LIST OF UNDERTAKINGS

(9:07 a.m.)

CHAIRMAN:

Q. Thank you and good morning. Beautiful morning out there. Good morning, Ms. Newman. Any preliminary matters before we get started?

MS. NEWMAN:

Q. Yes. Good morning, Chair and Commissioners. There are some items that I believe Ms. Greene wants to speak to on behalf of Hydro. Before we get to that, I did want to mention that the Clerk has now circulated a list of Letters of Comment received to date, as well as the request for oral presentations that were submitted up to October 9th, pursuant to the Board's notice.

CHAIRMAN:

Q. Thank you. Good morning, Ms. Greene.

GREENE, Q.C.:

Q. Good morning, Mr. Chair and Commissioners. I would like this morning to respond to five undertakings. There are five outstanding and we're in a position to respond to all of those this morning. I will speak to the first one and then I plan to ask Mr. Roberts to the other four that arose from yesterday, and in

that way, he will be able to respond to the questions, and if necessary, Mr. Kelly can then follow up with him in his cross-examination, as we did last time during the 2001 General Rate proceeding.

The first matter then that I would like to speak to is with respect to the undertaking that was given on Friday, October 10th. It was given to Mr. Kennedy and it related to the key performance indicators and whether Hydro would be in a position to provide historical data to the year 2000, with respect to the key performance indicators that were recommended by Grant Thornton. And I'd like first, if we could, to look at page 11 of the Grant Thornton report on regulatory performance measures. Page 11, Mr. O'Reilly. And it's just down in the summary. For convenience, I'm referring to this where the 12 performance measures were outlined by Grant Thornton.

Of the 12 measures that are recommended there, Hydro has already provided the historical data for seven of the 12 and I would like to refer now to NP-88, and if we go to page two, please, Mr. O'Reilly. If you

look at page two of NP-88, you will see that we have outlined there a number of the productivity measures back to 1998. There are seven on that screen, seven of the 12 recommended by Grant Thornton. They are: the first one, the controllable unit cost; the second one, the hydraulic conversion factor; the third one, the thermal conversion factor. If we move down to the next category, it is the fourth one, the weighted capability factor. The next one, the weighted DAFOR, and then you will see SAIDI and SAIFI, and we do it there at the transmission level and the distribution level.

So we have provided the information for seven of the key performance indicators recommended by Grant Thornton. There are five remaining, and if you go back, Mr. O'Reilly, please, to page 11 of the Grant Thornton report. The first one that is recommended that was not on NP-88 is SARI. The next one is the customer satisfaction index, and then if you go to the next column, Mr. O'Reilly, it is the last three, the generation OM&A per megawatt hour, transmission OM&A per kilometre

GREENE, Q.C.:

of transmission line, and distribution OM&A per customer per kilometre of distribution line. So with respect to those five key performance indicators, Hydro will be in a position to submit the historical data to the year 2000, and we hope to have it by the end of this week, and if not, then certainly by early next week.

The only caveat that I would advise the Board is with respect to the generation OM&A per megawatt hour. In our view, it is more appropriate to provide that based on megawatt. The generation operating cost per megawatt as opposed to megawatt hour versus in light of the volatility of our load, and we can pursue that when Mr. Brushett from Grant Thornton is on the stand, or we can also pursue it with Mr. Haynes, when Mr. Haynes from Hydro is on the stand. But we will be in a position to provide the Board with the remaining five key performance indicators and the historical data for them within the next few days.

So that was the first undertaking that was outstanding and it was from Friday, and it

was an undertaking given to Mr. Kennedy, and you'll find that the discussion starts beginning at page 59 of the transcript.

The next thing that I would like to speak to the panel about before I get to the undertakings for Mr. Roberts is with respect to the status of the discussions on the Rate Stabilization Plan. The parties have been discussing the Rate Stabilization Plan in some detail since the mediation process, and I'm happy to report that the parties have reached agreement on the principles for the Rate Stabilization Plan, and over the last week to ten days or possibly longer, we have now been working with the parties with respect to the details of how those principles would actually work. So we are in the process of having further discussions among the parties with respect to the Rate Stabilization Plan.

In light of those ongoing discussions, the parties have agreed not to cross-examine Hydro witnesses in any detail with respect to the Rate Stabilization Plan. Mr. Roberts is the first witness for Hydro who probably would have been cross-examined with respect to the

Plan. So the parties have agreed not to cross-examine Mr. Roberts at this time, and we have agreed that if necessary, we will recall Mr. Roberts with respect to the Rate Stabilization Plan.

At this stage, I personally am cautiously optimistic that the parties will reach further agreement with respect to the Rate Stabilization Plan, so that we will be able to present to the Board, for its review and consideration, the consensus of the parties. But it is too early at this stage to say. And with respect to when it will be available, again I am not in a position to make a commitment with respect to time, but obviously before the hearing process is over, we will advise the panel with respect to an agreement that has been reached or we will advise the panel that we have not been able to reach agreement.

CHAIRMAN:

Q. We are cautiously hopeful. We'd like to, I guess, commend the parties to continue certainly with the discussion, in the hope that some agreement and resolution at the end

of the day certainly can be made. It's good to see that progress is being made in the area and we certainly look forward to, hopefully a positive result.

GREENE, Q.C.:

Q. Thank you, Mr. Chair. All the parties have been diligently working on this, while we've been in the hearing room, through our staff people and through experts. They have been continuing the discussions. So we all hope that they will produce a positive result.

The next thing that I wanted to move to then are the four undertakings arising from yesterday. And with respect to that, I would like to ask Mr. Roberts the questions with respect to the four undertakings so that the witness will provide the information, and I have -

CHAIRMAN:

Q. Good morning, Mr. Roberts.

A. Good morning.

GREENE, Q.C.:

Q. The first undertaking arises from yesterday and it arose in the cross-examination of Mr. Browne. It is found on pages 24 to 25 of the

GREENE, Q.C.:
transcript, and first, Mr. O'Reilly, if you could bring up Schedule 11 to Mr. Roberts' evidence, which is the schedule of Hydro's outstanding debt.
And the question that was posed to you by Mr. Browne yesterday related to the Series V and Series X bonds and he asked you whether there was an option for early payment of those two series of bonds. Have you had the opportunity to check that, Mr. Roberts?
A. Yes, I have, and in the case of the Series V and X, there is no early retirement option. However, we did look at what a premium would be to buy back these bonds and the premium that would have to be paid would more than offset the change in interest.
Q. So there would be no benefit to pursuing that option?
A. There is no benefit to pursuing that.
Q. The next undertaking arises from the cross-examination of Mr. Kelly and it is found on page 91 of the transcript, lines 15 to 18. It relates to the internal costs for 2003 to date for the process review. Mr. Kelly asked you

to provide the costs incurred to date internally at Hydro for the process review. Have you checked that, Mr. Roberts, and are you in a position to advise with respect to that?
A. Yes. As of the end of September, there's approximately one million dollars of internal salary costs that have been accumulated relative to the business process initiatives that are being undertaken in 2003, and approximately $40,000 in external costs, primarily related to travel.
Q. The next undertaking that arose yesterday was also from the cross-examination of Mr. Kelly, and it is found at page 107 of the transcript, lines 5 to 13. It is with respect to the savings that are arising from the meter reading review. Mr. Kelly asked you to provide what was the breakout of salaries from the anticipated savings of $128,000. Mr. Roberts, are you now in a position to confirm that for the Board?
A. Yes, I am. Of the $128,000, approximately 100,000 represents the net change in salaries and the remaining $28,000 is associated with

reductions in vehicle and travel costs associated with the meter reading activity.
Q. The last undertaking that arose yesterday, again from the cross-examination of Mr. Kelly, is found on pages 128 to 129 of the transcript, and it arose with respect to the letter from the union that Mr. Kelly referred to, and the question was with respect to the number of FTEs reduced in 2003. I wonder, Mr. Roberts, if you could outline for the Board what the number of FTEs reduced in 2003 is?
A. Well, the 60 FTEs that's referred to in the particular letter from the union, we're not aware of the basis as to how the union determined that particular 60 FTEs. However, if you were to look at NP-9, page 6 of 6, there you'll find that from 2002, there's been a reduction of, up to the end of August, a reduction of an additional ten full time equivalents, and in IC-211, I believe it is, you will find that of that ten, six represent in the finance and corporate services area.
Q. With respect to the temporaries that was referred to during the course of that discussion, has there been a reduction in

temporary staff in 2003?
A. Yes. As a matter of fact, just recently there were additional changes that were done, that were effective basically in the first week of September, and that was in the area of closing out the cash handling procedures at the St. Anthony and the Wabush area offices. So there were further reductions in temporary staff located at those two areas as well.
Q. Were there any other changes of temporary staffing in 2003, other than the ones you've just referred to, over-the-counter service?
A. Yes. In the discussions with the union, relative to the letter, which Mr. Wells and two other vice-presidents, Mr. Haynes and Mr. Reeves at the time, there were reductions in the total number of temporary staff that would be on during the period 2003, as well as there were also reductions in the number of hours in comparison to the previous year as well.
Q. Have you been able to quantify the number of FT Equivalents or that reduction in temporary hours, Mr. Roberts?
A. I think it's in the order of approximately 50.
Q. Thank you. That concludes the response to the

GREENE, Q.C.:
undertakings that have been outstanding to date. I would point out that when I refer to the undertaking, I refer to the page number as it prints out on my page. There appears to be a difference between that page number and what the transcriber has as the page number on the undertaking. I just point that out. But we have responded to all of the outstanding undertakings.

CHAIRMAN:
Q. Thank you, Ms. Greene. Just before we begin, I just had a quick look, I guess, down through the Request for Public Presentations here, noting that the primary requests come from the Great Northern Peninsula, Stephenville and Corner Brook, and perhaps--I realize it's a month away, but when we're looking at sorting out logistics and itineraries for most of the people in this room, in any event, in relation to travel, it would be, I think, in everybody's interest, to get our time table and schedule sorted out as quickly as possible. So I guess with that in mind, Ms. Newman, I'll ask if you could meet with

counsel for the parties and probably have a discussion around this, and then it's a matter for consideration of the Board as well, but I think we should try and do that fairly expeditiously.

MS. NEWMAN:
Q. Yes, Chair. We've arranged a meeting for tomorrow after the hearing, if that's adequate?

CHAIRMAN:
Q. Okay. That's great. Thank you very much. Good morning, Mr. Kelly.

KELLY, Q.C.:
Q. Good morning, Chair.

CHAIRMAN:
Q. When you're ready, you could begin your cross-examination please.

KELLY, Q.C.:
Q. Good morning, Mr. Roberts.
A. Good morning.
Q. When we left off yesterday, we had looked at the 2002 test year versus the 2000 test year actuals, and I'd like to turn next to the 2003 forecast and I'd like to start by taking you to Exhibit WW-1, which is the Quarterly Report

for March 31st, 2003, and we can start by going to page three of that report. Now yesterday, you explained for us, in some detail, how the budget process at Hydro worked and I understood from that that by the end of--for example, in 2003 for the 2004 year, you would come up with a budget forecast or a budget document. Is that budget document then essentially fixed as a point of comparison as you go forward?
A. Normally on January 1 of each year, the budget is locked away and a copy of it is moved to what we refer to as a forecast field, and then that's where all forecasts throughout the year would be made in that. So you're always able, at any point during the year, to compare what your initial budget was against your forecast.
Q. Okay. Now, so then does the forecast change over the year?
A. The forecast can change monthly.
Q. Okay. Does Hydro update the forecast monthly?
A. It can be done monthly, but we have two specific mandatory review periods, the first one being during the spring, which is roughly in the April/early May period, where the next

year's budget has commenced, and we ask anybody with budget responsibility to do an update of the current year and going hand in hand with that, at that point in time is normally when a load forecast, a new Hydrothermal split would be done, and a field run would be done. So that in the April period, you're getting a complete reforecast of all functions that are for the operating budget.
Q. Okay. And did you say there are two? When is the second one?
A. The second one would normally be done in October.
Q. Okay. So those would be the mandatory ones, but you'd -
A. These are the mandatory ones, but there is still the process in place that at any time that if costs are going up or going down, then the availability is there to complete forecasts on a daily, monthly, or weekly basis, as required.
Q. Okay. Now can I just have a look at the screen and as we--I want to go to the headings first. We have, let's go to the far right-

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KELLY, Q.C.:
hand side. You have an annual forecast. How does that annual forecast document, as shown there, relate to the budget?
A. Well, the initial forecast that was there on January 1, as I just outlined, was in fact a budget. If there's been any changes to the budget since January 1 of that particular year, then they would be reflected in that annual forecast column.
Q. So the annual forecast column that you're showing there is not the budget forecast, the budget document?
A. It would not be.
Q. No, okay. Then if we go along to the next column, coming back to the left, you've got to year-to-date 2002 actual.
A. Yes.
Q. And that, I take it, is a set of actual numbers up to, in this case, March 31st?
A. Yes, that would be for the quarter ending March 31st, 2002.
Q. And that's for the purpose of comparison to the next column going back over, 2003 forecast. Now if that's year-to-date 2003

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forecast, what is that year-to-date component? Is it the year-to-date from the budget or year-to-date from this moveable forecast?
A. Well, the 2003 forecast would be the most current forecast that we would have in the system, relative to our results for 2003.
Q. Okay. So it wouldn't be based upon the budget, but this one that changes several times during the year?
A. The initial stepping stone on day one of January 1st of 2003 was the budget. So you never had to repeat entering all the data for the year. You started off with the same numbers in both columns; the forecast and the budget were identical.
Q. Okay.
A. Then as you make changes, your changes are made in your forecast column. So it's always your most current up-to-date information that you would have available at that time.
Q. Yes, but I'm just trying to understand then if it is the year-to-date on the forecast, it is the year-to-date on a forecast that has been adjusted from the budget -
A. Yes.

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Q. - prepared in December, prepared in the fall?
A. Or whenever the budget was finalized, which is normally for presentation to our Minister by November 30th.
Q. Okay. So there's nothing in any of these tables that enable us to compare to the budget in the budget document?
A. That is correct.
Q. Okay. Mr. O'Reilly, can we go to page three? We're on page one of the document here. The table that I want to go to is on page three.
MR. O'REILLY:
Q. I believe this is page three.
KELLY, Q.C.:
Q. Sorry?
MR. O'REILLY:
Q. This is page three.
KELLY, Q.C.:
Q. No, I think if you scroll up to the bottom, you should have a--see on page one there.
MR. O'REILLY:
Q. My mistake.
(9:30 a.m.)
KELLY, Q.C.:
Q. There you go. Now, as I go across this

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document, Mr. Roberts, the revenue line is about approximately four and a half million dollars at this stage above budget or above forecast?
A. Above forecast, yes.
Q. Okay. And down at the, if we just go to the bottom line, we have approximately 12 million dollars in net operating income compared to a forecast for March of approximately eight million dollars?
A. That's correct.
Q. Now Mr. O'Reilly, can I get you to go to WW-2, which is the June Regulatory Report, and the same table on page three? Now in this particular document, which is now updated to June, Mr. Roberts, I gather in the 2003 forecast columns and the annual forecast columns, they have been adjusted for this review which takes place in April or May you told us about?
A. On a normal basis, yes. In the case of 2003, the answer is no. The decision was made that we would be doing an update on the results for the hearing probably starting sometime in July or August, and the decision was made that we

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MR. ROBERTS:
would only do one forecast, rather than multiple forecasts of the magnitude that's required.
Q. Okay. Now there have been some changes though in the annual forecast column between March and June. If it wasn't updated, how did those changes come about?
A. There is always some continuous level of forecasting being done, but the major forecast of all components that would normally be done in April was deferred until the fall.
Q. Can you help us as to if it wasn't the major review, what would be the main inputs in the smaller forecasts?
A. For instance, on your net operating, as an example. Obviously somebody has reviewed some of their operating costs and there have been some revisions made to it. I'm just using that one as an example, the actual reasons as to why between March and June, I don't know have that information, but there would be some continuous changing of certain forecast costs throughout the piece.
Q. Okay. Now let's look at the revenue side

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first. The revenue is up by about three million dollars, 2.9 million approximately. Can you explain why that revenue is up, and in particular, pose you this part of the question simultaneously, if you go down to fuels and power purchase, the combined amount of those is approximately the same?
A. I guess all I can tell you, at this point, is that the 2003 actuals reflect what's actually happened in the first six months. Normally what we would be doing now would be doing a reforecast, taking into account the actuals up to the end of June, and projecting out for the balance of the year, based on the load forecast received from our customers and what would be there for rural, and would it be changing the annual forecast of 326 million. Through that exercise then, that would necessitate a revision being done to your fuel section. It would necessitate a change in your power purchase.
Q. Is it fair though for us to conclude, based upon what we see on the revenue side, that Hydro's revenue is about 2.9 million better than anticipated in the first six months of

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'03?
A. In relation to forecast, yes, but whether or not that will translate into an additional increase at the end of 2003, you can't draw that conclusion.
Q. Okay. But during the first six months at least -
A. During the first six months, based on that forecast, which I had mentioned to you is, in normal circumstances would have been updated and reflected into this, then what you see is actually the difference.
Q. Okay. Let me go down then to the expense side. The expenses were projected or forecast at 171.8 million and they're actually about 167.8, for a difference, during that first six months, of about four million less in expenses. So that then when you go to the bottom line, during the first half of the year, the net income is about 6.8 million, the difference between 12.2 and 5.4, better than anticipated, in other words, better than double your forecast. And do we conclude from that that Hydro's performance in the first six months has been substantially better than

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anticipated?
A. Yes, but my question or my qualification is that 2003 is a bit of an exceptional period, where we would normally have reforecasted the 2003 year to date for this particular report, and we did make that decision that we would defer not doing that until August, when we were doing an update. The other thing that should be mentioned is that it is quite common to have timing variances within some of these costs, even if a current forecast was done, and in particular, I'm referring to the change that you have there in the net operating of approximately 2.2 million dollars.
Q. Okay. I'm going to come to that in a moment. But, in order to end up at about 8.3 million in deficit or 7.8 million which is the number on Schedule 2, Hydro would have to lose approximately 20 million dollars in the second half of the year. As CFO, you're now halfway through that second half. Do you see that happening?
A. Yes.
Q. You actually think that Hydro -
A. We actually lose money in July, August,

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MR. ROBERTS:
September and October.
Q. And I see that -
A. Our sales are low and that's the period in which most of your maintenance is being done. So January, February and March are your high sales months and the periods where you do make a significant amount of money, and then as you -
Q. And I can see that--sorry.
A. - and then as you proceed on through, July, June, July, August, September and going into October, these are months in which we would actually lose money.
Q. And I can see that from forecast year-to-date, six months to annual forecast, what that would show is ordinarily in there, you'd lose about 13 million dollars. But to get to 8.3, you'd actually have to lose now well over 20 million dollars, and during the same period, we've had obviously improvements in exchange rates, reduced interest rates since the forecasts were originally done, and I'm trying to get a sense of how you see this second half developing.

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A. We're now in the process of doing the update, which we hope to have ready to file around about the end of October. There may be some changes relative to interest. Foreign exchange is not really an issue because it is tied with fuels and it's reflected through the Rate Stabilization Plan. I still anticipate, based on the information and some of the preliminary information that I've reviewed, because we're still in the process of putting the document together, that there will still be a loss on an annual basis for 2003.
Q. Are you able, at this stage, to project the magnitude of that loss?
A. No, I am not. That's where we are now in the update, and it will be at least another couple of weeks. It's impossible to do it without having all the pieces of the puzzle put together.
Q. That's fair. Now can I--you talked about timing differences a moment ago, and I want to take you over to UH No. 1. Now if we take a couple of lines in here, just to have a look at, overall, as you go down through this performance, the bulk of the items are down

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over the half-year forecast, with the exception of salaries and fringe benefits, and insurance, and I'd like to ask you, first of all, keeping in mind the reductions in salaries that you indicated to us yesterday and referred to a few more this morning with Ms. Greene, can you explain why the salaries are up in the first six months by approximately $400,000?
A. Yes. One particular area happens to be there's an increase in overtime of approximately $215,000, and that increase in overtime is related to capital and it's also contributing to the increase in the allocation line that's referred to as Hydro capitalized expense. As you can see, the forecast is 2.9 and the actual is 3.4.
Q. Yes.
A. You got approximately $200,000 of capital overtime that's reflected in the first line underneath salaries and fringe benefits that's also shown in the capitalized expense line as well. And up to the end of June, there is approximately another 140 odd thousand dollars of an increase in fringe benefits, and that's

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approximately about 360,000 of the $400,000 variance at that point in time.
Q. Why is there a $140,000 increase in fringe benefits?
A. It may just be a function of the timing, when the bills have been recorded, as to whether or not the bills are received within June or if they're through in July.
Q. One of the questions we wondered is whether there were any severance payments paid in that first half of '03? If you go to CA-124, just flip ahead there for a second, there's a table that goes to 2002. Were any severance payments paid in '03?
A. Up to the end of June?
Q. To the end of June?
A. Just see if I may be able to answer your question for you, Mr. Kelly. The payment of severance is not clear cut. For instance, a position--and this is the reason why I'm hesitating in trying to answer your question for you. We may make a position redundant, but there could be a vacancy in another area at that point that that individual can bump into, or a temporary position for a period of

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MR. ROBERTS:
time. So the actual payment of the severance for the individual being made redundant in their position would actually end up being delayed until he was actually or she was eventually terminated from the company altogether.
Q. On that question, that point, on the screen there, we have 2002 of 1.465 in severance.
A. Yes.
Q. Is that severance actually paid in 2002 or booked as a potential liability in 2002?
A. That severance there was actually paid.
Q. Actually paid?
A. Yes.
Q. Okay.
A. Which approximately a million dollars was related to the 46 positions that were eliminated in October.
Q. Okay.
A. What I'm looking at in trying to answer your question is the six positions that have happened in the finance and corporate services area, up to the end of August. And from looking through the information that I have

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there, I don't believe there's been any paid, but at least not in those six positions. But whether or not there were on three or four others, I'm not sure.
Q. If it was, it's a relatively small amount of money?
A. If it was, it would be very small amount of money.
Q. Okay. Can we just go back to UH No. 1 for a second? And you mentioned the capitalized expenses. Do we not have here another example where the capitalized expenses are running ahead of forecast by some $460,000?
A. Yes, we do, and as I mentioned, if forecast had have been done, then the variance may not exist. Some of this overtime that was being incurred in that first six-month period was relative to the Cat Arm Project to ensure that the project was completed and on service as scheduled.
Q. That 215 overtime though is only about less than half of the difference in capitalized expense column, isn't it?
A. Well, you've got a total variance of 460 odd thousand dollars, of which 270 odd

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approximately was related to overtime.
Q. The number you gave us a few minutes ago was 215 related to overtime.
A. 215, yes.
Q. Okay. Now the other question I wanted to ask you about is the system equipment maintenance and that is down significantly over that six-month period. Are you able to comment on why that is reduced or is that a better question for Mr. Haynes?
A. I can tell you that it's in Mr. Haynes' area and it's related to production, and my statement would be that it's related to Holyrood. So Mr. Haynes may be able to add some more information to you on that.
Q. Okay.
A. But that wouldn't be an uncommon occurrence that we'd have a timing difference in system equipment maintenance related to Holyrood from the time that work was scheduled to commence versus the receipt or the recording of invoices relative to work being completed. That's a fairly common occurrence.
(9:45 a.m.)
Q. Okay. Now in response to Ms. Greene yesterday,

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or day before, yesterday I guess, you indicated that you'd be filing an updated study after your review is done, and that will be updated for all of the operations of the Company to the end of August. Will that forecast for '04 also include the reductions from the positions which you indicated were eliminated in early September in your response this morning?
A. The forecast for 2003 is being updated based on actuals to the end of August and forecast for the balance of the year, and then whatever translates into adjustments for 2004 will also be done.
Q. Okay. And the other major adjustments, kind of beyond the company, in terms of oil prices, exchange rates and interest rates, how far up to October 31st will you be doing that analysis? In other words, is it cut off at the end of August or are we going to look at -
A. I think everything is consistently ceased as of the end of August, so you have a complete match of all operations at a set point in time.
Q. So that the interest rates and -

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MR. ROBERTS:
A. The interest rate is -
Q. - exchange rates will not be adjusted?
A. Oh no, the interest rate assumptions would be as current as we can possibly use them.
Q. Interest and exchange?
A. Yes.
Q. Okay. So -
A. But I want to caution you, the exchange rate that has an impact on Hydro is only relative to our fuel.
Q. Yes, I understand that.
A. But it will be reflecting a more current rate for that.
Q. Okay. Now on the interest rate question, I'd like the Board to have a sense of the order of magnitude that we're looking at here. We prepared two sheets of paper, which I provided to you yesterday and gave copies to the clerk for distribution. One deals with long term and the other, short-term interest.
MS. NEWMAN:
Q. I propose to file these as information items then. Is that adequate?
KELLY, Q.C.:

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Q. That'll be fine.
MS. NEWMAN:
Q. Information item No. 10.
KELLY, Q.C.:
Q. 10, and put two of them together?
MS. NEWMAN:
Q. If they're going to be dealt with together.
KELLY, Q.C.:
Q. That's fine, yes. Okay, there's two in this group, Ms. Newman, which are the two interest ones. There's one on salaries we'll come to a little bit later. Perhaps we should leave that one as a separate item.
MS. NEWMAN:
Q. Okay.
KELLY, Q.C.:
Q. Okay.
MS. NEWMAN:
Q. Just the two documents, the short term and the long term.
KELLY, Q.C.:
Q. So these two will be information items, sorry, No. 10?
MS. NEWMAN:
Q. No. 10.

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KELLY, Q.C.:
Q. Okay. Mr. Roberts, what we attempted to do, let's look at the long term one first, and this is a question that Mr. Browne dealt with, in part, yesterday, the reduction in the interest rate on the bond issue which you had projected at 6.65 and came in at 5.70. We calculated the reduction in test year interest of about 1.188 million, and I'm wondering whether you can confirm that that number would be accurate?
A. I need to elaborate a little bit for you on that. The projected interest costs, as you'll see there, on 125 million, 6.65 percent is the 8.3 million. But the assumptions that were used in this application was that we would be opening in an additional issue at 6.65 and adding it to it and it would be sold at a premium. So consequently, there is an amortization of that premium because the bonds were actually sold in excess of the 125 million. That's being amortized over the life of the issue. So throughout the interest run, there's actually a reduction to help offset that increase in the rate of $314,000. So if

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you reduce that off of the 1,188,000, you end up with approximately $874,000. So the change on the revision that will be filed somewhere around about the end of October, the reduction in interest associated with putting in what actually happened with this issue now will reflect a reduction in interest of approximately between 8 and 850,000.
Q. Sorry. I followed--I think I followed you down to the 874, I think you said.
A. Um-hm.
Q. And then how did you get to 800 or 850?
A. There is going to be still a little bit of a discount that was sold on that issue, and that may be over--well, you're talking a 30-year issue. It may be a million or so. The over 30 years, it's going to be a very small reduction.
Q. So somewhere in--something a little bit less than 874, is that -
A. Yes, I think it will be somewhere a little bit less than 874.
Q. Okay. Now can we just have a look at the short-term sheet, and what we attempted to do is calculated the reduction in your short-term

KELLY, Q.C.:
borrowing costs, based upon the methodology set out in the answer to the various information requests, and I wonder if you'd comment on the calculation which we've shown there, which comes at 3.474?
A. Yes. We would agree that the average rates that are shown here are going to be representative of what should be in the update that will be filed. However, once again, the 3.4 million dollars will not be the number that will be reflected in the 2004 forecast. The reason why I say that, it could be higher or lower at this point. I really don't know, because what this has done is just dealt with the impact on interest only and it has assumed that the average promissory balance outstanding would be the same. So with the updates going through now for 2004, the actual promissory note balances will change. So the 3.4 million dollars could be up or down. I'm not sure which way it will go at this point.
Q. So the calculation in terms of the change in interest affect is essentially correct?
A. It's -

Q. And the question is whether you will have more or less outstanding?
A. Than 3.4, that's correct.
Q. Okay. But in terms of from what is currently filed, approximately 3.47 would reflect the reduction in interest rates?
A. Yes, if this was to be applied into what was presently before us now, that would be the impact.
Q. All right. And Mr. Browne dealt with you yesterday in terms of the impact of the exchange rate at CA-221, and if we'd just put that on the screen for a second. Currently the application is filed at 66 cents and as the exchange rate changes, that can have a significant impact on the cost of the fuel oil, at 74 cents up to 9.1 million dollars?
A. Yes, it will impact it, and once again, this shows the order of magnitude based on the present filing. That, I don't believe, will be the numbers that will end up being in the 2004 number, but it does reflect what can happen.
Q. Why would you say that doesn't reflect -
A. Well, the reason why I say that is because the

update for 2003, fuel expenses have been higher for the remainder of 2003 and your ending inventory and as you go through into the prices for 2004, will impact the amount of fuel.
Q. Yes, I think if I'm following you correctly, fuel prices themselves in US dollars may be higher, which offsets some of the exchange -
A. You're going to have a mix, because when you go into 2004 we may have nine million dollars coming in -
Q. Yes.
A. - as the reduction in fuel costs, but my opening inventory, because it's an averaging, may be higher than what I have now. So you may not see nine million. You may see eight, but the premise that the change in exchange rates will reduce fuel is correct.
Q. Right. And you made a comment a few minutes ago that this goes through the load--through the Rate Stabilization Plan, but in terms of setting the forecast fuel price for the test year, that is set in Canadian dollars, is it not?
A. Yes.

Q. After applying exchange rate benefits?
A. Well, the price is in US and it's converted to Canadian and it's the Canadian value that's used through the fuel run (phonetic).
Q. Exactly. So that the benefit will show up if -
A. Yes.
Q. - the exchange rate is improved from 66 cents?
A. Yes.
Q. Okay. All right. Let's--bear with me a second. I want to turn next, Mr. Roberts, to some questions on the salaries and benefits, and a good place to start with this is if we go to IC-39, page 3 of 3, and if we go to the column in 1997 for the total salaries and benefits, we had 51,863 at the bottom of the page there, and if we go to the forecast for 2004, you're forecasting 63,237 for an increase over that period of time of 21.9 percent. Now one of the things we did, you can kind of see it on the screen, comparing that 97 and 2004 columns, is we looked at the individual breakouts on a percentage basis, and if you compare, for example, production '97 to production 2004, you get 17.7 percent,

KELLY, Q.C.:
and on TRO, it is 7.3 percent. On finance, it's 11.5 percent. Internal audit, 28.8 percent. Executive management, 33.9, and human resources and legal, 103 percent. So that 21.9 percent is not spread evenly, by any means, across those groups. And two of the lowest ones, I'll give you finance as well, but the two production, production and TRO are in the lower part of it. I'm wondering if you can help us again understand why production and TRO at the lower part of the increases, in terms of percentage increase from '97 to '04?
A. Well, I think the only way that you may be able to answer is look at the components as to what's making up the changes, and I don't know if that information is available to break it down by segments. If I may, Mr. Kelly, which ones in particular?
Q. The lowest of any of the percentages are TRO -
A. Yes.
Q. - which we worked out at 7.3, production at 17.7 and they're the two, what I'd call, line functions or--if that answer will take some time, Mr. Roberts, I'd certainly be prepared

to give you time to reflect on that and we can come back to it later, if you wish?
(10:00 a.m.)
A. Just bear with me, because salaries has been recast so many different ways and so many different directions. If you're looking at in the case of production, I think part of the reason why 1997 is low is that--it's either '96 or '97, Hydro used to do a lot of its maintenance on its own units at Holyrood and in either '96 or '97, we entered into partnering agreements with the so-called manufacturers of the turbines and the equipment, for them to complete the maintenance, rather than Hydro hiring on significant numbers of temporaries. These guys are doing this. This is their occupation. They had the expertise, and I think that's part of the reason why you will find, in the case of production, if you look at the components of what makes up that, and unfortunately I don't know if it was '96 or '97, but there was, if memory serves me correctly, about a million dollars worth of reductions in temporary hours as a result of

going with the partnering agreements in Holyrood.
Q. So that would impact potentially on the production line?
A. Yes, on the production line because what you're seeing here on the production is the total grouping of all the salaries, hourly wages and overtime for that particular division.
Q. Do you have a sense of what makes TRO the lowest of all, of 7.3 percent?
A. And I'm just trying to see if I can shed some light on that one for you as well. If I may, if you don't mind, and you bear with me, maybe I can sort of help you out a little bit. Can we go to NP-12?
Q. Certainly.
A. I apologize now it doesn't go back to '97, but it will provide you with--page 14 of 24, Mr. O'Reilly, if you would. Because it's here where you start to see the comparison of the components of what's happened. And if I may, I think the summarization on TRO that you're just referring to is on page 21 of 24, and I realize this is only taking you from 1998 to

2004, but if you happen to look at, for instance, on the overtime line, there's been almost a million dollars change from 1998 to 2004. There has been significant reductions in temporary salaries as well throughout the piece within TRO.
Q. But that's a good example of what you've got there, page 21 of 24. If you look at '98, the TRO total salaries at 24,137 are virtually the same as 24,548. So efficiency seemed to have been obtained somehow in this department as contrasted with a 21.9 percent increase, for example, from '97 over the operation as a whole, and that's what I'm trying to get a handle on, like why is TRO better?
A. Well, TRO, I guess Mr. Martin can speak probably more to it in depth than I can, but TRO is changing some of the way that it's doing its maintenance tactics. It has changed the set up utilized and its plant operators, its DSRs, all kinds of other initiatives that I think Mr. Reeves has described, which is now Mr. Martin has described in his evidence of some of the improvements that have been done within the TRO sector.

KELLY, Q.C.:
Q. Would it be--can we conclude as well that one of the factors in TRO is that there would be total--that the number of employees in TRO has taken a bigger reduction? Would that be one of the driving factors?
A. Well, there are reductions throughout all areas of the corporation.
Q. Is there anything else you wanted to add to that?
A. There's so many binders here, and the chair goes awful quick.
Q. Don't want you to go off the edge of the platform.
A. So you go and not come back.
Q. That could do great damage to your occupational health and safety statistics.
A. Your question relative to changes in compliment, I guess in the case of TRO, in NP-9, page 4 of 6, it had 420 in 1997. As of 2002, it's now down to 349. Into August, it's 342. So there has been, on a permanent basis, but also, I think, in a temporary basis as well, there's been reductions of the amount of staff that has been there.

Q. Significant reductions in that department, that division or whatever you call it, versus some of the other divisions?
A. It's been more, I think, more dramatic in that particular division than in some of the others.
Q. Okay. Can I get you to put up NP-10 for a second then? And we looked a moment ago at 21.9 percent increase for '97 overall, if you just scroll up the table there. If you look at the table from '97 down to August of '03, there in fact have been 904 to 791, 113 fewer employees at Hydro during that period of time?
A. Yes.
Q. And a small offsetting increase of only four on the temporary side. So the 21.9 percent increase comes despite the layoff of 113 permanent employees. Agree with that?
A. Well, you know, our wages are being comparative for the environment that we operate in. There are reductions in permanent staff and there are also reductions being made in the temporary hours as well.
Q. Okay. Can we just go back to IC-39 for a moment? There's just one small question I

wanted to ask you on that one.
A. The other thing that I want to highlight in this whole scenario too is that when you're back comparing '97 and even '98, in the year 2004, we have recorded in the salary and fringe benefits, there's 3.7 million dollars there for employee future benefits, which was not in any of these numbers prior to 2000. So that's a fairly substantial increase of an as itself.
Q. Okay. The question I had on this page, Mr. Roberts, is if you look at the 2002 forecast number of 63,394 shown on your table, and you go to your Schedule 2 for the final test year requirement of 61,926, we wondered why there's a difference between your 2002 forecast and the test year forecast of 61,900?
A. The 61,926 that you see in the 2002 test year revenue requirement, right off the bat that didn't reflect the million dollars for the elimination of the 46 positions, that was not reflected in the 2002 test year.
Q. But why is it reflected in your IC-39 document, which is a forecast document as well?

A. But it's a function of when the timing was done.
Q. Oh, I see.
A. You know, Hydro will continually re-forecast its cost.
Q. Okay. That's not a big point. I don't want to belabour it. I was just curious as to how that worked. Now, can I take you next to--we can go at this a couple of ways. We can look first at NP-243 and if we go to page 2 of 2. And what we asked in the question was we were looking for the changes in salaries from the actuals of 02 to forecast 03 and 04. And the other handout that everybody now has, another sheet that I prepared to you--provided to you yesterday in which we attempted to do a rough reconciliation from 2002 actuals on salaries and benefits to 2004 forecast. And, Ms. Newman, shall we mark that as the next information?
MS. NEWMAN:
Q. Yes. That would be Information No. 11.
KELLY, Q.C.:
Q. No. 11. And, Mr. Roberts, if you go to note 1 to your document NP-43, to the answer, the

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KELLY, Q.C.:
decrease in 2003 is mainly due to the full year's effect of the 46 positions eliminated in 2002 partly offset by general scaling increases, 2004 is mainly due to an overall scaling increase of approximately three percent. So we've tried to show that on Information 11. And can I get you to look at Information 11 and tell us whether we've got this right, or if not, where you think the changes need to be made?
A. Well, I guess maybe I should start to explain the process as to how Hydro determines its salary budget for a particular year. It starts with a listing of what the actual permanent positions are by the various divisions and then added to that would be requirements for temporaries, and then based on various reviews there could be additions or deletions and then a salary adjustment scale would be applied to it, depending on the circumstances at the time. So just to give you a high level as to how we do it, it's not a simple matter of taking an actual at a point in time, we actually base it on full

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compliment because at all times somewhere through the piece there would definitely be vacancies. in your information request that you had provided to us yesterday there is one particular item that's not on this listing, and if I may, I'll just try and work you down through it. At the end of 2002 there was approximately 32 vacant positions. And if you use an average salary of approximately $50,000, that's an additional $1.6 million that you would have to add to that particular number. The severance payments there are as noted elsewhere, as well, you got the 1.4 and savings is 2.6. So by just adding in the 1.6 million instead of 46,258 you'd end up with 47,871. The eight percent is a reasonable good number, it would be 3.8 based on the revised number. So you'd actually end up with a figure of 51,700 for all intentional purposes.
Q. Just give me that number again, 51?
A. 51,700.
Q. Okay.
A. If my math is right. That's after reflecting the salary increases of approximately eight

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percent.
Q. Okay.
A. And if you look in 2004 we actually have recorded 49,925. So as you can see, there is a difference of 1775, and that's a reflection of additional temporary help that has been removed from the system.
Q. So at the end of--do I take it at the end of 2002 there were 32 vacant positions?
A. In fact 32 positions. And we use a rough rule of thumb approximately $50,000 position.
(10:15 a.m.)
Q. Right. But that--is that 32 vacant positions, is that like as of December 31st? Just tell me how that works?
A. The actual number is 23 as of that point, but the average was 32.
Q. So 23 as of December 31st?
A. Yes.
Q. And 32 is the average -
A. The average for the year.
Q. For the year. Now, are those Fulltime Equivalents or are those permanent employees?
A. They would be permanent employees.
Q. Okay. So out of your permanent workforce you

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had an average during the year of 32 vacant?
A. That's correct.
Q. Okay. And would that be people then just, you know, John Jones is gone and we're waiting to decide on who we're going to hire and put in that place?
A. It would be some of that.
Q. Okay.
A. You know, a position became vacant and you'd make the decision now, should we do the review, how long it would take before you fill the position. Somebody could be just gone on a LTD; could be all kinds of various reasons as to why you would have a vacancy.
Q. Okay. So let's just look at a couple of other things next. NP-14. And in NP-14 the salary projections for 2004 test year were scaled three percent effective January 1st for both union and non-union employees. In fact, the union increase did not become effective until March the 29th, '03?
A. Yes.
Q. And why did--would you apply the three percent over the whole year, the scale, as opposed to taking it for March?

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MR. ROBERTS:
A. It's done for simplicity in trying to put through and develop the budget. It's next to impossible to try and go into the system and identify by each location how many union employees are there and do that calculation so it was done for ease of use.
Q. Okay. Can we go to CA-184? And we touched on this one briefly a few moments ago for severance. And you told us that there was no significant amount of severance in '03. What about '04 in the forecast, is there any amount included for severance payments in '04?
A. There is no severance allowed in '04.
Q. Nothing in the forecast in '04?
A. No.
Q. Okay. And can I take you next to NP-244? And this refers to a passage in Mr. Brushett's report at page 39 where he indicates that Hydro is--reports that its going to make a conscious effort to reduce overtime. And the answer says, "Overtime is declined from 3.9 million in 2001 to three, nine, ten in '02 and is anticipated to further decline to 2.9 and 2.8 in '03 and '04." Now, as I understand the

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RFIs and the information on '02, one million of that 3.9 in overtime actually was a capitalized expense. First of all, am I correct in that?
A. I will say yes.
Q. And so my question is, if that is the case in '02, then, in fact, the operating overtime will be essentially on--at the same level through 2002, 3 and 4, or am I missing something in that?
A. Well, if you take the million dollars out of 2002, it would be 2.9.
Q. Yes.
A. Versus 2969 in 3 and 2864 in 4.
Q. So the operating overtime will essentially remain the same?
A. Based on those numbers it probably appears to be flat.
Q. Okay. All right.
A. The actually numbers of hours may be reduced some, but because of the change in the rate it may be just holding flat.
Q. Now, next thing I want to have a look at is the--I want to talk to you about this vacancy allowance. And let's go to Mr. Brushett's '03

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report first at page 38. And if you go down to line 23 to 25, in the 2002 test year, Mr. Roberts, we had a 1.5 million vacancy credit. And in '03 you carried a million and you're proposing 2.5 million in the '04 forecast. Is that correct?
A. Yeah, there is 2.4, 2.5 million dollars reflected in 2004 of which one million is our normal vacancy and the other million and a half is represented to allow for continuous changes as a result of our process improvement initiatives.
Q. Okay. And if we go to CA-43, you provide an explanation of what the vacancy allowance is intended to cover. And this just simply covers the number of positions, line 6, become vacant during a particular year due to retirement, termination, long-term disability, etcetera. And that's the concept that you referred to a few moments ago?
A. Yes.
Q. Okay. And then if we just go over to NP-248, in this one, as I understand your answer, in addition to that what I'd call normal vacancy, at lines 11 to 13 this vacancy allowance

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includes an estimate of potential savings resulting from the ongoing review of Hydro's work processes, what I'd call the productivity factor, can we call it in that sense?
A. No, that's your words, that's not mine.
Q. Okay. What is the difference then in terms of ongoing review?
A. We're doing a process review of our improvements of our processes to determine where changes can be made to enhance and improve corporate performance.
Q. Okay. Is that somehow different than productivity?
A. It is in my mind.
Q. Okay. Well, let's go to NP-34. Can you just scroll up a little bit there? This is the actual vacancy rate percentages calculated by comparing the actual permanent salary costs. And in--if we go down to 2004 in your forecast year, you're using 2.5 percent?
A. Yes.
Q. And 2.5 percent applied to 63 million 237, which is the total wage package from IC- 39 would give us 1,580,000, approximately 1. 6 million?

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MR. ROBERTS:
A. Yes. But you're not comparing it on the right number.
Q. Okay. Tell me why?
A. Because we apply it to the permanent salaries, not to the total salary grouping.
Q. And what's the permanent -
A. Approximately about 40 million dollars would be there for permanent salaries.
Q. Okay. So you've applied that to a lower number. Well, let's go at this -
A. Well, the answer it states is that the actual permanent salary cost for the year is subject to the vacancy reduction.
Q. Okay. Let's just go back to Information Request, or document 11 for a moment, that's the paper one. A few moments ago we went through this and you indicated that in 2002 the vacancy, the average vacancy positions were 32. So in 2002, in fact, you carried 1.6 million? Is that not what I understood? I asked you that and you said yes, that was in relation to permanent workforce?
A. I said that if you were to fill the 32 vacant positions as of the first of the year using an

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average salary of $50,000, then that would translate into an extra $1.6 million in salary costs.
Q. And those were vacant positions during the year, so in 2002 would be 1.6 million, would it not?
A. But that's an average for the 2002. In some months it could be more, some months it could be less.
Q. Well, why would we not use an average, isn't that the best number to use?
A. Well, that's what we're using just to assist you in what you're trying to illustrate on your particular form, Mr. Kelly.
Q. Well, let me take you back to IC-39, page 2 of 3. And on this particular document here we have only the permanent workforce. And we look down through each of the years from '97 to 2002 using the data here. And in the top block we have the filled and vacant position. And in the middle block we have the filled positions only. So if we subtract, for example, take '97, we have 904 of filled and vacant and 887, you subtract the two, you get 17. And we did that all the way along from

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'97 to 2002, so we got vacancies for '97 of 17, 21 for '98, 42 for '99, 38 for 2000, 33 for '01 and 21 for '02 using this data, for an average over that whole period of 28, which would still work out if we go to the positions that were vacated at 46 positions at 2.6 million of approximately $56,000 per position of 1.6 again. So we get back to that same 1.6 number which you just showed me on Information 11?
A. I must say, I'm not following you whatsoever.
Q. Well, I'm just trying to get the key elements. First of all you told us it had to be permanent employees. So then we go to this table on permanent employees and we work out the average vacancy from '97 to 2002, we come up with 28. And if I take your number of 50,000, it gives me 1.4 million using that average. And if I look at the experience of the lay offs, those 46 positions at 2.6 million, then the average of that number is 56,000 per position, so it would give us a number between 1.4 and 1.6. And what I'm putting to you, Mr. Roberts, is on a recent historical basis is that, in terms of the

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real, the true vacancies, before we talk about productivity or enhancement or whatever word you want to use, is there not approximately 1.6 in real vacancy?
A. I can only elaborate as to the provisions that's made is that the permanent salaries are approximately 40 million a year based on a compliment. And we've applied a vacancy factor of approximately two and a half percent to that that translates into a million dollars and that's the provision that we've provided in both 2003 and in 2004 for anticipated savings in salaries that may occur due to vacancies.
Q. What I'm suggesting to you is that, that that is not enough for true vacancies. And when we go through this example, the analysis we just did, we, in fact, even on what you pointed out from 2002, do we not get a number up around 1.6?
A. Well, at the end of--the average for 2002 is approximately 32 vacancies worth $1.6 million, but that is an average.
Q. And in fact, this issue came up in 2001. If we go back to November 15th at--I'll take you

KELLY, Q.C.:
to page 12. At page 12 there's a discussion at line 80 in which you say, "In the last four years the average is approximately 3.8 percent, which is four percent referred to by Grant Thornton." And Grant Thornton in that hearing was suggesting that four percent vacancy factor would be more reflective of the true historic number. And if you applied four percent to your permanent workforce, what number would that give us?
A. If you applied four percent to 40 million, it's going to give you 1.6.
Q. It comes back to the 1.6 again, doesn't it?
A. But I guess the other thing that has to be taken into account too is that these positions, some of these positions that have been vacant in the past are being eliminated over time through various changes, so the amount of vacancies that are occurring are starting to diminish.
(10:30 a.m.)
Q. I find that a surprising answer in view of the 40--in view of two things. Number one, in 2002 you eliminated 46 positions, 18 of which

you told us were already vacant, yet you still ended up with 23 at the end of December, point number one. And point number two, Hydro's evidence indicates that 25 percent of your workforce will retire over the next five years. So it seems--it would seem to me that a vacancy, a true vacancy factor of at least $1.6 million is more reflective over the period of time? Can I get you to address those points?
A. I guess my comment would be is that positions are being eliminated and based on the current compliment of where we are, it's still felt that the two and a half percent on a $40 million permanent salary budget is an adequate vacancy allowance at this point.
Q. And if we looked at it and said, well, no, 1.6 is a better number, then the true productivity factor that's available on that sort of analysis would only be, out of that total of 2.5, would only be about $900,000? Depends on your inputs?
A. I'm not sure which way you're going. I'm not sure I understand what you're trying to get at here.

Q. Well, we saw that the vacancy factor has two components. If the real vacancy component is for real vacancy positions you're going to fill is about 1.6 million, then the allowance for future reductions really only works out to about $900,000?
A. I can only tell you this, is that the $1. 5 million was an estimate of what we felt could be achieved in further reductions in positions relative to process review improvements that were under way. The million dollars that we have as a vacancy reduction reflects our best estimate of applying two and a half percent rate against approximately $40 million worth of permanent salaries to make an allowance for positions that would become vacant throughout the year and for which there will be a time lag in filling those positions.
Q. Mr. Roberts, let's go next to NP No. 10. And let's start by coming down in the 2001, 2002 category. And you'll see there, excuse me, that your permanent staff goes from 847 to 801. Now, that would be the 46 employees that were let go in 2002? First of all, would that be correct?

A. That would be the net of the changes within 2002.
Q. Right. Because -
A. It could have been more and there would be some additions, but the net change is what you see there.
Q. Yeah. And fundamentally that reflects the 46 let go in the fall of -
A. It would be 46, plus there may have been other positions throughout the year and there may have been other additions throughout the year. So that's the net number, which would included the 46.
Q. Okay. And in '03 there are ten positions additional which have been eliminated?
A. There's a net change of ten positions which is also some additions and some deletions.
Q. Okay. Now, if we go--if we take those ten positions, then at your number of $50,000, that would give us 500,000 in total?
A. Yes.
Q. And if we use the average from the 46 positions at 2.6 million, we'd have 560, 000 for ten positions in total, would you agree with that much?

MR. ROBERTS:
A. You're going to have to run that one by me one more time on your second calculation.
Q. You eliminated 46 positions.
A. 46 positions, yes.
Q. At a cost of $2.6 million?
A. Well, if you've done the math, I'll accept it.
Q. Right. We had that discussion yesterday. Now, follow along with me here. If you go over to the temporary side of the ledger here, in 2001 to 2002 there were 21 additional temporary positions added, but from '02 to 2003 there were 63 eliminated?
A. I guess the caution I have to add is that in the temporaries now you're dealing at year-end numbers only.
Q. Okay.
A. So throughout the year it could be up to two or three hundred. This just happens to be a point in time that the number count has been done.
Q. Right. And so, we could go at this a couple of ways. We could look at the--let me just back up the bus a bit first. We'll come back to NP-10, but let me put NP-12 on the screen

at page 2 of 4. And if we go across the temporary salaries line, the temporary salaries in '02 are 5 million 960?
A. Yes.
Q. Okay. Now, if we just go back to NP-10, the question would be, well, how many of those, the 173 for the end of 2001 would reflect the kind of opening number and the 2002, 194 is a number at year-end as you've told us. So what we did is we averaged the two, so we got 183 positions on average during the year. Would that be reasonably--a reasonable fair way to do it?
A. I can honestly tell you, I don't know.
Q. You have no idea?
A. I wouldn't without actually sitting down and doing the calculations myself, I wouldn't be able to attest as to whether or not your average is what I would be prepared to say, yes, it's reasonable.
Q. Okay. Well, let me give you where I'm going and then you can take time to reflect on it, if you like. If I take the 5 million, 960 for all of your temporary salaries in 2002, and I divide it by the 183 temporary positions, I

get an average salary cost for those temporary positions of $32,568, okay. If I multiply then by the 63 positions which are eliminated, because your answers tell us that we're going to use 131 going forward, 63 positions eliminated, then I get 2,047,500, so roughly 2 million in temporary salaries eliminated. And so I'm going to put it to you, Mr Roberts, that on the face of the numbers there appears to be in 2003 already about $2 million worth of temporary salaries and five hundred to five hundred and sixty thousand of permanent salaries for about two and a half, 2.6 million in salary reductions in 2003?
A. I guess all I can tell you at this point is that up to the end of August as reflected here on NP-10 there are ten positions, net change the ten positions that have been eliminated. And in the case of the temporaries the actual number of temporaries have been reduced in 2003 from 2004--from 2002 and the actual number of hours that the temporaries were receiving in 2002 versus 2003 have been reduced. But I'm not able to play into your--I'm not able to be able to go inside the

numbers that you're trying to use on an average.
Q. Okay. Well, can you--can I put the question to you open-ended this way, what is the value of the reduction in temporary employees from 2002 to 2003? In other words, from the end of 2002 to 2003, what's the savings to Hydro of the reduction of those 63 employees?
A. And how did you get the 63, you're just taking 2002, 194 against the 131?
Q. Right.
A. Just on first glance at this, I think if you looked at NP-12, if you look at the permanent salaries and the temporaries in 2002, we're at 50.4 and for 2003 we're at 48.9, so there's been a reduction made within this categories of permanent and temporaries and that's approximately $1.5 million that's been shown as a reduction.
Q. Sorry, 1.5 million shown where?
A. In comparison of the total salaries, the 50.4 for 2002 against forty-eight, eight for 2003.
Q. Yes. But you've got some salary increases in there.
A. Yes, that's the net of everything. So even

MR. ROBERTS:
after factoring in the salary increases and everything else you still have a reduction.
Q. Yes. But the salary reductions are already built in. What I'm trying to get a handle on is what's the value of that elimination of 63 temporary positions before you apply all the salary adjustments? We know you've lost ten permanent, but we can also see that we've lost 63 temporary. And looking at the schedule you got NP-12 in 2000, you had 5.960 for a total of approximately 180 to 190 temporary employees. So if it's down to 131, there must be a significant savings and we're trying to understand what that savings is or are. Do you wish time to reflect on this one, Mr. Roberts?
A. Yes, because I'm not sure I fully can grasp what you're trying to get me to confirm with you.
Q. Well, the question is simple. What--I'll put it this way. What is the savings, what is the value of the reduction in the temporary employees from 2002, 194 to the 2003 number of 131? And so I'll let you reflect on that one

and perhaps you can undertake to come back and address that further, okay? (Undertaking).
A. Okay.
Q. Let me move to a different but related question, and that is transportation. Can I take you to--let's go back to NP-10 for a moment. And we have in NP-10 the reductions in permanent workforce. And for this purpose I'm going to focus on '98 because it's the limit of your available data on transport. In 1998 you had 889 employees and in 2002 you were down to 801 for a reduction of 88 employees?
A. Yes.
(10:45 a.m.)
Q. Can we go then to NP-24? And in NP-24 we have--go to page 2 of 6. Here are the '98 vehicle classifications. And if Mr. O'Reilly, you scroll down to the bottom. You had 274 vehicles in 1998. And if we go over to page 6 of 6 and go down to the bottom, you've got Hydro vehicles of 282. So from '98 to '04--sorry, '02, your vehicles have gone up by eight vehicles, at the same time that your employees have gone down by 88 employees.

Now, I would have thought that as the number of employees go down, the number--the need for vehicles would reduce somewhat. Can I get you to--have you analyzed this question at all?
A. Transportation is the responsibility of Mr. Martin and he'd be the more appropriate person to explain the relationship of the vehicles with permanent compliment.
Q. Okay. And we'll explore that with Mr. Martin. But at a high level, in terms of overall cost control in Hydro, has the finance department looked at this question of vehicle management and how many vehicles do we need as we reduce employees?
A. You have to--and I'm treading in the areas that Mr. Martin is more familiar with than I am. But one of the things that you'd have to be cognisant in the vehicles is that some of these vehicles are probably associated with the capital program. And during this period that we're referring to we were doing the Avalon upgrade on the transmission line and some of these vehicles were probably being used for capital projects. This is the total fleet irrespective of if it was of an

operating or a capital nature.
Q. But I would have thought if they were capital project vehicles, they'd be the heavier equipment vehicles, would they not?
A. No, not necessarily so.
Q. No. Because on that point if we just go back to, I'm not sure which year we're on here now, you're at page 6. That's the--if we go to the 02 page, Mr. O'Reilly, page 6, and you go down to the column which is pickups and vans, the second column over and you go to the bottom, there are 152. Whereas if you go back to 1998 in that column there are 142. The big change is in pickups and vans.
A. Um-hm.
Q. You can't shed any light on that one?
A. Yeah, as I mentioned, the transportation is more appropriately to be addressed by Mr. Martin.
Q. Mr. Martin, okay. Bear with me a moment. At a high level can I take you to 261 on the question of transport, NP-261? And what we have in here is the total transport budget, but it also includes aircraft fuel and aircraft costs?

MR. ROBERTS:
A. Yes.
Q. So we looked at this particular table taking out the two aircraft components so that we just focused on the costs for your vehicle fleet. And if you do that and you come to your 2002 actuals and you take out aircraft, you're down to 791,000 and you come over to 2004 forecast, we're at 994, which is a 25.6 percent increase in your transportation costs just from '02 to forecast '04 for your vehicle fleet. And I'm wondering whether the finance department has analyzed this, because it seems like a huge increase, $200,000 over the space of two years?
A. Well, once again, Mr. Martin is responsible for it, but I will add one additional comment, what did the capitalized fleet credit do, because that would have increased your cost in 2004 compared to 2. In other words, we have less vehicle cost being charged out to capital in 2004 than we did in 2002. So, automatically that would increase your overall cost.
Q. Why would there be less charged out to

capital?
A. Because some of the capital projects may not require the utilization of vehicles.
Q. If you had those vehicles for capital projects and the capital project is finished, why isn't there a reduction then in the vehicle fleet? Like, if you don't need them anymore, why don't you get rid of them?
A. Well, I guess, I'll go back, rather than get myself in deeper trouble than I may already be, Mr. Martin has responsibility for transportation. And I think it's safer, rather than me trying to speculate and only give partial answers, I think it's safer to put the questions to him.
Q. Okay. We'll take that one up with Mr. Martin then. Okay. Next column, the next item I wanted to go to is Professional Services. And if we go to the Grant Thornton report '03, Grant Thornton '03 report at page 44, we'll start there. And come down to the bottom of the page, Mr. O'Reilly, there's a table. In that table, Mr. Roberts, the breakout of total professional fees into Professional Services, Regulatory Costs, Software Acquisitions,

Maintenance and Non-regulated is provided. And it's the first line that we're primarily focused on here, the actual professional services. And the number in '02, in the '02 year, is, I take it that's where we have this million dollars on the Business Improvement Initiative.
A. Yes, that's correct.
Q. Okay. Now, let's just go to CA-44 for a second and we'll go to the attached schedule and we'll look at the Professional Services line and we come across from '97 to forecast '04 which is in your next page, we go from two million six two seven to 4.5 million in total? In other words, we have a 71.4 percent increase in Professional Services.
A. Yes.
Q. Okay. Now, I'll take you next to Grant Thornton's report on your '02 year which is at page 24 for the table. Okay. And what Grant Thornton attempts to do in that particular column is set out the main items, this is not the total as was shown on the page. The total that we looked at for Professional Services was 3.315 and Grant Thornton has said, out of

that 3.315, 2.439 of it--first of all, can you give the Board any sense of what makes up that other approximately $900,000.00?
A. No, I don't have that information with me.
Q. Okay. Perhaps you could undertake to give us some sense of what that is? (Undertaking) Not looking for every particular line item for those items, but $900,000.00 still seems a significant amount to simply leave unnoted. So, when you come back, if you can explain to us what the main component of that balance would be. If we go down through the bit that's on the screen there, Mr. Roberts, we have a couple of items I wanted to ask you about. Down under Production, we have the Information Tech Infrastructure Library of $259,000.00. And I thought I took from an answer, I believe Mr. Browne, that somehow this was a one time expense or did I misunderstand--can you explain what this is about?
A. No, I can't, it's underneath Mr. Haynes' area of responsibility.
Q. Okay.
A. He would be the more appropriate person to

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MR. ROBERTS:
provide additional information in that respect.
Q. All right. Can we go to NP-257 and what Np-257 shows is the same Professional Services categories for each of the years '01, '03 and '04 for forecast. First of all, we've got the '01 items. If you come across the line Management, there's Corporate Consulting Plan and Annual Report Consulting of 67,000 and 94,000 respectively. Can you explain what those are?
A. The 67,000 that you see there was assistance attained in developing a corporate communications plan.
Q. Um-hm.
A. And the Annual Report Consulting was the cost association (sic.) with preparation of the annual report including the printing. And included in the $94,000.00 in 2001 was approximately $20,000.00 that should have been included and recorded in 2000 rather than in 2001. So, the actual cost for 2001 was 74,000.
Q. 74,000, okay. Just go over to the next page

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which is 3 of 4. Now we have the forecasts item and we have, up at the top, under Finance, Business Continuity Project. Can you help us with that one?
A. Yes. Hydro is in the process of developing a business continuity plan and have need of provision of $300.00 to provide, obtain the services of an external consultant and that will deal with crisis management and physical security, a review of our critical infrastructure, services and processes and in Hydro in ways that may be obtained from an exposure to an event that would impair our ability to supply electricity.
Q. Oh, I see, okay. If you come down under production again, we again see this Information Technology Infrastructure Library item, this time it's 66,000.
A. All I can say is you're going to have to put the question to Mr. Haynes who has responsibility for IS & T.
Q. Okay. If we just go over to page 4 of 4, I take it the item for Business Continuity Project, that's the same one you just described for '03.

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A. Yes, that's a continuation.
Q. And the same answer with respect to Information Technology Infrastructure Library?
A. That's correct.
Q. Okay. Can I take you to--on the next heading, Miscellaneous, to Grant Thornton's '03 report at page 43. And there's a table there which is, it shows Miscellaneous Expenses and there are a couple I want to look at. First is Staff Training, and in Staff Training you are budgeting for forecast '04 a million dollars?
A. That's correct.
Q. Okay. But your actual in '02 were only 658 against the tested year of 840. So, you came in almost 200,000, 180,000 under budget on '02? First of all, is that correct?
A. Yes.
Q. Okay. And then in '03 while you're forecasting 932, if I take you to NP-251.
A. Yes.
Q. As of September 15, there's only 287,000 paid, line 8 or spent. Where do you expect your training for '03 to be?
A. It will be reforecast down and it's part of the process that we're going through now and

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doing the update.
Q. Do you expect then a reforecasting down for '04, keeping in mind that both '02 and '03 are being reduced?
A. Part of the, if I may just to elaborate a little bit, is with the changes that I had advised yesterday, some of the costs that are now, that would have, in the past, gone to training are now going to travel rather than into training. Back when we were using our manual system, that if you travelled, you would put all your travel costs on a travel claim and you would code it into the training area. What's happening with the automation of the expense side of things now, that the actual cost that would normally be going into training, are going into travel and consequently, there will be reductions.
Q. So, reductions not only in '03, but then in forecast '04?
A. I'm not sure of '04 at this point. I do know there is changes been happening in '03.
Q. Okay. And the last question on the Miscellaneous Section, on the demand-side management, there's approximately 13,0000,

KELLY, Q.C.:
20,000 in '01/'02 increasing to 100,000 in '04. Does that relate to the HYDROWISE Program?
A. Yes, it does.
Q. And is that the only item in there, HYDROWISE?
A. To the best of my knowledge, that's only for HYDROWISE.
Q. Okay. This would be a good place to break, Mr. Chairman.
CHAIRMAN:
Q. Thank you, Mr. Kelly, Mr. Roberts. We'll reconvene at 11:30.
(BREAK - 11:02 a.m.)
(RESUME - 11:38 a.m.)
CHAIRMAN:
Q. Ready to begin, Mr. Roberts?
MS. NEWMAN:
Q. Chair, we just -
CHAIRMAN:
Q. Sorry, Ms. Newman
MS. NEWMAN:
Q. We just have one matter that we'd like to address. It appears now that this witness may be off the stand and finished earlier than we

had anticipated in our schedule, and I guess parties would like to speak, in particular, the Industrial Customers, as to whether we move on with the next scheduled witness which was Mr. Haynes, on probably Friday or tomorrow afternoon or whether we put it off till the Monday which was the original scheduled day. So I believe Mr. Hutchings has something to say on that and then perhaps the others as well.
CHAIRMAN:
Q. Is it something we could do in the morning, Mr. Hutchings? I'd like to continue. Is it something we could address in the morning in terms of the issue of Friday or -
MS. NEWMAN:
Q. Well, actually -
HUTCHINGS, Q.C.:
Q. Ms. Greene wanted it addressed now if we could.
CHAIRMAN:
Q. Okay, fair enough.
GREENE, Q.C.:
Q. The only reason for that being I think it affects the work schedule of parties for

tonight and tomorrow night if we know what's actually happening on Friday.
CHAIRMAN:
Q. I appreciate that, okay. Sure. Fine.
HUTCHINGS, Q.C.:
Q. Mr. Chair, the issues arises due to personal plans of mine which take me away from here tomorrow and back in the country on the weekend. And we had, as between Mr. Seviour and myself, in dividing our labours, had determined that I would be doing most of the cross-examination for Mr. Haynes. That being the case, while I wouldn't anticipate that even if he started on Friday that we would necessarily be cross-examining on the first day, it would certainly be of significant benefit to us for myself to be able to hear the total of his cross-examination where I would be the one doing most, as I say, of the cross-examination on behalf of the Industrial Customers.
Mr. Haynes had been scheduled, you know, to start on Monday from the very beginning of the scheduling that was done and I think when we consider the forecast of when witnesses

will be heard, we generally tend to think that we're less likely to finish in the time allowed and more likely to go over rather than to be ahead of the schedule, which happily we are now.
But in the circumstances, Ms. Greene has suggested that she would wish to begin with Mr. Haynes on Friday if that's available. Our preference would be that we keep the schedule as it was and start on Monday in order that we not disrupt our plans for the cross-examination.
CHAIRMAN:
Q. Thank you. Ms. Greene.
GREENE, Q.C.:
Q. With respect to the schedule, the schedule that was done was a tentative schedule. The parties are aware that there is no guarantee that a witness will be five days if that's what scheduled or if there's two days, they may in fact take five days. Our position with respect to the schedule is that the parties should be prepared to proceed rather than lose a time such as a full day from the schedule which now has us going till Christmas if

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GREENE, Q.C.:
everything else does go according to the schedule. So our preference would be if--but, obviously, that's a decision for the panel, rather than to lose a whole day on Friday which it now appears that could be the case.
With respect to the order of cross-examination, the Consumer Advocate will be first, Newfoundland Power would be second. It is unlikely that we would get to cross-examination of the Industrial Customers on Friday, although I continue to live in hope. And in that regard, Mr. Hutchings has the benefit of reading the transcript with respect to the cross-examination that may have occurred on Friday. But we certainly are prepared to leave it to the panel. I would like some understanding if this occurs in the future that there--if we happen to finish on a Thursday or a Wednesday, we don't stop then and wait till the next week till the next witness appears in the schedule; that we should be moving ahead as expeditiously as possible to finish this hearing as soon as possible. So that is our position with

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respect to it and we leave it entirely in the hands of the panel.
CHAIRMAN:
Q. Thank you, Ms. Greene. Mr. Browne, do you have any comments or sorry, Mr. Fitzgerald?
MR. FITZGERALD:
Q. We support the Industrial Customer. It seems like basic fairness would support their position on that.
CHAIRMAN:
Q. Mr. Kelly.
KELLY, Q.C.:
Q. We take no real position. We would proceed either way. I understand Mr. Hutchings' position but we leave it to the panel.
CHAIRMAN:
Q. Any further comments, Ms. Newman?
MS. NEWMAN:
Q. I would confirm for the panel that the schedule, of course, was never intended to be certain days for witnesses and I think the parties were all aware that the days may float either later or earlier than we had anticipated. But then of course some circumstances will always arise to change that

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and sometimes that is the circumstances of counsel. So I leave that in the hands of the panel.
CHAIRMAN:
Q. Thank you. I'm going to proceed with the cross-examination now and I'll just, perhaps during the cross-examination, consult with my colleagues and hopefully, at the end of it have a decision, or we may just take a couple of minutes after, if not. But I'd like to proceed with the cross-examination now, if I could.
Mr. Kelly, when you're ready, please.
KELLY, Q.C.:
Q. Thank you, Chair. Mr. Roberts, I want to switch gears now and have a look at the demand energy rate issues with you as they relate to the impact upon Hydro. First of all, can we start by having you explain the current way that the Rate Stabilization Plan works in relation to ensuring that volatility or changes in the forecast, from either Newfoundland Power or the Industrial Customers, work, in terms of not impacting Hydro's revenue requirement.

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A. I guess the best way to deal with it would be to take it, and I'm not sure, Mr. Kelly, if this is where you want me to explain it, but I'll start with the hydraulic component. When the cost of service is done for a test year, one of the components in that is the amount of generation that will be available from our Hydro facilities for that particular test year. And proceeding from that on an actual basis, any difference in the amount of hydro electric that we get from hydrology versus what was actually recorded in the test year, the difference between the actual and the test year, the calculation is done based on the fuel cost at Holyrood and that adjustment is made to the rate stabilization plan.
In the case of the load variation, in the test year there was an assumption that the sales either to Newfoundland Power, the Industrials, would be X, and based on the actual results, the difference between the actual and what was used in the forecast adjustments were made in the rate stabilization plan both from a revenue perspective and from a cost perspective

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MR. ROBERTS:
relative to fuel. The other adjustment that's made is that any difference in the actual price of fuel that's paid by Hydro and what was used in the cost of service for setting rates, that amount is also deferred and added to the rate stabilization plan.
Q. And the one that's important for the Board to focus on here is the load forecasting or variation component. And so from Hydro's point of view as I understand your answer, Hydro is protected in the sense that the load forecast that's used in the test year, any variations from that are run through the Rate Stabilization Plan?
A. Yes, everything--Hydro's results are normalized back to what the cost of service was.
Q. Right. Now, then we can just have a look at question PUB-151. And this deals with the implementation of a proposed demand energy rate structure. That's the wholesale rate that Hydro would sell to Newfoundland Power, correct? First of all, Mr. Roberts, what we're talking about here is the wholesale rate

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structure to Newfoundland Power.
A. Newfoundland Power gets an energy only rate, yes, I'm familiar with that.
Q. Okay. So, currently they have an energy only rate and the proposal is that that be split into a demand component and an energy component.
A. Right.
Q. Now one of the aspects of the demand component is that that demand component would then not go through the Rate Stabilization Plan, is that your understanding?
A. Yes.
Q. So that Hydro then becomes subject to potential volatility as a result of changes in demand from forecast.
A. Yes, Hydro would be subject to some elements of risk in a similar fashion as to what it presently experiences with its Industrial Customers.
Q. Okay. Now, in line seven of the answer, the information is provided, that since 1996, the difference between Hydro's forecast for NP native peak and the weather adjusted actual as being within the range of plus or minus five

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percent. Under the demand and energy rate proposed in PUB-150, monthly billing determinants in 2004 applicable to NP are forecast at 1,054 megawatts--I'll leave out the decimals, skip through some of the bit--the lower limit is set by the minimum bill provision which is 98 percent. Now, just explain to the Board what that 98 percent in Hydro's proposal is about.
A. Mr. Kelly, the most appropriate person that you should be querying on the demand energy question and including this particular RFI would be Mr. Banfield and Mr. Greneman from Stone and Webster.
Q. But this impacts the money to you as CFO of the company and so I gather you must have had--have you looked at this issue at all, or as CFO, it doesn't matter?
A. I have reviewed the issue but at a very high level. The actual details of the workings and the calculations that are through this thing are done by Mr. Banfield and Mr. Greneman.
Q. Right. And I want to stay with you at a very high level here, Mr. Roberts. So the 98 percent, as I understand it, is even though

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the range of this variation is plus or minus five percent, if the demands falls, Hydro is only, on the proposal only going to allow the revenue to fall two percent. In other words, Newfoundland Power, if the demand actually fell three or four or five percent, you'd have to pay anyway. Is that how I understand it?
A. I believe you're correct but I think, once again, as I keep going back, the one that has a lot more in-depth knowledge of this would be Mr. Banfield and Mr. Greneman.
Q. That's fine. Now, lets just go over to--and that two percent floor is on the down side, if demand falls. Just go over to PUB-152, because these are numbers that we can all understand and that are important to you as the CFO. So that two percent will result in a reduction in revenues for the year of 1.7 and the upper bound, in other words, if demand rises by that five percent, will result in a gain in revenues of 4.9 million, except for the PUB assessment which will show as an increase or decrease in the following year. The variation in revenues will generally flow through to return on a dollar for dollar

KELLY, Q.C.:
basis. So if we had the situation of, first of all, the demand went down, Hydro would now become exposed if its revenue volatility on forecasting would go from zero to 1.7 million, correct?
A. Yes, I believe that's correct.
Q. But if the demand fell below that, Newfoundland Power would have to pay for demand that its customers were not in fact using, is that your understanding?
A. Yes, there is a fixed amount that would be done. There's a minimum payment that would have to be made.
Q. Now, if the demand goes up, Newfoundland Power would have to pay an additional 4.95 if it went to the upper end of that range, correct?
A. Yes, I believe that's correct.
Q. Now that 4.9 million of extra revenue to start off with, that would go, as the answer says, right to Hydro's bottom line. And if we go over to NP-160, that 4.9 million is equivalent to 230 basis points or a 2.3 rate of return excess for Hydro, lines 8 and 9?
A. Yes, that's what it says.

Q. Now, where would Newfoundland Power get that-- have to get that revenue from, that extra five million dollars, because we're talking about demand here now, a peak rise in the demand during the winter causes five million dollars in volatility.
A. I don't know enough information to be able to assess what the impact there would be into Newfoundland Power. And as I say, I think the details of what you're referring to has got to go back to Mr. Banfield.
Q. So, you as the CFO of Hydro, have not looked at where that additional revenue would have to come from?
A. I haven't looked personally at what would happen within Newfoundland Power.
Q. Have you, as the CFO of Hydro, looked at the financial impact on the customers of this Province to account for that five million dollars, as to where it would have to come from and how we would get there?
A. The question was answered based on the circumstances that was there and it was said to quantify what was the impact of the parameters that were set and this is the

impact that would arise on Hydro.
Q. On Hydro.
A. It didn't go into Newfoundland Power or to anyone else.
Q. But the question I'm asking you now is as the CFO of Hydro, have you looked at what this would mean for rate payers in Newfoundland and Labrador -
A. Have I -
Q. - as to how this five million is somehow going to get out of their pockets through us to you.
A. No, I have not.
Q. And I take it from the answers to the questions I've already posed, you have not looked at the revenue volatility that this would mean to Newfoundland Power?
A. I haven't. I'm not sure as to whether or not there's been some discussions between Newfoundland Power and Hydro. This information is available to them through the RFI, which indicates the impact on Hydro. But once again, as I say, Mr. Banfield would have more in-depth knowledge associated with this.
Q. I'm going to leave that point at that. Now, just before I leave this point, that 230 basis

points, I take it that as part of this proposal for a demand energy rate, Hydro has not incorporated any provision for an excess revenue account, either as part of this or as part of any other of the proposals in relation to its dividends and rate of return?
A. At this point, Hydro has not brought forward any changes relative to caps or margins or spreads associated, other than the fact that its return on its equity was requested at 9.75 percent. The 230 basis points that you happen to see here relative to that 4.9 million dollars happens to be so high because of the fact that it is the level of the equity that's in Hydro. It only happens to be about, approximately about 200 million dollars. So that's why it ends up being a total basis points of 230.
Q. That kind of leads into my next question which is I want to look at this question of dividends and capital structure. Let's start by going to Mr. Brushett's report at page 11. And we have in the middle of the page there, the table that shows the changes in capital structure from 2001 through to forecast 2004.

KELLY, Q.C.:

So in 2001, Hydro at 18 percent equity, was actually beginning to get reasonably close to the 20 percent target that had been established as far back as about 1990. Would you agree with that, Mr. Roberts?

A. Yes, I believe that's correct.

Q. And that has slid since down to 86.4 percent in 2003 on debt or 11.9 percent on equity and will only be recovered to 12.4 percent in 2004, correct?

A. That's correct.

Q. Now, there was some discussion with Mr. Wells about the dividends paid in 2002 and the dividends paid in 2003 and if I take you to Mr. Brushett's report at line 22, he says "This overall deterioration from 2001 can be attributed primarily to the significant dividends declared and paid on regulated operations in 2002 of 65.7 million, and the dividends forecast for 2003 of 5.6 million." Now as I understand it, Mr. Roberts, the total that was paid in 02 and 03 is the sum of those numbers, of 71.3 million. Is that correct?

A. Over the two-year period, yes, there was 71.3

million dollars paid out.

Q. Right. So the 65 was declared and paid in '02 and the 5.6 was in fact declared and paid in '03.

A. Yes, and the dividend that was paid in '03 was related to the final settlement for 2002 actuals. If I may, just to provide a little bit of additional information for the Board as well, Hydro's dividend to the Province on a particular year, there's only small quarterly payments, instalment payments are made to the Province. And at the end of a particular year, once the actual results are known, then the 75 percent calculation is done and the dividend is paid within the first quarter of the following year.

So that the dividend of 5.6 million dollars that was paid in 2003 is the final settlement based on regulated income for 2002.

(12:00 p.m.)

Q. But, in fact, does it help if we put the 5. 6 back into 2002 and we have 71.3 million, that is still--in 2002, that is still vastly in excess of the dividend policy in 2002, isn't it?

A. Yes, and everybody was aware of that at the last hearing that this was going to occur and in fact it actually did.

Q. It did occur.

A. You know, it's not a surprise that the dividend was to be paid. As a matter of fact we even filed our application back in 2001 reflecting the payment of this special dividends by the Province.

Q. And that decision to take out the dividends and reduce the equity was the decision of the shareholder, the Government of Newfoundland and Labrador, and Hydro's Board?

A. Well, the Government requested a special dividend and Hydro's Board reviewed the circumstances and then based on that, they did agree to the payment of the special dividend.

Q. Right. So, when, for example, we were looking at the demand energy a few moments ago and you said well it's 2.3 percent because of the thin equity, that is because of a decision made by government, the shareholder and Hydro's Board to depart from the policy of moving to an 80/20 split, is it not?

A. My reference a few minutes ago was just to

highlight that the reason why it's 230 basis points is because there's only 200 million dollars worth of equity there. It wasn't to infer other than that's why it's 230 basis points.

Q. Right. But the reason that it is 230 million as opposed to about 75 or 80 million more than that, if you go to Mr. Brushett at page 14, is because government and Hydro's Board paid out 70 plus million dollars worth of dividends, is that not correct?

A. There's no question that the payment of dividends reduced equity so, consequently, any change like that will automatically increase the number of base points.

Q. Right. So now if we go to your evidence at Section 3.3, it's at page nine, you make the observations under "Financial Risk", I'll take you to line 21. "If there is little equity in the capital structure, financial flexibility is reduced." And is it not the case that the shareholder and Hydro's Board, having made that decision, made a decision to have less flexibility?

A. Which line were you referring to again, Mr.

MR. ROBERTS:
Kelly?
Q. Lines 21 and 22. In other words, that determination that leads to less financial flexibility is in fact a determination made by government and Hydro's Board, is it not?
A. The reduction in equity, in effect, is limiting the amount of return that's available to the shareholder.
Q. And that was the decision made by Hydro's Board and government, collectively.
A. That was the collective decision that was made at the time to pay out this special dividend of 60 million dollars.
Q. Right. And in fact, if you go over to the next page, page 10, at line 14 where you say, "It is considered prudent to commence moving toward the capital structure of 80 percent debt over the next five years", that same position, was it not, was advanced by Hydro in 1990 that we should move to 80/20 and, in fact, looking back at it now, really no progress had been made, has it? Again, because of the decisions by the shareholders.
A. Well, we were there and the decision was made

by shareholders that it required a special dividend and that's what was paid. But I guess if you look at what happened within the organization, dividends only commenced being paid in 1995, so if you look at it on a total basis of what could or could not have been paid out, the amount of dividends that are paid out is still only 35 percent of what could have been done.
Q. So are you suggesting that the 80/20 policy was not a good policy to have had in the 1990s and at the last hearing?
A. No, I'm not saying that. I'm saying that I still feel that the policy of 80/20 is a reasonable level to obtain. Ms. McShane, our financial expert considers it to be at an upper end of a reasonable range associated with being self-supporting, and we still feel that the efforts to try to attain and return to an 80/20 debt capital structure is still appropriate.
Q. Right. But government, your shareholder, hasn't signed onto that, has it, Mr. Roberts?
A. Not at this point, no.
Q. And so the proposal to the Board at this

stage, in fact, ignores the fact that government has not signed on to either the capital structure policy or the dividend policy, have they?
A. What's been filed with the Board is what the actual capital structure is and what the actual existing dividend pay-out ratio happens to be, and that is up to 75 percent of net operating income as reflected in this application.
Q. Okay. And if I take you back to page 8 of your testimony, where you say at line 17 through 20, I'll take you to line 18. "Hydro's financial integrity and credit worthiness are of concern to the shareholder and are key determinants in what constitutes a reasonable rate of return". But in fact, may I suggest to you, sir, that for you to say that Hydro's financial integrity and credit worthiness are of key concerns to the shareholder, when government has not responded to your policy paper, to Hydro's policy paper on capital structure and dividend policy, is in fact, you don't have any basis for it.
A. No, subject to getting any further direction

from government, then our current targets of trying to achieve an 80/20 ratio and a dividend payout ratio of 75 percent are, in fact, the policy of the organization.
Q. The policy of Hydro.
A. Yes.
Q. Yes, but not necessarily the policy of government?
A. They are, unless further direction is received. Well, can I take you to Mr. Wells' evidence to the capital structure, dividend policy report, the last page, which is 7 of 7, the last paragraph, where Mr. Wells and Hydro, in fact, advised that failure to adhere to such a policy could result in similar disallowances by the Board, therefore, adversely impacting any shareholder returns. So, despite the advice and direction of Hydro to government, the shareholder, government has not seen fit to respond and provide direction yet, has it?
A. To date, government hasn't issued any direction back to Hydro relative to this matter.
Q. Okay. And there is not approved business plan

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KELLY, Q.C.:

by government to address any of these issues of capital structure and rate of return, is there?

A. The information that you see that's filed here has been provided to government. There have been some briefings with the Minister as Mr. Wells outlined and with the Deputy Minister. Hydro's Board is conversant with what has been presented and we have to wait and receive further direction from government at this time.

Q. So, at this point in time, there's no commitment on capital structure or dividend policy. Government is still providing the guarantee and -

A. No, I don't agree. You say there's no commitment. We have established policies of what we feel is the dividend payout ratio which is 75 percent. That is still the current policy and it's still our objective and target to endeavour to return to 80/20. So, we do have something in place today. That's not to say that it may not change, but there is, in fact, some basis for what we are

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doing.

Q. That Hydro's target and I'll agree with you that that's Hydro's target, but government has not yet given you any commitment on those items, have they?

A. We haven't received formal notification of any change relative to what has been provided to them on the capital structure and dividend payment.

Q. And government still provides the loan guarantee and Hydro continues to pay the loan guarantee fee?

A. That's correct.

Q. And Hydro is still exempt from paying income tax and there are no proposals to change that?

A. Not that I'm aware of.

Q. Okay. As we talked about earlier, there are no proposals for either excess earnings accounts, range of rate of Return on Rate Base or automatic adjustment formulas?

A. Hydro has not proposed any in this application at this point in time.

Q. And the rural deficit continues to be transferred to rate payers as opposed to paid by government directly, no proposals to change

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that?

A. The payment of the rural deficit has been determined by an Order in Council and direction issue to the Board that it will continued to be paid by Newfoundland Power and the Labrador Interconnected Customers.

Q. Okay.

A. So, direction has been received from government on that particular issue.

Q. Right. And it effectively means no change in policy, in fact, backed up on some issues from the Board's last order.

A. I guess I can only repeat that the direction that came, is that Newfoundland Power and the Labrador Interconnected Customers would continue to pay the rural deficit.

Q. Okay. Those are all my questions, Mr. Roberts. Thank you very much for your time and patience.

A. Thank you.

CHAIRMAN:

Q. Thank you, Mr. Kelly. Thank you, Mr. Roberts. We'll move now to the Industrial Customers, I guess by the adjustment of the mic, Mr. Seviour, you're on by the looks of it. When

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you're ready, please.

MR. SEVIOUR:

Q. Thank you, Mr. Chair. And I will be conducting the cross-examination of Mr. Roberts. Good afternoon, Mr. Roberts.

A. Good day.

Q. Mr. Roberts, can I begin by asking you turn up schedule to your evidence, Schedule 11 which reflects the schedule of long term debt. Do you have that, sir?

A. Yes.

Q. My interest is in the series ACC debt instruments which reflect an interest rate of 5.05 percent issued just a couple of years ago and that's part of my question, were they issued in two years or just in one year?

A. There was an initially issue and then I think in 2002, we opened that issue, had an opener that you could increase it.

Q. And this is at a very preferential rate. My question, I guess, was the maturity date of 2006 which is considerably shorter term than most of the debt instruments that are listed in the long-term debt schedule, I wonder if you could explain to the Board why that was

MR. SEVIOUR:
the case, that it was such a short term issue?
A. At the point in time in the analysis of what Hydro's debt was and what it's weighted average term to maturity was in relation to its debt and the advice of what would be required in the market at a particular time. And the decision was made that we would go with a five-year ratio and also in that same particular year, there was also another long-term issue that was done for 30 years.
Q. And were those two separate issue directed to two separate projects, financings or undertakings?
A. I'm just trying to recall from memory now. These were the--in the case of 2001, there was a requirement for approximately another 250 million dollars, I think of additional borrowings. That was--our promissory note level was getting close to the 300 dollar maximum. And I believe there was an issue that was maturing in that particular year. So, it was a refinancing as well.
Q. Thank you. Can I next ask Mr. O'Reilly to turn up page 20 of yesterday's transcript and

my interest is the passage where you're talking to Mr. Browne about Granite Canal. And at page 20, lines 8 to 12, I wonder if I can ask you to read the test.
A. Beginning on line?
Q. Just the first full sentence in line 8.
A. Eight, "if the project was being added in 2004, because you're averaging 2003 and '04, the impact on Rate Base wouldn't be a full 135 million dollars for the purpose of supplying the return".
(12:15 p.m.)
Q. Thank you. And my question, Mr. Roberts, I'm interested in confirming whether or not the Granite Canal is currently fully in Rate Base?
A. Yes. In retrospect, that answer is wrong, because it's in 2003 and it's in service, the 2003 number is in the 2004 number.
Q. So, when we look at Schedule 3 to your evidence which deals with the Rate Base, we see the full capital contribution of Granite Canal in that total figure.
A. Yes. What I was trying to highlight and I probably picked the wrong period of time, but for instance, if a project happened to come

in, say, 2004, because you're averaging, you wouldn't get the full year's impact on Rate Base. So, my apologies. It is in the 2003 number and is in the 2004, so the overall impact is that it's in Rate Base.
Q. I wanted to move on now to issues of Hydro's financial targets, Mr. Roberts and can you indicate who sets those financial targets for Hydro?
A. The financial targets are determined by the management of the Company and brought forward to the Hydro Board of Directors for confirmation.
Q. I was interested in the exchange of correspondence between Mr. Wells that Mr. Kelly referred to just moments ago in connection with the dividend policy and that particular financial target. And I wondered if you could indicate to the Board the level of consultation, if any, that goes on between shareholder government and Hydro in connection with those financial targets.
A. I guess I can only speak for what basically has transpired. Hydro, in the development of the targets as I just outlined, were done by

management and then subsequently brought to the Board of Directors for confirmation. One of Hydro's Board members is the Deputy Minister of Finance representing the Province. So, he is versed on the results of all the Board meetings of Hydro, as to the discussions and the outcome and would be in a position to relay that information to appropriate people within government. In addition to that, Mr. Wells, through conversations either through our Minister or others, may have been involved in some of these discussions that I would not be aware of.
Q. Okay. And the type of specific initiative that we saw addressed by Mr. Wells' correspondence, that is the recommendation for a 50 percent dividend policy being a change from had formerly been the case, would that be in the nature of a routine consultation communication with government or would it be extraordinary, in your experience?
A. Well, the preparation of that capital structure dividend policy was, I guess, one of the issues that arose from the last General Rate Application where concern was being

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expressed by the Board relative to, number one, the payment of a special dividend which was higher than what was Hydro's normal dividend policy and just what direction was going to be available to the organization on a go-forward basis. Because, you know, it can have an impact on rates and what's being presented. Based on that, discussions commenced, of course--I should back up just one step, government were certainly aware that the payment of the special dividend that had been requested would certainly be an issue of concern at the hearing in 2001 too. And after the issue of P.U.7 in the final order and the concerns that were raised by the Board, management decided that it would put together a discussion paper for government on this particular area. And it should be broad enough not just to cover, you know, the actual payment of dividends and what it was in the future, but also deal with the capital structure and what were the background that led into this and what were the ramifications is what's been done to date. It also contains

what was felt as being a reasonable and realistic way of trying to return to what was felt, by management, to be an appropriate debt to capital structure of 80/20.

Q. And would I be fair in colouring the communication on the discussion paper as more in the nature of an exceptional or unusual communication from Hydro to its shareholder in that regard?

A. Only from the point of view that the payment of the special dividend and the impact that it had on the organization and the concerns that there was a lack of predictability and stability here as to what was happening and Hydro was trying to provide as much information as it could to government on a discussion paper to start to generate some discussion with them to see if there was a way that we can accommodate all parties concerned, some requests and allow Hydro to return back to its debt to capital structure of 80/20.

Q. Thank you, Mr. Roberts. I think I'll move on. I'm going to ask you to turn up Schedule 4 of your evidence, please. I'm sorry, I have that incorrect, it would be Schedule 9 of your

evidence. And this is a schedule of retained earnings and as I understand it, the equity in Hydro, Mr. Roberts, is not, in fact, typical capital injection equity, but it's really in the form of retained earnings, is that correct?

A. Yes, these are the accumulated earnings in Hydro.

Q. And if we look at the Schedule, can you confirm that the equity that's reflected then is the retained earnings in the amount of $200,419,000.00 reflected on the schedule?

A. That is the accumulated earnings in Hydro and net of dividends since its formation.

Q. But I'm correct in regarding this as the equity that is in Hydro regarded to be the equity base of Hydro?

A. This the shareholder's equity within Hydro from its accumulated earnings net of dividend.

Q. And can you confirm that Hydro does not rely on this equity and the associated capital structure of Hydro to permit it to borrow in the world financial markets?

A. I guess I'm hesitant in answering your question to be that specific. When Hydro

borrows in the capital markets, it's able to borrow based on the guarantee of its owner, but in the assessment of the organization, the bond rating agencies do look at the impact of the organization, both on a consolidated and an unconsolidated basis. And they do issue reports on Newfoundland and Labrador Hydro which will outline concerns, if they have any, and also deals with the way that the operation is operating.

Q. But the principle reliance that's placed by Hydro on borrowing is on the Province's guarantee, is that correct?

A. The guarantee enables us, at our present capital structure, to be able to readily available (sic.) raise funds and it's with that guarantee that we're able to do that. And the presence of that guarantee really, in effect, and Ms. McShane deals with this in her evidence, that the presence of a guarantee with our capital structure of approximately 80/20 equates almost to a 60/40 where there wouldn't be a guarantee.

Q. And with the guarantee, I think you've said in your evidence that Hydro achieves a credit

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rating that's equivalent to the Province's, is that correct?
A. We automatically get the credit rating of the Province.
Q. But the guarantee that the government provides, are you aware, does it cost government anything?
A. Yes, there would be a cost to the Province from the point of view that by having this guarantee there, it is, in effect, putting a contingent amount on the amount of funds that even the Province can borrow. Because when you're looking at the total borrowing ability of the Province, then it's important that Hydro continue to show that it's self supporting, but I also believe that the bond rating agencies do take into account guarantees that would be issued on other entities because that could be a potential liability that could be called upon in the case of default.
Q. And are you aware of whether or not, by reason of the guarantee, government has been exposed to higher borrowing costs of have seen other

costs associated with borrowing in the world financial markets?
A. I, personally, I wouldn't know if it was just a guarantee. I can only give the opinion that when the ratings are done, this is just one of many factors that will be looked at similar to the ratings and the reports that would be issued on Newfoundland and Labrador Hydro. It wouldn't be restricted to just one particular area.
Q. But you personally have no knowledge of any actual costs to government in that -
A. No, I'm not involved in the discussions with government. I've been involved with the bond rating agencies relative to Newfoundland and Labrador Hydro and their assessment of Hydro.
Q. Thank you. Now, as I understand it, the guarantee fee will be projected to be $14,453,000.00 in test year 2004. I think you can find that on your Schedule 7. Is that correct?
A. The amount sounds familiar, yes.
Q. And that is booked as a cost of debt to Hydro?
A. Yes, it is.
Q. Okay. Is it fair for us to conclude, Mr.

Roberts, that with the government's guarantee, Hydro enjoys a sound credit rating in the world financial markets?
A. The guarantee is only there to help the debt holder. The debt holder is looking for some guarantee at some point that its going to achieve its money in the case of default. So, the guarantee is saying that in the event that the organization is not self-sustaining and is not earning a reasonable return on its operations, then the recourse is back to whoever issued the guarantee.
Q. But is it true that from a creditor's perspective on the world financial markets, a lender to Hydro is going to regard Hydro as having a sound credit rating for credit purposes for its lending purposes by reason of the government's guarantee?
A. No, the guarantee is being looked at as being a comfort or a cushion to the debt holder. What's being looked at is what is the risks associated with government as a shareholder in Hydro enabled to have, as sufficient funds, and a return on that to cover it.
Q. Okay. And the creditor is essentially looking

at the Province's credit rating in that regard, is that fair?
A. I think they're looking at the credit rating of the Province in our case. It's the return that shareholder gets helps to add credence towards the guarantee. And, if anything, may make it easier for the Province in respect that if the entity is self supporting, self-sustaining and the likelihood of having the guarantee exercised is lessened.
Q. I wanted to take you to your table 1 on page 7 of your evidence and these are the tables reflecting financial results. Do you have that, Mr. Roberts?
A. Yes, I do.
Q. In this one is the present debt equity ratio to be 86 to 14, is that correct?
A. In 2003, yes, debt to capital of 86 to 14.
(12:30 p.m.)
Q. And at page 10 of your evidence, you say it's a financial goal or a target of Hydro that its financial position does not impinge on the credit rating of the Province. Do you recall that evidence?
A. Yes, I do.

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MR. SEVIOUR:
Q. Could you elaborate on that, what are you getting at there?
A. Well, for instance, if I may, the table that we were just talking about on page 7, you'll see the financial results in Hydro is that we're experiencing a loss, and that's illustrated in my revenue requirement on Schedule 3. The continuation of such events runs the risk of impairing and impacting on the credit rating of the province, that if Hydro happens to be in a position where it's losing money year after year, then it will start to impinge on the credit rating of the province. So it's crucial that Hydro continue to maintain its financial position so that it does not impinge on the credit rating of the province.
Q. And is there any independent indicator of which you're aware which would suggest that Hydro's current financial position does threaten the province's credit rating?
A. The only thing that you may find some in the analysis of the various credit rating agencies, there may be some references to some

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uncertainties or some concerns that would be raised relative to Hydro in its analysis by the various bond rating agencies.

If I may, Mr. Seviour, I'll just illustrate one of the items that I was just trying to explain to you. In the--this is in NP-104, Attachment G. Just move up a bit, Mr. O'Reilly. Okay. You'll find there in the middle of that page the various rating agencies, they look at both strengths and challenges. And you'll find here where they start to make reference to such things that they start to have some concerns about. This report is done as of 2002. So if there were starting to be trends in future things such as continuous losses these things would start to come in here and this is where they would start to continue to have measurements of where they were starting to have some concerns. For instance, remember, cash flows, sensitive to water levels and oil prices, high realized foreign exchange losses. So, all of these things are being brought out relative to the rating of Newfoundland and Labrador Hydro. And of course, these are all going to be

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considered then in the overall assessment of what may or may not be done for the province. In the case of 2003 we did meet with the bond rating agencies, and in particular, Dominion Bond Rating Services who is up here on the screen before us, and they were appraised of the fact that we were going to be having a loss on regulated operations in 2003 of approximately about $8 million and they were also aware of the fact that we were filing an application in the spring and they were advised also as to the reasons why we were experiencing a loss for 2003. So they're fairly current in the information that would be available for them in assessing both the province and the entity as a whole and they appreciate that there may be things that will happen in one year. But they do get concerned about having continuous trends that in the event that Hydro was to continue to experience losses, then it would start to become a major concern for them.
Q. In the Dominion Bond Rating Service Report that you referred to, just in the middle of the page there's a section called

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"Consideration". Do you see that?
A. Yes, I do.
Q. And one of the strengths there that's referenced is that the debt is unconditionally guaranteed by the province?
A. That's right.
Q. And there's nothing in this report that would suggest that something in Hydro or Hydro's financial position is going to erode or impair the province's credit rating, is there?
A. No. But my only point was I was trying to raise that in these various reports they raise both strengths and challenges and they look at trends and what's happening over time -
Q. Yes.
A. - and as we start to see things starting to deteriorate -
Q. And this is specific to Hydro?
A. - then that can specifically impact then on the overall rating of the province. And of course, the level of return that Hydro receives relative to the equity that is in the organization is a concern, because if there are things happening within a particular year that impacts that return, well then, that may

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be having some further impact on the credit worthiness of Hydro and consequently the impact of the province.
Q. And just to finish with this report that you've turned up, under the "Update" in that section, the last paragraph in the left-hand column says "The medium term outlook for the utility's financial profile remains reasonable". You see that?
A. Yes.
Q. Okay. And Ms. McShane I think spoke to this in her evidence and if you can turn it up at page 17, line 22 to 24, she addressed this point has said, "For 2004 Hydro's forecasting regulated capital structure containing 86 percent debt, above its target level of 80 percent, there is no evidence that this higher debt ratio will negatively impact on the debt rating of the province in the near term." Are you aware of that evidence from Ms. McShane?
A. Oh, yes, I've read it.
Q. And do you agree with that comment in her evidence?
A. Yes, Ms. McShane has done that analysis and

that's her opinion.
Q. Thank you. I understand that Hydro's present targets are 80/20 debt equity ratio and that this, in fact, has been the target for some years, but that Hydro formerly had a target of a 60/40 debt equity ratio in relation to its unregulated activities. Is that correct?
A. At the last general rate application Hydro had presented to the Board a position that Hydro would like to obtain a 60/40 debt to capital structure.
Q. And that no longer remains the case. And I wanted to review with you a comment coming from Ms. McShane's evidence at page 6. And she says at lines 9 to 11 of the evidence, page 6, "Hydro has addressed this issue," the debt equity issue she's speaking of, "and concluded that a 60/40 debt equity capital structure is not practically achievable. Consequently, Hydro is proposing to maintain an 80 percent debt to capital as its target for the foreseeable future." Were you part of the deliberations and decision making which lead to the conclusion that a 60/40 debt equity capital structure was not practically

achievable?
A. Yes, I was party to some of those discussions.
Q. And what was the basis for that conclusion?
A. The basis was with 60/40, to achieve a 60/40 you were looking maybe 10, 15 years out which was really well past the horizon as to where you're practically going to be able to achieve that. And in the short term it was decided that we would maintain the target of 80/20 and still have a debt guarantee. The 60/40 was premised on the fact that you would be able to give up having a guarantee placed on your debt.
Q. And did the shareholders' position with respect to the taking of dividends in Hydro have any impact that conclusion?
A. No. I think it was looked at as the time frame and what would be required to ever achieve a 60/40 ratio and looking at that far out over the horizon that you'd be talking maybe 10 to 15 years before you could ever achieve such a position.
Q. Mr. Roberts, I'd like to get your reaction to this. As I read the evidence, to achieve a sound credit rating in the world financial

markets as a stand alone entity, that is, without the guarantee, Hydro would need to have a debt equity ratio in the 60/40 range. Am I being fair to the evidence as you see it?
A. I think that's what Ms. McShane's comments and the advise of her as being our financial expert saying that you would need at least a 60/40 debt to capital structure.
Q. And is the implication -
A. And then you would be able to eliminate the guarantee. Circumstances -
Q. And is the implication accordingly that Hydro in targeting an 80/20 debt equity ratio and not something less has abandoned the goal of achieving a stand alone investment grade rating?
A. I guess in the short term Hydro has set a current target which it feels is 80 to 20 debt capital with the continuation of the guarantee, so at least in the short term of the next five to seven years that should be where we are heading.
Q. So we're going to live in the world of the guarantee for at least that time frame?
A. I would suggest at least that time.

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MR. SEVIOUR:
Q. Thank you. You spoke to Mr. Kelly about the implications of dividends, in particular the special dividend in 2002 for Hydro's debt equity ratio. And the short answer was that it had a negative implication, I think, was your evidence. Is that a fair characterization?
A. The payment of special dividend in 2002, yes, did alter the debt to capital structure.
Q. I wanted to look at the discussion paper. This is Attachment No. 1 to Mr. Well's evidence, his Schedule 2. And in particular I wanted to look at the dividend history here. Now, you used in your evidence this morning a figure of an aggregate 35 percent dividend pay out since Hydro's inception. I think that was your evidence?
A. Yes, that's the number that Mr. Wells quoted too.
Q. And Mr. Wells used it in his evidence. But in the real world there have been dividends only from 1995 forward, is that correct?
A. Yes, the dividend policy commenced in 1995.
Q. And with respect to Hydro's policy of a 75

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percent dividend which you've told us remains the current policy, that policy was exceeded in both 2001 and 2002 according to this table, is that correct?
A. Yes, it is.
Q. And based on your discussion with Mr. Kelly, which I think would--and I'm not quite sure how the accounting treatment goes here. The 2002 figure that we see of $65,723,000 paid out in respect of 2002, the special dividend, should that not be increased to--increased by the amount that was paid out in first quarter 2003? Is that properly booked as a dividend for '03 or '02?
A. The remainder of the amount that was based on 2002 actuals was actually booked and recorded in 2003. It wasn't declared until the actual results were known. And you will also find the same circumstance happens throughout here. For instance, in 2000 the dividend of ten, zero, twenty-six would probably have reflected an adjustment from 1999 as well so that the settling up is always done once the actual financial results are know, then an actual dividend is declared so that they're -

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Q. In the next year?
A. - square off the books. That's right. But that's always in the year behind.
(12:45 p.m.)
Q. So really what you have is a -
A. You've got a lag -
Q. I'm sorry?
A. You've got a lag happening in the dividends versus the actual years.
Q. I think I understand. The dividend may be set and requested in '02 but it wouldn't be fully paid until '03?
A. Well, the dividend policy is established.
Q. Yes.
A. But not all the dividends will be declared and paid within that year because you don't know what the actual results are until after the end of the year.
Q. But does that mean that in '03 the additional amount of, I think it was 5,564,000 -
A. That's all related to the final settlement for what the 2002 actual results were.
Q. Yeah. But it's paid in '03 when there's actually projected to be a loss of $7.8 million?

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A. Yes.
Q. Okay. I did an exercise, Mr. Roberts, of bringing this table forward to the end of estimated 2003. And I'm going to ask you trust my math, but I got a total dividend payable for the period 95/03 of $139,429, 000 when you factored in the -
A. Five point five?
Q. The most recent payment. And adjusting for the loss in '03 in the net regulated operating income column I got a total figure adjusted of $132,425,000, which is a obviously less than the total aggregate dividend pay out.
A. That's correct.
Q. And in fact, my math took me to a conclusion that between 1995 and projected year end 2003, Hydro would, in fact, be paying out 105 percent of its net operating income as dividends. Is that generally square with your understanding?
A. That sounds about right because all you've done is you've just added the extra dividend to that and it gives you 139 and total accumulated income even reflecting the loss is 132, so, if that's 105, then that certainly is

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the case.
Q. That's my math.
A. I guess the only caution there is that reflected in there is the special circumstances in 2002 of the $60 million dividend that was there, but that's the fact and that's what was required.
Q. And you commented yesterday at page 29 of your evidence, I wonder if Mr. O'Reilly can pull that up. Page 29, lines 10 to 16, you're talking about, I think the cost of debt and you said "It's a function of, during this time period, we were also building Granite Canal which totalled 135,000,000, 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 these factors contributed to an increase in debt." How did the payment of the dividend increase to--contribute to an increase in Hydro's debt in that year?
A. Because Hydro had to borrow it to pay the dividend, the funds had previously been invested back in through plant. So it was reinvested back in through the organization

into the plant and equipment.
Q. Mr. Roberts, just before leaving this area, what is Hydro's position with respect to the $200 million that remains as retained earnings that we looked at, at the beginning of this discussion? Is that subject to a request from the shareholder for dividends on account of that amount of retained earnings, that amount of equity?
A. Are you asking me whether or not government could request that the equity be paid out?
Q. Yes.
A. I think I'm treading the legal ground now, but I don't think there would be any impairment that would stop that from happening. I personally don't think the province will, but there is always, I guess, in that respect the province may turn around and decide that it may require additional funds from Hydro as part of its equity. It may want to take some of its equity back out again, but at this point, there are no further requests for additional equity and the confirmation or I say the continuation of our current dividend policy of paying out 75 percent of net

operating income, is what we are following today.
Q. Can I ask you to turn up CA-3, please? Mr. O'Reilly, this is the 2003 - 2007 financial projection. You're familiar with this document, are you, Mr. Roberts?
A. Yes, I am.
Q. And I'd assume that your fingerprints would be on it, you had some role in its preparation?
A. Yes.
Q. The last question I'll ask you about dividend policy relates to the executive summary on page 4 of the exhibit and in the fourth bullet down, it says "A seventy-five percent dividend payout for the Hydro dividend portion is targeted during the period 04 to 07. Over the 2003 to 2007 time frame, $260 million in dividends are projected to be paid to the Province of Newfoundland and Labrador, consisting of $212 million from Hydro and $48 million from Churchill Falls (Labrador) Corporation." And can you confirm that that $212 million is based on the 75 percent dividend payout policy?
A. The dividend that you see quoted here is the

continuation of the 75 percent dividend payout ratio related to Hydro's regulated earnings, and a hundred percent of the payout of the net income from the sales of--from the export sales to Hydro Quebec.
Q. So 75 percent of regulated -
A. So it's 75 percent of regulated and a hundred percent of basically the net profit from our export sales to Hydro Quebec.
Q. And the 75 percent of regulated gets us the $212 million that's in the bullet?
A. No, the 212 would be both, both regulated and the dividends that would be coming from our export sales as well.
Q. And my interest, I guess, in coming to this, this document was prepared in August of this year?
A. Yes.
Q. If you look at the first page, it says, "August 2003", which is subsequent to Mr. Wells' communication to government seeking some action to the 50 percent dividend policy which, I think, has the support of, among others, Ms. McShane and, you know, does this indicate that government has given up--that

MR. SEVIOUR:
Hydro has given up on the idea of a 50 percent dividend policy?
A. No, this document was prepared based on the assumptions and the information that we knew at the time, and the date of August 2003 reflects the most current information we had, which was relative to the update. It had actually been done earlier and as a result of the re-filing and the revision dated, I think it's August 12th, this document was updated to reflect those current results. And as of that update and as we speak now, there's been no further direction from government received, so it's based on the most current information that we had at the time.
Q. Thank you. I wanted to move to a discussion of Hydro as an investor owned utility. Mr. Roberts, you're familiar with that discussion, I suspect?
A. Yes.
Q. And my understanding, from reading the 2001 P.U.7 and proceedings associated with that, is that at that time in the 2001 GRA, Hydro requested to be treated as an investor owned

utility?
A. That is correct.
Q. I wonder if Mr. O'Reilly could pull up page 42 of P.U.7. The bolded section that appears on page 42, could you read that, please, for the record?
A. "The Board finds no statutory basis for treating NLH as an investor owned utility. The Board concludes approval in principle on NLH's request to be treated as an investor owned utility is not justified based on its current operating characteristics. The Board believes NLH's request is premature in the absence of a sound plan by NLH of how it will achieve financial targets similar to an investor owned utility, and what impacts this will have on its customers. The Board notes that NLH's debt is guaranteed by government and this ensures Hydro's continued access to the capital markets of the world."
Q. Thank you. Now, I take it, Mr. Roberts, that one of the financial targets of Hydro would be to be treated as an investor owned utility, does that continue to be the case?
A. Yes.

Q. And when the Board's decision on this point, in 2001, refers to a sound plan to achieve financial targets to an investor owned utility, can you indicate if in fact any steps have been undertaken within Hydro to implement such a sound plan?
A. Hydro has commenced discussions with its owner, relative to its capital structure, as well as its dividend policy. There also have been changes in legislation that has removed certain items that were restricted to the way that Hydro operated, and it is heading along that lines towards being similar to an investor owned utility. The attainment of a debt to capital structure of 80/20, coupled with our guarantee, enables us to borrow in a manner that's similar to an investor owned utility, which would have a 60/40 ratio.
Q. And with respect to the shareholder discussion, that's been a pretty one-sided affair to this point, you don't have a response to the position that was put forward in March by Mr. Wells, is that correct?
A. There's no response to date.
(1:00 p.m.)

Q. So that hasn't advanced in a way that Hydro would like to see it, I take it?
A. Hydro would have liked to have it resolved.
Q. Yes.
A. Once and for all, but as you know the circumstances as they are today.
Q. And the legislative changes that you've referred to, Mr. Roberts, did they not occur prior to the 2001 General Rate Application?
A. Yes.
Q. So they were before the Board in 2001 as well?
A. Yes, but whether or not they were fully outlined like they are now, in the question, I don't recall.
Q. But I take it that there's no, no initiative or corporate strategy or document within Hydro which you might point me to, to say, well look, this is our sound plan towards obtaining investor owned utility characteristics?
A. Of a formalized plan at this point, the answer would be no.
Q. Thank you. Are you aware of any dividend policies of investor owned utilities, Mr. Roberts?
A. No, I have no firsthand knowledge of investor

MR. ROBERTS:
owned utility dividend policies. I am aware of some of the dividend payouts that's been made by investor owned utilities, as well as other utilities.
Q. Are you aware of any investor owned utility which has paid out in excess of a hundred percent of its net operating income within the last eight years?
A. Bear with me, there is an RFI that showed dividend payouts of both Crown utilities and some investor owned utilities and it showed the amounts that had been paid out over a period of the last six or seven years.
Q. Would you want to simply reflect on that and we can engage on -
A. I know the page number, I just don't know where I put it. It's page 67 of a document that got filed, I think DBRS actually did the report and it's page 67. Maybe if you can just give me one minute, I may be able to quickly tell you exactly. I'm not finding it, but there is a particular page that was done in the DBRS Report, it's page 67. I think the Public Utilities Board actually asked for a

document -
Q. Mr. Roberts, I will now conclude my cross-examination before this afternoon, so perhaps if you can reflect on it overnight and we -
A. If I can find the page, because I did take that particular page out.
Q. That would be of assistance.

KELLY, Q.C.:
Q. It's on the screen.
A. Oh, I guess my comments relative to--I don't know actual firsthand knowledge of investor owned utilities and their dividends being paid out, but for instance, if you look at Nova Scotia Power in 2001, they've paid out 153 percent; TransAlta has also paid out some fairly substantial dividends. I don't really know the reasons why that may back up some of these, but you can see there that it has happened. As a matter of fact, and I can't attest to the support behind this, but even in the case of Newfoundland Power in 1996, there was 134 percent paid out. That's my reading of what this summarization is showing me. B.C. Hydro has paid out 129 percent in 2001. I think, when I read this, I see it as it's

all circumstance bound and there may be all valid reasons why it exceeds the dividend policy, but that would be my only comment that I could add to this conversation would be that based on what's put here and it does appear to be moving from year to year. So, you know, the actual dividends that are being paid out, to me, certainly don't seem to be of a consistent nature that you would be able to draw a conclusion from that everybody is adhering to a fixed and set dividend policy.
Q. Now if you look at the industry average, the range tends to be in the 50 to 60 -
A. Well, as I say, I didn't draw any conclusions, I just--I remember having this and I have it attached to another question and it was interesting to see that, you know, what happened with Hydro and the request for a special dividend certainly wasn't unique when you looked at some of the other things that are happening, both in government owned utilities and in other utilities.
Q. Mr. Roberts, does Hydro have a defined pension plan?
A. Hydro is part of the Public Service Pension

Plan? It doesn't have its own pension plan.
Q. And that is a defined benefit plan, is it?
A. I think that's a defined benefit plan, based on years of service, it's 2 percent a year, I think it is.
Q. And has Hydro ever looked at an alternative pension plan, such as a defined contribution plan?
A. Back in the days of when consideration was being done for privatization, I think actually even legislation and changes to Acts, were actually created for Hydro to take its own pension plan. But nothing, once privatization fell by the wayside, there's nothing that's happened since.
Q. And can I take you back to P.U.7, Mr. O'Reilly, if I could turn up page 41, just to conclude on this investor owned utility line of questions. And perhaps you can scroll up right there, starting "The main differences". Perhaps you can read that full paragraph, Mr. Roberts.
A. "The main differences between the way Hydro is intended to operate an investor owned utility are as follows: Crown corporation, NLH, may

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MR. ROBERTS:
receive direction from its shareholder, the Government of Newfoundland and Labrador, with respect to social or public policy considerations not in conflict with legislation which NLH will implement. NLH's ability to borrow and its borrowing program is influenced by the fact its debt is guaranteed by the Province. NLH is able to borrow at a lower cost which results in lesser costs to customers. And as a Crown corporation, NLH is not subject to corporate income taxes."
Q. It goes on to say, "There's been no evidence to suggest that these differences will be eliminated in the short term."
A. That's correct.
Q. And can you confirm that all of these differences remain the same today, as they were at the time of the issuance of P.U.7?
A. Yes, they are still the same.
Q. Thank you.
A. However, I would like to add that government can, by Orders through the Public Utilities Board, also implement additional policy, for instance the example of the recovery of the

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rural deficit, and the continuation of lifeline rates, now that could still be imposed by government on, as an example, Newfoundland Power. So that option is still available, either to a Crown or to an investor owned. The investor owned would be no worse off by having that imposed, they have an automatic recovery that's guaranteed to them. So those types of things could still be done.
Q. I understand. I wanted to talk briefly to you about your Schedule 2, the revenue requirement. And this, I guess, is also a document that you would have been deeply involved in the preparation of?
A. Yes, it is.
Q. Mr. Kelly has taken you through, in some detail, some of the particular issues on the revenue requirement and other issues associated with costs and cost increases reflecting higher revenue requirements from 2002 test year to 2004 test year. And I wanted to just talk about a couple of particular points. There was a large increase in the insurance cost in 2004--this is in the 2004 estimate, this is line 17.

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A. Yes.
Q. And I think it's up from 1.2 million in actual for 2002. I was interested in learning what, in fact, Hydro insures for these costs?
A. Could you just repeat your question one more time, Mr. Seviour? I was looking for something and trying to listen to you, and shouldn't be doing two things at the same time.
Q. It's getting late, Mr. Roberts. It's understandable. My question was simply, given the range of fairly dramatic increase in the insurance costs, going forward into 2004, what first of all does Hydro insure for these high projected insurance costs?
A. Maybe I can just briefly describe for you some of the things that we have. Our property and boiler insurance is placed on a replacement cost basis. We do not insure our transmission and distribution lines.
Q. Sorry, you do or you do not?
A. We do not. The coverage is either not available or too expensive and that decision has been made not to insure them. In the case of our automobiles, they are insured for

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public liability only. The comprehensive and the collision is not purchased. Annually, we review deductible levels and determine, based on cost, whether or not deductible levels may change. We meet annually with our major insurers and the re-insurers. We market the program on an annual basis, seeking alternate quotes, where they are available. And to give an example, we went to quotes this year on our, I think it was either the property or the liability insurance, and we could only get one quote. There was nobody could cover the full limit that we required on the liability. So you know, those types of things are continually being reviewed and monitored. The market is getting less and less available to meet our insurance requirement. And of course, our claims experience also has an impact on what some of our insurance costs will be. We have had some accidents and some fairly serious accidents in the last couple of years and that has impacted on some of our insurance costs as well.
Q. So apart from the transmission lines, does Hydro self-insure at all?

MR. ROBERTS:
A. Only the transmission and distribution lines.
Q. Okay. And -
A. We wouldn't insure, as I mentioned, the replacement of our vehicles. But on our major property and for our liability, they would be covered, with varying deductible.
Q. And tell me about the retention of deductibles that you discuss from time to time with underwriters. Are these in the nature of some level of self insurance or has that been explored by Hydro?
A. Well, what they would do is they would go to quotes and based on say our current level of a deductible say of, and I'm just hypothetically picking a number, of say a million dollars on a liability claim, they would go out for quotes, but you may say "well, look, give me quotes. If we decide to go with two million versus three million versus maybe even half a million, depending on what the market is like at the time." And then based on an assessment of the cost versus the risk of taking and assuming that liability then that decision would be made as to whether or not we would

alter the deductible.
(1:15 p.m.)
Q. I have the sense that this is an annual effort that you deal with when time comes for renewal or tendering on your insurance?
A. Well, our insurance comes up in July 1 of every year and the process basically starts in about March because you really, to be able to provide replacement cost information as current as we can, we try to get our actual results for the end of the year, have them converted to a replacement cost, so that when the information is being provided to the re-insurers and the insurers in March, they get our most current replacement costs relative to our property and boiler insurance and they would be then, over the next period of time, meeting with the various re-insurers and trying to obtain quotes wherever possible to cover the insurance that we're requesting. In the current renewal, which has just recently been completed, as I had mentioned, we had some difficulty in getting--even actually getting quotes, but one of the things we were able to do is in our Property and Boiler

Policy, we were able to get a three-year renewal at an increase only of about 2.7 percent, subject to what our claims experience will be over the coming three years. So if our claims are low, then our total increase will only be 2.7 percent. If the claims experience changes, then we will be subject to additional increases. So these are some of the types of things that we're looking at on an ongoing annual basis, relative to the insurance coverage that we have in place.
Q. I think you mentioned you have one department or one person who comprises a department who deals with this?
A. We have a senior manager who is responsible for the insurance of the organization.
Q. And his function is to do the liaison with the broker and so on?
A. He looks after all the brokers and dealing with the underwriters and dealing with the claims, all the information that's related to the insurance that's in place.
Q. And does the insurance issue have greater visibility because of the dramatically increased costs now, in terms of your

budgeting and preparation of revenue requirement?
A. Insurance has always received a high profile within Hydro. Annually, since I've known on the renewal dates, the information is always brought back to the management committee of the company saying the renewal is up and here's what's happened and a presentation and sometimes there may even have been a presentation by the underwriter in providing assistance to myself and the manager of insurance prior to going to the management committee. Here's some of the options and here's the experience in the industry as well.
Q. And is there any initiative to do anything different in the coming year or are you simply going to deal with your divisional person who's going to deal with the underwriters and brokers as you've described?
A. Well, the insurance is in place and now is to continually monitor exactly what's happening throughout the year. I guess you pick up additional safeguards from the continuation of our safety and health program, the awareness of our employees relative to safety, and the

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MR. ROBERTS:
impact that that can have relative to our insurance in the long term as well.
Q. I want to move to a discussion of the productivity allowance, which is shown in the 2002 test year, but not in '04. I think you've explained in your earlier cross-examination why that is the case. I was trying to keep track of the various savings associated with the VPI and staff reductions that you've described to us, and I'm going to go through them and make sure I have them correct. First of all, with respect to the elimination of the 46 positions in 2002, I understand that there's going to be an annual savings of 2.6 million dollars. Is that correct?
A. Yes, it is.
Q. In addition to that, and separate from that, I understand that from the elimination of ten full-time equivalent positions in 2003, there will be an annual savings of $600,000? This is the savings referenced in CA-46, which I'm happy to turn up, if you'd like to have a look at it.

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A. The 600,000 that's referred there is referring to the initiatives that I have described in my evidence on pages 23 to 24, going to line 7 on page 24.
Q. And perhaps I got it wrong, but I took it from your evidence in answer to questions from Mr. Kelly yesterday that those savings were represented by the elimination of full-time equivalent positions. Do I have that wrong?
A. It would be--yes, primarily through the elimination of full-time equivalents.
Q. I think your evidence, in answer to Mr. Kelly's questions, was that you believe that something in the order of ten full-time equivalents had been eliminated, and I don't want to put words in your mouth. I just want to know what the basis for the 600,000 is.
A. Yes, I did mention ten. That was my quick calculation of trying to add up to equate to ten positions because it's half a position here and a full position over there. So adding up the pieces.
Q. And you mentioned, in response to questions of Ms. Greene yesterday in your examination-in-chief, page 15 of the October 14 transcript,

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lines 17 to 19, speaking of combined savings in 2004, you said "the corporate--the combined savings in 2004 from the corporate purchasing card and the travel process changes is approximately $350,000."
A. Yes.
Q. Do you have that passage?
A. Yes.
Q. My question was where does that figure fall? Is that part of the -
A. That's part of the 600,000 that's referred to here.
Q. It's part of the 600,000?
A. Yes.
Q. So that's not an additional amount?
A. No. The 600,000 reflects the changes that were made in accounts payable, the purchasing and travel card, plus some changes relative to the inventory as well, for a total of 600,000.
Q. So in addition to the 2.6 million and the 600,000, there was savings in the range of $128,000 annually on account of meter reading optimization?
A. Yes, there was an additional 128,000 in meters.

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Q. And in addition to those savings, you've identified that there's a one million dollar vacancy allowance and a further 1.5 million dollar process improvement allowance?
A. In 2004, Hydro has continued to include an appropriate vacancy allowance that will happen on an ongoing basis with employees leaving the organization, being on long-term disability or whatever, relative to the time that it takes between a vacancy occurring and a decision being made to fill the position and somebody eventually being in it. The extra 1.5 million dollars that's included in 2004 in that category underneath the salaries and employee benefits grouping is to cover anticipated additional savings that we hope to achieve from the process review initiatives that are ongoing.
Q. And does that mean that line 15, the salaries and fringe benefits line for 2004 forecast and your Schedule 2, $63,237,000, that that's a figure net of the allowance?
A. That's net of the numbers that we just talked about, yes.
Q. So all the numbers that we went through are

MR. SEVIOUR:
numbers that would otherwise be part of the other costs, principally the salaries and fringe benefits at line 15, if they weren't in savings? Is that correct?
A. If we didn't have those savings, that number would be a lot higher.
Q. So the math I've done on the 2.6 plus the 600,000 and the other items comes out to about 5.8. $5,828,000 is my total figure with all of the savings you've outlined for us today and yesterday. Does that sound about right?
A. Yes, it does.
Q. And that doesn't include the savings on account of the 32 temporary positions which you're going to have a look at get back to us on, is that correct?
A. I'm going to review the temporary once I have an opportunity to see what's happening here.
Q. But that figure may be higher yet depending on what you find out about the temporaries.
A. I think what I'm going to find is that the temporaries--the reason why I was hesitating is because there is about five different places that I was being led to and I'm not

sure if I was dealing in the same numbers or not. But I think you may find that there's, in the 63.2 million dollars in the 2004, there's been approximately 1.6 or 1.7 million dollars worth of temporary wages that have been removed from this as well.
Q. Could I take you--just in conclusion on that, what we take from your evidence then is that the savings you've outlined would be added to the revenue requirement and would, in substance, fall probably in the line 15 category as an additional 5.8 million.
A. Well, they're already reflected in that line 15. All those savings-
Q. They're already out.
A. They're already out.
Q. They're already out, fine. And if they weren't out -
A. If they weren't out and nothing was done, then you'd be looking at -
Q. Sorry, it's getting late.
A. - 5.8 million dollars higher.
Q. Can I get you to turn up CA-3, please, this is the five year financial forecast that we looked at briefly. Now, my interest is in the

bullet in the middle of the page on page, roman four, executive summary. Do you have that? And we see a bullet, one line bullet, Operating and Maintenance expenses are predicted to increase by the rate of inflation after 2004.
A. Um-hm.
Q. And, in fact, if you turn over to page 5, we see the inflation rates that are specified. Are those the inflation rates that you had in mind when this was prepared?
A. I'm sorry, I didn't -
Q. The table one on page 5, I'm sorry, if -
A. Yes, these are the inflation rates that are used in the preparation of this financial projection.
Q. And there's a reference there, "footnote to Hall, 2002", can you help us with that? Is that a source of the inflation rate projection?
A. Yes.
Q. Okay.
A. And I'm just trying to remember what its old name used to be versus its new name. Just give me on second there. Yes, on page 24,

Hall refers to the Canadian Outlook, long-term forecast, Ottawa, Ontario Conference Board of Canada for the references on page 24 of the document.
Q. And the inflation rates that are projected in this analysis range between 1.4 and 1.7 percent annually.
A. Yes, that's what it's reflecting.
Q. And has there been any analysis done to support the executive summary conclusion that O&M expenses are predicted to increase by only these rates after 2004?
A. No, this is a financial projection that were based on a set and agreed upon set of parameters and it was done to provide the illustration of what could occur based upon the assumptions that were outlined in this particular document.
Q. Would you agree with me that the O&M costs that we've looked over the past couple of days have generally increased at a rate greater than inflation since, let's say, 1997?
A. There's certainly been increases in costs, but there's also been decreases. And what the purpose of this financial projection was, was

MR. ROBERTS:
to be exactly that. It was a projection of what something may look like based on the parameters that were set. It's not a document that is to be used other than as another tool that reflects what something may look like based on the projections and the assumptions that were used in the preparation.
Q. So, the prediction that's talked about there is just an assumption as opposed to a true prediction?
A. This is just an assumption to prepare this financial projection, here's what thing may look like if the real world unfolds to be as outlined here with these assumptions. That's purely all this document was designed to do.
Q. Okay. Thank you. Mr. Chairman, this might be an appropriate time for me to break. I'm ready to move on to another area.
CHAIRMAN:
Q. Thank you, Mr. Seviour. Thank you very much, Mr. Roberts. Mr. Seviour, do you know how much or do you have any idea of how much longer you'll be?
MR. SEVIOUR:

Q. I believe I'll conclude before the break in the morning, Mr. Chairman.
CHAIRMAN:
Q. Okay. Just to give us a road map. Mr. Kennedy, did you have any idea about tomorrow?
MR. KENNEDY:
Q. I should be about an hour and a half, Chair.
CHAIRMAN:
Q. Okay. So, it looks like we could conclude tomorrow, Mr. Roberts.
A. Thank you.
Q. The good news for you is that it's only a day and not two. I have had a very brief opportunity to consult with my colleagues and I guess we agree with Hydro and it would be the position of the Board that the extra time would be given to either conclude the hearing earlier or indeed give us some flexibility throughout the hearing. There would be, I believe, little opportunity to move some of this around in terms of travel. Certainly, if you look at November outside of St. John's and reliance on experts who are already scheduled, but there may be other opportunities or flexibilities we may wish to avail of later

and the Board doesn't want to deny the opportunity every time we get ahead of schedule. We would indicate that this is our preference in treating any additional time available to us throughout the hearing, having said that, I think there are questions of fairness here to allow for proper preparation and cross-examination and, indeed, change of schedule and I guess we have, sort of a personal request from the Industrial Customers to accommodate a schedule there and certainly the Consumer Advocate who is looking for some preparation time, I think as well, as the first up in the cross-examination. So, we are prepared, on this occasion, to take the day off on Friday and begin, I guess, with Mr. Haynes on Monday. Having said that, I wouldn't want to see this as a precedent and then indeed, hopefully, we can move with continuity throughout the schedule where possible. And that may give us some needed flexibility in future, but for the time being, we'll take Friday off and we'll begin with Mr. Haynes on Monday. Okay. Thank you and we'll see at 9:00 in the morning.

Upon conclusion at 1:33 p.m.

CERTIFICATE

I, Judy Moss Lauzon, do 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 15th 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 15th day of October, 2003

Judy Moss Lauzon