefits, and I think you</p> <p>10 said, you know, indicated there, if there's</p> <p>11 anywhere there may be some opportunity there,</p> <p>12 but Board be very, very cautious. I think you</p> <p>13 used the word, you don't want to do anything</p> <p>14 here which is capricious in nature, when</p> <p>15 you're -</p> <p>16 A. On system equipment maintenance?</p> <p>17 Q. No, on salary and fringe benefits. That's how</p> <p>18 I read your comments, in any event, a couple</p> <p>19 of days ago. System equipment and</p> <p>20 maintenance, which is the other 17 percent, I</p> <p>21 think I heard you say essentially that you</p> <p>22 wouldn't really change that in any way, shape</p> <p>23 or form. That that's an expense that, from</p> <p>24 your perspective, is fixed. I heard you say</p> <p>25 this morning that, in respect of the</p>

Page 161	Page 162
<p>1 CHAIRMAN:</p> <p>2 efficiency at Holyrood, that there's no, I</p> <p>3 think, blind hope of reducing rates and</p> <p>4 increasing the efficiency at the Holyrood, in</p> <p>5 that sense. So what I'm understanding from</p> <p>6 you is that you're telling us in no uncertain</p> <p>7 terms that your system equipment and</p> <p>8 maintenance is something that's fairly</p> <p>9 sacrosanct, as far as you're concerned, in any</p> <p>10 event, in this whole exercise.</p> <p>11 A. Well, we have to be--this story on system</p> <p>12 equipment maintenance will unfold as time and</p> <p>13 circumstance, but if you go back, you know,</p> <p>14 and look at ten-year increments, you can see</p> <p>15 where that cost is going. And as we change</p> <p>16 out components of equipment at today's costs,</p> <p>17 and there was a question on that because we</p> <p>18 had made a statement that there are multiples</p> <p>19 of costs replacing new equipment, and that</p> <p>20 affects your depreciation and your interest</p> <p>21 costs and system equipment maintenance in an</p> <p>22 aging system, and in my discussion with our,</p> <p>23 you know, operations people that what can we</p> <p>24 realistically do? Can we sort of target that</p> <p>25 we would take system equipment maintenance</p>	<p>1 from 17 million? Is there any way we can set</p> <p>2 up a target and go to 14 million?</p> <p>3 And no, you know, if we're lucky some</p> <p>4 years it's going to be less, but the overall</p> <p>5 trend, given the nature of what we operate and</p> <p>6 the age of what we operate, and these</p> <p>7 pressures that we put that to, that you know,</p> <p>8 system equipment maintenance is unlikely to be</p> <p>9 reduced. But that doesn't mean there's not an</p> <p>10 effort to constrain it. But Mr. Haynes could</p> <p>11 leave this room today and receive a call from</p> <p>12 the manager of Holyrood to say that such-and-</p> <p>13 such on a so-and-so just went, right out of</p> <p>14 the blue. And I've been in offices where such</p> <p>15 a call was received and all of a sudden, we're</p> <p>16 \$700,000 off of where we had anticipated we</p> <p>17 would be because of an event, you know, a</p> <p>18 series of events took place that is nobody's</p> <p>19 fault, but you got to live with it. And you</p> <p>20 know, Mr. Haynes, Mr. Martin, can speak to</p> <p>21 these things, you know, in a closer</p> <p>22 perspective than I can, but the logic of it is</p> <p>23 the system equipment maintenance really will</p> <p>24 be much reflecting the condition and the</p> <p>25 operational aspects and the age of our</p>
Page 163	Page 164
<p>1 equipment as we replace it. So it's not</p> <p>2 expected to go down, and to target it going</p> <p>3 down is just like a dart.</p> <p>4 Now on wages and salaries, we got to be</p> <p>5 competitive. I think the Board would accept</p> <p>6 that we can't underpay people or that's going</p> <p>7 to have consequences. With a bit of luck, we</p> <p>8 should--we'll beat inflation in part and hold</p> <p>9 to inflation going forward and I hope the</p> <p>10 Board would appreciate that, you know, we</p> <p>11 really haven't gone, in the latter years now</p> <p>12 you can see the track over inflation, we go</p> <p>13 back over the ten-year period, you can see</p> <p>14 that there is an element related to no</p> <p>15 compensation, and then you have a situation to</p> <p>16 meet the circumstances of the time. The best</p> <p>17 evidence, I don't know any other way that we</p> <p>18 could put it to the Board of how much effort</p> <p>19 is going in to try to hold that element of</p> <p>20 cost, is the fact that Hydro's record over ten</p> <p>21 years or twelve years is we've beaten</p> <p>22 inflation on the salary and fringe benefits by</p> <p>23 14 percent. That's not bad. I mean, it</p> <p>24 certainly didn't exceed inflation. It's 14</p> <p>25 percent lower than inflation. That's, you</p>	<p>1 know, 10 million dollars or more benefit to</p> <p>2 consumers and the only question is if somebody</p> <p>3 could say they really should have beaten it by</p> <p>4 20 percent. But you have no evidence in front</p> <p>5 of you to suggest that somehow that this is a</p> <p>6 dismal record and while the percentage</p> <p>7 increase below inflation is good, it could be</p> <p>8 a lot better, you know, how. And that's when</p> <p>9 I get down to examining the details, the cost</p> <p>10 of operating Hopedale, how many people can we</p> <p>11 put in there? In terms of what we can</p> <p>12 control, what can we do with semi-attended</p> <p>13 plants? And all these things that we work on.</p> <p>14 But we have to have a certain number of people</p> <p>15 to suit the nature of our operations and our</p> <p>16 operations are a bit different.</p> <p>17 As you well know, we have a group</p> <p>18 involved in system planning, and they're</p> <p>19 really doing the system planning and</p> <p>20 forecasting for the island. That is the only</p> <p>21 group in this jurisdiction that are doing that</p> <p>22 type of work, and you know, that may not be in</p> <p>23 another utility or another circumstance</p> <p>24 somewhere else, when you're comparing costs,</p> <p>25 and if some other utility doesn't have that,</p>

Page 165	Page 166
<p>1 MR. WELLS:</p> <p>2 then it would be an unfair comparison.</p> <p>3 Q. I guess, Mr. Wells, I'm looking--I'm just</p> <p>4 going down through this and I was looking at</p> <p>5 the sensitivity that you're assigning these</p> <p>6 considerations, and I suppose in looking at</p> <p>7 the operating administration or the</p> <p>8 controllable expenses, you know, I've heard</p> <p>9 what you've said about salary and fringe</p> <p>10 benefits and I think you've been--provided a</p> <p>11 very cautious warning, if you will, to the</p> <p>12 Board on that. I think systems equipment and</p> <p>13 maintenance you've indicated is again fairly</p> <p>14 firm, as far as your concerned. I think you</p> <p>15 said a productivity allowance would be</p> <p>16 punitive and really you as well said there's</p> <p>17 two and a half million dollars in here that</p> <p>18 has really been taken out of revenue</p> <p>19 requirement -</p> <p>20 A. That's right.</p> <p>21 Q. - and which, from your perspective, there's</p> <p>22 built-in efficiencies in this, in what you've</p> <p>23 brought forward here.</p> <p>24 A. Yes.</p> <p>25 Q. And I think with regard to the other 20</p>	<p>1 percent, you talked about postage and said</p> <p>2 there's limited opportunity here. So I'm just</p> <p>3 coming at it from the perspective of trying to</p> <p>4 understand, if you will, the sensitivity</p> <p>5 associated with some of these things, and what</p> <p>6 I understand you to be saying here is there's</p> <p>7 very little--from your perspective in any</p> <p>8 event, there's very flexibility that the Board</p> <p>9 would have in relation to what you've built</p> <p>10 into these controllable costs.</p> <p>11 A. Yes, that's correct.</p> <p>12 Q. Okay.</p> <p>13 A. I'm not questioning the authority of the</p> <p>14 Board.</p> <p>15 Q. No, no, no, and I'm just--again, I'm coming at</p> <p>16 it from a sensitivity point of view. I'm</p> <p>17 trying to see what's possible from--or where</p> <p>18 the greater flexibility might be, from your</p> <p>19 perspective. I look at the fuels and</p> <p>20 certainly the cost of fuels will be the costs</p> <p>21 of fuels, and I'm sure we'll get into</p> <p>22 conversion factors and other things that might</p> <p>23 be done. I know at the last hearing, hedging</p> <p>24 programs and things of that nature were</p> <p>25 discussed. But to some degree, the fuels, the</p>
Page 167	Page 168
<p>1 cost of fuels--amortization of RSP, I think</p> <p>2 you said, you know, what we're paying for</p> <p>3 there is money that's already essentially been</p> <p>4 spent, and that's what's incorporated in here.</p> <p>5 In terms of the power purchases, again,</p> <p>6 you've built those in. Granite Canal is</p> <p>7 something that you've indicated is another 11</p> <p>8 million dollars, I think it is, in interest</p> <p>9 costs and that's been financed and that's</p> <p>10 there. There's limited, again, flexibility</p> <p>11 associated with that. Depreciation, I don't</p> <p>12 know if there's any evidence coming forward in</p> <p>13 terms of methodology, but depreciation, in my</p> <p>14 view, is just an accounting of capital</p> <p>15 expenditures that have already been committed</p> <p>16 and paid for. Interest and debt servicing and</p> <p>17 the guarantee fee is there really in relation</p> <p>18 to ensuring the financial integrity and your</p> <p>19 borrowing capacity, and I think the Board--you</p> <p>20 had a discussion with Mr. Kennedy in relation</p> <p>21 to that. Which comes to income from</p> <p>22 operations and you look at below the line</p> <p>23 there. We talked about dividends and the</p> <p>24 implications of that on capital structure and</p> <p>25 we can certainly know what's happening this</p>	<p>1 year, in terms of government. We don't know</p> <p>2 what's happening in future, and there's a -</p> <p>3 A. That's correct.</p> <p>4 (1:15 p.m.)</p> <p>5 Q. - there's a matrix, I think, there that shows</p> <p>6 somewhere the impact of a 25 percent payout up</p> <p>7 to a 75 percent dividend payout, and all of</p> <p>8 them would, I think, exceed 80 percent debt</p> <p>9 regardless of what happens over the next few</p> <p>10 years.</p> <p>11 A. That's about the best we could achieve over -</p> <p>12 Q. And I think we agree that, you know, as the</p> <p>13 Board indicated that an 80/20 is an</p> <p>14 arrangement we could all live with. So I'm</p> <p>15 looking at this and I'm looking at what you've</p> <p>16 said over the past week and I'm saying that so</p> <p>17 the capital structure is not an issue. You</p> <p>18 talked to Mr. Kennedy this morning about ROE</p> <p>19 is certainly an issue, the return on equity.</p> <p>20 A. Yes.</p> <p>21 Q. And I'm saying to myself, there's limited</p> <p>22 flexibility here in terms of the sensitivity</p> <p>23 of adjusting things from a regulatory</p> <p>24 perspective, from what you're saying, and what</p> <p>25 I've heard you say over the past week or so.</p>

Page 169	Page 170
<p>1 MR. WELLS:</p> <p>2 A. Yes, and I -</p> <p>3 Q. Would you care to comment for me on that,</p> <p>4 please?</p> <p>5 A. Well, I think that--and I don't want to appear</p> <p>6 presumptuous about it, but given the</p> <p>7 circumstances we're all in, in terms of the</p> <p>8 electrical requirements of the Province, and</p> <p>9 Hydro's role in that, that from our</p> <p>10 perspective, this is not a bad deal, and we've</p> <p>11 tried to show that where we can influence</p> <p>12 things, that we have, that we are acting, you</p> <p>13 know. Because if you formed an impression</p> <p>14 that there was nothing really--nobody trying</p> <p>15 to intently do anything over at Hydro to</p> <p>16 reduce costs, you would have to--you would</p> <p>17 make sure that would happen. But the evidence</p> <p>18 seems to indicate that we're at it in a very</p> <p>19 hard and organized fashion, and over the past</p> <p>20 years, the evidence before the Board in the</p> <p>21 two hearings and what will come out in Mr.</p> <p>22 Martin's evidence and Mr. Haynes' evidence,</p> <p>23 that we have made changes and we have more</p> <p>24 changes that, as we can bring them in</p> <p>25 reasonably. And if that were the only thing</p>	<p>1 our OM&As in terms of rates, it would not be</p> <p>2 of such a significant impact.</p> <p>3 The problem that we all have to wrestle</p> <p>4 with, and the Board as well, in terms of the</p> <p>5 cost, is if you look at the rates coming</p> <p>6 forward from 1992, the overwhelming impact of</p> <p>7 the cost of fuel, and we have, if we need new</p> <p>8 sources of generation, they're going to add</p> <p>9 cost to the system. And you know, the</p> <p>10 electricity has to be paid for, and you know,</p> <p>11 there are limited options on an isolated</p> <p>12 island system, limited options, and any new</p> <p>13 source is going to--at a marginal cost is</p> <p>14 going to up our average cost over time.</p> <p>15 In Holyrood terms, which we're so</p> <p>16 dependent on, and it's 38 percent of our</p> <p>17 capability, but it's producing, you know, this</p> <p>18 three terawatt hours of energy. Holyrood,</p> <p>19 even at \$30 a barrel, the cents per kilowatt</p> <p>20 hour cost is not all that bad, you know, if</p> <p>21 you look at the--because of the plant is</p> <p>22 essentially written off.</p> <p>23 But we have very few options, on an</p> <p>24 island in the North Atlantic, and our</p> <p>25 demographic set up, in terms of being</p>
Page 171	Page 172
<p>1 efficiencies, is absolutely horrible. We have</p> <p>2 these long radial lines you see on the map,</p> <p>3 and as does Newfoundland Power in certain</p> <p>4 service territory areas. The conditions under</p> <p>5 which we operate and you put in the capital to</p> <p>6 carry electricity to somebody from a source of</p> <p>7 generation and when you get there, there's</p> <p>8 nobody there. I mean, it's the 180</p> <p>9 communities to service what are 21, 000</p> <p>10 customers. I mean, that's the story in</p> <p>11 Newfoundland.</p> <p>12 And if you go to the isolated community,</p> <p>13 there are two billion people in the world that</p> <p>14 don't have any electricity, and the reason</p> <p>15 they don't is that they can't afford it, and</p> <p>16 unless some--you know, the problem with the</p> <p>17 isolated diesel communities, like Rigolet say,</p> <p>18 is that these people could not have a</p> <p>19 centralized little system to provide</p> <p>20 electricity at their own expense, and the</p> <p>21 Government policy is that they should at least</p> <p>22 have the benefit of electricity, other than</p> <p>23 their own little generators. But the cost of</p> <p>24 that, all I can say for Hydro, our part of</p> <p>25 this whole picture is that we've got that</p>	<p>1 system up and running and the cost in that</p> <p>2 whole system for isolated diesels compares to</p> <p>3 the cost of other entities that have isolated</p> <p>4 diesel systems. So that's not amiss.</p> <p>5 But you know, there's no economies of</p> <p>6 scale here and we operate from McCallum up to</p> <p>7 Nain. If you look at the square kilometres--I</p> <p>8 speak in square miles, but the square</p> <p>9 kilometres of Newfoundland and Labrador, I</p> <p>10 mean, we'd be the fourth largest state in the</p> <p>11 United States. We're bigger than the United</p> <p>12 Kingdom with 50 million people, and we're here</p> <p>13 with 512,000, and the overwhelming majority,</p> <p>14 get away from the mike, are right here. You</p> <p>15 take the square kilometres of that, 200,000</p> <p>16 people, and then talk about the service over</p> <p>17 that huge--you know, so the capital deployed</p> <p>18 to get you electricity is very inefficient in</p> <p>19 that sense, in terms of a dollar's worth of</p> <p>20 transmission line and what you're going to</p> <p>21 access in revenue is extremely limited.</p> <p>22 And the effect of that, of course, is</p> <p>23 reflected in the rates and you have your</p> <p>24 interventions with respect to--you know, on</p> <p>25 the issue of the--there are other things,</p>

Page 173	Page 174
<p>1 MR. WELLS:</p> <p>2 allocation of plant and how certain things</p> <p>3 should be treated, but the overall problem,</p> <p>4 with respect to electrical consumers,</p> <p>5 including our industrial customers, is the</p> <p>6 nature of the system in which we operate.</p> <p>7 Q. I understand that, I mean, in terms of</p> <p>8 assignment of costs and there's many other</p> <p>9 things that we'll discuss here, but I just was</p> <p>10 struck by, over the past week, as I say, by--</p> <p>11 in looking down through that list there, there</p> <p>12 is very little flexibility based on what you</p> <p>13 had said, in any event, in relation to, as the</p> <p>14 operator assistance areas that indeed rates</p> <p>15 could be impacted.</p> <p>16 Just one final item, you talked about</p> <p>17 this whole issue of new supply and Mr. Kennedy</p> <p>18 pursued the matter with you in some level of</p> <p>19 detail this morning and not to get into--you</p> <p>20 know, I agree that the, and it's clear in the</p> <p>21 legislation that Hydro or the Board, excuse</p> <p>22 me, has the ultimate responsibility in this</p> <p>23 area which makes me very nervous from where I</p> <p>24 sit. There's two people we have employed in</p> <p>25 the regulatory area with the Board, they're</p>	<p>1 sitting down there in the corner, systems</p> <p>2 planning, we know absolutely nothing about.</p> <p>3 One would hope that things would unfold as</p> <p>4 they should. If you look at what's happened</p> <p>5 in recent blackouts in various areas of North</p> <p>6 America, there's a lot of finger pointing</p> <p>7 after the fact, be it utilities, be it</p> <p>8 regulatories, be it what have you. Mr.</p> <p>9 Kennedy talked about the prospect perhaps</p> <p>10 based on the timing that you had discussed</p> <p>11 throughout the last week that probably as</p> <p>12 early as the next couple of years that there</p> <p>13 may be a requirement to get into the planning</p> <p>14 for new generation in relation to 2009/2010.</p> <p>15 From your perspective, is there any</p> <p>16 process or would you have any suggestions or</p> <p>17 any recommendations about a process or an</p> <p>18 approach that one could look at that might</p> <p>19 ensure at the end of the day that everything</p> <p>20 proceeds as it should among the parties that</p> <p>21 have a responsibility here.</p> <p>22 A. But I think, as we are now, and the system--</p> <p>23 because every--as time goes forward, you got</p> <p>24 more information and your forecast may change</p> <p>25 or requirements. But we certainly would want</p>
Page 175	Page 176
<p>1 to keep the Board advised as to what we</p> <p>2 foresee in terms of deficits and energy or</p> <p>3 capacity and as I said, we have some--Hydro</p> <p>4 can do a number a things. We can supply</p> <p>5 electricity, but in terms of our opportunity</p> <p>6 to do so through hydraulic which would be the</p> <p>7 best, maybe--we're, you know, we're running</p> <p>8 out of--we're not going to get our hands on</p> <p>9 the Humber River. Things like--we have Island</p> <p>10 Pond left on the Bay D'Espoir system. If</p> <p>11 we're going to go combine cycle combustion</p> <p>12 turbine, we can do that, but there are others</p> <p>13 who can do that as well. You know, it's not--</p> <p>14 we can add a unit at Holyrood, but generally</p> <p>15 speaking, on the island, the sources of supply</p> <p>16 are A) going to be probably more expensive</p> <p>17 that what we have and, B) they're going to add</p> <p>18 to the cost of the electricity in the system.</p> <p>19 And in terms of the Board, as it stands</p> <p>20 now, if there's no intervention from</p> <p>21 government, then this Board will approve the</p> <p>22 next source of supply for the island</p> <p>23 interconnected system. But that's how the</p> <p>24 legislation, as I see it, is intended to work.</p> <p>25 You will approve that next source of supply</p>	<p>1 and you may be called upon to make a choice</p> <p>2 between the alternatives. And you're going to</p> <p>3 be looking at what would best service the</p> <p>4 interest of electrical consumers in terms of</p> <p>5 satisfying the energy requirements or the</p> <p>6 capacity requirements at the lowest possible</p> <p>7 cost. Is that any help?</p> <p>8 Q. I guess the concern--you mentioned, once</p> <p>9 again, earlier on in the week that you would</p> <p>10 view Hydro as being just, you know,</p> <p>11 essentially one of the producers, there could</p> <p>12 be other options that might be available about</p> <p>13 there, producers of electricity and generators</p> <p>14 of electricity in looking forward to what the</p> <p>15 requirements might be over the next while.</p> <p>16 Government has fulfilled certainly a role in</p> <p>17 this step forward in relation to Granite Canal</p> <p>18 and the current new sources, I would suggest,</p> <p>19 in concert with yourself. I guess, I'm</p> <p>20 concerned, from the point of view of the Board</p> <p>21 and its obligations and responsibilities</p> <p>22 because on a go-forward basis, we're relying</p> <p>23 on you, we're relying on government to a</p> <p>24 degree and is there some approach or process</p> <p>25 that you might suggest from looking at it from</p>

Page 177	Page 178
<p>1 CHAIRMAN: 2 my perspective that we might engage in, ensure 3 that our responsibilities are fulfilled in 4 terms of the legislation. 5 A. Well, the one thing that none of us would want 6 to do is to add more cost into the system. 7 Q. No, I appreciate that. 8 A. I think that in terms of the--there is a body 9 of expertise in Hydro that can well serve all 10 the interest in terms of identifying the need. 11 I mean, it's just a professional - 12 Q. Right. 13 A. - group that could do that. The issue of an 14 ex-source, there are other interests out there 15 that have, until the moratorium on mini 16 (phonetic) Hydro, there are people that have-- 17 if the site is developed, they are the ones 18 that are going to develop that site. And 19 there may be others who have, depending on 20 circumstance, who will have, want to supply 21 energy to the grid. And if I were, as a 22 consumer, I would like to have the best, you 23 know, the cheapest electricity that will 24 satisfy the requirements, reliable source. 25 And if there's more than one coming forward,</p>	<p>1 then a decision has to be made of which would 2 be the best one. And all I said, I hope all I 3 said, was in the, you know, is that the 4 decision here would be made by the Board under 5 the legislation or, as we know, government can 6 intervene. And maybe, because there's-- 7 apparently, in this current campaign, from all 8 three parties, there are--statements have been 9 made that they are going to be looking at the 10 structure of the electricity industry. 11 There's various comments made by--the role 12 that they want Hydro to play. And, you know, 13 there maybe a debate and a conclusion as to 14 the roles and responsibilities--I would like 15 to see that clarified and I'm sure people in 16 Hydro would. And out of that may come how the 17 processes are going to work for the future 18 because the preliminary papers and the 19 responses we put in with respect to the energy 20 policy review, talked about the issue of the 21 determination of new sources of supply, the 22 role of Hydro, Hydro in terms of assessing 23 other peoples' projects and things like that. 24 That was all part of some of that discussion 25 paper that had been issued by Mines and</p>
Page 179	Page 180
<p>1 Energy. 2 Q. I know from our perspective, it would be nice 3 to get it clarified as well, for sure. Okay. 4 That's all the questions I have. Thank you 5 very much. We're t 1:30 now. We're going to 6 try and conclude, if we can. Are there any 7 questions, I guess on or matters arising from 8 Board questions. Mr. Browne? 9 BROWNE, Q.C: 10 Q. Just one, Mr. Chairman. The Chairman just 11 mentioned to you concerning the debt equity to 12 ratio 80/20, but haven't we established in the 13 evidence that financial houses will not be 14 looking at the debt equity ratio for the 15 regulated entity of Hydro on a standalone 16 basis, but rather look at the--look at your 17 debt equity ratio collectively which is 70/30? 18 I think we've established that through the 19 evidence of Ms. McShane, I think it's on page 20 17 of her evidence. 21 A. You're saying that Ms. McShane has dealt with 22 the issue of what - 23 Q. What financial houses look like at in terms 24 of, if you were to go to borrow money. They 25 wouldn't look at just what the regulatory</p>	<p>1 gives you, they would look at the total 2 package, the 70/30 you have, the total - 3 A. There's that aspect of it. In terms of what 4 we're borrowing, they're just going to look at 5 our--the guarantee. 6 Q. And the guarantee as well. 7 A. Yes, the guarantee is the principle component 8 of getting the rates for the debt. 9 Q. But they'd also like to see--I guess it would 10 give them a level of comfort to see that the 11 total package there would be the guarantee and 12 the 70/30 that you have in terms of your debt 13 to equity ratio from a total package of Hydro. 14 A. Yes, in part, but the other thing is what is 15 the return on all the assets deployed and the 16 activity in producing the electricity on the 17 regulated side of our business. Is that - 18 Q. Well, they wouldn't look at that as such, 19 would be? Because if one side of the business 20 was a loser and the other side of the 21 business, you're making a profit of 50 or 60 22 or 70 percent, if you went to the market to 23 borrow, they would look at the total package, 24 wouldn't they? That's what Ms. McShane is 25 telling us.</p>

1 MR. WELLS:
2 A. When the assets deploy-- I take your point.
3 Q. Thank you, Mr. Wells, no further questions.
4 CHAIRMAN:
5 Q. Thank you, Mr. Browne. Mr. Kelly?
6 KELLY, Q.C.:
7 Q. No, questions, Mr. Chairman.
8 CHAIRMAN:
9 Q. Mr. Hutchings?
10 HUTCHINGS, Q.C.:
11 Q. No questions, Mr. Chair.
12 MR. KENNEDY:
13 Q. Nothing arising.
14 CHAIRMAN:
15 Q. Okay. Thank you, very much, Mr. Wells. We've
16 made it three minutes over, but I'm sure you
17 are probably as relieved as we are (laughter)
18 that we can move onto the next witness, Mr.
19 Roberts, on Tuesday morning. Thank you and
20 have a good weekend.
21 A. Thank you.
22 Q. See you at 9:00 on Tuesday morning.
23 Upon concluding at 1:33 p.m.

1 CERTIFICATE
2 I, Judy Moss Lauzon, hereby certify that the
3 foregoing is a true and correct transcript in the
4 matter of Newfoundland and Labrador Hydro's 2003
5 General Rate Application for approval of, among
6 other things, its rates commencing January, 2004,
7 heard on the 10th day of October, A.D., 2003 before
8 the Board of Commissioners of Public Utilities,
9 Prince Charles Building, St. John's, Newfoundland
10 and Labrador and was transcribed by me to the best
11 of my ability by means of a sound apparatus.
12 Dated at St. John's, Newfoundland and Labrador
13 this 10th day of October, A.D., 2003
14 Judy Moss Lauzon