LIST OF UNDERTAKINGS

October 14, 2003
(9:05 a.m.)
CHAIRMAN:
Q. Thank you and good morning. Good morning, Ms. Newman, are there any items, preliminary items before we get started this morning?
MS. NEWMAN:
Q. I'm not aware of any, Chair.
CHAIRMAN:
Q. Thank you very much. Morning, Mr. Roberts, good to see you again.
A. Good morning.
MR. JOHN ROBERTS (SWORN)
CHAIRMAN:
Q. All right, Ms. Greene, you can begin your examination-in-chief when you're ready, please.
GREENE, Q.C.:
Q. Good morning, Chair, Commissioners. Mr. Roberts, for the record, could you please confirm your position with Newfoundland and Labrador Hydro?
A. Yes, I am Vice-President of Finance and Chief Financial Officer of Newfoundland and Labrador Hydro.

Q. Evidence was filed on behalf of Hydro with the Application entitled, "Finance and Corporate Services". In the Application it was stated that this evidence would be adopted by you at the hearing. Do you adopt the "Finance and Corporate Services" evidence filed with Hydro's Application as your evidence in this proceeding?
A. Yes, I do.
Q. First, I'd like to look at Schedule 2 to your evidence, and I wonder, Mr. O'Reilly, if you could bring that up, please. Mr. Roberts, I'd like you to look at the factual financial results for 2002 and summarize for the Board, the difference between the actual for 2002 versus that approved by the Board for the 2002 test year.
A. Hydro's actual revenue requirement for 2002 is 7.3 million dollars less than the 2002 test year revenue requirement.
Q. And that you'll see, Mr. Roberts, is the bottom of the column entitled, "Increase/Decrease", it's the third column over from the left hand side of numbers.
A. Yes, it is on line 36. This was the result of

a decrease in fuel cost of 15.4 million offset by increases in the loss on disposal of fixed assets of 1.9 million; power purchases of 0. 8 million; interest of 0.2 million; margin of 1.8 million and net controllable costs of 3. 5 million over the 2002 test year revenue requirement.
Q. I'd like to look at each of those categories that you just mentioned. The first is fuel. Could you explain why fuel cost decreased from what was calculated in the 2002 test year revenue requirement, and if you go to line 12 you'll see that fuel decreased by 15. 4 million. Could you please explain how that happened?
A. Yes. Although an additional 486,000 barrels of number six fuel were burned at Holyrood in 2002, at an average cost of $5 more per barrel, and that provided for the 2002 test year revenue requirement, resulting in an increase of the number six fuel expense of 31.2 million. The operation of the Rate Stabilization Plan resulted in the deferral of 46.8 million for a net reduction of 15.4. This was due to the new rates becoming

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effective part way through the test year in 2002.

Q. Now that decrease in fuels of 15.4 million was offset by increases in other categories. The first one you mentioned was the losses on disposal of fixed assets, line 26 there on Schedule 2. Why were the losses on disposals of fixed assets higher than in the test year, revenue requirement?

A. Losses on disposal of fixed assets were higher due to the write-off of diesel plant assets destroyed by fire at Rencontre East and assets at Holyrood.

Q. The next category I wanted to refer to is the margin which is line 35. Why is the margin for 2002 actuals not comparable to the margin included in the 2002 test year revenue requirement?

A. The actual results for 2002 reflect eight months at rates that were based primarily on the 1992 cost of test year, final cost of service and four months at rates based on the 2002 test year final cost of service. This combination makes it difficult to make

meaningful comparisons of certain categories such as margin into 2002 test year final revenue requirement for a whole year to actual results for 2002.

Q. In your earlier answer you mentioned that net controllable costs had increased by 3-1/2 million dollars. I don't see that number there in the Increase/Decrease column, and I wonder if you could explain how the 3-1/2 million is derived.

A. Yes. The 3.5 million is derived by taking the total other cost on line 33 of 5.3 million dollars, less the loss on disposal on line 26 to arrive at a net--deducting the loss and disposal of fixed assets to 1.9. This will give us the net of 3.5.

Q. And why were the actual net controllable costs for 2002 higher than in the test year revenue requirement?

A. The primary reasons for the increase in net controllable costs were that there was a 2 million dollar productivity allowance factored into the 2002 test year and Hydro paid approximately one million dollars in severance costs to achieve a reduction of 46 positions.

Q. Why was the two million dollar productivity allowance imposed by the Board in its order of June 2002 not achieved by Hydro in 2002?

A. Hydro received this direction in June of 2002. Since Hydro was already more than five months into the year and since salaries comprise over 63 percent of Hydro's controllable cost, there was little capability to achieve savings without reducing the workforce. Hydro eliminated 46 positions in 2002, which will result in annual savings of 2.6 million dollars in future years. But, which also resulted in an additional one million dollars in expenses related to severance in 2002. Reductions were achieved in the categories of office supplies, travel and equipment rentals.

Q. I'd like now, Mr. Roberts, to move to 2003 estimate, which is the next column over, and could you highlight for the Board, the significant variances between the 2003 forecast expenses and the 2002 actual that you just outlined?

A. Hydro's forecast expenses for 2003 are 34. 3 million more than the 2002 actuals, primarily due to the increases in depreciation related

to assets in service, interest associated with the Granite Canal generating station, increases in power purchases associated with two new contracts, and higher fuel costs which reflect the full year's effect of the re-basing of fuel in the RSP, less a reduction in total other costs of 1.7 million dollars.

Hydro has been successful in reducing its controllable costs excluding losses on disposal of fixed assets by 1.5 million in 2003 compared to 2002. After adjusting for the one million dollars in severance that was paid in 2002, gross salary costs had been held constant in 2003 despite increases in the cost of employee future benefits and group insurance, and the projected increases in general salary scales and wages. An additional half million dollars in savings have been achieved over the other controllable cost expense categories.

Q. Could you please outline for the Board now, the changes in revenue requirement in the 2004 test year as compared to the 2003 forecast that you just outlined.

A. Hydro's forecast revenue for 2004 is 45.3

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million more than the 2003 forecast. This reflects the full year's impact of the Granite Canal project and new power purchase contracts, a further increase in fuels, as well as an appropriate margin. Total other costs before allocations will increase by approximately $300,000 in 2004 over 2003. The largest category of expense, salary and fringe benefits, will decrease by almost $400,000, even after factoring in an increase in salary scales and wages provided in the collective agreement.
Q. Mr. Wells, in his evidence, outlined the continuous improvement or process review initiative in place at Hydro. Do you anticipate any further savings as a result of this, and if so, how are they reflected in the 2004 revenue requirement?
A. Hydro believes that additional savings will be achieved in 2004. The details of how these will translate into savings, in particular expense categories, have not been finalized. So for convenience, the vacancy allowance was increased to 2.5 million from one million

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dollars in previous years.
Q. Grant Thornton, in its 2003 report on Hydro's application suggested that the 2004 revenue requirement that's filed with the application be updated. Does Hydro intend to provide the Board with updated information as recommended by Grant Thornton?
A. Hydro is in the process of updating its 2003 forecast and 2004 revenue requirement to incorporate actual operating results to the end of August 2003 and to reflect the latest load, interest and fuel price forecast. It is anticipated this update will be filed with the Board around the end of October.
Q. What is Hydro's projected weighted averaged cost of capital and related return on rate base for the 2004 test year?
A. Hydro is projecting a weighted average cost of capital of 8.3 percent for the 2004 test year. This is based on a return of equity of 9. 75 percent and translates into a return on rate base of 8.15 percent.
Q. You just mentioned the return on equity of 9.75 percent. Why is Hydro requesting this return on equity for the 2004 test year?

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A. Hydro believes that this is the rate of return which is commensurate with the risks associated with its regulated generation transmission and distribution utility business. Hydro is entitled to a return which is just and reasonable, to ensure that it can maintain its financial integrity.
Q. Could you please outline for the Board, the changes in Hydro's regulated capital structure from 2002 through to 2004 and the reasons for the changes.
A. Hydro's regulated debt to capital ratio will have deteriorated slightly by the end of 2003, from 85.1 percent to 86.4 percent, primarily due to the increases in debt required to financing growing RSP balances, coupled with the loss and regulated operations forecast for 2003. By the end of 2004, the debt to capital ratio will have improved to 85.8 percent due to return to appropriate levels and regulated income and a reduction in debt due to projected recovery of some of the outstanding RSP balances.
Q. Could you please outline now the changes in Hydro's projective rate base for the 2004 test

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year as compared to 2002?
A. Hydro's average rate base is projected to increase by approximately 130 million dollars in 2004, as compared to 2002. The average balance of capital assets increased by 137 million dollars due to the Granite Canal project, plus the approved 2003 and 2004 capital budgets, less projected retirements. This increase in capital assets was offset by reductions in projected fuel and supplies inventory balances, deferred charges, and working capital requirements.
Q. Turning now to Grant Thornton's report, 2003 report on Hydro's application, on page 18 of that report, Grant Thornton made certain observations with respect to Hydro's history of forecasting assets, retirements. Does Hydro believe it is appropriate to make any adjustment to its projected capital asset retirements in the 2004 test year?
A. Hydro forecast known retirements associated with budgeted capital projects. It is difficult to anticipate in any given year the magnitude of other assets that will be taken out of service prior to the end of their known

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service life. The losses on disposal of these assets would be included in the revenue requirement and would exceed any reductions in depreciation expense and return on rate base that would arise. Hydro's approach to forecasting retirements tends to favour the rate payer. Hydro does not intend to increase its forecast retirements, nor its losses on disposal of assets for the 2004 test year.
Q. In that same report of Grant Thornton on page 17, they made certain observations with respect to Hydro's history of spending on its capital budget. Will Hydro be factoring in any allowance in the calculation of its rate base to provide for potential under spending of the capital budget in the test year?
A. Hydro has steadily improved its record with respect to meeting its capital budget and has reduced the percentage of under spending by 50 percent from 1998 to 2002. In 2002, even given the late approval of the capital budget, Hydro's total under spending was less than 10 percent. Hydro is anticipating further improvements in 2003 and 2004. The impact of

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any under spending that does occur should be more than offset by the positive impact on revenue requirement of Hydro's approach to forecasting asset retirements.
Q. In Section 9 of your pre-filed evidence, you referred to business processes that were reviewed in the finance and corporate services area. Could you please describe the process that was used in this review?
A. Yes. As Mr. Wells outlined in his evidence, one of Hydro's goals is to optimize corporate performance. This involves identification of processes where improvements and efficiencies can be gained. The next step is to review the process in detail to identify if improvements can be made or non-value work eliminated. The third step is to implement identified improvements. The ability to measure the estimated savings to improvements and then the actual results achieved, is an essential part of the process. One example of how this worked in the finance and corporate services area was the travel process. The detailed review of this process identified opportunities for improvement in the

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preparation and recording of travel claims, expenditure coding, reimbursement and approvals. Travel costs for airline tickets, hotel bills and car rentals are charged on the corporate purchasing card and by leveraging our existing technology, the recording of these transactions has been automated. The other cost associated with travel is per diem charges. Hydro uses a weekly electronic time sheet and this application was expanded to allow an employee to record the per diem travel costs when the time sheet is completed. These costs are added to the employees' net pay and deposited to their bank account. Thus, the need to have a travel claim has been virtually eliminated.
The combined savings in 2004 from the corporate purchasing card and the travel process changes is approximately $350,000.
Q. Thank you, Mr. Roberts, that completes the direct examination of Mr. Roberts.
CHAIRMAN:
Q. Thank you, Ms. Greene. Good morning, Mr. Browne.
BROWNE, Q.C.:

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Q. Good morning, Mr. Chairman.
CHAIRMAN:
Q. When you're ready, if you could begin your cross-examination, please.
(9:24 a.m.)
BROWNE, Q.C.:
Q. Good morning, Mr. Roberts.
A. Good morning.
Q. In your resume it's indicated you came from private industry. Where, in private industry did you come from Mr. Roberts, before coming to Hydro?
A. Prior to joining Hydro I worked with the Crosbie Group of Companies.
Q. And previously you were Corporate Controller, what were your duties in that capacity?
A. As Corporate Controller I had responsible (sic.) for the financial reporting and budgeting, maintenance of the accounts payable, general ledger, fixed assets, some system development within the Controller's area itself. And at one point responsibility for payroll and accounts receivable. They were subsequently--payroll was combined with the HR, Human Resources section to provide one

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location to deal with all payroll or Human Resource related inquiries. And the accounts receivable was expanded into a customer service section with a direct responsibility with another director.
Q. So who is the Corporate Controller now?
A. The role of the Corporate Controller and the Treasurer has been combined into one, with one position and the individual is classified as the Director of Finance.
Q. So is that a position that's gone or is it just re-directed?
A. There is a--position has been eliminated.
Q. Now, in reference to your evidence, I asked Mr. Wells what rate of return you're looking for. On page 11 you say you're looking for a rate of return, if you go to line 26, please. You're saying you're looking for a rate of return similar to that received by Newfoundland Power, essentially, 9.75. But when I asked Mr. Wells, he said that's the upper limit of what you're looking for, is that true?
A. That's the exact limit that's being requested

in this hearing. We're not asking for anything other than at this point, 9.75 percent.
Q. Well what is the midpoint you're looking for in that?
A. There's been no midpoint established, it's 9.75, percent has been the absolute number.
Q. So you're not quite looking for what Newfoundland Power has.
A. From the point of view of having a range, no, we haven't requested a range at this point.
Q. In terms of that, the 9.75 percent that you're looking for, this comes at a time when your evidence is that you've expanded your rate base quite dramatically, is that true?
A. Yes, the rate base has grown. Primarily the biggest increase in rate base has been the addition of the Granite Canal project for approximately 135 million dollars.
Q. And that 135, 136 million dollars, all goes automatically into your rate base?
A. Yes, it does.
Q. Can we go to CA-127, please. And we pose the question in reference to the rate base and you said the net increase there was 136,969,000 in

average capital assets, primarily due to the Granite Canal. Are there any other projects you have coming on stream over the next couple of years that will also show an increase in your rate base?
A. Yes, annually Hydro has a capital budgets that will impact on rate base, but some--a significant size of a capital project, the only additional two projects that are in a significant size is what will happen with the VHF radio system, for which the total cost was 8.5 million on an estimate. And the other one is the replacement of the energy management system, which I think is in the order of 12 to 15 million dollars. That's the only two major projects that I see in the next three or four years.
Q. A dramatic increase in the rate base of 136 million, that's actually--it's nearly 137 million there, in any given period, wouldn't you agree with me that that might be considered onerous by rate payers, consumers who ultimately have to pay a return on that?
A. Yes, it's a big increase in rate base, but I'm not sure that there's much that can be done

about it. The requirement is there for new sources of supply and when you look at--depending on when the project is completed, because of the rate base being the average of two years, the impact on rate base may only be one half of it in the year in which it's actually completed. For instance, if I may, I'll just explain. If the project was being added in 2004, because you're averaging 2003 and 2004, the impact on rate base wouldn't be a full 135 million dollars for the purposes of applying the return.
Q. And wouldn't that, in and of itself, causes a spike in rates, an increase in the rate base of 137 million dollars in a given 12 to 24 month period?
A. It would certainly cause an increase in rate base for that particular period of time when the new source of supply is put in service.
Q. Would it be unreasonable therefore for Hydro to seek a lower rate of return, given the fact that your rate base is increasing so dramatically over the next two years?
A. No, I think you have to realize that the addition of Granite Canal to the rate base has

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been financed, and the carrying costs associated with that particular asset, has to be recovered.
Q. In CA--can we go to CA-168, please? In CA-168, you indicated Hydro is requesting a rate of return of 9.75 percent and we asked you to break down what percentage of that would be. And of that, of the 55 million in increased revenue, what percentage would be attributable to the rate of return on equity, and your answer was approximately 12 million. Is that accurate?
A. Yes, it is.
Q. Okay. If we can go a moment to CA-173. In CA-173 I asked "to please advise as to the revenue requirement at the rate of return Hydro sought was three percent, four percent and five percent." And you responded, "It is estimated that the rate of return on equity sought by Hydro is three percent, four percent and five percent and the corresponding reduction of revenue requirement as per Schedule 2 will be approximately 12.1, 10.3 and 8.5. So, if you were to get a lower

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return on equity, other than the 9.75 cap that you are seeking, you would still make a profit even based on those figures of three, four and five percent, is that not true?
A. Yes, we would still make a profit.
Q. I accept your answer that you're not looking for what Newfoundland Power is seeking, but then I just wanted to hammer that home a bit. Can we go to CA-170. There, I asked if Hydro earns up 10.25 percent which is what Newfoundland Power's entitlement is under the most recent Board order, how much more revenue will Newfoundland Power--it should have been Newfoundland Hydro, there, be entitled to above the 9.75 percent and that was one million dollars, you answered the question. How come you didn't tell us at that point that you're not seeking the 10.25 percent?
A. Hydro's application was never filed other than using the 9.75 percent. There was no evidence filed to indicate at this point we would be requesting a range and I guess part of that is in light of the uncertainty as to what's actually going to happen in this hearing as to whether or not 9.75 is going to be awarded or

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some higher number or what was going to be the decision of the Board. So we did not pre-judge at this point until there is more information available from this particular hearing, as to what the outcome will be.
Q. Just moving on, in terms of your borrowing program, you reference that on page 17 of your evidence and you indicate that as your short-term debt approaches 300 million, you're required in law to do something about that and to transfer it to long-term debt, I guess, is that -
A. Yes. We continue to monitor the cap of 300 million dollar and try to find an optimum time to enter the long-term bond market and reduce the 300 million dollars down to a more manageable level.
Q. In terms of your borrowing plans, you indicate on page 18 that in the second half of 2003 you were going into the market to acquire long-term borrowing. Has that been done?
A. Yes, it was. It was May 20, 2003.
Q. And that was the interest rate that you did get, the 6.65?
A. Actually, the rate on the issue at the time

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was 5.7 percent and the details associated with that new issue will now be encompassed into the update that we are now in the process of trying to complete.
Q. Can we go to Schedule 11 which indicates the total of long-term debt outstanding. The only double digit interest rates we see there apply to 1989 and 1992 and these will mature in 2014 and 2017. I think we've asked this question many times and we'll probably get the same answer. There's no way of retiring that debt sooner and paying a penalty and you would still be in a better position, financially?
A. Trying to go from memory. If there is an option to early retire, it wouldn't be any more than one to two years prior to the actual maturity date. So you'd be stuck, in the case of the series V, 2012 would be your earliest date.
Q. And 2014 for series X.
A. Series X. Normally, it's about one to two years prior to the maturity of the issue if there is an option to have an early retirement.
Q. And have you examined that to see if that

BROWNE, Q.C.:
option is available to you or if it would be financially feasible to do that?
A. I haven't. Whether or not within the actual dates themselves that option is available, I'm not sure.
Q. Can you undertake to advise us in reference to that particular issue? (Undertaking)
A. Whether there's an early option?
Q. Whether there is an option and what the option would be and if any savings could be realized in reference to that. In your evidence on page 18, continuing with this issue in terms of your borrowing plans, you indicate there's no intention to borrow or to have an issuance of additional long-term debt in 2004. When is the next time, therefore, you'll be heading into the market?
A. Definitely not in 2004 and I'm not sure if 2005 would be on the horizon or not. Bear with me for one second. I'm looking at, for the benefit of the Board, I'm looking at the financial projections in 2003 which is underneath CA-3, page 18 and based on those projections, it's anticipated that there would

be another long-term debt issue projected at this point based on these assumptions in the year 2006. Now, of course, what does happen, this is monitored on a year-to-year basis and such factors as we're now experiencing with the price of fuel and the operation of the Rate Stabilization Plan also has an impact on when the timing of the next issue would be, as well as any significant changes that may arise in capital. There's none that I'm aware of at this point, but one never knows what may happen.
Q. In terms of that, the Rate Stabilization Plan and the requirements of Section 33 of the Hydro Corporation Act that your short term debt may not exceed three hundred million. What kind of impact are these balances having in terms of your need to borrow?
A. Well, Hydro is financing the balance of the Rate Stabilization Plan. As the fuel is bought and paid for, and of course, it's collected over time, but Hydro doesn't track debt separately between, you know, a fixed asset or fuel, it's all part of its regular capital borrowing program. So, what the

balance of the RSP, as it accumulates, it affects the debt to capital ratio because, long-term debt or in your short-term debt. So, it does have an impact of driving up your debt to capital ratio.
Q. So, this most recent issue that you had in May 2003, how much of that was impacted due to the balance in the RSP?
A. There's no way to trace because it's just a pool of promissory notes that will cover both fuel and any other operating costs, capital. We don't segregate borrowing by specific assets.
Q. In 2003, when you went to the market, you would have known roughly what the balances were that were owning by the Industrials and the consumers in terms of the RSP?
A. Yes, we would have known how much the balances were outstanding, but as I'm saying, is that some of the fuel could have been brought three or four months ago and we've had to pay for it and that's one part of our promissory note balance at that point. The adjustments to the RSP are being done on a month-by-month basis.
Q. Because if you go to Schedule 12 of your

evidence, the first revision on August 12, 2003 and we look to the bottom there, it says the total combined that was owing in the RSP as of 2002 is 124 million and it was forecast of 161 million in 2003. And you're only able to short term your debt to an amount of 300 million pursuant to Section 33 of the Act?
A. That's correct.
Q. So, these balances therefore, are complicating matters in terms of your borrowing, are they not?
A. Well, they are causing a change in our debt to capital structure and they are contributing to an increase in the short term promissory notes which eventually will lead to a long-term debt issue. As a result of the recovery of the old RSP which is now at over five years and the new one being out over a two-year period, so it is impacting on the amount of debt that Hydro is carrying on its books.
Q. And I notice that you borrowed in 2001, if we look at Schedule 11 as well, there were two long-term debt issues in 2001/2002, is that correct, the AC and the AB series?
A. Yes, I think there was a total of 250 million

MR. ROBERTS:
dollars was borrowed in the 2001 period, oh, in 2002.
Q. And once again, is this impacted because of the requirements of Section 33 of the Act, is the impact greatest because of the Rate Stabilization Plan and what's going there?
(9:45 a.m.)
A. Well, I don't think you can contribute it solely to the Rate Stabilization Plan. It's a function of, during this time period, we were also building Granite Canal which totalled 135 million, plus we had the RSP as well, plus the change in the special dividend that was paid out to the province in 2002 as well. All those factors contributed to an increase in debt.
Q. Now, when you are borrowing in the short term, what kind of interest rates are you picking up there for amounts, like in the RSP when, prior to the long-term debt issue, is it a better interest rate that you have under the long-term debt issue?
A. The interest rate that's assigned to the Rate Stabilization Plan is the weighted average

cost of capital which combines short-term, long-term and return on equity.
Q. So, can you put that in a figure for us?
A. If I may, just -
Q. I think you might have a reference there somewhere.
A. If you turn to Schedule 5 just to highlight what's being proposed for 2004. At the bottom there, you will see the weighted average as being 8.322 percent, right over the in the very last column. That would be the rate that would be used to finance the Rate Stabilization Plan and the encompasses an impact of debt and equity.
Q. But in actual figures, if the Rate Stabilization Plan is there, you bought the fuel, I gather you paid for the fuel on delivery of the same?
A. Yes.
Q. So, even though you're giving us a weighted average, is there actually a loan in place with some financial institution or is there a line of credit or how is it done and what would the interest rate be on that?
A. The financing of the shipments of fuel is just

done through promissory note, together with other ongoing day-to-day financing requirements such as capital and it's blended source of payments that there's there. And once the decision is done to go with a new debt issue, then that's the amount that's determined at that point that it becomes turned from a short term into a long-term basis. So, there's no distinction of the borrowing. It's a just a pool of promissory notes that may be required for whatever cash is required at the time.
Q. And what would the rate be on the promissory note, generally?
A. I believe it may be, the three month rate which is a 90-day rate, that's set by -
Q. You can undertake to check on it if you -
A. Actually there's a RFI that quotes the interest rates, if you could just bear with me for one second. Yes, in NP-99, we were asked to provide the detailed calculations of the interest rate projections for 2003 and 2004. And for the promissory notes, would be the rates based on the 91-day treasury bills, plus our spread. Like for instance, at the very

top of the screen that we're seeing here now, it would be 3.4 percent. If you move down into 2004, the 91-day treasury bills would be approximately 5 percent and you see the quarterly rates and our spread is approximately 20 points over that individual quarterly rate. So, the rate when we calculate the interest on a short term basis is on a quarter by quarter basis done monthly.
Q. What is the financial prudence of acquiring long-term debt to pay off a Rate Stabilization Plan? Because that's effectively what you're doing, isn't it, through the issuance of these long-term debt series AC and AB since 2001 up to 2003.
A. Well, I think we have to remember that debt is not tracked by specific asset and it's financed by both debt and equity. And in the case of the long-term debt issue, it may be five years or it could be 30, depending on the amount of debt that we have outstanding at the time and what the market is receptive to as to the period of time. But the RSP is not a short term recovery asset, at least at this point, anyway, that funds are being returned.

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BROWNE, Q.C.:
Q. But yet, your evidence is that some of this borrowing is going to pay off the RSP?
A. The receipt of funds from the long-term receivable for the RSP is paying off this debt. The debt associated with the payment of the fuel and the other costs has already been incurred and converted into a long-term debt issue.
Q. If people were paying as they went, if they were paying over a 12-month period, their RSP, would that put you in a better financial position?
A. If were being paid our RSP on a yearly basis?
Q. Yes.
A. Yes, it would certainly lower our cash requirements and our long-term debt position.
Q. If that had been the case, say, two years ago, would you have required the borrowing that is stated in your Schedule 11 in the amount that's stated for the AC and AB series?
A. I think it would have reduced the amount that would have been required. We would have probably still have required long-term debt issues because we still had our capital

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program that we're financing and other items, but it would certainly have contributed to a reduction in the amount that would have been required.
Q. Okay. We'll leave that issue for now and I think there's an acknowledgement that the parties are still discussing RSP through their experts to try to find ways to deal with it and we hope that the experts will come up with something for us all, I guess.
A. That's correct.
Q. I just want to go over power cost with you. Can we go to CA-34, please?
A. And in Ca-34, CA-35 and CA-36 we have questions concerning the cost of new power supply. And I guess CA-35, Mr. Roberts, shows us that on a table and when we look at the anticipated annual cost for the Granite Canal as opposed to the cost for the Corner Brook Pulp and Paper and the Exploits River Hydro partnership, they seem to stand out rather dramatically. Why is that, sir?
A. I think the better person to question the cost of what the various contracts are would be Mr. Haynes.

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Q. Okay. He would be better able to answer that?
A. He would be--he was directly involved in the negotiation of the contracts and would have the intimate knowledge relevant to Granite Canal as well to relate it for you.
Q. Okay. If he's the better one to give it, we'll save our questions for him. We'll give him notice now, I guess, that we're going to be asking him about these things. And can we move then to CA-133, the Aliant poles. Are you familiar with the Aliant pole contract and can you speak to that, Mr. Roberts?
A. Yes, I have some familiarity with it.
Q. Okay. These Aliant contracts that you've taken for the purchase of Aliant poles, I gather these are for a ten-year term?
A. Yes, it is.
Q. And at the end of ten years, what will happen?
A. There is an option to continue, but there's also--they can cease it at that time, as well.
Q. Okay. And why did you get into this particular enterprise, sir, why did Hydro get into this?
A. Well, Hydro has poles of its own in a lot of these areas that it put in itself for which

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there are attachments to it. In addition to that, Aliant, and its predecessor companies had also installed poles for which we availed of an opportunity. They were considered to be joint use, either we put them in or Aliant had put them in. And the decision was by Aliant, is that they wanted to get out of the pole business. In the meantime, we're still in the business of distributing electricity to our customers and required those poles. So, the arrangements were made to acquire these poles from Aliant.
Q. Now, Aliant is a private corporation, to the best of your knowledge.
A. I wouldn't quite call them private; they're being owned by Dell. Dell is publicly owned, so.
Q. As opposed to Hydro.
A. Yes, it's not a Crown corp.
Q. It's not a Crown corp., no. And they decided to get out of them. Did you inquire as to the reasons as to why they wanted to get out of the business.
A. I didn't personally.
Q. Had nothing to do with their profit margin or

BROWNE, Q.C.:
their ability to make money on these poles?
A. I can't answer that, I'm not--don't have that level of information.
Q. But in any case, they came along and they approached you, the approach was made to you to purchase them or lease purchase them over a ten-year term.
A. I think initially, they had approached Newfoundland Power about buying all the poles because there was an agreement between Hydro and Aliant relative to these joint use poles where I think we had the first right to acquire them in the event that Aliant decided to sell them. They were, I think, initially proposing to sell them all to Newfoundland Power or some company associated with Newfoundland Power.
(10:00 a.m.)
Q. So, you purchased in your service area, is that it?
A. That's correct.
Q. Essentially. And it seems like--I really don't quite understand this contract. If, at the end of ten years, they can buy them back,

what--hard to know. You buy your house from a builder and he could come back ten years later and tell you he wants to buy it back from you. It seems like a strange, sort of, bird to me. What kind of financial vehicle is that, sir?
A. They have an option at the end of ten years, if things changed that they wanted to reacquire the poles, then we would be prepared to sell them. I guess I should back up a little bit. With the initial contract, you were trying to level out the ownership of the poles between the utility and the phone company because you were paying a ratio based on the attachments on the various poles. And so to balance, I think from memory, the ratio was like, about 60/40. So, over a period of years, Hydro was selling some poles to Aliant to try and get that match of 60/40 and that was a function of the fees that would be paid based on the attachments on a particular pole. The decision as to why Aliant decided to get out of the business, I don't know and I can't speak to it. Hydro was interested in acquiring these poles because we are using those poles, we do have our wires on them and

we'd like to ensure ownership of them and ensure that they are maintained to provide the reliable service to our customers.
Q. You indicated on page 2 of 6 of CA-133 that by purchasing them for $3,569.000.00, this would, in fact--you have a projected average decrease in revenue requirement of 148,614 per year, is that correct?
A. Yes, that's additional revenue that we will receive.
Q. And therefore, you're saying, ultimately it will reduce -
A. The revenue requirement and the lower rates.
Q. Okay. What variables, that seems like quite a finite amount of money, 148,000, what variables there could jeopardize that? Like, you base it on certain assumptions, if you look at page 3, you got inflation, depreciation, discount rate, operating expenses, et cetera. What could throw that number out?
A. I don't know if the number would vary by very much. You have to remember that we're into these particular areas where these poles are located anyway. So, there's very little

incremental cost that associated with it. So, unless, you know, we're getting communities closing, then there should be no reason why we shouldn't be able to maintain the additional incremental revenue at a very minimal cost.
Q. So, you mentioned communities closing up, what, such as where? Harbour Deep or Petites?
A. If they happen to be in those particular service areas, but it wouldn't be a substantial change in reduction.
Q. Because we asked you in CA-185, what kind of tracking you're doing in reference to this expenditure. And can you just go to CA-185 for a moment and we asked you, "please reproduce page 5 of CA-133 which is what we're looking at initially here, reflecting actual 2002 revenue expenses relating to the Aliant pole purchase and please provide explanations for any significant variance from the projected figures". And your response, can you read that into the record, sir?
A. Yes, "Hydro does not track its expenses relative to distribution support structures at the level of detail required to provide the incremental impact as requested on an actual

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basis".
Q. Well, if you're not tracking it, how do you know that you're making a revenue of $148,614.00?
A. Well, I think when you look back at the analysis that was done, we're in the particular service area, we're doing the maintenance in the area. So, it's a very incremental cost that would be incurred to anything with these poles. Our distribution people are in the areas, they're servicing pole A and we bought pole B, so there's very little cost difference between the two if we're there in a particular area. Because all these poles were in areas that we were already operating in and providing service to.
Q. So, if you're not tracking it, you're don't know if you're making a buck on it or not.
A. Well, the only additional cost could be an incremental cost and that was deemed to be very insignificant when the analysis was done.
Q. Are we in a situation here where you laid out the three $3,500,000.00, bought the support structures on a forecast decrease in revenue

requirement to make appealable, I guess, to rate payers generally, but now that we're into the contract, there's no monitoring being done to ensure that this is, in fact, the case.
A. Well, I guess, as I said, we felt that the increase in the incremental cost as we're in the service territory, these are poles that are next to ones that we already owned and it was felt that based on the experience, the additional cost of an incremental basis was relatively small.
Q. And the average life of the poles that you bought, these 7,688 support structures, the average life was what? Was it 19, I thought I -
A. I think it was 19 years.
Q. And what's the average life for a pole in this province?
A. A wooden pole would be 30, 35 years depending on the location and the condition of the pole.
Q. Okay. So, the average life is 30, 35 years. So, it's a ten-year contract, so you're pretty close to there, 19 and 10 is 20, when you're going to be replacing all these poles, was that factored into the acquisition?

A. The acquisition was--there were some replacements of ongoing poles and some additions that would occur over time through various reasons. Plus as with anything, the estimated life of 30 to 35 years may, in actual fact, be actually longer.
Q. It could be shorter?
A. Yes, depending on what happens, but I'd suggest to you that, on average, it's probably longer than the 30 to 35 years.
Q. I guess at the end of the ten year period when it's all looked back and studied, the truth of the matter will come out, whether or not this was a good acquisition or a poor one?
A. Yes, at the end of the ten years, whether or not Aliant wants to reacquire these poles.
Q. Can we move to CA-150 for a moment, please? This is a Labrador question, but I guess it's safe to ask it here, there's all kinds of stories in the news about the base at CFB Goose Bay where Europeans are leaving the base. Is that having any kind of detrimental effect on what you're getting out of there?
A. The changes at the base will certainly have an impact. From a load perspective, I think the

load forecast for Mr. Haynes' evidence will provide any additional information relative to that.
Q. So, he would be the better one to approach then?
A. He would be the better one to deal with the changes in the load and what's anticipated.
Q. Okay, in the interest of efficiency, we'll exceed to your request that we follow that with him. Can you go to CA-159, please? And these are forecasting questions concerning your sales to Newfoundland Power. Are you right person to ask that?
A. On the actual load forecast, it would be Mr. Haynes. Now, I may be able to answer some of the questions depending on what they may be.
Q. Okay. Just go to CA-161. And I asked what the forecasting for sales to Newfoundland Power would be for 2003 and you hadn't updated your forecasted sales. Why would your forecast not be updated at relevant times?
A. Well, in a normal circumstance, what would happen is that the load forecast would be updated approximately in April reflecting actuals to the end of April and then forecast

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for the balance of the year. And then in September/October we would do a second update in anticipation of finalizing our budget for Hydro's Board of Directors. In this particular year that we're in now, we had done a review back in November/December period of what 2003 looked like and that's what was used for purposes of this application. And we were also cognizant of the fact that somewhere during this piece, we would be doing an update similar to what had been done in the 2001 General Rate Application where we had updated actuals to the end of August. And the decision was made that based on the filing in mid May and the effort being expended in answering the RFIs and knowing that we would doing an update in the fall, the decision was made that we would do one update and that update is being done as of the end of August.
Q. Do we have any indication from your own knowledge of whether sales have increased for the latter half of 2003 to Newfoundland Power?
A. I haven't seen the load forecast. I know on a year-to-date basis, sales are certainly up.

What will happen for the balance of the year, I'm not sure, but that should be reflected in the update that we're hoping to file around about the end of October.
Q. And that will be filed before Mr. Haynes speaks or what's the game plan here, Ms. Greene?
GREENE, Q.C.:
Q. What I had indicated earlier is that we will file, when it is completed, we anticipate that to be around the end of October. Mr. Haynes is scheduled to testify next week. So, it will be after he has testified. And, if necessary, we can recall Mr. Roberts if there are questions on the revised revenue requirement. As well as with respect to the load, Mr. Banfield, who is Director of Customer Services would be able to speak to certain load information as well.
BROWNE, Q.C.:
Q. Okay, thank you, Ms. Greene. We'll go to CA-140, please? Here we're dealing with fuel inventory and spare parts. Is that your area of responsibility?
A. I'm prepared to answer any questions I can on

the supplies inventory and I can probably answer some of the questions on the fuel as well.
Q. Okay. If we go to the schedule, line 1, 1993 we see the supplies, total cost of--what figure would that be, is that 18?
A. 18.8 million.
Q. Okay. And we go down the year to line 10, 2002, it's 17.7 million. In terms of these figures, the exchange rate, how does that figure into them?
A. The exchange rate would only be impacting the bunker C cost. There may be some exchange relative to some of the parts that may be sitting in a supplies inventory, but it would be relatively small.
Q. So in terms of the exchange rate we see in the news where the dollar is at an all time high over the last 10 or 15 years of over 75 cents, what rate have you factored into your forecasting for the purchase of bunker C fuel beyond 2002?
A. The current application as filed in the case of bunker C fuel or No. 6 fuel has assumed a 66 cent dollar. That's also being revised in

our current update, as well. We're looking at not only just load and operation and maintenance costs, but we're also looking at interest rates and the impact of the foreign exchange as well, so that should all be reflective for any changes in the new update.
Q. So when we get the new figures -
A. That should reflect whether or not it's still 66 cents or 71 or 72 or whatever is the advice that we receive.
Q. Roughly could you give us any idea of what difference that would make if your estimates are based on a 66 cent dollar and we're dealing in reality with a 75 cent dollar?
A. Yes. There was an RFI that we answered. Yes, if I may, it's in CA-221.
Q. Could we have CA-221, please?
MR. O'REILLY:
Q. Slight technical difficulties.
A. Here we go. In this particular question, Mr. Browne, you had asked what would be the impact if the exchange rate was 71 cents on the Canadian dollar. And that would translate into a price per barrel of twenty-seven, fourteen versus approximately twenty-nine,

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twenty that's used in the current application. That would reduce your fuel costs by approximately $6 million. If you were up at 74 cent dollar, that would translate into a price per barrel of twenty-six, zero four and it would be $9.1 million.

BROWNE, Q.C.:
Q. So it could be up to 9.1 million less what you're looking for?
A. It could be substantial, depending on what the forecast is for the value of the Canadian dollar.
Q. I want to review some issues in terms of controllable costs. Can we go to CA-62, please? CA-62, page 2 of 2 we're dealing with overtime costs. And the way this is presented here you have overtime costs on a non-union and a union basis. And we see they're pretty steady over the years 1999 to 2002. But I noticed in management division, non-union, there appears an overtime cost of, I guess it's $45,000, and there's nothing there previously. What's happening there?
A. The overtime that's for non-union that's

reflected in management for 2002 was the way that we internally decided to track costs associated with our business process improvement initiative. We raised an internal work order that was reporting directly into senior management, and consequently overtime that had been worked by field people was charged into the management business unit and onto the associated work order. So that's--could be a supervisor in Bishop Falls that's involved in the inventory side of things, it could have been a business analyst that's involved in our system. This was overtime that was incurred by them and charged into the management business unit because that's where the work -
Q. So it's not new -
A. No.
Q. - the fact these managers are getting overtime -
A. No.
Q. - it's just a new way of reporting?
A. Well, this was only a means of tracking the time that was associated with this particular project.

Q. Okay. And that explains that. CA-143. There we have miscellaneous expenses by department. And under the finance division on line 7 the rates and customer service for 2002 seems to have spiked there to 874,000. Why would that be?
A. That's associated with some allowance for bad debts and some accounts in Labrador at Sheshatsheits.
Q. Sheshatsheits is not new?
A. No, it's not new but we are experiencing collection difficulties and having the accounts paid.
Q. When--did that just materialize in 2002?
A. No. It's been ongoing for some time.
Q. But you just decided to write them off in 2002, is that it, or expense -
A. We've made an allowance for them. We've been working on the issue for some years and we've made a provision for them in 2002.
Q. So they wouldn't necessarily all relate to 2002?
A. Some of the balances may go back a year or so.
Q. And that took--so you wrote those into that particular expense for the years--what years

go into it?
A. I'm not sure what the history is, but the actual entry to record the increase in the allowance for those accounts was made in 2002.
Q. In terms of executive management, line 10, in 1998 we see a figure there of 1,365,000 and it pales in comparison with anything we see before or after. Is there some explanation for that?
A. Yes. In 1998 there were two NUG contracts under way and those two projects were cancelled and the cancellation cost associated with those two projects was approximately 1.5 million.
Q. In terms of executive management there in that line 10 too, you have forecast 12 and 12 for 2003 and 2004 which is somewhat a little less than a third what it was in 2002. Why is that?
A. 2002, as I mentioned previously when we were talking about the overtime in management, the cost associated with the business process improvement initiative were being recorded underneath the management business unit, so that's why the costs are being driven up

MR. ROBERTS:
$32,000.
Q. Under the human resources division, line 13 in your legal you have it at 17,000, I guess, in 2002. Did you have a case ongoing at that year or something that you had to out resource or out source?
A. Just bear with me now I'll see if I can--no, I'm sorry, I don't have the answer.
Q. Okay. Is there someone else coming forward who can tell us essentially what's going on there?
GREENE. Q.C.:
Q. If it's helpful to the Panel, I can provide the explanation. Hydro is involved in one litigation case that we are doing internally through legal counsel, but during the course of 2002, there were discovery proceedings, so the increase in 2002 related to the additional costs primarily for the discovery and other related expenses with respect to that litigation. But it's only miscellaneous expenses like that, such as transcription services, it does not include professional services.

BROWNE, Q.C.:
Q. Hydro does all its legal work from within its own legal department. I think that's accurate, is it, Mr. Roberts?
A. Yes. The majority of the work is all done in-house.
Q. And does Hydro have any lawyers on contractual services other than what they have on a--there working full-time?
A. Not that I'm aware of.
Q. In terms of materials management, we see in 2002 the figure 61,000, but--and in 1999 you made money on it, it looks like. But why do we see these fluctuations from 2002, from 2000 to 2004, what's gone on in 2002?
A. I think the answer in the materials management, this is anticipated adjustments to inventory, writing off for obsolescence and inventory that may no longer be required.
Q. How is that determined?
A. I guess it's a joint effort of the people in our Bishop Falls main warehouse visiting the other area locations, performing physical counts of the various inventory sections and then reviewing the results of those inventory

counts with the managers responsible for the various plants and the other people that would be knowledgable in the equipment that's still being used and an assessment of whether or not, yes, these parts are still used and useful and equipment that we still have or, no, they can be disposed of or they can be returned to a supplier and be subject to a restocking charge.
Q. Okay. So that was the reassessment that was done in 2002?
A. Well, it's a continuous assessment. We're doing that on a continuous basis of trying to match our inventory levels with the requirements for the various areas and also to minimize the amount of inventory that we actually carry. If we're able to have a supplier up the street that can stock the various items that we require, then we're endeavouring to try and reduce our inventory because it's available on a very short notice at another location.
Q. In terms of human resources, we see in 1999 in line 16 there 1,865,000 and that's pretty close to what it was in 2002. But then we see

increases in 2003 and 2004 as forecast. Why would that be?
A. Included in that particular number is the payroll tax and some training.
Q. Why would your payroll tax be rising if your work compliment is decreasing?
(10:30 a.m.)
A. My apologies. It's not the payroll tax that's increasing, it's the business tax. We have two taxes that Hydro pays. We pay a payroll tax based on payroll and we also pay a business tax approximately, I think, about two and a half percent of gross revenue in the various communities. And as our revenue grows, that cost increases. And the actual payroll tax is actually decreasing.
Q. In terms of your line 29, your TRO operations, what are TRO operations?
A. The TRO operations would encompass the central region, the northern region and the Labrador region.
Q. How is it you're able to operate those on 44,000, 2003 and 2004 in terms of these miscellaneous expenses when we see they ranged from 530,000 to 233,000 previously?

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MR. ROBERTS:
A. I don't have that answer but I'm sure -
Q. Ms. Greene, you can undertake to provide us some information on that?
A. Or Mr. Martin can address it for you when he gets on the stand.
Q. That's fair enough, we can wait for Mr. Martin. That would be better, and he could be prepared for it at that point. That would be fair. Can we go to CA-142? And we have the total professional services and costs by department. And line 10 under executive management for 2002 we have 1,170,000 whereas that seems to be--to stand apart from the figures we see previously. Why is that?
A. Yes, 2002 includes approximately $1 million associated with the business process improvement initiative.
Q. What is that initiative?
A. The business process review initially that you had queried Mr. Wells on.
Q. Okay.
A. Last week.
Q. And he spoke to that during his evidence. And down on line 22, the information systems and

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telecommunications you have for 2002 2,098,000. Why does that stand apart from the other figures we see here?
A. I believe the answers are associated with two particular projects in the IS & T section. And these were shown on page 24 of the Grant Thornton 2002 annual review. And it dealt with information technology, infrastructure library for approximately 259,000 and some professional services dealt with mentoring and coaching in IS & T of approximately 187,000.
Q. So that's a one time expenditure?
A. It should be one time expenditures.
Q. These one time expenditures were put in place during a time in which the Board had ordered productivity allowance to be subject to, is that correct?
A. The Board did order a productivity allowance, but the commitment on those may have been made well in advance of receiving the order from the Board which was in June.
Q. Can we go to CA-138, please? We asked how much does Hydro spend on computer replacement in any given year and from 2000 to 2002 it roughly was a half million dollars, an

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average. But the B part of the answer I find interesting. It said "The average life of a computer owned by Hydro has been three years. However, the average expected life of PCs in the future will be four to five years." Why is that?
A. Mr. Haynes is probably the better one to answer it, but I will give a first answer. We're in the process of switching to a different type of computer. Most of them will be like just a flat screen rather than a full-fledged computer, will have limited capability but we'll be able to use more technology associated on our servers. But additional information would be better if it came from Mr. Haynes who has responsibility for the IS & T.
Q. Okay. We'll defer to Mr. Haynes on it. CA-139, we have total travel costs by department. And on line 7 we see rates in customer service was at 49,000 in 2002, but has spiked to go back to previous levels in 2003 of 98,000. Why is that?
A. Included in that category would be the travel clause associated with our meter readers. And

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on an annual basis we try to have a meter reader get together to provide training that's normally not available to them because of their isolation and various factors. So we try to bring them together on an annual basis for two or three days and provide them with additional safety and training courses that are available together with providing them with updates as to what's happening within our customer services section that would be of value to their customers and any other items that would be of value to them in their duties.
Q. By the way, who would be the best one to question in reference to meter reading and the optimization of routes that you're now employing?
A. Mr. Banfield has direct responsibility for the meter readers.
Q. In this particular exhibit, CA-139 we see under executive management the travel costs in 2002 were 94,000, which seems to be higher than what they are in previous and future years. Why would that be?
A. The travel clause in 2002 reflect the

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MR. ROBERTS:
continuation of business process improvement. A lot of the people that were involved in the initial process reviews were from areas outside of St. John's, it wasn't done by head office. It was a cross functional team consisting of people from Bishop's, Bay d'Espoir, Labrador, north--the region in the Port Saunders. So this would include the travel costs of bringing these people into St. John's to deal with some of these reviews.
Q. In line 19 we see generation engineering and for 2001 and 2002 the travel costs were 17,000 and 15,000 respectively, but now we see them increasing for 2003, 2004. Why is that?
A. I believe Mr. Haynes would probably be the safer bet to answer on that one for you.
Q. Mr. Wells answered in reference to the new program that you had in place in reference to consumable items. But I notice it's in your evidence on page 24. And we asked in information request in CA-126 concerning the amount of money spent on consumables in every given year and what controls are in place to prevent employees from abusing the new policy

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where you have placed consumables in bulk on a shop floor and make it readily accessible. How is that working out, can you speak to that a little bit, please?
A. Yes. And it varies by area. For instance, in the case of Holyrood we're fortunate enough that we actually have a supplier that visits the plant, looks at the bulk inventory that's out onto the floor and then, based on what levels of consumables are still there, would reorder. In most of the other areas that opportunity is not available so it rests with the supervisor to do periodic checks to see the levels of the consumables and then initiate replenishment. From a control perspective reporting is available on a monthly basis for the areas to assess the replenishment of those particular consumables and if a particular consumable happens to be being consumed at a faster rate than what had been anticipated, then the opportunity is to start doing an investigation to determine as to why.
Q. When did you first put this program into place?

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A. It started as a pilot, in the case of Holyrood in late 2002, moving into the other locations in 2003.
Q. So it's really in its infancy.
A. It's still in its infancy and as I mentioned, we wanted to try a location that was close to St. John's to see if we can get the bugs ironed out of the system and see how it would work there because from region to region, even the consumables will change. There may be certain consumables at Holyrood that may be unique whereas in Bay D'Espoir there may be other types of "consumables" that wouldn't be required in another location. So once we had utilized Holyrood as a pilot, it gave us an opportunity to see what was available both from suppliers and what would be required internally to find locations to put the bulk items out there, and then to identify, based on what was done at Holyrood, using that initial listing, provided that listing to the other area offices and said, here's what Holyrood is using, are some of these still valid for your area or are there other things that you would like to as well. So it's

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almost on a region by region basis that you develop your listing of consumables that's appropriate for that particular location.
Q. Consumables is a an interesting word, but what are these consumables, can you give us some examples?
A. Well, I think in your question here is that we make reference to, like, electrical tape, safety gloves, bolts and nuts, those types of things that are commonly used on most jobs.
(10:45 a.m.)
Q. And the previous system that was in place, someone would have to go to the supply store and request a pair of gloves if they needed them?
A. The previous system required somebody to fill out a requisition, get it approved and then go to the warehouse and somebody actually issue them out by the each, and then go back to their particular job.
Q. So, has someone lost employment as a result of this new system?
A. There have been reductions in staff as a result of this.
Q. And has any action been taken to date because

BROWNE, Q.C.:
of any kind of perceived abuse, that you know of?
A. I'm not aware of any action having taken because of abuse at this point.
Q. And who's responsible for monitoring this while the project is still, as we said, in its infancy?
A. Materials management provide reports or various consumption patterns on the consumables by location and it would be up to the plant manager to review those reports and take whatever necessary corrective action was required.
Q. And the plant manager, there would be figures for consumables such as tape from previous years, you'd roughly have an idea as to how much you would require in that particular location?
A. We're able to utilize, because in the past all these items were in inventory, you were able to extract that information from your inventory and say, well, you know, $20,000 on tape and in a bulk purchase, you know, we spent 30. Part of the other thing that has to

be considered, you're going to have some initial growing pains and the other thing that will have to be taken into account is that you're now in bulk rather than a particular physical inventory of just straight consumption. So you may order a box of gloves at December 31 and that actual expenditure will show there, but there may still be three-quarters of a box of gloves not used at that point, whereas in the old system they all sat in inventory and were taken out by the each.
Q. Now did you come up with this system yourselves or is it mirrored on other utilities across the country?
A. The thought on the consumables was a joint effort of utilizing the consultants that we hired, Covenco and utilizing our own internal people from the point of view of how do we enable to increase the amount of work time that's available for individuals and reduce the amount of time that's being spent in obtaining goods to be able to perform the work.
Q. And who is doing the follow-up to ensure that more time is spent on work rather than filling

in requisition forms to get a pair of gloves and the like?
A. Well with the removing of the consumables from inventory and now placing it on the floor, it's up to the plant managers to monitor that this is actually happening. One of the things that you do have is that in the case of inventory, we're no longer carrying these items in inventory, so there'd be an order directly for the location and the plant where the bulk consumables are stored and that's the end of it. So there's no more handling within the warehouse associated with it.
Q. You have a utility just down the road from you, Newfoundland Power, did you have any discussions with them on how they deal with consumables prior to embarking upon your own program?
A. Not that I'm aware of.
Q. Got to CA-124, please. Here you give us the severance cost for the years 1998 to 2002 and I think there's another request for information in 184 which breaks it down even further. Do you have any forecast severance for 2003, 2004, 2005, beyond?

A. No, there's no forecast that's been made at this point as to what severance may occur into next two to there years.
Q. So, therefore, what you're--the signal you're giving to your employees is that there would be no further lay-offs, is that what you're stating?
A. No. Mr. Wells elaborated on, and I touched on earlier this morning, we factored into 2003 an additional 1.5 million dollars worth of projected savings associated from the continuation of our process improvement initiatives and that's a reflection of costs that can be saved. But it hasn't reached the stage where we're able to turn around and start isolating it by position and what costs would be associated with that position. The position may be already vacant or the individual may already have been retired, so there may or may not be severance costs with some of these potential savins in the future. So we factored no additional severance cost within the 2004 cost of service.
Q. Okay, thank you, Mr. Roberts, these are our questions.

CHAIRMAN:
Q. Thank you, Mr. Brown. Thank you, Mr. Roberts. Good morning, Mr. Kelly.
KELLY, Q.C.:
Q. Good morning, Mr. Chairman.
CHAIRMAN:
Q. Would you prefer to proceed for the next ten minutes or take our break now?
KELLY, Q.C.:
Q. I can proceed for ten minutes or so, if you wish.
CHAIRMAN:
Q. That's fine.
KELLY, Q.C.:
Q. Good morning, Mr. Roberts. I'd like to start by having you explain for the Board the current structure of Hydro in terms of departments and divisions and business units. Could you just walk us down through that, please?
A. At a very high level, you have the President of the company; the Vice-President of Finance; Vice-President of Production; Vice-President of TRO and the Vice-President of Human Resources; legal counsel and corporate

secretary. Starting underneath Finance -
Q. Before you go onto that, how many Vice-President levels is that then?
A. Four.
Q. Four, okay.
A. I should enlighten, for a little bit further, in addition to that, the manager of Internal Audit and the manager of Communications report directly to the President of the company.
Q. So reporting directly to the President is six?
A. So, yes, but only four vice-presidents.
Q. Thank you. And then below those six individuals are how many divisions?
A. In the case of finance I have the director of financial services, the director of customer services and the manager of risk and insurance. In the case of production, and I'm going from memory now because these org. charts are showing each by division.
Q. Right.
A. So if I miss something, bear with me, because it is in the evidence that individual Vice-President -
Q. Let's just stay at--at a high level, I understand there are 19 divisions, is that

number -
A. No.
Q. No.
A. There may be 19 departments, but there's only -
Q. Sorry, 19 departments then.
A. There's only four divisions. There may be 19 or whatever, various departments below the Vice-Presidents but -
Q. So there's approximately 19 departments that report to the Vice-President level.
A. Yes, depending on what's in the various org charts that are filed in the various Vice-Presidents' evidence.
Q. And then below the departments then, how is that divided up. There was some evidence in the 2001 hearing that there were some 150 business units and I'm just trying to understand where that fits into the picture.
A. The business units would fall underneath primarily the responsibility of the directors or managers that report directly to the Vice-Presidents.
Q. And is that number of about 150 for 2001 still appropriate in 2003?

A. Yes, I believe it would be.
Q. Now, you're the Vice-President of Finance and CFO. Who is responsible for the overall financial performance of Hydro, would that be you, apart from the CEO?
A. Yes, my job would be to report the overall financial operations of the corporation to the management committee and in turn then to the Board of Directors.
Q. If we go to page one of your testimony, one of the items for which you are responsible, if you come down to line 11, is the preparation of financial plans, etcetera. So, would financial planning and cost control come under your department?
A. Financial planning is done in my particular division, through our customer services' section. And the containment of costs would be policies being set at the management committee level and then communicated back down through the various divisions by the respective Vice-Presidents.
Q. Can you just explain for us how that works. How does the system work to ensure that Hydro operates in the least cost manner. In other

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KELLY, Q.C.:
words, how do you get that cost control, who makes those decisions?
A. Well maybe I should start back at the budget process and sort of try and lead you up as to how it works. Annually, Hydro prepares an operating budget with instructions being issued to all people with budgetary responsibility. They develop their budgets based on their proposed work plans for the various years. The information is summarized and an initial recording done within J.D. Edwards. Once that is completed, various reports are available for reviews within the various regions by supervisors and with their respective managers, appropriate changes made where deemed necessary and then the next step would be with the regional manager for the area. Once that review is finished, the review would then take place between the respective Vice-President and the regional managers that report directly to him and once that review is finished and any changes are done, a document would be prepared for presentation to Hydro's management committee

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who would review all divisions and the impact of the budget on the company as a whole. Following that review, changes or directions that had to be encompassed into the budget would be made. These are normally completed about the period May to June. And then in September, in preparation of the final budget document for the year, there would be a second review to ensure that current years costs are re-forecast and a last look at the submitted operating budget to see if anything else may have come to light in the current year that could have an impact on it. Once that's signed off, the actual budget document is prepared and presented to Hydro's Board of Directors for approval. Once the budget document is approved, then it's provided to the Minister of Mines and Energy.
Q. How long does that whole process take?
A. The process basically starts from an operating perspective dealing with just the operation costs, normally starts in about March or April of each year.
Q. And then ends -
A. It ends in the Board of Directors' review in

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October and the document is actually filed and required to be filed with the Minister of Mines and Energy by November 30th of each year.
Q. So if I'm trying to figure out my budget for 2004, that starts from the ground up inputs back in the spring of 2003, people looking out about a year ahead.
A. Yes, actually some people are looking out even further than that. Some of the areas have actually developed five year information on their operating budget. So it's not just one year in isolation, because of the time frame that's involved in preparation of a budget and keeping track of what's happening in their work plans. Some of the areas actually have a five-year plan prepared that they will just then accept and update to reflect current circumstances and changes that may have occurred.
(11:00 a.m.)
Q. And that process comes up through the 150 business units, through the 19 departments and through the Vice-President level as we talked about.

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A. Well, not all of the business units would be directly impacted. We do have some business units that are created only for the structure of the system. To give you an example, each inventory location with the system that we have, must be assigned a business unit number. But that's there for convenience for receipt of inventory. It has nothing to do with having to do a budget. So we do have some business units that are there for that purpose only.
Q. And how many would that be out of 150?
A. There could be 15 or 20 like that.
Q. It's a good place to break, Mr. Chairman.
CHAIRMAN:
Q. Thank you, Mr. Kelly. Thank you, Mr. Roberts. We'll reconvene at 11:30.
(BREAK - 11:30 a.m.)
(RESUME AT 11:35 A.M.)
CHAIRMAN:
Q. You're ready to continue, Mr. Roberts?
A. Yes.
Q. When you're ready, Mr. Kelly.
KELLY, Q.C.:
Q. Thank you, Chair. Mr. Roberts, when we--just

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before the break, I had started asking you about the cost control procedures which are in place at Hydro, and you took us through the budget process, which I describe as a bottom-up process, determining what your budget will be for the next year, and what I'd like to turn to is this part of the question. What mechanisms does Hydro have in place to determine that the number of employees and the type of structure that you have is appropriate and least cost? In other words, if we build from the bottom up, we will get what the people down through the system think they need to do the job, but what are the management controls to determine that the structure and the number of employees is in fact appropriate?
A. All management, at the director, manager and as well as the vice-president level are continuously reviewing positions to see where there may be opportunities for improvement or consolidation, and in the case of work plans coming forward through the budget, if there's insufficient staff available to do the work,

then there must be a request for additional resources provided for subsequent review by the management committee, based on the justifications that's included.
Q. I understand the latter part relates to adding new staff, but this continuous review by all managers, how does that get translated into an overall plan of corporate organization or reorganization?
A. I guess it's really a two-fold approach. We're presently undertaking reviews of our various processes that cut across all functional lines, and in addition to that within various divisions and departments, there are also reviews being carried out there as well.
Q. But if you're the CFO and responsible for the overall financial planning, do you have a plan? Have you developed a plan for the structure of Hydro going forward?
A. A specific plan, no. The structure of Hydro on a go-forward basis is being dictated by the results that are being completed from the review of the various processes.
Q. Okay. I was struck by your answer to Ms.

Greene this morning. She asked you why Hydro hadn't met its productivity allowance in 2002, and the thrust of the answer was that "well, we only got the Board Order in June and then we didn't have enough time to get 46 layoffs fully implemented by the end of the year." And what struck me about that is, is it Hydro's position that those 46 layoffs were driven only by the productivity allowance in the Board's Order?
A. No. The layoff of 46 positions was something that was ongoing even prior to receipt of the Board's direction relative to a productivity allowance. Hydro had started the review of its process in February of 2002 and then hired, engaged a consultant to assist in that endeavour, and there were opportunities in items that were arising from that, from some of the initial reviews that were being carried out, where there were potential for savings. Some of those savings were being actively worked on, even before the decision of the Board, in June of 2002.
Q. So the failure to achieve the productivity allowance isn't really then dictated by the

fact that you only got the order in June, if these things were being worked on earlier. Would you agree with that?
A. Could you repeat that?
Q. The failure to meet the productivity allowance, the two million dollars, if these things were being worked on earlier, the 46 layoffs, then the failure to have achieved that is not simply because of the fact that the Board Order came out in June. Would you agree with that or disagree?
A. We were working on a review of our processes long before the Board issued its Order in June. So we were endeavouring to achieve and improve corporate performance prior to the Board's Order of early June, recognizing the fact that the biggest cost where you can achieve savings happens to be in the area of salaries and employee benefits, and in that regard, positions to be eliminated do, in most cases, entail a cost as well as a savings. The saving is normally in the previous--in the next year, not in the current year.
Q. But weren't those--if I understood your answer a minute ago, that process of the 46 layoffs

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was in place and had been decided upon prior to the Board's Order in June or not?
A. The 46 positions was just a number that arose from the review that had started prior to receipt of the Order, plus discussions that took place after receipt of the Board Order, when we discovered that there was a productivity allowance imposed on Hydro.
Q. Okay. How many of those 46 positions were unfilled at the time that they were eliminated? Do you have that information?
A. I believe there was 18 positions that were unfilled at the time.
Q. So out of 46, 18 were unfilled, so they were just vacant positions eliminated?
A. They were positions that were held vacant and were going to be eliminated.
Q. Okay. Now can I take you next, Mr. Roberts, to CA-44, and I'll take you--actually we need both pages, but if you go first of all to the first page or page two of three, and you look at the 1997 columns for gross controllable costs, do you have that column?
A. Yes, I do.

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Q. And down at the bottom, net controllable costs. For the gross controllable costs, we have 82.7 million and for the net controllable costs, 73.5 million approximately. And then if you go over to your forecast 2004 column on page three of three, for the same two lines for the gross controllable costs, you have 100 million, 100.3 million, and net controllable costs of 93 million, and just doing the math, the net controllable costs are up by 26.7 percent over that period and the gross ones, I think, are up by 21.2 percent and my question to you, Mr. Roberts, is that--that appears to be rather substantial increases for 1997, despite the processes, cost control processes that we've talked about. Would you agree that those are substantial increases?
A. Yes, there are fairly large increases over that period of time, but there are certain explanations as to why certain costs may have changed as well.
Q. Would you like to help us with any of those explanations?
A. Well, as an example, in the case of salaries and fringe benefits, in 1997, there was no

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allowance for employee future benefits, whereas in the 2004 number, you got approximately 3.7 million dollars worth of costs associated with employee future benefits.
Q. Any other examples?
A. You can look at our insurance costs. It's gone from 1.2 million up to two million, primarily a function of changes in the insurance market and the coverages that are available. Professional services is an example, now reflects additional costs that are arising from regulation. These are just a couple of examples that comes to mind without trying to do a year-by-year comparison.
Q. Okay. But still very substantial increase from '97 to 2004. Now when did you put in the JD Edwards system? When did that become implemented?
A. It was put in in various stages. Certain aspects are done in 1998. Others were done in 1999 to ensure that things are ready for January the 1st, 2000.
(11:45 a.m.)
Q. So essentially, the system had been purchased

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and substantially in place by 1999?
A. Yes.
Q. Okay. Now if we--you can actually find this in Mr. Osmond's evidence from November 19th, 2001. The costs of the--it's at page 41 of November 19th, 2001, at lines 39 through 43. The cost of the JD Edwards system came in at about 12.8 million, and with Churchill Falls' contribution taken out, the cost to Hydro was 10.8 million?
A. That sounds about right.
Q. And you scroll down to lines 39 through 43, you'll see--I'm sorry, we're on page 41, Mr. O'Reilly. Okay. Now if you come over to the opposite column that Mr. O'Reilly's got in there, one of the points that was made in the 2001 hearing was that the system, at that stage, was--there were--all of the benefits hadn't been obtained out of the system, and at line 93, Mr. Osmond says "but it gives us process improvements that we can also look at in the future to see if there is a better way of doing this, and that's part of the process we'll be starting next year." And so do I take it that Hydro has now improved what it

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can get out of the JD Edwards' system, since the 2001 hearings, the benefits?
A. It hasn't been completed. It is continuously being worked on.
Q. Okay. Is there an anticipated point in time when the full benefits of that system will be captured?
A. I don't know if you can put a specific time frame on saying that it's going to be in four years or five years. Processes are being reviewed and some of them have already been completed to date. There are more to go. There are ones that have yet to be identified that we wish to avail of the opportunity to review. Even technology itself, as we have implemented it, continues to improve. JD Edwards is the main software that we use, but they do issue updates and enhancements based on the information that they receive from their users, so there may be other opportunities for us to improve some of our processes by utilizing some of the, as I refer to them, fixes that JD Edwards has made to its software that will enable us to do other

things within the future.
Q. Okay. In fact, Mr. Wells, if I just take you to October 7 of this hearing, at page 95 of the transcript, at line 24, I'm going to get you to elaborate on how this works for the Board. At line--October 7, page 95, there we go, bottom of the page, Mr. Wells says "we have now been able to make very good use of the JD Edwards system in a variety of ways, in ability to have real time real online information, real time. The various levels of management can look over their operations and they can, by clicking the button, look down through projects and costs and drill down right to the end detail." So I take it that one of the benefits of this system, Mr. Roberts, is that it has now enabled you to essentially computerize a lot of this operation so that it can come right to the manager's desk? Is that fair?
A. Yes. By having the JD Edwards system, you've got real time, current, up-to-date information, and at any point, a manager or supervisor or even an individual staff member that has the proper security and access can

access the JD Edwards system on a daily basis and can compare operating costs against budget, forecast, can extract history, and it can drill down within a particular expenditure category to see what may have caused a particular variance or what a particular cost happens to be.
Q. Can you give us some examples, some insight into how that works in your department and how that enables you, for example, to get to this type of data?
A. For instance, I'll just use a couple of examples in my own area. We have built online a summarized level called finance, and at that level in finance, I can see, at a one-line level, what my forecast is year to date versus my actuals, and that can be done daily, weekly, monthly, and I also have that ability to look back in time. At a very high level, and at this point, I'm just comparing the total against the total, I'm able to drill in on that and actually start to see where the variance may occur by having information available by the three directors that report to myself. So I'm able to isolate whether or

not it's in the director of finance area, whether or not the variance is in the customer service area or whether or not its on the risk and insurance side of things.
Q. Now to help the Board understand that, just what would have been required before you had this system on line to get that type of answer?
A. In the old system, it wasn't real live on line time, and the only way I could get the information was to request a report to be issued by our IS & T section, who would have to write a report, submit the job and have it run, and then it would be a function of was the information posted and current and were all the subsets of the various systems fed into the general ledger to extract the information.
Q. Okay. So a lot more work by people underneath you would have been required?
A. Yes.
Q. Fair summary?
A. Yes.
Q. Okay. Now can I take you next to CA-46, and this deals with this business improvement

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initiative.
A. Yes.
Q. And the answer for 2002 was that the cost was 1.8 million, one million was for consultants and 600,000 was the projected savings for 2004. Now the $800,000 of Hydro internal costs, what did that make up? How is that comprised?
A. That was primarily a reallocation of internal time. For instance, I had staff back in the controller's department that had been assigned to the initiative, had literally been removed from my section and were in the section where the process review group were working as a team. His salary costs were still being charged into my budget, but his time was being spent on business process improvement, and we had created an internal work order to track the time that was being incurred on this project. So what would happen is that the costs would come into my, as I'll refer to it, as a labour budget first and then it would come back out and be charged over to another location, so that the cost could be reflected.

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Q. So those people were existing Hydro employees that were working on this particular project. Now at page 24 of your evidence, you say that there are three projects still ongoing with this business improvement project. One is the acquisition of goods and services inventory control. Two is work management, and three is asset management. And is there a system in place to determine Hydro's costs for those projects?
A. The projects that are referred to there is primarily all being done by internal forces. So there are very little incremental costs associated with it. What's been done is that we have seconded knowledgeable staff from all across functions of the organization together in St. John's and to use an example, in the goods and service section, we seconded staff from Holyrood, Bishop Falls, and other locations throughout the organization. They were in St. John's for a period of time. So their time was associated with that product and that review. The only additional costs that would be incurred, other than their own internal time, would be for some travelling

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costs.
Q. Yes, but you told me for 2002 that there were really no incremental costs either because they were all Hydro costs, and you're telling me well, there's no incremental costs for 2003 and 2004, but you tracked the costs for 2002. Are you tracking the costs for 2003 and 2004?
A. For 2004, no decision has been made yet as to whether or not internal costs will be tracked, because this is considered to be part of what our employees are expected to do in their jobs. We are tracking internal time to a current work order for the processes that are being carried out in 2003.
Q. And what are the costs to date for 2003 then?
A. I don't have that answer with me.
Q. Can you undertake to provide that information?
A. Yes. (Undertaking)
Q. Okay. Now continuing along that vein, can I take you to NP-258 for a moment? And what we asked for in NP-258 was "were there a consultant's reports and recommendations and were there management plans?" And the answer is essentially, no, there's only the pages 23 and 24 of your evidence, and what I'd like to

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know, Mr. Roberts, is this then: if there were no plans developed by management and there's no consultant's report, what kind of cost benefit analysis did Hydro do to determine that these were good initiatives to be undertaking?
A. Well, I think you got to understand the process, and maybe I can just use the one that I elaborated on earlier this morning in my initial testimony. In the case of the travel, we said this is one area where we anticipate that we can leverage our technology and a significant amount of time has been spent. From creating a team of various people throughout the organization, they were able to identify opportunities whereby the system could be improved, and gains obtained. And has I had stated, in the case of we have a corporate purchasing card, the airline ticket, the hotel bill and the car rental are charged to that card, and the automation of the process was relatively simple to accomplish. Every supplier has a unique merchant category code and these merchant category codes are done by grouping. So that, for instance, like

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Air Canada, and maybe some of the other airlines now, are identified as being travel. We receive an automatic file from the vendor of our purchasing card. It's received in electronic format. We match that against our object expense accounts and all it does is it goes in and it matches Air Canada, as an example, and says okay, anytime you see Air Canada, it goes automatically to the travel expense account, and the button is pushed and it's recorded directly into your expenditures on a monthly basis.
(12:00 p.m.)
We also have an electronic time sheet application. Weekly time sheets were being done, so the idea was, well, if we're doing weekly time sheets and they're being processed through payroll and automatically deposited to an individual's bank account, could we not expand that and deal with paying our employees our per diem allowances? So that application was expanded. So the employee at the top of the screen fills in his time and then he just drops down a little bit further and then he

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enters the codes in for whether or not it was his breakfast or his lunch or his dinner. He enters the code and the process is automated. It goes through payroll. Those amounts get added to his net pay, automatically deposited and transferred to his bank account, and the payroll is ran and automatically recorded his travel within our general ledger system. That process eliminated basically the need to have a travel claim completed. It eliminated the need to manually code information. It eliminated the approval process. All those things have completely disappeared.
Q. And don't misunderstand me. I'm not suggesting that's not a good thing. But my question is this, and you really haven't addressed my question, my question is how did you--what sort of cost benefit analysis did you do, since you didn't have recommendations, you didn't have a management plan, what sort of cost benefit analysis did you do to determine that these would be good things to do?
A. To me, they were kind of obvious. When somebody turned around and said you're doing

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it this way, and you can eliminate all this time of having staff processing time sheets, and here's the current situation, what it would be, if you eliminate those, then the time is gone. I think it's relatively simple.
Q. So the ones you tackled were the obvious ones, to use the phrase that you just used, the ones that you could just look at and say "well, I don't need to do a cost benefit analysis because the ones are obvious." What sort of analysis is being done on ones that might be less obvious, where you're going to need to prepare plans and recommendations?
A. It's the process that dictates the amount of work and what has to be involved in trying to determine what is required to be done. For instance, the acquisition of goods and services, which is one of the ones that is currently under review, we, through the JD Edwards system, as an example, have a facility of being able to create what's referred to as a blanket order. We can arrange to have set up with a vendor the acquisition of various goods and services at predetermined and negotiated prices. What can then be done is

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that as individuals require goods and materials, they are aware as to who the blanket order is placed with and all they have to do is contact that vendor, provide them with a number and the goods are obtained. So there's no additional purchasing. There's no additional costs. When the invoice is received within accounts payable, the goods have already been receipted and it's based on that receipt and that negotiated price that the invoice is paid.
Q. Mr. Roberts -
A. These are not things that requires a detailed study and a detailed review to be able to identify. The purpose behind doing a process review is to analyze your current process and then from there, it becomes, in most cases, very obvious that you can change certain things that will enhance efficiency and give you more productivity.
Q. So for these three processes, no detailed review was necessary?
A. Well, the detailed review that's been done is a review of what your current process is, of documentation of how do we do things today,

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and where are the opportunities to streamline and to improve.
Q. Did you determine in advance the benefits that you expected, expect to get out of the three items that you've identified on page 24, the acquisition of goods and services, the inventory control, work management and asset management? Have you determined what you expect to get out of them in dollars?
A. Just on very rough, from the point of view that time was going to disappear. In the case of process and travel claims in accounts payable, the individuals that were involved, we were spending approximately 15 days a month and we knew with the elimination of the travel claims, that time would disappear.
Q. So what are the amounts that you expect to save on each of the three items? First of all, acquisition of goods and services and inventory control?
A. Those processes are still under review and those numbers have not been finalized or firmed up as to what anticipated savings will be achieved at the end of the day, and those

savings will not occur until after 2004.
Q. So despite the fact that these are the obvious areas, you still haven't come up even with an order of magnitude of what the savings are?
A. These are just not necessarily obvious processes. These are just another three processes that we're continuing to improve.
Q. Okay.
A. And we believe that there will be savings within those processes as they evolve.
Q. And the reason that you believe it is because it's obvious, not because you've done a cost benefit analysis study? Do I have that correct?
A. In most cases, it's very obvious that you can--once you review the way that your current business is being done, that you can obtain savings from other areas that are being explored.
Q. Now can I take you back to NP-30 for a moment? And this is the elimination of the 46 positions in 2002, and the operating cost reductions in '03 and beyond from the elimination of these 46 positions is approximately 2.6 million per annum. I take

it that 2.6 million is now fully reflected in the '04 forecast?
A. Yes, it is.
Q. Sorry?
A. Yes.
Q. Okay. And the average cost of--the average saving from each of those positions would be about $56,500, if I divide the 46 into the 2.6 million? Does that sound about the right order of magnitude?
A. If your math is right.
Q. Okay. And 18 of those positions were vacant, and I take it you had to pay a severance payment for the other 30 odd, 28 items, 28 positions? Is that correct?
A. Some severance, even today, may still not be paid from the elimination of those 46 positions.
Q. May not be paid?
A. That's correct.
Q. Could you just explain that for me?
A. Well, if a position was being eliminated and there happened to be an incumbent in it, there were certain bumping rights that are available underneath the union contract, and there may

also be an opportunity to fill in for somebody on sick leave. Somebody may be on long-term disability. So there may be some deferment of what may eventually end up having to be severance costs, but the amounts certainly would not be significant.
Q. Okay. Let me take you back to CA-46 for a moment, again, and the $600,000 savings that relate to the business improvement process. How did you come up with that $600,000 number? What quantifications did you do to come up with that?
A. 600,000 is primarily calculations of savings in salary dollars.
Q. Okay. And if we go to NP-278 for a moment, the answer is that that 600,000 primarily reflects in salaries and fringe benefits, correct?
A. Yes.
Q. So if I understand it correctly, that 600,000 is part of the 2.6 million dollars that we just looked at?
A. No, not all of the 600,000 will be associated with the 2.6. Some of it would be.
Q. Can you explain to me what would and what

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wouldn't, and why not? Let me start by going at this way. Am I not correct that that 600,000 is now fully reflected in 2004's forecast?
A. Yes.
Q. Then can you explain, if it's part of the salaries, what part is included and what part isn't?
A. I guess what I'm trying to say, Mr. Kelly, is that the $600,000 that you see here in NP- 278 -
Q. Yes.
A. - is directly related to the initiatives that are described in my evidence, being the review of the accounts payable, the corporate and purchasing credit card, and the consumables. Within the 46 positions that were eliminated, there may have been positions eliminated that were not associated with this.
Q. I appreciate that in 2.6 there's a lot more positions eliminated than the 600,000. But what I'm trying to understand is, is that 600,000 fully encompassed within your 2. 6 million?

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A. The 2.6 and the 600,000 are separate numbers in most respects. There may be a couple of positions that were included in the 46 that were anticipated to be in the six, but the majority of the 46 had nothing to do with the 600,000.
Q. Had nothing to do with the 600,000.
A. No.
Q. Is that $600,000.00 in savings there, is that because additional people have been let go?
A. That's because of additional positions that have been eliminated or reductions in temporary hours.
Q. Okay. So, that--we had 300,000 of that in 2003 and it's fully implemented at 600,000 in 2004, how many permanent positions are eliminated in that 600,000 beyond the 46, can you help us with that?
A. It looks to be about approximately about 10 Fulltime Equivalents.
Q. Ten Fulltime Equivalents, is that what makes up the 600,000 or the difference between ' 03 and '04?
A. If I may, I'm trying to add up my numbers now as I listen to you, so, please bear with me.

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My estimate is, there's about 10 Fulltime Equivalents that are taken out of the 600,000.
Q. In the 600,000.
A. Yes.
Q. Okay. Are any of those Fulltime Equivalents in the 2.6 million, in other words, in the 46 employees that were let go in '02?
A. No, I don't believe there is.
(12:15 p.m.)
Q. Okay. So, the 600,000 is in addition to the 2.6?
A. Yes, because the 2.6 was done back in October, but it did reflect some anticipated changes that were arising from process review and I'll elaborate and give you an example that was directly in my area at the time. One of the positions that was deleted in the 2.6 million was the Accounts Payable Supervisor. The time that's in--and he's not included as an example in that 600,000 there. That 600,000 that's there is purely staff time and positions that's related to the implementation in January of this year, the purchasing card changes and the travel card changes. Whereas the decision to take out the supervisor was

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done in the previous year.
Q. So, if the 600,000 is not included in the 46, then the discussion that we had earlier about the savings that were going to be derived with this productivity allowance, really don't have anything to do with the business improvement process, per se, because at the end of the day, according to NP-278, it only adds up to $660,000.00. Am I missing something here?
A. No, I think the 2.6 million that was taken out in the 46 positions, at least, in my own case, I was cognizant of what was coming down at a later date relative to process review. And I'll speak, you know, for the purchasing card and travel and the reviews that we carried out in accounts payable. And it was decided that we could take some of those positions out earlier than waiting until 2003. There are additional positions also taken out in 2003.
Q. I'm getting kind of confused here now. Is it your position that the answer in NP-278 is really not correct because some of that 2.6 actually relates to this business improvement process?
A. I'm saying--2.6 was cognizant of some of the

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changes that were about to happen in the process review which is this 600,000. And the example that I just used with AP Supervisor, that was taken out as being part of the 2.6, whereas changes in workload by staff are included and reflected in the 600,000.
Q. Okay. So, we've established now the 2.6 and the 600,000 are separate. Can I take you to line 24 of your evidence, page 24 of your evidence, where you talk about--line 13--the--if you could just scroll down a little bit, Mr. O'Reilly, there you go. This is the process review that's underway with respect to the meter readers and you have $128,000.00 there.
A. Yes.
Q. Now that, as I understand it, is not yet reflected in the 2004 budget or am I mistaken in that?
A. To the best of my knowledge, that's reflected in 2004, it's been carried out in 2003.
Q. So, that 128, you say, is fully reflected in 2004 in the forecast as filed?
A. That should be reflected somewhere in the

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forecast for 2004.
Q. Somewhere?
A. Yes, because it would be a combination of permanent positions versus temporary.
Q. And that 128 again, 128,000, that would be primarily salaries and fringe benefits?
A. No, I believe there were some savings in travel costs as well and possibly some mileage allowances that were going to be paid as well.
Q. Okay, set this one up, let's go to IC-211, page 4 of 4, down, there you go, just another little bit, Mr. O'Reilly. To August '03, there'd been a further net reduction in positions as follows and there are two meter readers, if I understand the answer correctly, gone from your department?
A. Yes, there's two full-time positions.
Q. Okay. So, out of the 128, how much of that would relate to salaries and benefits?
A. In 2003?
Q. No, for your 2004 forecast, you can give us the 2003 answer, as well, if you have it.
A. I'm afraid I don't know how much a meter reader collector gets paid, so I honestly couldn't tell you.

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Q. Are there only two that will be eliminated out of the 128 for 2004 forecast?
A. There's two full-time positions, but there may have been some temporary positions come back.
Q. Can you, Mr. Roberts, undertake to try to tell us, out of the 128 that you're forecasting, because you said some might be in travel and other items, what part of the 128 relates to salaries and fringe benefits and what part relates to other potential savings? (Undertaking) Could you undertake to provide that for us?
A. Yes.
Q. Now, I take it that from the discussion that we had, that no cost-benefit analysis was done with respect to this program that led to the 600,000. Without the benefit of some kind of cost benefit analysis, first, how do you fulfil your responsibility to ensure that the plan is going to be an appropriate one to implement?
A. Well, the ones that were completed today or up to the current point, as Mr. Wells elaborated, slide shows were presented to management outlining the current state of what was

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happening in those various processes and what the changes could be to enhance efficiency. And it was very obvious when you start looking at some of these processes that if you're going to automate a particular process and the work is going to be completely eliminated, then the reductions will automatically happen within your salaries and fringe benefits group.
Q. Okay. So, would you agree with this, that the ability to do some of the things that you've talked about here with us, the 46 employees, the 600,000 and 128,000 in savings, derived from the implementation of your JD Edwards system? Now, one of the things that you're attempting to do here is -
A. Well, JD -
Q. -leverage that product -
A. JD Edwards is just one of the things that's being done in the utilization of that technology and other technologies that we have, but there may be other opportunities that have nothing to do with technology. It's a question of asking yourself why are we doing certain functions? Is there a better way in

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which to do them? Do we need to do them? So, some of it is technology driven; some of it is new technology. Also, some of it is asking yourself, is there a better way to do the particular program.
Q. Now, if we can just sort of shift gears for a moment, if you are the CFO for Hydro, what responsibility do you have for managing and reducing the rural deficit? What's your role in that process?
A. I guess as Chief Financial Officer, I have an overall responsibility relative to financial control, and that responsibility is to ensure that the proper mechanisms are in place to report information to both the management committee and the other vice-presidents that have responsibility for the various areas.
Q. Is there any kind of active process in your department to come up with programs to reduce the rural deficit?
A. There is a vice-president that's responsible for the rural operations of Newfoundland and Labrador Hydro, and we provide assistance and help to that particular area, and through the

review of all of our business processes, they assist and help all costs in total, not just TRO, but costs for production, costs for financing. It's the same common system. It's the same people doing similar functions and it's not a direct review just specifically looking at the rural deficit, when it comes to the review of the processes. It's looking at it as the company as a whole.
Q. So there's no individual program or separate program in your department that focuses on the rural deficit and cost control measures with respect to it?
A. Mr. Martin, as being vice-president and CRO, would have certain initiatives that are geared directly towards TRO itself. The initiatives that I would be responsible for undertaking are for the company as a whole.
Q. Okay. So there's no separate one in your department on rural deficit?
A. No, because you've got to understand in the rural deficit that it's not just costs. It's the cost of service is shifting costs. So from my perspective, as being vice-president of finance, I look at the cost in total. If

those costs are there and the cost of service is allocating certain costs to the rural deficit, and there happens to be a change in the assignment of those costs, well, the costs that are there in total would automatically shift as well. A case in point is the assignment on the Great Northern Peninsula. That shifted cost from one area in the cost of service to the other. The other area it happened to shift them into was a portion of the rural deficit. Some of those costs, in the past, were in common and everybody shared. So the ratio of what happens within the rural deficit is different. Yes, there are initiatives. We do have a vice-president that's responsible for TRO, and on a company-wide basis, there are initiatives to improve all processes, and by doing that, that should also assist and enhance what happens with TRO as well.
Q. Now, I want to come back to our discussion of leveraging technology for productivity gains. Can I take you to CA No. 10 for a moment? And this deals with the two million dollar productivity allowance, and if I take you down

to line 21, in part B of the answer, you say there "opportunities to leverage technological innovative to reorganize to increase efficiencies and to reduce operating costs are part of the continuous improvement program." So first of all, I take it Hydro acknowledges that there are opportunities to leverage technology and in addition, to reorganize to increase efficiencies. Is that correct, first of all?
A. Yes, there are opportunities to do both.
Q. Is Hydro looking at a corporate reorganization plan, Mr. Roberts?
A. No, not at this point.
Q. Is it in the works for the foreseeable future?
A. I can't answer that question with absolute certainty.
Q. Do you have any studies in place, either external or internal, looking at the corporate reorganization of Hydro?
A. No, not at this point that I'm aware of.
Q. Okay. Can I take you to PUB No. 80? Now in PUB-80, this question was asked whether you set staffing levels for 2004 to 2008, and the answer is, essentially, no. For 2004, if you

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haven't determined required staffing levels, how do you determine salaries and fringe benefits for 2004?
A. The salaries and fringe benefits were based on current staffing levels at the time the document was prepared and as outlined earlier this morning, Hydro does have, in 2004, a vacancy allowance of one million dollars, and it has also provided an extra 1.5 million dollars in 2004 to cover anticipated additional savings from review of the various processes and where opportunities may arise for improvement.
Q. By this time in 2003, has Hydro done any study of the staffing levels that will be required for 2004?
A. I'm not aware of any study having been completed.
Q. Okay. And so you haven't done--there's been none done and reported to you from any of the other divisions?
A. No, there has not.
(12:30 p.m.)
Q. Okay. Can I take you to PUB-81? And the

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answer to this question, I take it, Hydro indicated it had no current plans to implement an early retirement program in the test year or beyond. Is that answer still accurate as of today?
A. Yes, it is.
Q. Are any studies underway or contemplated, looking at the costs and benefits of an Early Retirement Program?
A. No, there's not. Hydro's experience has been that an Early Retirement Program historically has not been that cost effective, if at all.
Q. But you had not--you are not currently performing a current cost benefit analysis -
A. We are not performing any current cost benefit analysis on an Early Retirement Program.
Q. Okay. I'm a little bit intrigued with that, especially in view of your answer earlier on that 18 of the positions that you eliminated were actually empty when you eliminated them, which would seem to indicate that if the positions are empty, then there would have been no cost to eliminating them, as soon as they became empty?
A. I'm not sure what I follow what you're trying

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to say, and maybe if you would bear with me for a second.
Q. Well, let me put the question this way, in some cases, as in the fact of those 18 vacant positions, there's no cost benefit because there's nobody physically needs to be retired, so without a cost benefit analysis of a program, how do you determine whether in fact there are benefits or aren't?
A. As positions become vacant from whatever reason, one of the first things that's done is a review to see what can be done with that position being vacant. Is there another way in which that the work can get done in a different manner? Does it all need to be done? Is it more advantageous to have five hours a week overtime being phased, rather than have a fulltime employee on staff? So all that type of analysis is being done on an individual basis on a position-by-position basis. And that's part of the process that goes on day and day out as vacancies occur.
Q. And that's done on a position-by-position basis, is it?
A. That's done on a position-by-position basis.

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Q. Okay, let me take you next then to P.U.B. 104 and the question from Board staff here was does Hydro have a plan to lower the number of FTEs in 2004 test year; and the answer was, well that it's constantly reviewing organizational process, et cetera, which is expected to result in opportunities to reduce the number of FTEs going forward. But has that potential yet been quantified as of October '03?
A. No, it hasn't. As I said, the constantly reviewing the organizational structures, as I just outlined, as vacancies occur, opportunities are reviewed to see if there is a full fledged opportunity here. Is there another way to do it? Is there a better way to do it? That's the continuous process that will continue forever.
Q. Are there any studies underway or contemplated in looking for proactive ways to reduce FTEs?
A. The only initiatives that are undergoing at this point are the ones that I outlined on page 24, which was dealing with the acquisition of goods and services, the work management and the asset management at this

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point. These are the three processes that are consuming a significant amount of time and effort and were deemed to be, by management, of significance enough to provide the necessary internal resources to proceed with these projects.
Q. Okay, can I take you next, Mr. Roberts, to NP-9 and in NP-9, we ask Hydro to provide the staffing levels by division and department for the years '97 through to 2002, with projections for '03 and '04. And if you'll take a minute and look through the tables, I don't intend to go through them, each one by one, but the next result is that the number of compartments which Hydro has in '97, in total, is the same as the number that you're forecasting in 2004, some, for example, in production, they had five departments in '97 and now they had six; human resources and legal each have four; TROs have three; finance had five in '97, now had three; and other has two, where now it has three. So the results are essentially the same for 19 departments? Would you agree with that?

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A. If that's the number.
Q. Okay, are there any studies underway or contemplated to look at that type of reorganization at the managerial level?
A. At this point, there is no formalized study underway to look at how some of these departments, as you refer to them, may or may not be consolidated.
Q. NP-189 and in the answer to NP-189, which is predicated upon the fact that there are still--well first of all, there are the reductions in employees from 904 to 791 in 2003, but the same number of departments. The answer was the same organizational structure is constantly being monitored et cetera. Keeping in mind that that's at the individual level and the question of the number of departments is at a bureaucratic level, so to speak, is it not appropriate to have a look at that bureaucratic structure at this stage?
A. Well, I don't agree with your comment and I'll use my own example. I became Vice-President of Finance in January of this year. When I did become Vice-President of Finance, my previous position became vacant, and I took

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the opportunity to assess whether or not the opportunity existed to combine the treasury and the corporate controller roles into one. And I felt that it could be done and it was accomplished. So it moved, the corporate controller role and the treasury role all into one underneath the Director of Finance and a senior position was deleted. That doesn't change the functions of the work that was done down below, it's just changed at a higher level. Some of the names that you happen to see here are done, not because they've created departments, but it is because of the function and the role that's carried out. For instance, the corporate risk in insurance, that happens to be one individual that reports directly to the vice-president. It's not a full fledged department, so some of the titles and the sections that may seem to be departments, is not an onerous department, it's a function of what the roles are within those particular sections. And as opportunities arise to consolidate or if it makes more sense to combine these things, then that will be done in the future. The same

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thing is happening through the review of our business processes. Once you start crossing functional lines, and that's exactly what we're doing in this process, then you may have opportunities where functions may be removed from one section and put into another.
Q. Can we just scroll back to NP-10 for a moment? And scroll up to the table there. NP-19--could we go up a little bit more, Mr. O'Reilly, here we go. This gives us the staffing numbers for the years all the way through '92. If we go down to the '97 level, there were 904 permanent in '97 and now only 791, so there's a reduction of 113 in the permanent category and a very small increase in the temporary. So you've got a significant reduction in the permanent complement, but the same type of corporate structure to manage those reduced numbered employees, would you agree with that, Mr. Roberts?
A. You're drawing the conclusion you got to have a department to be able to manage the people. You can have a department with 40 people in it or you could have a department with only two. It's the function of what the role is, not so

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much as to what it is and in the example that I gave you was risk in insurance. Risk in insurance is deemed to be a crucial area of organization and consequently, that's why it reports to the vice-president.
Q. Let's take the analysis a little step further. Let's have a look at CA-41 here and CA-41 asks for information on wage increases for management and non-management employees. And if you go over to page 2 of 2, and the tables that we have there, the increases--if you go to the right-hand side first, which are the union increases and we go to 1997 and kind of use that as the benchmark, the increases from 1997 for union have been somewhat higher because of '97 and '98, than the increases in the non-union wage scale, would you agree with that?
A. '97 and '98 are higher than the non-union.
Q. Yeah, are higher than non-union; all the other entries are essentially the same. There may be some timing differences as to when they come in.
A. Yes, because non-union was zero from 1992 to

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1997; whereas the union received increases based on this table commencing in 1996.
Q. Right, so the union increases are slightly greater than the non-union one. Just scroll over then to CA-61, and if we go to page 2 of 2 of that items, we have a breakdown of total wage costs between union and non-union. Now, unfortunately the table only can go back to 1998, but if we look at 1998 in non-union, we have 19,254 in non-union--do you have the table, Mr. Roberts?
A. Yes, I do.
Q. 19,000 and if we come over to the 2002 non-union, the number is 24,765 for an increase in the non-union total wage cost of 28.7 percent. See that? Now, let me just go back to the union. You have 24.7 million for total in union, and then you come over to 2002 in the union, and it's only 25.5 for an increase over those years '98 to '02 of 3.2 percent. So the union total wage package, despite the fact that its annual increases actually exceeded the non-union, its total wage payment went up 3.2 percent, compared to non-union of 28.7 percent. And what I take out of that and you

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correct me if I'm wrong, is that the reductions have been primarily in the union side of the organization, would you agree with that?
A. I really don't know without going through position by position to be able to answer your question, but the change in the dollars would be a function of what the increases have been granted by year, and the people that are involved in the various positions.
Q. So when you look at the percentage increase in the wage rates, the union percentages actually go up more, but the actual paid dollars are very substantially less, it's only 3.2 percent for the union, meaning that--what I take out of it is that the people who are let go must be predominantly in the union ranks. And I'm wondering whether you can shed any light on that?
A. You may be right that there may be more union positions gone than non-union, but I'd only be speculating at this point.
Q. Because here's what, I guess, I'm kind of leading to, a lot of those union people would be, what I'd call your front-line people,

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whether it's meter readers or linesmen or production people at generating stations, would you agree with that?
A. Operators, things like that, yes.
Q. So if those are the people who are let go, then--and we look at the number of departments and divisions that you've got, then what it appears, looking at this, is that you've got a management structure of essentially the same magnitude as of 1997, but with significant reductions in the workforce, your front-line workforce in the meantime. And I'm wondering whether it is now the time, keeping in mind the answer to CA-10, that this technology gives you opportunities to re-organize and leverage technological improvements, whether this is now the time to really focus on a reorganization at Hydro and a real cost benefit analysis of doing so. Can I get you to comment on that?
(12:45 p.m.)
A. Well, I guess my first comment would be is that I'm not sure of the split between union and non-union. So it's really difficult for me to state with certainty that most of the

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positions that have been deleted have been union positions, but I would like to add this comment, that the salary numbers that are reflected here, reflects both permanents and temporary and by far the majority of a temporary help was unionized workers. And if reductions, continuing to incur in the way that work has been done and the way maintenance was being handled, then I wouldn't be surprised if there is more of a decrease in the union cost, relative to the number of dollars that we're seeing here on this particular table when you compare back over time.

Q. But those temporary workers still have to have managers and people to supervise them, so the fact that it's gone from temporary verses permanent, but it doesn't go to the merits of whether it's time to look at reorganization, is it?

A. Well the permanent supervisor having five permanent employees and half a dozen temporary employees for four or five months of the run of a year, still doesn't change the overall

concept.

Q. I'm struck about this point because one of the items made in Mr. Wells' evidence is that approximately 25 percent of Hydro's workforce retires over the next five years, and it would seem that this would be a golden opportunity to look at reorganization, as opposed to simply waiting for positions to become vacant on an individual basis, to really look at this whole restructuring in a least cost method--methodology. Can I get you to comment on that observation?

A. I guess all I can say at this point is that there is nothing being formalized relative to a review, that's not to say that one may not be undertaken in the future, but in the case of the 25 percent reduction in staff over the next four to five years, that may enable opportunities for consolidation or it may not. But all I can say at this point, there is nothing that's been formalized as of right now.

Q. Are you aware, Mr. Roberts, that Newfoundland Power is kind of leveraging the benefits of this technology, that Newfoundland Power

actually reduced from '97 to forecast '04, the number of its managers and executives from 29 down to 14?

A. Yes, I think I remember seeing that in their last General Rate Application.

Q. And I'm wondering whether that sort of study process at Hydro--whether you're in a position to indicate to the Board that that type of study at least is desirable at Hydro?

A. Hydro will look at its staffing as required on a go-forward basis. I can't attest to the reasons or the rationale as to why Newfoundland Power went from 29 to 14, so I don't have that level of information.

Q. Can I take you over to IC-212 and I gather when the decision was made or the discussions with your union that employees would have to be let go, that there was a response from the union indicating that money could be saved elsewhere in the cost structure of the organization. If we just scroll over to page 6 of the document first, just to go to the end to page 6 first, Mr. O'Reilly, if we could. The very last line that you have on the screen there now, Mr. O'Reilly. Mr. Roberts, the

union came back with a list of some 20-odd items which they viewed could save 4.66 to 5. 5 million dollars. Now, I appreciate you may not accept all of the union's numbers, but the union at least came back with a list of recommendations?

A. Yes.

Q. Can I take you back to page 4 of the document, which is to Item 1?

A. Yes.

Q. And we're just getting it up on the screen there. Okay. And there's a question posed as a reduction in staff, how can Hydro take out 60 Fulltime Equivalents in 2003 and another 60 Fulltime Equivalents in 2004, yet see no reduction in supervisory staff? Explanation required. I'd like to break that into sections. In 2003, is there a program at Hydro to take out 60 Fulltime Equivalents?

A. A program, no. There were reductions in what was required for temporary workers in 2003.

Q. Did that come to 60 Fulltime Equivalents?

A. I'm sorry, I can't answer it, I really don't know if it came to 60 or not.

Q. Okay, perhaps you can undertake to tell us the

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number of Fulltime Equivalents that were reduced in 2003? (Undertaking) In 2004, is there a--choose which words you like, proposal, discussion, any program at all to eliminate 60 Fulltime Equivalents in 2004?
A. What I can tell you is that the number of temporaries that are required in 2003 and in 2004 were reduced and the reduction, the numbers that were required are reflected in the 2004 forecast.
Q. But the answers to the information requests that we have indicate that apart from this general ongoing review, the 2004 numbers are the same as the August 2003 numbers. So my question is, if that's the case, keeping in mind the answers which you've given, what is the reference to 60 Fulltime Equivalents in 2004?
A. The reference is by union, I can't attest how they arrived at 60 Fulltime Equivalents, all I can tell you is that the requirement for hourly wages that was deemed necessary is being reflected in the 2004 cost of service.
Q. Was there any discussion with the union about

eliminating 60 Fulltime Equivalents in 2004?
A. Not that I am aware of. All I can tell you is that the reductions in temporary staff, the hourly wages that were required were made and what's reflected in the 2004 test year, reflects that result.
Q. Okay, the union also raised the question then of the reduction in supervisory staff, and in light of a discussion that we just had, would I conclude that the union appears to be of the view that some reorganization is also appropriate? Has that been discussed with your union?
A. No, the responsibility for organization of the Company rests with management. And I would like to sort of elaborate from the supervisory staff perspective, I used an example earlier, is that you may have a supervisor responsible for a certain number of permanent employees on a year-round basis, and then during peak maintenance times in the summer, will bring on maybe four, five other people. Because you decide to limit the number of temporaries that may be coming on in a particular year, it still may not change the requirement for the

supervisory level on the permanent employees that are on for a whole year.
Q. It may or it may not, but without having studied it, if the only process that you've got is to look at it on an individual person's job, when that becomes vacant and you don't step back and look at the whole structure, how can you know that you can't come to a better structure, Mr. Roberts?
A. I can only say as to what is actually done is that it's looked at by the area and by the each, that there's no big elaborate formalized study that's being carried out.
Q. Can I take you over to Item 8 on the union list there, which is the question of an early retirement package, and in fact, it appears from that that the union would be receptive to an early retirement package. And I'm wondering whether any such package has been discussed with your union?
A. We advised the union that we were not offering an early retirement package, as it is a cost to the organization. And in most cases, an early retirement package doesn't necessarily mean that positions are limited. What happens

in some cases, you may offer an early retirement package, but some of these positions may still end up having to be filled, so all you're doing is saving the difference between what somebody would do at an entry level position, verses somebody that may be at the top level of a particular job classification.
Q. Let's come down to Item 9, which is the JD Edwards system and the union complains that the system is driving the Company, instead of the Company driving it. And a little bit further down, the question, "What is the true benefit of having all the business unit managers, specialists, planning supervisors and planners in place, what is the cost of the system?" And that appears to go to two items, number one is this intermediate level of bureaucracy, if I can call it that, and secondly, has Hydro done a recent Cost Benefit Analysis of the JD Edwards system to look at the benefits that you did get out of it, verses what benefits you might yet be able to get out of it, by virtue of a reorganization?
A. The answer is no, we are presently utilizing

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what we have installed and used and this is one of our key tools in looking at our process improvement and how we can leverage that technology, and that's the way that the review is being conducted.
Q. And I guess what we're suggesting is that it is a key tool that can be better leveraged for greater productivity gains, but what I take from all of your answers, Mr. Roberts, if I'm correct, is that there is no ongoing study to look at achieving those gains, is that correct?
A. In your context of a study, the answer is no. We're looking at it on a process-by-process basis and realizing what does the process do? How can we change it? How can we enhance it? And how can we use the technology that we presently have?
Q. I'm going to switch gears a bit, now Mr. Roberts, I want to go to Schedule 2 of your evidence, and I'd like to have a look, as Ms. Greene did with you, with your 2002 actuals, verses your 2002 test year requirement.
A. Yes.

Q. Do you have that in front of you? Okay. The place I wanted to start is with the fuel item that Ms. Greene touched on. You had a test year requirement of 88 million dollars there and a 2002 actual of 73 million and change, and you provided some explanation to Ms. Greene. Can I take you to IC-370? And in this question, you were asked what's the breakdown of the difference of the 15.5 million dollars and there are--we come down through the answer, there are a number of factors, you talked about the eight months difference with Ms. Greene, offset by the fact that the thermal production and consumption was higher than forecast and the impact of the hydraulic variation was an increase in fuel cost of 19.7. And then, finally the actual conversion factor experienced at Holyrood was higher than forecast, resulting in additional savings of 6.1 million dollars. So the test year fuel conversion factor was 615 kilowatt hours per barrel? Are you familiar with that?
A. In 2002?
Q. In 2002 from the Board Order?
A. Yes, I was.

Q. And that compares, if we just want to scroll it up, we can get it in a couple of places. Mr. Haynes' Schedule 8 or NP-75 give us the answer of 648 was the actual achieved in 2002?
A. That's correct.
Q. So that change in the fuel conversation achieved from 615 to 648, translated to 6.1 million dollars. Now, if I go back to Schedule 2, and I compare that to the forecast Return on Equity of 7.9 million dollars, that 6.1 is 77 percent of the Return on Equity that had been included as part of the revenue requirement, so it's a very substantial amount, would you agree with me, Mr. Roberts?
A. The change in the fuels and that is in the 2002 actuals, not in the 2002 final test year revenue requirement.
Q. Yes, but the difference between the final test year requirement and actuals for the fuel conversation factor was 6.1 million dollars, and comparing that to the allowed return at 6.1 verses 7.9 is a significant amount, we're talking 77 percent. If Hydro had--if everything else had panned through exactly as tested and all that had changed was the fuel

conversion factor, that 6.1 million would have gone right to Hydro's bottom line, wouldn't it? Would you agree with that?
A. I'll have to think about it, but I think you may be right.
Q. And you can, by all means, think about it, but as we understand the evidence as filed, that would flow through to--right to the bottom line. Now, Mr. Browne touched on this this morning about the, are you proposing a range or any adjustment formula--I take it, Hydro currently does not have any kind of excess earnings account, does it?
A. No, it does not.
Q. And Hydro is not proposing the creation of one in this hearing?
A. That is correct.
Q. So that if Hydro, if in my example that 6.1 million had flowed right to the bottom line, that would accrue to Hydro's benefit, wouldn't it? It would not have to be charged to an excess revenue account as currently set up? Am I correct in that?
A. Without direction from the Board as to whether or not there is a cap on over or under

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earnings or a range established, then any efficiency savings from fuel would fall through to Hydro's bottom line.
Q. Right. And just by way of example, not to belabour the point, but if we go across on the final test year, the margin Return on Equity, the difference between 7.959 and the 9.7 that you actually achieve, that didn't go into any excess revenue account, it was simply retained by Hydro, correct?
A. Well, to start with, there are no excess earnings in 2002 and for very good reasons. 2002, unfortunately is a year that's real difficult, if not impossible, to try and do any comparison on. The reason being is that in the 2002 actuals, you've got eight months and primarily a '92 Cost of Service, that's what rates are based on. It has approximately $12.50 a barrel, it has a different efficiency and the actual revenue rate is completely different than what the 2002, as you would see here for a twelve-month period is based on. For instance, interest was completely different in 1992 verses what it is for 2002.

That's what drove and that's what gave Hydro revenue for the first eight months of 2002. For the last four months of 2002, it's based on the impact of what you see in the first column. But when you add eight months at one rate and four months at another, then it's next to impossible to try and compare such an item as fuel, even revenue, they're all on a different basis and certainly in the case of margin, so that's why there is no over earnings in the case of 2002.
Q. And I will accept that there's some difficulty in doing comparisons, but as a matter of principle, even if you had on the screen here full complete years, January to December in each case, then that additional income would not flow into an excess revenue account because you don't have one, am I not correct in that?
A. If 2002 was exactly on the same basis of 2002 and we achieved that efficiency, then yes, margin would go by six million.
Q. So getting a good handle on the correct fuel conversion factor is important from a forecasting point of view because the

potential variation is a significant amount of money, would you agree with that?
A. It's a significant amount of money, but you have to recognize it can go both ways. The reverse is also true, we're just, in the last couple of years, had dry conditions and Holyrood has been operating at an extremely high efficiency. In the event of a wet year, and the efficiency was set at a high level, then the reverse would also be true.
Q. And we'll explore that a little bit more with Mr. Haynes. Can I go up to, as you come down through your 2002 actuals now, we looked at the fuel, talked about that item, if we come down to the subtotal on your controllable costs, the numbers went from 96.2 to 104 for a difference of 7.8 or 7.9 million and approximately 8.2 percent. So in 2002, those controllable costs, down at that level, came in about 7.8 million over budget, we agree with that?
A. There's 7.8 more than the 2002 test year taking into account the productivity loss.
Q. Right. And then when you come down a little further to the total other costs or net

controllable costs, that line, the difference is 5.4 million, approximately, or 6.3 percent and the difference of approximately 2. 4 million is in the credit for Hydro capitalized expenses, that's the primary driver in the difference? Do you agree with that?
A. Yes, there is more time spent capital in 2002 than was originally anticipated.
Q. Okay. So, overall in 2002 you saved approximately 15 and a half million on fuel, lost seven point eight or nine, 7.9 on controllable costs, got a credit of 2.4 on the capital expenses for a net lost on your curtailable at 5.4 and all of that at the bottom line translated to about $1.8 million better off in margin? If I summarized it, that's what I would take out of that, would you agree with that?
A. Well, that's the math, but as I mentioned before, the 2002 actuals are not comparable to what the test year is.
Q. Okay. The loss of 7.8 million on the controllable costs, as CFO, Mr. Roberts, can I ask you to comment on what you think of that as a performance?

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MR. ROBERTS:
A. I think you'd have to look at the individual components and recognize as to what was done within the particular year. In the case of salaries and fringe benefits, there was a million dollars in there for severance from the elimination of the 46 positions. You also had capitalized overtime in there for a million dollars. There were some changes within system maintenance and insurance, they're recognized, and some of the other costs, including professional services which are associated with the hearings before the Board. The Board imposed a productivity allowance, that's causing part of the variance. And there was an additional loss on disposal of fixed assets which was not anticipated.
Q. But even taking out the productivity allowance, the fact that you didn't achieve the productivity gain, not only was it not achieved but you still missed by 5.8 million accounting for that?
A. Well, of the 5.8 that you're referring to right off the bat you can pick up 3.8 in just

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three items.
Q. Okay. And those three again are?
A. Well, you got your loss on disposal for 1.8.
Q. Right.
A. And then you've got an extra $2 million sitting in your salaries and fringe benefits grouping.
Q. One million of which would be related to severance?
A. One million of which related to the severance on the 46 positions.
Q. Okay. Now, I want to talk a little bit more in detail about the capitalized expenses and I want to go to NP-28. And because that's a big document I had circulated the last time a handout of the relevant pages and I have a few more copies if there are people who don't, madam clerk, if there are people who don't have the handout from previously. Mr. Roberts, if I take you to the first page of the attachment here and we'll start at the 2002 year. In the 2002 budget year Hydro had budgeted capital expenses of 4.350 million. Do you see that?
A. Just give me a second.

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Q. In 2000.
A. Oh, in 2000.
Q. Sorry, 2000.
A. You said -
Q. I apologize, I mis-spoke myself.
A. That's okay.
Q. Let's start over. We're starting the year 2000.
A. 2000, which is the -
Q. Which is the first page.
A. On page 7, okay.
Q. And the budget was 4.350?
A. Um-hm.
Q. And then the actual which was achieved, if we turn over to the next page, we get the 2000 actual. And we should--the page may be in the wrong order. If you get to 2002 actual, it should be 7219?
A. Um-hm.
Q. So that between 2000 budget of 4.35 and 7. 219 it was almost a 2.9 percent--$2.9 million increase?
A. That's correct.
Q. And then if we go to budget 01, we had a budget of 5.5 or 5.6 million. And you look at

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the actual for 01, it came in at 8.9 million. So 3.4 million over budget on the 2001. And when we look at the budget for 2002, the budget which was forecast for 2002 was 5.723. And if we go to your Schedule 2, we see it actually came in at eight million, 116, or 8.2 for a difference of 2.4 million. And may I put it to you, Mr. Roberts, that over that period of time we looked at there has been a consistent underestimating of Hydro's capitalized expenses. If you took the average, you'd have approximately 2.9 million per year? First of all, would you agree that that's essentially the math?
A. I'd agree that that's the math, but I guess I can only explain to you is that the budget is based on an estimate of the amount of internal time and resources that would be required on capital projects, and as the work entails and unfolds then things will change.
(1:17 p.m.)
Q. Yeah. But the question here is the accuracy of the forecasting. Now, my colleague, Ms. Butler, went through this with you a little bit last time. And if I take you to November

KELLY, Q.C.:
15th, 2001 at page 1. If you just turn that up for a moment. And you go--you'll see there at line 50, Ms. Butler, in fact, took you back through a much longer analysis than I just took you through. She took you all the way back to 1993 and brought you forward over that period of time from '93 all the way up pointing out what the capitalized expenses were. And then if I take you down to line 68, Ms. Butler put this question to you, "And given that they're lower than the last ten years, Mr. Roberts, and given that you've increased 2001 by a million since you filed in May, is it reasonable for the Board to increase the allowance for capitalized expenses in the test year?" And your answer was, "I don't believe it is. At this point we have no knowledge to indicate that the amount of capitalized allocation to take place for 2002 would be any different than what's shown here." But yet, at the end of the day in 2002 it turned out to be 2.4 million in the difference. And keeping in mind the long history of this item being under forecast and

hence, a benefit to Hydro, would you now agree that it is appropriate for the Board to look more at the historical data?

A. No, I still contend that the methodology that we follow is the more appropriate. If you were to look at what we're forecasting now in three and four relative to our capital program, it's anywhere between 16 to 18 percent of what the capital expenditures are anticipated to be. And if you were to look back over some history, I don't think we're out of line whatsoever. And some of the changes that do occur within capitalized expense are for very specific reasons, some of which cannot be forecasted in advance. For instance, the involvement of Hydro personnel on the Labrador hydro project, as an example, we at this point have no indication as to what involvement, if any, our staff will have in that project on a go-forward basis. There has been time spent in the past and that's been some of the reasons why some of these changes have happened in the past. It also happens to be a function of endeavouring to complete the capital program. When we start heading into

September and October, you don't want to have the projects being uncompleted by year end and result in a carry over or there could be a new service extension or a distribution upgrading that arose that certainly wasn't planned for, but yet you still have to carry out. So, from my perspective, I still feel the methodology that we follow is correct and I think it's primarily driven by what your capital program is, what the mix is and what the involvement is of the Hydro personnel that are involved.

Q. But despite the fact that you say you're comfortable with the project, there is a consistent pattern of approximately 2.8 almost three million dollars of under budget on this item so much so that Ms. Butler was putting to you the last time that don't you think it needs to be increased. And your answer, that at this point we have no knowledge to indicate that the amount of capitalized allocation would be any different, essentially that's the same answer you're giving to the Board now, I don't know that it'll be any different.

A. Well, I still feel that that's our best estimate at the time. And that's exactly

that. If you look at NP-19 as an example.

Q. I'm just wondering at some point, Mr. Roberts, does the Board not have to apply the sound Public Utility regulatory principal of the proof of the pudding is in the eating. Can I get you to comment on that one?

A. As I said, it's an estimate, it's based on the capital program. It's not a fixed number. By looking back at history you're building in specific circumstances that may not happen towards the future. And as I say, if will you refer to NP-19 and you look at the percentages that are being forecasted for three and four in relationship to some of the other history that was asked in that particular question in '98 and '99, the percentage, at least on a percentage basis, is certainly within the realm of what's happened over the last three or four years.

Q. In fact, we look at NP 19, the one that you've got on the screen, and what we took out of that is whether, in fact, you can actually draw the relationship that you're suggesting, because just have a look at the 2001 year and the 2002 year. These are when your projects

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KELLY, Q.C.:
are the highest, yet, your percent of capitalized expenses that we're talking about here are only ten percent and seven percent.
A. Yes. But they're not -
Q. Just bear with me for the question, Mr. Roberts. If you come down--if you go back up the column, you'll see that your highest years are when your capital expenditures, your highest percentage are when your capital expenditures are, in fact, lower. And in 2003 and 2004 you're forecasting the lowest capital expenditures of all. And so, in fact, we would be even more concerned looking at NP 19 that your process will be off. Can I get you to comment on that analysis?
A. Sure. 2001 and two, the reason why your capital expenditures are so high is because of Granite Canal.
Q. Yes.
A. And if you look back at '98, '99 and 2000, I think you will find it's the mix of the capital program as to what's being bought within the particular years. For instance, in 2003 and four you may find that there are

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specific capital programs where the significant amount of Hydro time and resources would be applied to, for instance, the energy management system.
Q. Um-hm.
A. This screen hasn't been updated yet because we're doing the update. But the 2004 capital budget also reflected internal Hydro time for the VHF radio system, so that time is reflected in the 5.4 and it's also in the $34 million capital program. In the revision I would anticipate that both numbers will drop. So it's a function of what the capital program happens to be in a particular year and whether or not it entails the utilization of Hydro's resources or outside resources. For instance, in the case, as I mentioned, in Granite Canal, most of it is contract and the involvement of Hydro resources are limited. If we have a capital program where a significant number of capital expenditures are straightforward additions, such as purchases of vehicles and equipment, requires little, if any, involvement of Hydro personnel to be capitalized, but your capital program can

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still be high but not entail a significant amount of capitalized expense. So it's a function of what the capital program is in a particular year and what the circumstances are as the year unfolds.
Q. Would you agree with that an increase of the amount capitalized which is primarily a salary amount that is getting capitalized that whatever that increase over forecast in the test year is again goes directly to Hydro's bottom line?
A. If we exceed what's in a test, it goes to Hydro's bottom line. And of course, the converse is also very true, that if we don't reach what's reflected in the revenue requirement, then that also goes off the bottom line. So it works both ways.
Q. Can you point me to one year back to 1997 where your capitalized expenses were less than a budgeted number?
A. I don't have the information. You obviously do and know the answer, but--and from what you've given to me this morning, we haven't historically and -
Q. Consistently over.

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A. I'll acknowledge that it is different and it's going to be in the future. But all I'm just saying is that the risk goes both ways.
Q. Seems to be more one way than the other in difference of amount. Mr. Chairman, I'm about to go into another area. I can continue for three or four minutes if you like, or break now. I'm prepared to go either way.
CHAIRMAN:
Q. Will you conclude in three or four minutes with the other area?
KELLY, Q.C.:
Q. Oh, no. It's a substantial area.
CHAIRMAN:
Q. We'll break now if that's okay. Do we have any notion, Mr. Kelly, how much longer you'll be?
KELLY, Q.C.:
Q. I'm expecting to be certainly after the break tomorrow and potentially the bulk of tomorrow.
CHAIRMAN:
Q. Okay.
KELLY, Q.C.:
Q. I will finish, I think, by the end of tomorrow for certain.

CHAIRMAN:

Q. Thank you. We'll adjourn now and we'll see you at nine in the morning.

Upon conclusion at 1:27 p.m.

CERTIFICATE

I, Judy Moss Lauzon, hereby certify that the foregoing is a true and correct transcript in the matter of Newfoundland and Labrador Hydro's 2003 General Rate application for approval of, among other things, its rates commencing January, 2004, heard on the 14th day of October, A.D., 2003 before the Board of Commissioners of Public Utilities, Prince Charles Building, St. John's, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.

Dated at St. John's, Newfoundland and Labrador this 14th day of October, A.D., 2003

Judy Moss Lauzon