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<p>1 October 6, 2003 2 (9:45 a.m.) 3 CHAIRMAN: 4 Q. Good morning, I'd like to indeed welcome 5 everybody here this morning for the beginning 6 of this public hearing. To all participants, 7 including the Applicant, Intervenor, along 8 respective counsel and support staff, along 9 with any other public organizations or 10 individuals or indeed the media, I extend to 11 each of you a warm welcome and I look forward 12 to a productive and fair public hearing. I 13 don't see too many of the media here this 14 morning, I guess probably otherwise engaged 15 throughout the election campaign priorities 16 other than this this morning. 17 My name is Bob Noseworthy and I am Chair 18 and CEO of the Public Utilities Board and for 19 the purposes of this hearing, I will serve as 20 Chair of the panel which has been delegated 21 the responsibility to hear this Application. 22 My colleagues joining me on the panel this 23 morning are: Ms. Darlene Whalen, who is Vice 24 Chair of the PUB; and on my right is 25 Commissioner Fred Saunders, who is a retired</p>	<p>1 business man and resides in St. John's. I'll 2 just take a moment to introduce the staff as 3 well. On my far left is Ms. Cheryl Blundon. 4 Cheryl is the Board secretary. In the middle 5 is Dwanda Newman. Dwanda is legal counsel to 6 the Board and the Board hearing counsel is 7 Mark Kennedy. And just before, I do have a 8 few opening remarks which will hopefully lend 9 some context to the start of the hearing this 10 morning, but before I do, good morning Ms. 11 Newman, are there any preliminary matters 12 which we should attend to first? 13 MS. NEWMAN: 14 Q. Good morning, Chair, commissioners, parties 15 and other interested persons. No, there are 16 no preliminary matters this morning that I'm 17 aware of. 18 CHAIRMAN: 19 Q. Thank you. This public hearing by the Public 20 Utilities Board is for the purposes of 21 deciding on the General Rate Application of 22 Newfoundland and Labrador Hydro. This 23 Application was originally received by the 24 Board on May 21, 2003 and was later amended by 25 Hydro on August 12, 2003 to reflect, among</p>
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<p>1 other things, subsequent policy directions 2 issued by government under the Electrical 3 Power Control Act. Pursuant to the Public 4 Utilities Act, Hydro in this Application, are 5 seeking to increase rates to be charged for 6 the supply of electricity to its retail 7 customer, Newfoundland Power and its rural 8 customers. In addition, the Application is 9 requesting approval of increase rates for the 10 supply of electricity to Hydro's industrial 11 customers. 12 I would probably ask at this point that 13 those seated at the table and representing the 14 Applicant and indeed, each of the Intervenor, 15 to please introduce yourself and indicate in 16 what capacity you are participating in the 17 hearing and each counsel will be given the 18 opportunity make an opening statement later. 19 Right here, I'm just seeking introduction, 20 please, if I could. Good morning, Ms. Greene. 21 GREENE, Q.C.: 22 Q. Good morning, Mr. Chair, commissioners. My 23 name is Maureen Greene. Seated to my left is 24 Geoff Young, together we will be counsel for 25 this hearing for Newfoundland and Labrador</p>	<p>1 Hydro. I'd also like to introduce Mr. Terry 2 O'Reilly from Hydro, who will be operating the 3 document management system throughout the 4 course of the proceeding. 5 CHAIRMAN: 6 Q. Thank you. Good morning, Mr. Browne. 7 BROWNE, Q.C.: 8 Q. Good morning, Mr. Chairman, members of the 9 Board. My name is Dennis Browne, I'm 10 government appointed Consumer Advocate to 11 represent the consumers of the province, and 12 Stephen Fitzgerald is here assisting in that 13 capacity. 14 CHAIRMAN: 15 Q. Mr. Kelly, good morning. 16 KELLY, Q.C.: 17 Q. Thank you, Chair, commissioners. My name is 18 Ian Kelly and I represent Newfoundland Power 19 in this particular matter. With me is Mr. 20 Brock Myles, in-house counsel with 21 Newfoundland Power. 22 CHAIRMAN: 23 Q. Thank you. Good morning, Mr. Hutchings. 24 HUTCHINGS, Q.C.: 25 Q. Good morning, Mr. Chair. My name is Joseph</p>

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<p>1 HUTCHINGS, Q.C.:</p> <p>2 Hutchings and with me, Colm Seviour seated to</p> <p>3 my left and with the assistance of Meg Gillies</p> <p>4 from his office, who is at the rear. We</p> <p>5 represent the Industrial customers; that is to</p> <p>6 say, Abitibi Consolidated Company of Canada;</p> <p>7 Corner Brook Pulp and Paper Limited; North</p> <p>8 Atlantic Refining Limited and Voisey's Bay</p> <p>9 Nickel Company Limited. I'd just like to</p> <p>10 advise the Board that we do have some</p> <p>11 representatives from some of these companies</p> <p>12 with us in the audience this morning. Mr.</p> <p>13 Robert Snyder, the Vice President and General</p> <p>14 Manager of Corner Brook Pulp and Paper is</p> <p>15 here, together with Garland Oram, the</p> <p>16 Controller of that company, and Kevin Goulding</p> <p>17 who is the manager of Deer Lake Power. Also</p> <p>18 present are Jean Francois Guillot, the general</p> <p>19 mill manager of Abitibi in Stephenville,</p> <p>20 together with Mel Dean, whom the Board will</p> <p>21 remember from our last hearing, as a</p> <p>22 continuous representative. He is now</p> <p>23 continuous improvement manager at the mill in</p> <p>24 Stephenville. Also present is Mr. Jim Hickman</p> <p>25 who is the president of local 1093 of the</p>	<p>1 Communications, Energy and Paper Workers</p> <p>2 union, which represents workers at</p> <p>3 Stephenville. And also, we have Roger Pike,</p> <p>4 who is the public relations manager for</p> <p>5 Abitibi Consolidated. Thank you, Mr. Chair.</p> <p>6 CHAIRMAN:</p> <p>7 Q. Thank you, Mr. Hutchings. And a warm welcome</p> <p>8 to all those who are visiting here this</p> <p>9 morning. Not with us, but who has filed</p> <p>10 intervention as well, would be the towns of</p> <p>11 Labrador City and Wabush who are represented</p> <p>12 by Edward Hearn, Q.C. and Mr. Hearn has</p> <p>13 indicated that--has advised that he will not</p> <p>14 be in attendance for the opening here this</p> <p>15 morning.</p> <p>16 Just to provide, perhaps, a little</p> <p>17 background on the Application from the Board's</p> <p>18 perspective and I'll leave Hydro to indeed</p> <p>19 introduce the Application of their own accord,</p> <p>20 the Board heard Hydro's first application as a</p> <p>21 fully regulated utility in the fall and winter</p> <p>22 of 2001, and issued its decisions and orders</p> <p>23 arising from that hearing in the spring of</p> <p>24 2002. Given this represented their first</p> <p>25 application as a fully regulated utility, the</p>
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<p>1 Board's order placed, I believe, a heavy</p> <p>2 responsibility on Hydro with respect to its</p> <p>3 regulatory demands, reporting and compliance.</p> <p>4 Hydro has indeed met these responsibilities, I</p> <p>5 believe, and without exception has responded</p> <p>6 to the requirements placed on the them by the</p> <p>7 Board and I would commend the utility and its</p> <p>8 staff for this work. Notwithstanding, it was</p> <p>9 recognized by the Board at the time that many</p> <p>10 more issues and directions would have to be</p> <p>11 dealt with to move forward in a comprehensive</p> <p>12 and effective regulation of Hydro. The Board,</p> <p>13 and its resulting orders issued in the spring</p> <p>14 of 2002, directed Hydro to file its next</p> <p>15 General Rate Application, no later than</p> <p>16 December 31st of 2003 and this Application</p> <p>17 here this morning brings before the Board, the</p> <p>18 culmination of work complying with this</p> <p>19 direction.</p> <p>20 The Board looks forward to hearing this</p> <p>21 Application and indeed advancing the</p> <p>22 regulation of Hydro. For purposes of</p> <p>23 comparison, for example, Newfoundland Power</p> <p>24 and its predecessor companies have been fully</p> <p>25 regulated since the Public Utilities Act was</p>	<p>1 first proclaimed in 1949.</p> <p>2 Outside of the regulatory considerations</p> <p>3 contributing to this Application, Hydro has</p> <p>4 brought forward its own requirements to</p> <p>5 finance new generation, along with an</p> <p>6 increased return on equity and other economic</p> <p>7 and operating issues, which undoubtedly they</p> <p>8 will be speaking to in introducing the</p> <p>9 Application.</p> <p>10 For those of you in attendance this</p> <p>11 morning who may not be familiar with the role</p> <p>12 of the Public Utilities Board, and the process</p> <p>13 we will be following in hearing this</p> <p>14 application, with the indulgence of counsel</p> <p>15 for the parties, I'll just take a brief moment</p> <p>16 to review each.</p> <p>17 The Board derives its authority to</p> <p>18 conduct this hearing from provincial statutes</p> <p>19 and legislation, primarily the Public</p> <p>20 Utilities Act and the Electrical Power Control</p> <p>21 Act. The Board has an obligation under this</p> <p>22 legislation to regulate electric utilities</p> <p>23 operated in the province and this includes</p> <p>24 Hydro. The panel, which I just introduced,</p> <p>25 has been charged with the responsibility to</p>

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<p>1 CHAIRMAN:</p> <p>2 hear the Application and in accordance with</p> <p>3 our legislative responsibilities, we have a</p> <p>4 duty to hear the evidence presented by the</p> <p>5 applicant, Hydro, intervenors and other</p> <p>6 interested parties and at the end of the</p> <p>7 process, render a fair and equitable decision.</p> <p>8 The statutes require the Board to make</p> <p>9 rate decisions that are reasonable, and just,</p> <p>10 and not discriminatory. Legislation requires</p> <p>11 that the utility be allowed to earn a just and</p> <p>12 reasonable financial return. The legislation</p> <p>13 also dictates that power be delivered to</p> <p>14 customers in the province at the lowest</p> <p>15 possible cost, while ensuring safe and</p> <p>16 reliable service. In fulfilling its statutory</p> <p>17 responsibilities, the Board must protect the</p> <p>18 interests of all parties, including producers,</p> <p>19 retailers and consumers of electricity. In</p> <p>20 doing this, it must also be sensitive and</p> <p>21 strive to balance the interests of each class</p> <p>22 of customer, whether they be households,</p> <p>23 businesses or industries, whether small or</p> <p>24 large users of electricity.</p> <p>25 Having described some of the reasons why</p>	<p>1 we're here this morning, I'd like to take just</p> <p>2 a brief moment to explain the process, what</p> <p>3 has occurred to this point and what we can</p> <p>4 expect in the coming weeks.</p> <p>5 The Application was submitted on May 21,</p> <p>6 2003 following which a Notice of Public</p> <p>7 Hearing was published in papers throughout the</p> <p>8 province. The pre-hearing conference was held</p> <p>9 on July 18th at which time registered</p> <p>10 intervenors were identified. Various</p> <p>11 schedules, times and dates, order of witnesses</p> <p>12 and other procedural matters were set, as well</p> <p>13 as hearing a motion from the town of Labrador</p> <p>14 City-Wabush. As I indicated previously, an</p> <p>15 Amended Application was received from Hydro on</p> <p>16 August 12th, containing among other things,</p> <p>17 various public policy directions from</p> <p>18 government. Following the pre-hearing</p> <p>19 conference, two motion days were held on</p> <p>20 September 16th and October 2nd to hear</p> <p>21 specific motions presented by individual</p> <p>22 parties.</p> <p>23 In addition, this preliminary process,</p> <p>24 prior to the start of the hearing, allowed for</p> <p>25 questions to be asked by one party of another</p>
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<p>1 and responses to be prepared and circulated</p> <p>2 among all parties. Also during this period,</p> <p>3 pre-filed evidence of any expert witnesses</p> <p>4 engaged by the parties were filed and</p> <p>5 distributed among all participants. A</p> <p>6 mediation process was facilitated by the Board</p> <p>7 on September 23rd to the 26th and the panel is</p> <p>8 awaiting the filing of a mediation report</p> <p>9 indicating the success or otherwise, of issues</p> <p>10 which may have been resolved between the</p> <p>11 parties to assist in streamlining the hearing</p> <p>12 itself.</p> <p>13 We have reached this stage then here this</p> <p>14 morning with hopefully most of the preliminary</p> <p>15 and procedural work out of the way, such that</p> <p>16 we may embark on the next more rigorous phase</p> <p>17 of the proceeding. In this phase, each of the</p> <p>18 parties, including the applicant, Hydro, and</p> <p>19 the intervenors, will have the opportunity in</p> <p>20 turn to present their case before the panel in</p> <p>21 the form of direct evidence which will then be</p> <p>22 subject to cross-examination or questioning by</p> <p>23 other parties as well as Board hearing counsel</p> <p>24 and the panel, as appropriate.</p> <p>25 The hearing involves one of presenting,</p>	<p>1 examining and questioning the large quantity</p> <p>2 of information and evidence filed with the</p> <p>3 Board, generally in advance of the hearing.</p> <p>4 Its purpose is to ensure that all evidence,</p> <p>5 examination and evaluation needed to support</p> <p>6 decisions on rates and other matters contained</p> <p>7 in the Application are placed before the</p> <p>8 panel. The entire process will enable the</p> <p>9 panel to weigh the complete body of evidence</p> <p>10 before it, both written and oral in order to</p> <p>11 arrive at fair and equitable decisions that</p> <p>12 will serve, we trust, to balance the interests</p> <p>13 of all parties.</p> <p>14 This Application affects every consumer</p> <p>15 of electricity in the province and the rates</p> <p>16 each will pay for that electricity in years to</p> <p>17 come. Public interest involving</p> <p>18 municipalities, Chambers of Commerce, and</p> <p>19 other interested persons and organizations has</p> <p>20 been high as demonstrated I think by the media</p> <p>21 attention and correspondence to the Board</p> <p>22 itself. With this in mind, the Board has</p> <p>23 advertised its intention to hold public</p> <p>24 participation throughout the province to allow</p> <p>25 for interested persons and organizations to</p>

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<p>1 CHAIRMAN:</p> <p>2 appear before the Board and make their views</p> <p>3 on the Application known. This is a very</p> <p>4 important part of the process and I would</p> <p>5 encourage everybody who may wish to appear</p> <p>6 before the Board, to contact us before the</p> <p>7 published deadline of October 9th, so we can</p> <p>8 file a suitable schedule of dates and</p> <p>9 locations to hear public comment on Hydro's</p> <p>10 proposals.</p> <p>11 In addition, interested parties and</p> <p>12 organizations may submit letters of comment</p> <p>13 directly to the Board at any time throughout</p> <p>14 the duration of the hearing. I would also</p> <p>15 advise that the Board has scheduled an</p> <p>16 evidentiary phase of this hearing in Labrador,</p> <p>17 scheduled for the first week in November, to</p> <p>18 hear particular cost of service issues</p> <p>19 relative to that part of the province. This</p> <p>20 aspect of the hearing will be held in Labrador</p> <p>21 City-Wabush, beginning on November 3rd, with</p> <p>22 follow-up public participation scheduled for</p> <p>23 Happy Valley-Goose Bay on November 6th and</p> <p>24 7th.</p> <p>25 In addition to the hard copy</p>	<p>1 documentation which you see over there in</p> <p>2 binder upon binder, the Board has also posted</p> <p>3 on its website, the documentation in</p> <p>4 electronic format. All documentation</p> <p>5 including daily transcripts will be available</p> <p>6 throughout the course of the hearing on the</p> <p>7 Board's website. In addition, I'd also like</p> <p>8 to welcome Mr. O'Reilly back with us, good</p> <p>9 morning, sir, who is an employee of Hydro,</p> <p>10 introduced by Ms. Greene. Mr. O'Reilly will</p> <p>11 be assisting during the course of the hearing</p> <p>12 with electronic recall and presentation of the</p> <p>13 evidence at the direction of counsel, and I</p> <p>14 thank him once again for agreeing to this</p> <p>15 assignment. This electronic filing should</p> <p>16 enhance public access to the information</p> <p>17 before the Board and hopefully improve the</p> <p>18 overall efficiency of the hearing itself.</p> <p>19 These represent indeed, the conclusion of</p> <p>20 my more general remarks. There are a couple</p> <p>21 of items, including some housekeeping matters</p> <p>22 which I'd just like to cover briefly. Parties</p> <p>23 who have concerns and issues, I guess with the</p> <p>24 creature comforts in this room, layout,</p> <p>25 supplies, files or records, should bring these</p>
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<p>1 matters directly to the attention of the Board</p> <p>2 secretary, Ms. Blundon. These proceedings are</p> <p>3 being recorded by Discoveries Unlimited, Mr.</p> <p>4 Bruce Moss is here this morning. This is</p> <p>5 being done under the supervision of the Board</p> <p>6 secretary, Ms. Blundon, and will be</p> <p>7 transcribed throughout the afternoon and</p> <p>8 evening of the day of the hearing. These will</p> <p>9 be e-mailed to the parties immediately on</p> <p>10 completion, with a paper copy available by the</p> <p>11 commencement of the hearing on the following</p> <p>12 day, and in this way we will maintain</p> <p>13 continuity and have an up-to-date and current</p> <p>14 record of the proceedings as they unfold.</p> <p>15 The normal daily sitting time will be</p> <p>16 9:00 a.m. to 1:30 p.m. with a half hour break</p> <p>17 from 11:00 to 11:30, and I recognize that this</p> <p>18 is a late start for the opening day. What</p> <p>19 we'll probably do, there are opening</p> <p>20 statements and we'll probably proceed on</p> <p>21 through and see where we are at the end of</p> <p>22 that before, I understand Mr. Wells will be</p> <p>23 coming forward as the first witness, but we'll</p> <p>24 see what time there is around that this</p> <p>25 morning.</p>	<p>1 A calendar of dates has been established</p> <p>2 for the duration of the hearing scheduling</p> <p>3 witnesses and days we will not be sitting.</p> <p>4 The Board has scheduled a limited number of</p> <p>5 days over the next couple of months as off</p> <p>6 days to attend to other Board matters.</p> <p>7 Persons addressing the panel may, for the</p> <p>8 benefit of transcription services, refer to</p> <p>9 Commissioners Whalen and Saunders by name, and</p> <p>10 myself as the Chair. Counsel for the parties</p> <p>11 have their designated seating arrangements, I</p> <p>12 would ask the witness to take assigned seating</p> <p>13 up here to my right, unless making a</p> <p>14 presentation or indeed referring to a display.</p> <p>15 The binders that you see, I'm not sure</p> <p>16 whether they're in front of me or over there,</p> <p>17 they're in front of me, I think, represent the</p> <p>18 official version of the documents for this</p> <p>19 hearing and these will be used for reference</p> <p>20 purposes as needed throughout the hearing.</p> <p>21 Board hearings are not court trials, however,</p> <p>22 evidence is given under oath and the</p> <p>23 procedures governing conduct are somewhat</p> <p>24 similar to a court.</p> <p>25 The Board's main goal is to get the facts</p>

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<p>1 CHAIRMAN:</p> <p>2 on the record in a way that is convenient to</p> <p>3 the parties and in the public interest. A</p> <p>4 witness may swear an oath on the Bible or a</p> <p>5 solemn affirmation, indeed may be</p> <p>6 administered, and I would ask counsel</p> <p>7 introducing the witnesses to indicate the</p> <p>8 latter preference where it might be</p> <p>9 applicable. Also, some other non-christian</p> <p>10 oath, as appropriate, may be administered but</p> <p>11 I would ask counsel for advance notice so that</p> <p>12 necessary arrangements may be made.</p> <p>13 In summary, I want to commend all parties</p> <p>14 for the tremendous amount of work and</p> <p>15 preparation for this hearing. I would ask</p> <p>16 that the parties throughout these proceedings</p> <p>17 adhere to the rules as established. I am</p> <p>18 hopeful that the considerable planning and</p> <p>19 procedural effort in which you have all</p> <p>20 participated, has positioned us to go forward</p> <p>21 in a productive, efficient and expeditious</p> <p>22 manner. I am sure the various rate payers of</p> <p>23 Hydro would wish us to all get on with our</p> <p>24 jobs in the most efficient and cost-effective</p> <p>25 way possible, and I think we should all be</p>	<p>1 cognizant throughout the weeks ahead, and I</p> <p>2 would ask for your cooperation throughout this</p> <p>3 public hearing.</p> <p>4 Those are the conclusions of my opening</p> <p>5 comments and I'll ask now, Ms. Newman, who is</p> <p>6 legal counsel to the Board, to enter the</p> <p>7 matter, confirm the issuance of public notice</p> <p>8 and advise on any preliminary items. Ms.</p> <p>9 Newman, please.</p> <p>10 MS. NEWMAN:</p> <p>11 Q. Yes, Chair, I can confirm that the Application</p> <p>12 of Newfoundland Hydro in this matter was</p> <p>13 received on May 21, 2003 and duly amended on</p> <p>14 August 12, 2003. The Board, I can confirm,</p> <p>15 does have the authority to hear and decide</p> <p>16 upon this Application, pursuant to the</p> <p>17 provisions of the Public Utilities Act.</p> <p>18 Notice of the Application was published</p> <p>19 in newspapers throughout the province</p> <p>20 beginning on September 20th. The list of the</p> <p>21 newspapers where this notice was published</p> <p>22 include The Telegram, The Western Star, The</p> <p>23 Shoreline, The Express, The Compass, The</p> <p>24 Packet, The Southern Gazette, The Beacon, The</p> <p>25 Pilot, The Advertiser, The Nor'wester, The</p>
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<p>1 Coaster, The Humber Log, The Georgian, The</p> <p>2 Gulf News, The Charter, The Aurora, The</p> <p>3 Labradorian and the Northern Pen. I can also</p> <p>4 confirm that a complaint was received from the</p> <p>5 town of Labrador City and the town of Wabush,</p> <p>6 that the rates proposed for Labrador west by</p> <p>7 Newfoundland and Labrador Hydro in its 2003</p> <p>8 General Rate Application, are discriminatory</p> <p>9 and as such, notice of this complaint was also</p> <p>10 published in newspapers throughout the</p> <p>11 province beginning on July 20th. This notice</p> <p>12 was published in The Evening Telegram, The</p> <p>13 Aurora and The Labradorian.</p> <p>14 Intervenor submissions have been received</p> <p>15 from the consumer advocate, Newfoundland</p> <p>16 Power, the towns of Labrador City and Wabush</p> <p>17 and industrial customers. Industrial</p> <p>18 customers include Corner Brook Pulp and Paper</p> <p>19 Company Limited, North Atlantic Refining</p> <p>20 Limited, Abitibi Consolidated Company of</p> <p>21 Canada, Stephenville and Grand Falls</p> <p>22 divisions, and Voisey's Bay Nickel Company</p> <p>23 Limited.</p> <p>24 I can confirm that to date, no other</p> <p>25 requests for intervention have been received</p>	<p>1 by the Board. The Board has received several</p> <p>2 requests to make oral submissions and as you</p> <p>3 indicated, Chair, the Board has left open</p> <p>4 further requests for submissions until October</p> <p>5 9th. The Board has also received various</p> <p>6 letters of comment. Lists of these letters of</p> <p>7 comment, as well as requests for oral</p> <p>8 presentations will be provided to the parties</p> <p>9 and should anybody else need a copy, they can</p> <p>10 see the Board secretary.</p> <p>11 The parties have exchanged several</p> <p>12 hundred information requests. For the most</p> <p>13 part, all have been answered. I understand</p> <p>14 there are three outstanding and I'll follow up</p> <p>15 on those in the next several days. There was</p> <p>16 also a mediation report which you referred to</p> <p>17 and I will file as soon as I have the original</p> <p>18 document signed by all the parties. Those are</p> <p>19 all my comments this morning.</p> <p>20 CHAIRMAN:</p> <p>21 Q. Thank you very much, Ms. Newman. We have made</p> <p>22 provision for opening statements and I'll get</p> <p>23 to those in a minute there. Just a couple of</p> <p>24 comments that I will make, perhaps pertaining</p> <p>25 to the hearing and the evidence itself. I</p>

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<p>1 CHAIRMAN:</p> <p>2 would like to commend and refer to the</p> <p>3 parties, the regulatory framework outlined by</p> <p>4 the Board and contained in its order regarding</p> <p>5 the last Hydro hearing.</p> <p>6 This framework represents, I think, some</p> <p>7 fundamental regulatory principles, which</p> <p>8 indeed will similarly be used to guide the</p> <p>9 panel in examining and rendering our decisions</p> <p>10 following this hearing. So to the extent the</p> <p>11 evidence may be specifically tied or linked to</p> <p>12 these decision criteria, I believe we may all</p> <p>13 benefit.</p> <p>14 I would also ask counsel to refrain, if</p> <p>15 you could, from reading long passages of pre-</p> <p>16 filed evidence, into the record. I appreciate</p> <p>17 the need to recite certain evidence during</p> <p>18 cross-examination for clarity or emphasis, but</p> <p>19 I would ask for your cooperation in keeping it</p> <p>20 to a minimum. I believe it may save time</p> <p>21 throughout the hearing and that will once</p> <p>22 again benefit us all.</p> <p>23 As some of you appreciate, this panel</p> <p>24 here is indeed, the same panel that heard</p> <p>25 Hydro's first full regulatory rate application</p>	<p>1 in the fall and winter of 2001 and 2002. We</p> <p>2 are familiar with the historical background</p> <p>3 and context of this Application and the</p> <p>4 history of the regulation of Hydro, in</p> <p>5 particular, pertaining to Hydro's last General</p> <p>6 Rate Application. I would ask that each</p> <p>7 counsel be cognizant of this and that you not</p> <p>8 spend undue time on historical perspective and</p> <p>9 background and further refrain from raising</p> <p>10 issues which were already addressed in the</p> <p>11 latest Hydro hearing where indeed there has</p> <p>12 been no change in circumstance or new evidence</p> <p>13 justifying a re-examination.</p> <p>14 It will be my hope that such a focused</p> <p>15 examination on the pertinent issues will</p> <p>16 contribute to overall regulatory efficiency</p> <p>17 and save time, effort and money throughout the</p> <p>18 hearing which I believe is indeed in</p> <p>19 everybody's interest.</p> <p>20 Those are just--I thought may be of use</p> <p>21 before we start the hearing. I will now</p> <p>22 proceed directly to opening statements and I</p> <p>23 would ask Hydro to begin, the Applicant,</p> <p>24 please. Once again, good morning, Ms. Greene.</p> <p>25 (10:00 a.m.)</p>
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<p>1 GREENE, Q.C.:</p> <p>2 Q. Thank you, Mr. Chair. Once again, good</p> <p>3 morning, Chair, Commissioners. As the Chair</p> <p>4 has already mentioned, Hydro filed this</p> <p>5 Application on May 21st of this year,</p> <p>6 requesting approval for increases in the rates</p> <p>7 that it charges its three main customer</p> <p>8 groups: Newfoundland Power, Industrial</p> <p>9 Customers and Rural customers. This</p> <p>10 Application was revised on August 12th, again</p> <p>11 as the Chair has mentioned, to reflect the</p> <p>12 direction received by the Board from the</p> <p>13 Government with respect to the rates to be</p> <p>14 charged to Rural customers and to take into</p> <p>15 account the June decision of the Board with</p> <p>16 respect to rates charged by Newfoundland Power</p> <p>17 to its customers.</p> <p>18 Hydro's last General Rate Application was</p> <p>19 in May of 2001, again as the Chair has already</p> <p>20 mentioned. Following the filing of the</p> <p>21 Application in May of 2001, there was a</p> <p>22 lengthy hearing, with the Board issuing its</p> <p>23 decision in June of 2002, establishing the</p> <p>24 general principles for regulatory framework</p> <p>25 for Hydro, as well as the principles for the</p>	<p>1 current rates that are charged by Hydro to its</p> <p>2 customers. The current rates became effective</p> <p>3 on September 1, 2002, just over one year ago.</p> <p>4 I'd like now to look at each of the three</p> <p>5 main customers groups that I have referred to,</p> <p>6 and to outline for the Board the proposed</p> <p>7 increase that Hydro is proposing with respect</p> <p>8 to each customer group. The first customer</p> <p>9 group that I will talk about are the rural</p> <p>10 customers. For the rural customers, Hydro is</p> <p>11 proposing the continuation of the general</p> <p>12 policies approved by the Board in its June,</p> <p>13 2002 decision. So for the Island</p> <p>14 Interconnected customers and the customers</p> <p>15 served from the L'Anse-au-Loup system, Hydro</p> <p>16 is proposing that the existing policy that</p> <p>17 these customers pay the same rates as charged</p> <p>18 by Newfoundland Power to its customers will</p> <p>19 continue. The rate increases therefore</p> <p>20 proposed for these customers will be</p> <p>21 approximately 7.4 percent based on Hydro's</p> <p>22 proposal and the projected impact of Hydro's</p> <p>23 proposal on Newfoundland Power's customers.</p> <p>24 With respect to the isolated rural</p> <p>25 customers, Hydro is proposing the continuation</p>

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<p>1 GREENE, Q.C.:</p> <p>2 of the policy approved by the Board in 2002,</p> <p>3 that these customers pay the same rates as</p> <p>4 Newfoundland Power's customers for a first</p> <p>5 block of energy that we commonly call the</p> <p>6 lifeline block. The lifeline block approved</p> <p>7 by the Board in 2002 was 700 kilowatt hours</p> <p>8 per month. In the mediation process,</p> <p>9 agreement was reached to increase this block</p> <p>10 and to replace the current three block</p> <p>11 domestic diesel rate with a two block rate,</p> <p>12 with the first block being set at an agreed</p> <p>13 upon lifeline amount and with the overall</p> <p>14 rates being revenue neutral with respect to</p> <p>15 the rural deficit. For consumption above the</p> <p>16 new lifeline block, Hydro is proposing a</p> <p>17 continuation of the existing policy, the rates</p> <p>18 for consumption above the block be increased</p> <p>19 by the average rate of increase granted to</p> <p>20 Newfoundland Power for its customers.</p> <p>21 It was also agreed in the mediation</p> <p>22 process that opportunity would be provided to</p> <p>23 the customers affected by this change, to</p> <p>24 comment on these proposals during the public</p> <p>25 participation days in the hearing, before</p>	<p>1 formal acceptance of the proposal with respect</p> <p>2 to the increased lifeline block for isolated</p> <p>3 domestic customers.</p> <p>4 The Board also gave Hydro direction in</p> <p>5 June of 2002 with respect to the rates charged</p> <p>6 to certain rural customers that we commonly</p> <p>7 refer to as the preferential rates. However,</p> <p>8 in July of 2000 of this year--or 2003, the</p> <p>9 Government gave direction to the Board with</p> <p>10 respect to the continuation of the existing</p> <p>11 preferential rates. Hydro's Revised</p> <p>12 Application of August 12th reflects the</p> <p>13 Government direction with respect to the</p> <p>14 continuation of the existing preferential</p> <p>15 rates.</p> <p>16 The last category of rural customers that</p> <p>17 I would like to refer to is the Labrador</p> <p>18 interconnected system customers. In its</p> <p>19 Application, Hydro is proposing that there be</p> <p>20 a single Cost of Service Study for the</p> <p>21 Labrador interconnected system, as approved by</p> <p>22 the Board at the last hearing. Hydro has</p> <p>23 further proposed a plan, a five-year plan with</p> <p>24 respect to the phase-in of these uniformed</p> <p>25 rates. The issues with respect to the</p>
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<p>1 Labrador rates will be addressed separately in</p> <p>2 the Labrador portion of this hearing, and I</p> <p>3 make no additional comments on them at this</p> <p>4 time.</p> <p>5 The other two main customer groups of</p> <p>6 Hydro are Newfoundland Power and the</p> <p>7 Industrial Customers. In the current</p> <p>8 Application, Hydro is proposing to increase</p> <p>9 the rate charged to Newfoundland Power as of</p> <p>10 January 1, 2004 by 13.7 percent, which will</p> <p>11 result in an increase of 7.4 percent for</p> <p>12 Newfoundland Power's customers. For the</p> <p>13 Island Industrial Customers, Hydro is</p> <p>14 proposing a rate increase of 13.5 percent.</p> <p>15 The increases that Hydro is proposing in this</p> <p>16 Application are significant; that is</p> <p>17 recognized by Hydro. The increases are due to</p> <p>18 an increase in Hydro's revenue requirement of</p> <p>19 approximately 55 million dollars from that</p> <p>20 approved by the Board for the 2002 test year.</p> <p>21 I think it's important that we look at the</p> <p>22 components of this increase and I'd like to do</p> <p>23 that at this time.</p> <p>24 First, approximately 18 million dollars</p> <p>25 of the \$55,000,000.00 results from two new</p>	<p>1 power purchase contracts with Exploits River</p> <p>2 Hydro Partnership and Corner Brook Pulp &amp;</p> <p>3 Paper Limited.</p> <p>4 The second component of the increase is</p> <p>5 approximately 11 million dollars, which arises</p> <p>6 as a result of the additional financing</p> <p>7 charges associated with the development of the</p> <p>8 Granite Canal Hydro Electric Project. These</p> <p>9 three new sources of supply, which were added</p> <p>10 to meet the forecast load requirements for the</p> <p>11 Island Interconnected customers, total</p> <p>12 \$29,000,000.00 in cost, which were not</p> <p>13 included in the rates that were set on</p> <p>14 September 1, 2002.</p> <p>15 The third component of the increase in</p> <p>16 the revenue requirement is fuel cost increases</p> <p>17 which are forecast for 2004. The Holyrood</p> <p>18 thermal generating plant supplies</p> <p>19 approximately 40 percent of Hydro's energy</p> <p>20 capability and 30 percent of its capacity.</p> <p>21 The increase in Holyrood's No. 6 fuel cost</p> <p>22 forecast for 2004, as well as other fuel</p> <p>23 costs, such as diesel fuel cost over those</p> <p>24 used in the test year of 2002, are</p> <p>25 approximately 4 million dollars. The higher</p>

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<p>1 GREENE, Q.C.:</p> <p>2 cost for No. 6 fuel experienced since 2002</p> <p>3 also impacts the amount being recovered</p> <p>4 through the rate stabilization plan automatic</p> <p>5 adjustment for 2004, and I will address that</p> <p>6 in a moment.</p> <p>7 The fourth component of the increase in</p> <p>8 the revenue requirement relates to the</p> <p>9 increases in depreciation and financing</p> <p>10 charges. Increases in depreciation of</p> <p>11 financing costs, excluding those relating to</p> <p>12 Granite Canal, amount to \$18,000,000.00 of the</p> <p>13 \$55,000,000.00 increase. This includes</p> <p>14 Hydro's request to achieve a rate of return on</p> <p>15 equity which is considered by Hydro to be</p> <p>16 essential to its financial integrity.</p> <p>17 The fifth and last component of the</p> <p>18 increase, I call the balance, is approximately</p> <p>19 4 million dollars and it arises from increases</p> <p>20 in Hydro's costs that we refer to as operating</p> <p>21 cost, including such things as maintenance for</p> <p>22 Hydro's facilities, insurance, professional</p> <p>23 services and salaries.</p> <p>24 I'd like now to outline the main issues</p> <p>25 that the Board will have to review and</p>	<p>1 consider in its determination of the</p> <p>2 appropriate rates to be paid by Hydro's</p> <p>3 customers. There obviously are a number of</p> <p>4 significant issues which will be addressed by</p> <p>5 the parties and the Board throughout the</p> <p>6 course of the hearing. I've categorized them</p> <p>7 into three main categories. The first I'd</p> <p>8 like to refer to relates to Hydro's revenue</p> <p>9 requirement. Hydro's proposed revenue</p> <p>10 requirement for 2004 is obviously one of the</p> <p>11 primary focuses in its Application, an</p> <p>12 undoubtedly will be one of the principle</p> <p>13 focuses throughout the hearing. I have just</p> <p>14 reviewed with you the reasons for the increase</p> <p>15 in Hydro's revenue requirement over that</p> <p>16 approved for 2002.</p> <p>17 We have submitted detailed evidence</p> <p>18 supporting each of the categories of cost in</p> <p>19 the proposed 2004 revenue requirement, which I</p> <p>20 am sure will be explored throughout the course</p> <p>21 of the hearing. It's Hydro's submission that</p> <p>22 the costs proposed are in the context of all</p> <p>23 relevant circumstances, the lowest possible</p> <p>24 cost that Hydro could propose, consistent with</p> <p>25 reliable service for its customers.</p>
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<p>1 The second broad category of issues that</p> <p>2 I would like to refer to, I've called Hydro's</p> <p>3 financial integrity, and there are issues that</p> <p>4 fall under that broad category. Under the</p> <p>5 Public Utilities Act and the Electrical Power</p> <p>6 Control Act, Hydro is entitled to earn a just</p> <p>7 and reasonable return. In this Application,</p> <p>8 Hydro has proposed a return on common equity</p> <p>9 of 9 and three-quarters, the same as the Board</p> <p>10 allowed for Newfoundland Power in its recent</p> <p>11 decision. This obviously will be one of the</p> <p>12 principle issues addressed throughout the</p> <p>13 course of the hearing and will involve</p> <p>14 consideration of such issues as the</p> <p>15 appropriate capital structure for Hydro, the</p> <p>16 determination of Hydro's rate base and the</p> <p>17 appropriate return to be earned on that rate</p> <p>18 base. These questions all relate to Hydro's</p> <p>19 financial position and they all impact the</p> <p>20 rates charged to Hydro's customers.</p> <p>21 The last major category of issues that</p> <p>22 I'd like to refer to, relate to the principles</p> <p>23 to be used in the design of the specific rates</p> <p>24 to be charged to customers. This involves the</p> <p>25 principles used in Hydro's Cost of Service</p>	<p>1 Study and used in the design of a specific</p> <p>2 rates that flow from the Cost of Service</p> <p>3 Study. We are pleased that certain of these</p> <p>4 issues were resolved during the mediation</p> <p>5 process, as will be outlined in the mediation</p> <p>6 report when it is formally filed.</p> <p>7 Issues still remain, however, including</p> <p>8 whether it is appropriate to continue with an</p> <p>9 energy only rate for Newfoundland Power, or</p> <p>10 whether the rate should be changed to include</p> <p>11 a demand component. Another outstanding issue</p> <p>12 is the appropriate assignment of certain</p> <p>13 plant, as well issues with respect to the</p> <p>14 rates to be charged to customers served from</p> <p>15 the Labrador Interconnected system also</p> <p>16 remain, and again, they will be addressed in</p> <p>17 the Labrador portion of the hearing.</p> <p>18 One of the main issues that undoubtedly</p> <p>19 will be addressed in this hearing I have</p> <p>20 listed under this category, and that is the</p> <p>21 rate stabilization plan. The cost related to</p> <p>22 the consumption of No. 6 fuel burnt at</p> <p>23 Holyrood have been considerably higher than</p> <p>24 the \$26.00 per barrel used in setting the</p> <p>25 current rates, which became effective</p>



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<p>1 GREENE, Q.C.:</p> <p>2 September 1. As well, lower inflows in the</p> <p>3 Hydro's reservoirs and increased demand have</p> <p>4 affected the amount of No. 6 fuel used since</p> <p>5 September 1, 2002. This has resulted in a</p> <p>6 larger balance in the rate stabilization plan</p> <p>7 that commenced on September 1, 2002, than had</p> <p>8 been anticipated in the course of the last</p> <p>9 hearing. The balance in this plan is to be</p> <p>10 recovered over a two-year period, as ordered</p> <p>11 by the Board in its June decision. This</p> <p>12 balance will have a significant impact as well</p> <p>13 on customers, as we start the automatic</p> <p>14 recovery of that balance. We believe that the</p> <p>15 structure and operation of the rate</p> <p>16 stabilization plan will be one of the main</p> <p>17 issues addressed during this hearing.</p> <p>18 There are obviously a number of other</p> <p>19 issues other than the ones that I have</p> <p>20 referred to this morning, that will be</p> <p>21 addressed during the course of the hearing.</p> <p>22 With respect to these issues, the Board will</p> <p>23 find that often there are as many views and</p> <p>24 positions on an issue, as there are parties</p> <p>25 before the Board in the hearing. Hydro has</p>	<p>1 proposed what it believes to be reasonable</p> <p>2 approaches to all of these issues. We also</p> <p>3 believe that the rates that we are proposing</p> <p>4 are consistent with the relevant legislative</p> <p>5 provisions that are applicable to the hearing.</p> <p>6 And at this time, I would very briefly like to</p> <p>7 refer to a couple of the main legislative</p> <p>8 provisions that will guide the Board in its</p> <p>9 review and consideration of the issues in the</p> <p>10 hearing.</p> <p>11 The first is Section 70 of the Public</p> <p>12 Utilities Act under which the Application is</p> <p>13 brought. This section requires the approval</p> <p>14 of the Board for changes in rates that Hydro</p> <p>15 charges. The second legislative provision</p> <p>16 that I would like to refer to is Section 80 of</p> <p>17 the Public Utilities Act. Under (1) of</p> <p>18 Section 80, it is stated that a utility, such</p> <p>19 as Hydro, is entitled to earn a just and</p> <p>20 reasonable return as determined by the Board</p> <p>21 on its rate base. Subsection two of Section</p> <p>22 80 provides that the return is to be in</p> <p>23 addition to reasonable and prudent expenses</p> <p>24 allowed by the Board. The other relevant</p> <p>25 provision which has been referred to by the</p>
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<p>1 Chair this morning, the relevant legislation,</p> <p>2 I should say, is the Electrical Power Control</p> <p>3 Act which sets out the broad power policy for</p> <p>4 the Province of Newfoundland and Labrador.</p> <p>5 (10:15 a.m.)</p> <p>6 And this is the power policy the Board</p> <p>7 must take into account in its review and</p> <p>8 consideration of all of the issues that will</p> <p>9 arise during the proceeding, and which must</p> <p>10 guide the Board in its decision. Section 3(a)</p> <p>11 of the Act, of the Electrical Power Control</p> <p>12 Act, states that it is the policy of the</p> <p>13 Province that the rates to be charged should,</p> <p>14 number one, be reasonable and not unjustly</p> <p>15 discriminatory; number two, should be</p> <p>16 established wherever practicable based from</p> <p>17 forecast costs of the supply of power for one</p> <p>18 or more years; and three, should provide</p> <p>19 sufficient revenue to produce for the retailer</p> <p>20 to enable it to earn a just and reasonable</p> <p>21 return as construed under the Public Utilities</p> <p>22 Act. Section 3(b) of the Electrical Power</p> <p>23 Control Act is also relevant as it sets out a</p> <p>24 number of main provisions of the power policy.</p> <p>25 It states that all sources and facilities for</p>	<p>1 the production, transmission and distribution</p> <p>2 of power, should be managed and operated in a</p> <p>3 manner that results in the most efficient</p> <p>4 production, transmission and distribution that</p> <p>5 results in consumers having adequate or</p> <p>6 equitable access to an adequate supply of</p> <p>7 power; and number three, that would result in</p> <p>8 power being delivered at the lowest possible</p> <p>9 cost, consistent with reliable service.</p> <p>10 While there are other legislative</p> <p>11 provisions that may be referred to throughout</p> <p>12 the course of the hearing, Section 80 of the</p> <p>13 Public Utilities Act and Section 3 of the</p> <p>14 Electrical Power Control Act are the primary</p> <p>15 legislative provisions that we all must keep</p> <p>16 in mind in considering the various issues that</p> <p>17 will be raised throughout the course of the</p> <p>18 hearing. It is Hydro's submission that its</p> <p>19 proposed rates meets these legislative</p> <p>20 requirements. We believe that the rates Hydro</p> <p>21 has proposed will result in rates to customers</p> <p>22 that are reasonable, not unjustly</p> <p>23 discriminatory and that the rates will result</p> <p>24 in the lowest possible cost for customers that</p> <p>25 are consistent with reliable service in the</p>

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<p>1 GREENE, Q.C.:</p> <p>2 current circumstances.</p> <p>3 And at this time, I would like to</p> <p>4 indicate the witnesses that Hydro will be</p> <p>5 calling in support of its Application. All</p> <p>6 have pre-filed evidence with the Application.</p> <p>7 There are five internal Hydro witnesses who</p> <p>8 will testify: William Wells, the president</p> <p>9 and chief executive officer; John Roberts,</p> <p>10 vice-president of finance and chief financial</p> <p>11 officer; Jim Haynes, the vice-president of</p> <p>12 production; Fred Martin, the vice-president of</p> <p>13 transmission and rural operations; and Stan</p> <p>14 Banfield, the director of customer services.</p> <p>15 Each of the five internal Hydro witnesses will</p> <p>16 speak to issues within their areas of</p> <p>17 responsibility that are relevant to the</p> <p>18 hearing and I will not outline their evidence</p> <p>19 at this time. As well, Hydro has filed</p> <p>20 evidence from a number of experts. Ms.</p> <p>21 McShane of Foster &amp; Associates will speak to</p> <p>22 Hydro's appropriate capital structure and the</p> <p>23 appropriate return on rate base for Hydro,</p> <p>24 including the appropriate return on equity.</p> <p>25 Robert Greneman of Stone and Webster will give</p>	<p>1 evidence on Hydro's 2004 Cost of Service Study</p> <p>2 and he will also speak generally to the cost</p> <p>3 of service methodology and the rates proposed</p> <p>4 for customers. Ms. Susan Richter from SGE</p> <p>5 Acres Limited will give evidence on the</p> <p>6 appropriate historical period to be used on</p> <p>7 Hydro's hydraulic production forecast. Mr.</p> <p>8 Wells, for Hydro, will be the first witness</p> <p>9 this morning and will, in his direct</p> <p>10 examination, give an overview of the principle</p> <p>11 issues from Hydro's perspective that arise in</p> <p>12 this Application. Thank you, Mr. Chairman,</p> <p>13 that concludes my opening comments.</p> <p>14 CHAIRMAN:</p> <p>15 Q. Thank you, Ms. Greene. Good morning, Mr.</p> <p>16 Browne, are you ready with your opening</p> <p>17 remarks, please?</p> <p>18 BROWNE, Q.C.:</p> <p>19 Q. Mr. Chairman, members of the Board and</p> <p>20 colleagues, and in this hearing, the consumers</p> <p>21 of the province will be seeking an immediate</p> <p>22 order without any further study to impose a</p> <p>23 Hydro wholesale rate that includes both the</p> <p>24 demand and energy charge, as opposed to the</p> <p>25 energy only rate now offered to Newfoundland</p>
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<p>1 Power.</p> <p>2 The consumers will seek a new plan, other</p> <p>3 than the rate stabilization plan, which</p> <p>4 highlights conservation and sends the correct</p> <p>5 signal to consumers about the true cost of</p> <p>6 electricity. The consumers advocate a pay-as-</p> <p>7 you-go system, which no longer permits a</p> <p>8 cumulation of balances for fuel consumed at</p> <p>9 Holyrood beyond 12 months. The current</p> <p>10 balance should be amortized and paid over a</p> <p>11 period of years and it may be, we would</p> <p>12 advocate, even a six-year period. It is time</p> <p>13 an end was put to the rate stabilization plan,</p> <p>14 which was imposed on consumers, over their</p> <p>15 objections, in 1985.</p> <p>16 We advocate that Hydro should undertake</p> <p>17 its own marginal cost study to offer rate</p> <p>18 options for consumers and promote market</p> <p>19 efficiency. Any study ordered by the Board</p> <p>20 should have a time frame for implementation.</p> <p>21 We advocate that the rate of return on</p> <p>22 equity for Hydro should consider both the</p> <p>23 regulated and the non-regulated revenue which</p> <p>24 Hydro has accumulated. We request the Board</p> <p>25 to impose real conservation methods with</p>	<p>1 targets to lower the requirements for bunker C</p> <p>2 purchased at Holyrood. We will work with the</p> <p>3 Industrial Customers in opposing this rate</p> <p>4 increase. We are especially concerned with</p> <p>5 the mill in Stephenville and certain that</p> <p>6 consumers in the Stephenville area would want</p> <p>7 to have jobs in order to pay for their</p> <p>8 electricity bills.</p> <p>9 In reference to Labrador issues, the</p> <p>10 towns of Labrador City and Wabush have</p> <p>11 retained their own counsel in reference to</p> <p>12 issues that particularly affect them; however,</p> <p>13 we will advocate for consumers in the</p> <p>14 provincial isolated systems, from Nain to</p> <p>15 Marys Harbour and on the south coast, Ramea,</p> <p>16 Gray River, Francois, McCallum. We are</p> <p>17 pleased that we were able to reach an</p> <p>18 agreement in the mediation to increase the</p> <p>19 lifeline block for consumers, which was</p> <p>20 consistent with the report ordered by the</p> <p>21 Board in reference to this issue. However,</p> <p>22 there can be no final order in reference to</p> <p>23 this matter until those most affected are</p> <p>24 consulted, and we anticipate receiving their</p> <p>25 input when the hearings convene in Labrador.</p>

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<p>1 BROWNE, Q.C.:</p> <p>2 We will be calling two witnesses in</p> <p>3 reference to these proceedings, Douglas Bowman</p> <p>4 who has appeared before this Board before as a</p> <p>5 rate design expert from KEMA Consulting in</p> <p>6 Virginia; and Dr. Basil Kalymon will appear to</p> <p>7 deal with issues pertaining to Hydro's rate of</p> <p>8 return. Thank you, Mr. Chairman, members of</p> <p>9 the Board.</p> <p>10 CHAIRMAN:</p> <p>11 Q. Thank you, Mr. Browne. Good morning, Mr.</p> <p>12 Kelly, proceed when you're ready please.</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. Thank you, Chair. Chair and Commissioners,</p> <p>15 there are many issues in the proceeding before</p> <p>16 you; however, they can be divided into three</p> <p>17 principle areas or scenes that Newfoundland</p> <p>18 Power will focus on in this proceeding.</p> <p>19 The first is the issue of Hydro's cost</p> <p>20 and I include in that the issue of the rural</p> <p>21 deficit. Hydro's Application seeks to</p> <p>22 increase electrical rates to Newfoundland</p> <p>23 Power by 13.7 percent and as Ms. Greene</p> <p>24 indicated, that would translate into an</p> <p>25 increase for our customers of 7.4 percent, as</p>	<p>1 well as for Hydro's customers whose rates</p> <p>2 track Newfoundland Power's. That is a major</p> <p>3 increase by any standard. It will have a</p> <p>4 serious impact on our customers. Some</p> <p>5 expenses, such as the price of fuel oil, are</p> <p>6 substantially beyond Hydro's control; however,</p> <p>7 a significant portion of Hydro's expenses are</p> <p>8 its operating costs, sometimes referred to as</p> <p>9 its controllable costs. These costs continue</p> <p>10 to rise year over year. Since 1996/'97, they</p> <p>11 have increased between 16 and 21 percent</p> <p>12 depending upon which year you count from to</p> <p>13 2004. They are forecast to continue to</p> <p>14 increase in the future. Newfoundland Power</p> <p>15 believes that opportunities exist to reduce</p> <p>16 these costs, though cost reductions have not</p> <p>17 happened under Hydro's current regime.</p> <p>18 Newfoundland Power believes that Hydro has not</p> <p>19 managed these costs efficiently and</p> <p>20 effectively. Hydro has failed to achieve the</p> <p>21 productivity gains mandated by the Board in</p> <p>22 its 2002 order. The rural deficit continues</p> <p>23 to grow from 22 million in 1999 to 41.4</p> <p>24 projected for 2004, almost doubled in five</p> <p>25 years. Since our customers bear a significant</p>
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<p>1 portion of that rural deficit, we are greatly</p> <p>2 concerned about that increase.</p> <p>3 The second issue is whether Hydro has</p> <p>4 changed its operating characteristics to</p> <p>5 justify being treated as an investor owned</p> <p>6 utility. This issue goes to Hydro's rate of</p> <p>7 return on rate base. Newfoundland Power</p> <p>8 believes that Hydro has laid no such progress.</p> <p>9 Indeed, events since 1992 and decisions taken</p> <p>10 by Hydro and government has demonstrated</p> <p>11 clearly that Hydro does not have the operating</p> <p>12 characteristics of an investor owned utility.</p> <p>13 If anything, Hydro is further away today than</p> <p>14 it was in 1992 from meeting that requirements.</p> <p>15 Hydro bears the burden of demonstrating that</p> <p>16 its operating characteristics have changed in</p> <p>17 order to justify a change in its rate of</p> <p>18 return on rate base. Newfoundland Power does</p> <p>19 not believe that Hydro has discharged that</p> <p>20 burden in the evidence provided to the Board.</p> <p>21 The third area of interest to</p> <p>22 Newfoundland Power are the various rate</p> <p>23 structure issues that arise in this</p> <p>24 proceeding. I will deal with only one of them</p> <p>25 in my opening comments. It is the issue of</p>	<p>1 the demand energy rate to Newfoundland Power</p> <p>2 versus the energy only rate. While there is</p> <p>3 no application before the Board to introduce a</p> <p>4 demand energy rate, and therefore it is not</p> <p>5 for implementation in this proceeding if one</p> <p>6 goes to Hydro's application, Section 6.1 of</p> <p>7 the application provides for an energy only</p> <p>8 rate currently proposed at 54.45 cents per</p> <p>9 kilowatt hour, mils per kilowatt hour. That</p> <p>10 is the application for which public notice has</p> <p>11 been given and that is the application which</p> <p>12 is for consideration by the Board.</p> <p>13 While there is no application, per se, to</p> <p>14 implement a demand energy rate, this issue</p> <p>15 will be addressed during the hearing and is a</p> <p>16 matter of considerable importance to both</p> <p>17 Newfoundland Power, its customers and to the</p> <p>18 regulatory process. The report which will be</p> <p>19 dealt with in evidence by Hydro's witnesses</p> <p>20 does not propose an actual demand rate, but</p> <p>21 purports to suggest certain principles to be</p> <p>22 applied, if recommended that Hydro run case</p> <p>23 analysis, share that analysis with</p> <p>24 Newfoundland Power and conduct further</p> <p>25 discussions with respect to inappropriate rate</p>

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<p>1 KELLY, Q.C.:  2 structure. That analysis has not yet been  3 done and provided to Newfoundland Power.  4 (10:30 a.m.)  5 Power analysis indicates that the demand  6 energy rate has profound and serious  7 implications for Newfoundland Power and its  8 customers. It does not promote efficient  9 system operation, it does not provide a proper  10 wholesale price to Newfoundland Power and it  11 does not affect customers' rates in the manner  12 anticipated. What it does do is create  13 significant revenue volatility for  14 Newfoundland Power and rate volatility for  15 customers both of Newfoundland Power and  16 Hydro. Just to give you a sense of the  17 magnitude of this issue, currently forecast  18 variances account for .9 million in pre-tax  19 earnings under the existing only rate  20 structure. That translates to nine basis  21 point in Newfoundland Power's rate of return.  22 That's the potential variance issue. And you  23 know, Newfoundland Power has a range of 18  24 basis points plus or minus in its rate of  25 return on rate base. Under the demand energy</p>	<p>1 rate structure proposed by Hydro, the  2 potential revenue volatility increases nine  3 fold to 8.3 million dollars. The effect is a  4 range of plus 54 basis points to negative 77  5 basis points.  6 On the up side, of course, there is a  7 cap, so the maximum is 18 basis points. The  8 negative impact is four times Newfoundland  9 Power's existing range of return. We believe  10 such a rate structure runs counter to the  11 provisions of a just and reasonable return as  12 provided in the Public Utilities Act.  13 Of course, if Newfoundland Power is  14 pushed outside of its range on the negative  15 side, it has no alternative, but to apply for  16 rate relief. That means that the potential  17 will arise, potentially yearly, for  18 Newfoundland Power and Hydro's customers to  19 have to face applications to deal with this  20 issue. That severely undermines the multi-  21 year regulatory regime that the Board has  22 implemented and fine tuned since 1998 with  23 respect to Newfoundland Power.  24 Newfoundland Power already sets its rate  25 to customers to promote energy efficiency by</p>
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<p>1 setting the tail block rates as close as  2 possible to marginal cost. Hydro has not yet  3 performed a marginal cost study. Newfoundland  4 Power performed its marginal cost study in  5 1997. Hydro's marginal cost study was deferred  6 in the last order because of the numerous  7 regulatory requirements it was facing. If the  8 energy pricing signal is to be further  9 improved, the first and most important thing  10 which needs to be done is the performance of  11 the long awaited marginal cost study by Hydro.  12 In conclusion, Mr. Chairman, these are  13 the three areas that Newfoundland Power will  14 be demonstrating its attention to and  15 developing in cross-examination and in the  16 presentation of its evidence in this  17 proceeding. Thank you.  18 CHAIRMAN:  19 Q. Thank you very much, Mr. Kelly. Good morning  20 once again, Mr. Hutchings, when you're ready,  21 please.  22 HUTCHINGS, Q.C.:  23 Q. Thank you, Mr. Chair, Commissioners. Bearing  24 in mind the Chair's opening remarks, I don't  25 think I need to introduce the current</p>	<p>1 Industrial Customers to the Board in the way  2 that I did a couple of years ago when we were  3 last here. You're familiar with the paper  4 mills operated by Corner Brook Pulp and Paper  5 in Corner Brook and the mills operated by  6 Abitibi in Stephenville and Grand Falls, as  7 well as Come by Chance Oil Refinery operated  8 by North Atlantic Refining. I will remind the  9 Board that collectively these four operations  10 employ some 3000 workers and have a combined  11 annual payroll of approximately 150 million  12 dollars. Outside of what is going on in St.  13 John's, this represents the industrial base of  14 the Island of Newfoundland.  15 These customers anticipate, including RSP  16 payments, having to pay out something in  17 excess of \$65,000,000.00 in 2004 for  18 electricity. It is not surprising that this  19 proceeding is sufficiently important to them  20 that the Chief Officers of two of the mills  21 are here and that one of the representatives  22 of the unions which are at the various mills  23 is also here. Echoing the words of Mr.  24 Browne, this proceeding is of great  25 significance, not only to the customers</p>

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<p>1 HUTCHINGS, Q.C.:</p> <p>2 themselves, but to their employees and to the</p> <p>3 communities that these employers support.</p> <p>4 The existing Industrial Customers are, of</p> <p>5 course, pleased to add to their group for this</p> <p>6 hearing, Voisey's Bay Nickel Company Limited</p> <p>7 which has every intention of becoming and</p> <p>8 active Industrial Customer of Newfoundland and</p> <p>9 Labrador Hydro as soon as it can get its</p> <p>10 facilities in place. Initially, their power</p> <p>11 demands will be small, but they look forward</p> <p>12 to being one of the larger users among the</p> <p>13 Industrial group when their processing</p> <p>14 facility is in place. They are a forward</p> <p>15 looking company which have the same concerns</p> <p>16 as the other members of the group and some</p> <p>17 concerns we all should have, that the cost of</p> <p>18 electricity in this province remains at a</p> <p>19 level which allows both current and potential</p> <p>20 industries in this province to be viable.</p> <p>21 The Industrial Customers of Hydro are</p> <p>22 businesses in a highly competitive</p> <p>23 international market or a series of highly</p> <p>24 competitive international markets. They</p> <p>25 cannot recover any new costs imposed on them</p>	<p>1 by any legislative process such as the one</p> <p>2 which allows Hydro to come here seeking new</p> <p>3 rates to increase their revenues. Mr. Snyder</p> <p>4 remarked to me last night that conditions</p> <p>5 being what they are, he is generally demanding</p> <p>6 price decreases from his suppliers or at</p> <p>7 worst, status quo. But in this situation, he</p> <p>8 is faced with a demand for additional revenue</p> <p>9 to obtain essentially the same product that he</p> <p>10 has previously obtained for a smaller amount.</p> <p>11 Our clients have to ensure that their costs</p> <p>12 are controlled sufficiently so that their</p> <p>13 prices to their customers are competitive.</p> <p>14 And that is the reason and because of the</p> <p>15 significance of electricity in each of their</p> <p>16 own processes, that these parties come before</p> <p>17 the Board to get nothing more than the</p> <p>18 assurance that the policy promulgated in the</p> <p>19 Electrical Power Control Act of 1994 is</p> <p>20 implemented. That is to say that all sources</p> <p>21 and facilities for the production,</p> <p>22 transmission and distribution of power in the</p> <p>23 Province should be managed and operated in a</p> <p>24 manner that would result in power being</p> <p>25 delivered to consumers in the Province at the</p>
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<p>1 lowest possible cost consistent with reliable</p> <p>2 service, that is where we must get.</p> <p>3 The issues in this hearing as in all</p> <p>4 general rate hearings, Mr. Chair, can be</p> <p>5 divided among the revenue requirement issues,</p> <p>6 the cost of service issues and rate design</p> <p>7 issues. Among the revenue requirement issues</p> <p>8 to be considered are issues of fuel prices,</p> <p>9 the hydraulic production forecast, the</p> <p>10 prudence of Hydro's expenses, the return on</p> <p>11 equity and to some extent, the rate</p> <p>12 stabilization plan. Our clients find the</p> <p>13 claim of Hydro for 9.75 percent return on</p> <p>14 equity in this proceeding very troubling, to</p> <p>15 say the least. We do not feel that Hydro has</p> <p>16 met the standard set forth in the Board's</p> <p>17 order from the last hearing which would</p> <p>18 constitute it similar to an investor owned</p> <p>19 utility and in this we mirror the remarks of</p> <p>20 Mr. Kelly on behalf of Newfoundland Power. At</p> <p>21 the last hearing, Hydro accepted a three</p> <p>22 percent rate of return and said it was doing</p> <p>23 so to avoid rate shock. The need for a</p> <p>24 similar result this time is even greater than</p> <p>25 in 2001. Hydro's claim now to more than</p>	<p>1 triple its profit level is, to say the least,</p> <p>2 extraordinarily bad timing given that the</p> <p>3 Industrial Customers are facing increases in</p> <p>4 their electricity costs that will run between</p> <p>5 27 and 37 percent once RSP factors are</p> <p>6 factored in.</p> <p>7 We are told in the evidence and Ms.</p> <p>8 Greene repeated this in her submissions this</p> <p>9 morning, that one of the principle drivers of</p> <p>10 the increased revenue requirement is the new</p> <p>11 sources of production, that is to say</p> <p>12 \$18,000,000.00 in connection with the two new</p> <p>13 power purchase agreements and \$11,000,000.00</p> <p>14 for the financing of the Granite Canal project</p> <p>15 for a total of \$29,000,000.00. The point,</p> <p>16 however, that Ms. Greene omits is that these</p> <p>17 projects displace approximately 25 million</p> <p>18 dollars worth of cost in fuel. So, it is not</p> <p>19 a \$29,000,000.00 item, it's a \$4,000,000.00</p> <p>20 item. But they are, in fact, seeking the</p> <p>21 revenue increase of \$55,000,000.00 and we</p> <p>22 will, in the course of the hearing, Mr.</p> <p>23 Chairman, show where the rest of that money is</p> <p>24 actually going. Only 15 percent of the</p> <p>25 proposed increase in revenues relates to the</p>

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<p>1 HUTCHINGS, Q.C.:</p> <p>2 introduction of Granite Canal, the new power</p> <p>3 purchase contracts and load growth. Thirty</p> <p>4 five percent actually relates to fuel price</p> <p>5 increases and other power purchase cost.</p> <p>6 Fifty percent relates to other expenses and</p> <p>7 the return on equity and that's what will</p> <p>8 require very close scrutiny from the Board</p> <p>9 under the heading of revenue requirement</p> <p>10 issues of this hearing.</p> <p>11 As regards to the cost of service issues,</p> <p>12 there are still some issues relative to</p> <p>13 plants' assignment to be involved and issues</p> <p>14 now arise in connection with the fact that at</p> <p>15 the present time there is an oversupply of</p> <p>16 capacity on Hydro's system. The Board needs</p> <p>17 to look at whether Hydro's response to that</p> <p>18 condition is an appropriate one and that will</p> <p>19 raise the issue of the propriety of the</p> <p>20 decision of Hydro not to offer the</p> <p>21 interruptible B Power rate previously utilized</p> <p>22 by Abitibi in Stephenville.</p> <p>23 Additionally, the issue of providing a</p> <p>24 credit to Newfoundland Power for generation</p> <p>25 which is not used, thereby shifting cost to</p>	<p>1 Industrial Customers, is one which we must</p> <p>2 insist be addressed. We also need to ensure</p> <p>3 that appropriate scrutiny is given to load</p> <p>4 forecasts to ensure that costs are</p> <p>5 appropriately allocated using the best</p> <p>6 available estimates of load factors, so as to</p> <p>7 prevent the downloading of Newfoundland Power</p> <p>8 costs to the Industrial Customers which</p> <p>9 occurred under the 2002 cost of service study.</p> <p>10 Those are the cost of service issues.</p> <p>11 The major rate design issue has already</p> <p>12 been identified as the demand energy rate for</p> <p>13 Newfoundland Power. This does not directly</p> <p>14 impact the Industrial Customers, but it has</p> <p>15 implications for good management of the system</p> <p>16 and they have implications for the RSP. So,</p> <p>17 the determination of that issue will engage</p> <p>18 the interest of the Industrial Customers. We</p> <p>19 are discussing with Hydro, some potential</p> <p>20 changes in rate design for Industrial</p> <p>21 Customers and it's possible we may have some</p> <p>22 further information to put before the Board on</p> <p>23 that before we conclude.</p> <p>24 There are also aspects of the RSP which</p> <p>25 fall within the category of rate design. And</p>
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<p>1 again, we've had some useful discussions with</p> <p>2 a number of parties on this and there may be</p> <p>3 something further to report before we</p> <p>4 conclude, but we must approach this hearing</p> <p>5 with the minimum requirement that those</p> <p>6 elements that have been discriminating against</p> <p>7 the Industrial Customers within the RSP have</p> <p>8 to be eliminated.</p> <p>9 We are pleased again to have the</p> <p>10 assistance of InterGroup Consulting of</p> <p>11 Winnipeg in presenting our case before the</p> <p>12 Board. Cam Osler and Patrick Boman will</p> <p>13 appear to give evidence before the Board in</p> <p>14 November. And Jean Francois Guillot and Mel</p> <p>15 Dean from the Stephenville division of Abitibi</p> <p>16 will be here also to help the Board, by</p> <p>17 evidence, appreciate the potential impacts of</p> <p>18 these proposed and I have to say, potentially</p> <p>19 devastating rate increases.</p> <p>20 Harkening back again to the Chair's</p> <p>21 comments this morning, we constantly bear in</p> <p>22 mind that the costs of these proceedings</p> <p>23 represent real dollars being paid by our</p> <p>24 clients in the expectation of controlling</p> <p>25 their electricity costs. The fewer dollars it</p>	<p>1 is necessary to spend in this regard, the more</p> <p>2 competitive our clients will be. Accordingly,</p> <p>3 we do intend to try to maximize the efficiency</p> <p>4 of these proceedings and hope that all the</p> <p>5 other parties will share in that goal. The</p> <p>6 time we spend here produces neither newsprint,</p> <p>7 petroleum products, refined ore, nor even</p> <p>8 electricity. It is, therefore, incumbent upon</p> <p>9 us all to be gone from this place at the</p> <p>10 earliest time consistent with a full and fair</p> <p>11 hearing of the issues before us.</p> <p>12 Unfortunately, the costs of these proceedings</p> <p>13 while huge, by any measure, do tend to pale in</p> <p>14 the face of the enormous price increases</p> <p>15 sought to be imposed on our clients in this</p> <p>16 application. Our hope is to minimize both</p> <p>17 sets of costs and at the same time, assist the</p> <p>18 Board in making what could turn out to be some</p> <p>19 hard decisions. Thank you, Mr. Chair.</p> <p>20 CHAIRMAN:</p> <p>21 Q. Thank you, Mr. Hutchings. I probably beg to</p> <p>22 differ that it doesn't increase the paper,</p> <p>23 these proceedings, I look around, but in any</p> <p>24 event, that's perhaps another thing. With</p> <p>25 regard to, as I indicated previously, with</p>

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<p>1 CHAIRMAN:  2 regard to Labrador City/Wabush, Mr. Hearn is  3 not with us and I suspect he'll be making his  4 opening statement when we begin the  5 evidentiary phase in Labrador. Do you have an  6 opening comments, Mr. Kennedy, at all.  7 MR. KENNEDY:  8 Q. No, Chair.  9 CHAIRMAN:  10 Q. Okay, thank you. It's ten to eleven. We've  11 only been convened, I guess, a little over an  12 hour and fifteen minutes, so I'd like to  13 proceed through on, if we could. Is that  14 satisfactory, Ms. Green or would you prefer--  15 if you'd prefer to have a little break now,  16 that's fine as well.  17 GREENE, Q.C.:  18 Q. Mr. Chair, you had planned to have a break at  19 11, did you?  20 CHAIRMAN:  21 Q. 11 or a little bit after, whatever is  22 convenient. If you'd rather, if you could get  23 direct over, we can proceed on until the end  24 of that, if you anticipate that that's going  25 to be relatively short. If not, we can break</p>	<p>1 and -  2 GREENE, Q.C.:  3 Q. Direct will be longer than 10 minutes. So, I  4 don't know if it might be more appropriate to  5 break now and -  6 CHAIRMAN:  7 Q. For the sake of ten minutes, we'll break and  8 we'll reconvene back here at quarter after.  9 (10:50 a.m. - RECESS )  10 (11:20 a.m. - RESUME )  11 CHAIRMAN:  12 Q. Thank you. Any items, Ms. Newman, before we  13 begin?  14 MS. NEWMAN:  15 Q. No, Chair.  16 CHAIRMAN:  17 Q. Thank you.  18 HUTCHINGS, Q.C.:  19 Q. Mr. Chair, if I might, I neglected earlier  20 when I was indicating persons who were present  21 in the room to mention Mr. Paul Gallant and  22 Mr. Tom Hutchings of the Stephenville Chamber  23 of Commerce who have travelled from  24 Stephenville to be here for the purpose of the  25 hearing this morning.</p>
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<p>1 CHAIRMAN:  2 Q. Certainly I'd like to welcome those two people  3 as well. Good morning, Mr. Wells, how are  4 you?  5 MR. WELLS:  6 Q. Good morning, Mr. Chair.  7 CHAIRMAN:  8 Q. Good to see you again. I'm sure the feeling  9 is not reciprocated, but I'll have to live  10 with that, I guess. I'll swear in, Ms. Green,  11 if you don't mind, before you present, if  12 that's okay.  13 MR. WILLIAM WELLS (SWORN)  14 CHAIRMAN:  15 Q. Once again, welcome. And when you're ready,  16 Ms. Green, please?  17 GREENE, Q.C.:  18 Q. Mr. Wells, for the record could you please  19 advise the Board what your position is with  20 Newfoundland and Labrador Hydro?  21 A. I'm the president and chief executive officer  22 of Newfoundland and Labrador Hydro.  23 Q. Evidence was pre-filed with Hydro's  24 Application entitled "Corporate Overview". In  25 the pre-filed Application it was stated that</p>	<p>1 this evidence would be adopted by you at the  2 hearing. Do you adopt the corporate overview  3 evidence filed Hydro's Application as your  4 evidence in this proceeding?  5 A. I do.  6 Q. Mr. Wells, could you advise the Board as to  7 what, in your view, are the principal issues  8 arising in this proceeding?  9 A. In my view, the central issue before the Board  10 in this hearing is the determination of  11 appropriate rates to be paid by Hydro's  12 customers for the electricity they receive.  13 In determining these rates the Board must  14 balance the interests of consumers in  15 receiving safe and reliable electricity at  16 rates that are reasonable while allowing Hydro  17 to recover costs incurred in providing service  18 to its customers and to earn a fair return on  19 its investment. I think customers have a  20 right to expect that the cost proposed by  21 Hydro to be recovered in rates are the lowest  22 possible consistent with reliable service. On  23 the other hand, Hydro had the right to recover  24 its reasonable and prudent costs incurred in  25 providing that reliable service to its</p>

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<p>1 MR. WELLS:</p> <p>2 customers and a reasonable return. Many</p> <p>3 issues will be raised in this proceeding which</p> <p>4 the Board will be required to consider and</p> <p>5 decide, but the fundamental issue is whether</p> <p>6 the costs proposed by Hydro to be included in</p> <p>7 rates are reasonable and whether the return</p> <p>8 proposed by Hydro is just and reasonable to</p> <p>9 ensure that it can maintain its financial</p> <p>10 integrity.</p> <p>11 Q. Mr. Wells, could you please outline</p> <p>12 for the Board why Hydro applied in May of 2003</p> <p>13 seeking an increase in rates when the rates</p> <p>14 that are currently in effect came into effect</p> <p>15 only about one year ago on September 1, 2002?</p> <p>16 A. Well, during its last general rate proceeding</p> <p>17 Hydro indicated to the Board that new sources</p> <p>18 of supply to meet capacity and energy</p> <p>19 requirements for the island interconnected</p> <p>20 system would be coming in service in 2003 and</p> <p>21 therefore it would be necessary to seek an</p> <p>22 increase in rates to recover the costs that</p> <p>23 arise from the new sources of supply. The</p> <p>24 timing of Hydro's current Application is</p> <p>25 primarily driven by the requirement to recover</p>	<p>1 these new costs. Power purchase costs are</p> <p>2 forecast to increase in 2004 by \$18 million,</p> <p>3 and that's over the costs used to set the</p> <p>4 current rates, and this arises as a result of</p> <p>5 two new power purchase agreements which are</p> <p>6 outlined in detail in Hydro's pre-filed</p> <p>7 evidence. As well, additional financial</p> <p>8 charges associated with the development of</p> <p>9 Granite Canal are forecast to be approximately</p> <p>10 \$11 million in 2004. Together, these three</p> <p>11 new sources of generation add approximately</p> <p>12 86--87 megawatts of capacity and 461 gigawatt</p> <p>13 hours of annual energy to the island</p> <p>14 interconnected system. While addressing the</p> <p>15 requirements for additional capacity and</p> <p>16 energy, these sources also reduce the need for</p> <p>17 thermal generation primarily at our Holyrood</p> <p>18 thermal plant. However, while production at</p> <p>19 Holyrood is forecast to be less than in 2002</p> <p>20 test year, the price of No. 6 fuel is also</p> <p>21 forecast to increase in 2004 by \$3.2 million</p> <p>22 dollars over 2002.</p> <p>23 Q. Are there increases in other costs that are</p> <p>24 forecast for 2004 that are included in Hydro's</p> <p>25 Application?</p>
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<p>1 A. Yes, there are increases in other costs,</p> <p>2 including depreciation, interest and operating</p> <p>3 costs. The increase in depreciation is a</p> <p>4 result of the assets Hydro now has in service,</p> <p>5 while the increase in interest costs relates</p> <p>6 to the amount of Hydro's outstanding debt.</p> <p>7 The remaining category of costs, which I will</p> <p>8 refer to as operating costs, has also</p> <p>9 increased over the amount included in the 2002</p> <p>10 test year revenue requirement.</p> <p>11 Q. Mr. Wells, what has Hydro done to ensure that</p> <p>12 the category of costs you just referred to as</p> <p>13 operating costs are the lowest possible cost</p> <p>14 to be paid by our customers?</p> <p>15 A. Well, Hydro's mission is to provide cost</p> <p>16 effective reliable energy services to</p> <p>17 customers and it's for the benefit of all the</p> <p>18 people of the province. In carrying out this</p> <p>19 mission Hydro continuously looks for</p> <p>20 opportunities to reduce and contain costs.</p> <p>21 And one of Hydro's goals is to optimize its</p> <p>22 corporate performance. Within Hydro we've</p> <p>23 established a formal and systematic approach</p> <p>24 to achieving operational efficiencies by</p> <p>25 improving business processes. This approach</p>	<p>1 includes a review of a business process or</p> <p>2 work method to determine opportunities to</p> <p>3 reduce cost or to add value or indeed to</p> <p>4 eliminate non-added value. An integral part</p> <p>5 has been the development of performance</p> <p>6 measures to ensure that improvements and</p> <p>7 deficiencies identified in work processes are</p> <p>8 measured. And finally, once those</p> <p>9 improvements in processes are identified, the</p> <p>10 changes are implemented. I think that this</p> <p>11 process of continuous improvement takes place</p> <p>12 in the context of reliability, customer</p> <p>13 service, safety and environmental</p> <p>14 responsibility. It includes the appropriate</p> <p>15 balance between customer's expectations for</p> <p>16 reliable, safe and environmentally responsible</p> <p>17 service with cost considerations. Hydro</p> <p>18 personnel are focused on improving operational</p> <p>19 and organizational efficiencies and</p> <p>20 eliminating waste and non-value added work to</p> <p>21 ensure that costs will be minimized for the</p> <p>22 benefit of electrical consumers. Using this</p> <p>23 approach Hydro has kept cost over which it has</p> <p>24 influence to a minimum. Several examples of</p> <p>25 initiatives which have been implemented and</p>



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<p>1 MR. WELLS:</p> <p>2 which reduce costs have been included in the</p> <p>3 pre-filed evidence.</p> <p>4 Q. Mr. Wells, what are the significant categories</p> <p>5 of Hydro's operating costs?</p> <p>6 A. Well, the fact is that 63 percent of the costs</p> <p>7 over which Hydro has influence are salaries</p> <p>8 and fringe benefits; 17 percent is for</p> <p>9 equipment system maintenance; with the</p> <p>10 remaining 20 percent covering all other</p> <p>11 expenses, including insurance, travel, office</p> <p>12 supplies and professional services. The</p> <p>13 largest component of costs over which Hydro</p> <p>14 has influence is the salaries and fringe</p> <p>15 benefits. With respect to this category, over</p> <p>16 the period 1992 to 2004 the total cost of</p> <p>17 wages and salaries, excluding employee future</p> <p>18 benefits, are projected to increase by</p> <p>19 approximately 7.5 percent, while inflation</p> <p>20 during the same period is projected to be 19</p> <p>21 percent. As a result of changes in business</p> <p>22 processes, technology improvements and</p> <p>23 efficiency enhancements, Hydro has reduced its</p> <p>24 workforce by 211 permanent positions from 1992</p> <p>25 to 2002. That's a 21 percent reduction.</p>	<p>1 Focusing on the period from 2000 to 2002, the</p> <p>2 reduction has been 10 percent. This clearly</p> <p>3 demonstrates that Hydro has, to the extent</p> <p>4 possible, managed the largest component of its</p> <p>5 controllable costs, which are the salaries and</p> <p>6 fringe benefits.</p> <p>7 Q. Now, Mr. Wells, you mentioned that the second</p> <p>8 category of operating costs is system</p> <p>9 equipment maintenance. What have Hydro's</p> <p>10 results been with respect to these costs?</p> <p>11 A. The system equipment maintenance costs are</p> <p>12 forecast to be approximately 17 percent of</p> <p>13 Hydro's operating costs for 2004. This</p> <p>14 category of costs includes all operating and</p> <p>15 maintenance expenses related to Hydro's plant</p> <p>16 and facilities, and Hydro has in service some</p> <p>17 \$1.8 billion worth of capital assets. We</p> <p>18 operate our systems in an isolated electrical</p> <p>19 system, in harsh environments with extreme</p> <p>20 weather conditions, all of which are very</p> <p>21 challenging to our staff. There is another</p> <p>22 factor, as well, and that's aging plant and</p> <p>23 equipment. Much of the plant within Hydro</p> <p>24 dating back to the '60s and the '70s. This</p> <p>25 results in cost exposures in terms of</p>
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<p>1 maintenance and capital replacement. Now,</p> <p>2 Hydro must balance consideration of containing</p> <p>3 these costs with its responsibility to</p> <p>4 maintain critical components essential to meet</p> <p>5 the 80 percent of provincial energy</p> <p>6 requirements which is Hydro's responsibility.</p> <p>7 So in my view, Hydro has been effective in</p> <p>8 managing the system and maintenance costs</p> <p>9 which is outlined in the evidence, have</p> <p>10 tracked below inflation since 2000, and are</p> <p>11 projected to continue that trend through 2004.</p> <p>12 Q. Now, the last remaining category of expenses</p> <p>13 in the category of operating costs you</p> <p>14 mentioned and called all other expenses. What</p> <p>15 has Hydro's experience been with this category</p> <p>16 of expenses?</p> <p>17 A. Well, this category includes all controllable</p> <p>18 expenses other than salaries and system</p> <p>19 equipment maintenance and included in that are</p> <p>20 such items as insurance, travel and</p> <p>21 professional services. Over the period 2000</p> <p>22 to present Hydro's total operating costs,</p> <p>23 including these costs, have tracked below</p> <p>24 inflation, demonstrating performance gains</p> <p>25 during the period. And this trend is expected</p>	<p>1 to continue to 2004.</p> <p>2 (11:31 a.m.)</p> <p>3 Q. What measures does Hydro rely on to</p> <p>4 demonstrate to the Board that it has</p> <p>5 effectively controlled its costs over which it</p> <p>6 has influence?</p> <p>7 A. Hydro's total costs, both actual and</p> <p>8 estimated, are projected to track well below</p> <p>9 inflation during the period 2000 to 2004,</p> <p>10 demonstrating real performance gains as I've</p> <p>11 already mentioned, and this includes a</p> <p>12 reduction in workforce for the period 2000 to</p> <p>13 2004 of 10 percent. The analysis of total</p> <p>14 other costs on a kilowatt hour basis shows</p> <p>15 that it has also declined over this period.</p> <p>16 So they think this is good performance and</p> <p>17 compares favourably to the experience of other</p> <p>18 comparable utilities with respect to these</p> <p>19 types of costs. In the period 1998 to 2000</p> <p>20 Hydro's operating expenses increased by 16</p> <p>21 percent. That is the lowest of the peer group</p> <p>22 shown in Schedule 1 to my pre-file evidence</p> <p>23 which included B.C. Hydro, Hydro Quebec, Nova</p> <p>24 Scotia Power, New Brunswick Power, Manitoba</p> <p>25 Hydro and Saskatchewan Power.</p>

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<p>1 GREENE, Q.C.:</p> <p>2 Q. Mr. Wells, at the last hearing the Board</p> <p>3 imposed a productivity allowance on Hydro. Do</p> <p>4 you believe it is appropriate now for the</p> <p>5 Board to consider the imposition of another</p> <p>6 productivity allowance during this hearing?</p> <p>7 A. Absolutely not. I've just explained, Hydro</p> <p>8 has in place a formal system to ensure that</p> <p>9 there is a continuous improvement throughout</p> <p>10 all areas of the operations. There are also</p> <p>11 means by which performance within Hydro can be</p> <p>12 measured on a corporate and divisional level.</p> <p>13 In P.U. 7 the Board stated that it believed</p> <p>14 the onus is on Hydro to bring forward measures</p> <p>15 which clearly demonstrate the efficiency of</p> <p>16 its operations. In our view, this has been</p> <p>17 done. And as directed by the Board,</p> <p>18 performance measures have been reviewed with</p> <p>19 the Board's accounting firm, Grant Thornton,</p> <p>20 which has reported favourably with respect to</p> <p>21 the performance measures proposed by Hydro.</p> <p>22 It was, in the opinion of the Board, the</p> <p>23 absence of performance measures which lead the</p> <p>24 Board to apply a productivity allowance with</p> <p>25 respect to Hydro's operating costs in Hydro's</p>	<p>1 previous rate application. The basis for that</p> <p>2 reasoning no longer exists. Hydro has clearly</p> <p>3 demonstrated in this Application that where it</p> <p>4 has the opportunity to influence costs and</p> <p>5 reduce its revenue requirement the actions</p> <p>6 taken have resulted in demonstrable</p> <p>7 productivity gains, efficiency improvements</p> <p>8 and cost containment. The standards are also</p> <p>9 in place to measure performance throughout the</p> <p>10 organization. These measures set out in</p> <p>11 detail in the evidence and include</p> <p>12 controllable operating maintenance and</p> <p>13 administration expenses per megawatt hour</p> <p>14 delivered and traditional measures with</p> <p>15 respect to operating performance and</p> <p>16 reliability including the system average</p> <p>17 interruption duration index, the system</p> <p>18 average interruption frequency index. Other</p> <p>19 measures include the customer satisfaction</p> <p>20 index to determine customer satisfaction with</p> <p>21 respect to Hydro's services and reliability.</p> <p>22 Hydro has a system in place to identify and</p> <p>23 measure appropriate opportunities for</p> <p>24 efficiency enhancements. In my view, for the</p> <p>25 Board to impose a productivity allowance when</p>
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<p>1 this environment exists within Hydro would</p> <p>2 only operate as a disincentive and a penalty.</p> <p>3 Q. Now, Mr. Wells, we've just talked about the</p> <p>4 first fundamental issue that you had said was</p> <p>5 before the Board which are the costs. The</p> <p>6 second issue you mentioned was a principal or</p> <p>7 central issue was the issue of the fair</p> <p>8 return. I wonder if you could now please</p> <p>9 address that for the Board?</p> <p>10 A. Well, maintaining Hydro's financial integrity</p> <p>11 is essential to Hydro's ability to deliver</p> <p>12 cost reliable power to customers over the long</p> <p>13 term. During the last hearing Hydro proposed</p> <p>14 a three percent return on equity as a</p> <p>15 temporary measure intended to offset rate</p> <p>16 impacts resulting from the increased fuel cost</p> <p>17 which more than doubled. This was intended to</p> <p>18 address what we then thought to be a temporary</p> <p>19 issue of adjusting base rates to reflect</p> <p>20 higher fuel costs. The Board recognized that</p> <p>21 the three percent return was below normal</p> <p>22 market rates. Now, unfortunately, the issue</p> <p>23 of high fuel prices remains, and Hydro cannot</p> <p>24 continue to accept a clearly inadequate rate</p> <p>25 of return. Having considered all relevant</p>	<p>1 factors, including Hydro's business risks and</p> <p>2 the advice of its financial advisors Hydro is</p> <p>3 proposing a rate of return on equity of 9.75</p> <p>4 percent, the same as recently allowed by the</p> <p>5 Board for Newfoundland Power. Without</p> <p>6 assurances with respect to Hydro's financial</p> <p>7 integrity the overall cost to supply</p> <p>8 electricity to customers will be higher over</p> <p>9 the longer term. It is essential that Hydro</p> <p>10 achieve an appropriate return which is</p> <p>11 reflective of the business and the financial</p> <p>12 risks that it is facing.</p> <p>13 Q. Mr. Wells, could you please advise the Board</p> <p>14 how Hydro's Application addresses the issue of</p> <p>15 customer rates?</p> <p>16 A. As I've said, Hydro has made every effort to</p> <p>17 minimize its costs and thus rate increases for</p> <p>18 customers. What is also clearly demonstrable</p> <p>19 from this rate Application is the fact that</p> <p>20 those costs having the most impact on Hydro's</p> <p>21 revenue requirement are costs incurred which</p> <p>22 are essential to system requirements. The</p> <p>23 costs are prudent and ensure that customers</p> <p>24 have an adequate and reliable supply of</p> <p>25 electricity. Hydro's costs are reflective of</p>

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<p>1 GREENE, Q.C.:</p> <p>2 the systems it operates and the conditions</p> <p>3 under which they are operated. In proposing</p> <p>4 the return requested in this hearing Hydro has</p> <p>5 taken into account the financial integrity of</p> <p>6 the Company and what is required to maintain</p> <p>7 stable rates over the longer term. The issue</p> <p>8 in costs outlined earlier totals \$55 million</p> <p>9 which results in a 13.7 increase in base rates</p> <p>10 for Newfoundland Power or 7.4 percent for</p> <p>11 residential customers. The increase required</p> <p>12 for Industrial Customers is 13.5 percent.</p> <p>13 Hydro recognizes that these increases are</p> <p>14 significant. It has done everything it can to</p> <p>15 ensure that the costs over which it has</p> <p>16 influence are kept as low as possible. The</p> <p>17 most significant reason for the increases</p> <p>18 results from new sources of supply required to</p> <p>19 meet forecast load requirements and the</p> <p>20 increased cost of No. 6 fuel, both of which</p> <p>21 are essential to ensure a reliable supply of</p> <p>22 electricity to consumers. Together these</p> <p>23 account for \$33 million. Increases in</p> <p>24 depreciation and financing charges including</p> <p>25 an appropriate return and excluding Granite</p>	<p>1 Canal amount to \$18 million and the balance is</p> <p>2 related to the other costs. Even with the</p> <p>3 proposed increases electrical rates for</p> <p>4 Industrial Customers will still be the lowest</p> <p>5 in Atlantic Canada, while rates for</p> <p>6 residential customers will continue to be</p> <p>7 competitive with rates in other Atlantic</p> <p>8 Canadian provinces.</p> <p>9 Q. Mr. Wells, in your answer you refer to the</p> <p>10 price of No. 6 fuel and the impact that it has</p> <p>11 on customers rates. Could you please explain</p> <p>12 what you meant by this?</p> <p>13 A. Well, as everyone is aware, Hydro supplies its</p> <p>14 electricity through a mix of hydro and thermal</p> <p>15 generation. While hydro electric facilities</p> <p>16 represent approximately 58 percent of Hydro's</p> <p>17 total capacity, the Holyrood thermal</p> <p>18 generating station which consumes No. 6 fuel</p> <p>19 provides approximately 38 percent of Hydro's</p> <p>20 average annual energy and 29 percent of its</p> <p>21 capacity. Thus, the cost of fuel burned at</p> <p>22 Holyrood can have a significant impact on</p> <p>23 rates. And as we all know, the rate</p> <p>24 stabilization plan was introduced to provide</p> <p>25 some rate stability to customers to smooth</p>
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<p>1 fluctuations arising from a number of factors,</p> <p>2 including the price and quantity of No. 6 fuel</p> <p>3 which used in comparison to the estimates for</p> <p>4 the price and quantity used in setting rates.</p> <p>5 The Board at the last hearing directed that</p> <p>6 the balance outstanding as of August the 31st,</p> <p>7 2002 was to be recovered over a five year</p> <p>8 period while the balance in the new plan was</p> <p>9 to be recovered over a two year period.</p> <p>10 Significant balances now exist in the old as</p> <p>11 well as the new RSP which must be recovered</p> <p>12 from customers. Recovery of these balances</p> <p>13 adds an additional 16 percent to rates to be</p> <p>14 paid by Industrial Customers and 10 percent to</p> <p>15 rates to be paid by Newfoundland Power as of</p> <p>16 2004. Fuel costs thus continue to be a</p> <p>17 significant influence with respect to the</p> <p>18 rates to be paid by customers. Hydro</p> <p>19 continues to believe that the rate</p> <p>20 stabilization plan is required and to</p> <p>21 effectively stabilize bills by reducing the</p> <p>22 immediate impact on variations in fuel prices</p> <p>23 while providing Hydro with some measure of</p> <p>24 revenue stability.</p> <p>25 Q. Mr. Wells, would you like to make any</p>	<p>1 concluding comments at this time?</p> <p>2 A. The rates proposed by Hydro in this</p> <p>3 Application are as low as they could</p> <p>4 reasonably be in the current circumstances.</p> <p>5 Now, while the increases in base rates are</p> <p>6 significant, as I said earlier, they are</p> <p>7 required to allow Hydro to recover the costs</p> <p>8 of new sources of supply and to ensure Hydro's</p> <p>9 continued financial integrity. Hydro provides</p> <p>10 an essential service to its customers and</p> <p>11 through them to all the people of Newfoundland</p> <p>12 and Labrador. It's critical that Hydro's</p> <p>13 financial integrity be insured while at the</p> <p>14 same time balancing the needs of customers for</p> <p>15 low cost, reliable rates. And it is our</p> <p>16 belief within Hydro that in this Application</p> <p>17 it has proposed the appropriate balance</p> <p>18 required in the current circumstances.</p> <p>19 Q. Thank you, Mr. Chair. That concludes the</p> <p>20 direct examination of Mr. Wells.</p> <p>21 CHAIRMAN:</p> <p>22 Q. Thank you, Ms. Greene, Mr. Wells for that</p> <p>23 direct testimony. Good morning, Mr. Browne,</p> <p>24 when you're ready, could you begin your cross-</p> <p>25 examination, please?</p>

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<p>1 BROWNE, Q.C.:</p> <p>2 Q. Good morning, Mr. Wells.</p> <p>3 A. Good morning, Mr. Browne.</p> <p>4 Q. Mr. Wells, you stated in your Application that</p> <p>5 you're seeking a rate of return on equity</p> <p>6 comparable to that of Newfoundland Power of</p> <p>7 9.75 percent, is that correct?</p> <p>8 A. That's correct.</p> <p>9 Q. Are you aware that in the Board's decision</p> <p>10 granting Newfoundland Power a 9.75 percent</p> <p>11 rate of return on equity and that the Board</p> <p>12 also allowed Newfoundland Power to earn up to</p> <p>13 10.25 percent on equity before it would</p> <p>14 consider ordering another hearing, are you</p> <p>15 aware of that?</p> <p>16 A. Yes, I'm aware of that fact.</p> <p>17 Q. Are you, in fact, therefore, seeking 10.25</p> <p>18 percent, are you seeking the same terms and</p> <p>19 conditions that the Board gave to Newfoundland</p> <p>20 Power?</p> <p>21 A. No, we haven't proposed the variation on the</p> <p>22 actual return. That hasn't been, as yet, a</p> <p>23 subject matter of discussion in this</p> <p>24 proceeding.</p> <p>25 Q. So Hydro, just to make it clear, Hydro is</p>	<p>1 stating that the uppermost limit it is seeking</p> <p>2 is 9.75 percent?</p> <p>3 A. Yes. We are proposing in our revenue</p> <p>4 requirement a return that would result in a</p> <p>5 9.75 percent return on equity.</p> <p>6 Q. So anything over and above the 9.75, should</p> <p>7 the Board consider granting you that, would be</p> <p>8 returned to consumers, to your customers?</p> <p>9 A. That would depend on the circumstance of the</p> <p>10 Board's order and the issue of how, if the</p> <p>11 Board would determine a variability around the</p> <p>12 mean of 9.75 because, as you've suggested, it</p> <p>13 could be a variable in either lower or higher</p> <p>14 return.</p> <p>15 Q. In reference to what you are seeking, can you</p> <p>16 tell us first and foremost concerning the</p> <p>17 operations of Hydro generally, what are the</p> <p>18 consolidated operations of Hydro, what</p> <p>19 companies are--make up Hydro?</p> <p>20 A. In an operational sense the consolidation that</p> <p>21 is Newfoundland and Labrador Hydro, the</p> <p>22 Applicant in this proceeding, and our</p> <p>23 subsidiary company, Churchill Falls, Labrador</p> <p>24 Corporation Limited.</p> <p>25 Q. And the Churchill Falls (Labrador)</p>
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<p>1 Corporation, is that a subsidiary of Hydro?</p> <p>2 A. Yes. We have an interest, a majority interest</p> <p>3 in the corporation and the other interest is</p> <p>4 Hydro Quebec.</p> <p>5 (11:45 a.m.)</p> <p>6 Q. So the shares in CF(L)CO that belong by the</p> <p>7 province are held by Hydro? Is that correct?</p> <p>8 A. Yes, that's correct.</p> <p>9 Q. In terms of the consolidated activities, can</p> <p>10 you just go to a moment to CA-98, NLH? And</p> <p>11 below in CA-98, we see two columns there, one</p> <p>12 for the consolidated debt capital of Hydro and</p> <p>13 the other for the adjusted corporate. The</p> <p>14 consolidated will refer to what, Mr. Wells?</p> <p>15 A. The consolidated statements refer to the</p> <p>16 combination of CF(L)CO and Newfoundland and</p> <p>17 Labrador Hydro.</p> <p>18 Q. And the adjusted refers to?</p> <p>19 A. The adjusted, I can't see the bottom of the</p> <p>20 screen, but the adjusted appears to refer to</p> <p>21 Hydro excluding CF(L)CO.</p> <p>22 Q. Okay. Now the financial markets, if they were</p> <p>23 to look at the -</p> <p>24 A. I'm sorry, I now can see the bottom of the</p> <p>25 screen. I don't think that--it wouldn't</p>	<p>1 normally include also the IOCC revenues,</p> <p>2 that's the Iron Ore Company of Canada</p> <p>3 revenues, which are not regulated, and that</p> <p>4 would not be included for the purposes of the</p> <p>5 rate application.</p> <p>6 Q. So you would get--so any revenue you get from</p> <p>7 IOCC will be over and above what's presented</p> <p>8 here?</p> <p>9 A. I think that is correct, yes.</p> <p>10 Q. Okay.</p> <p>11 A. And also, as the note indicates, the intent of</p> <p>12 the response here was to deal with only those</p> <p>13 regulated activities of Hydro, and therefore,</p> <p>14 our export sales are not included, our IOCC</p> <p>15 revenues are not included, and the operations</p> <p>16 of CF(L)CO are not included.</p> <p>17 Q. In the consolidated, your debt capital and</p> <p>18 return on equity, I guess that refers to</p> <p>19 everything? Is that correct?</p> <p>20 A. Yes.</p> <p>21 Q. Everything you own. Now the financial</p> <p>22 markets, when they review Hydro, do they</p> <p>23 review Hydro from a consolidated perspective?</p> <p>24 A. It would depend for what purpose that review</p> <p>25 is undertaken. They do review Hydro on a</p>

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<p>1 MR. WELLS:</p> <p>2 consolidated basis, but they also review Hydro</p> <p>3 as a regulated utility.</p> <p>4 Q. Does your expert, Ms. McShane, agree with that</p> <p>5 comment that you just made, Mr. Wells?</p> <p>6 A. I don't know. I haven't discussed that</p> <p>7 particular question with her.</p> <p>8 Q. Can we just go to Ms. McShane's evidence,</p> <p>9 which is in her evidence, page 17, lines 24 to</p> <p>10 26, please? And can you read line 24 for us,</p> <p>11 Mr. Wells, from what your expert has to say?</p> <p>12 A. Starting with the sentence, "first the debt"?</p> <p>13 Q. Sure.</p> <p>14 A. Yes. "First, the debt rating agencies are</p> <p>15 concerned with Hydro's financial parameters on</p> <p>16 a consolidated basis. On this basis, the</p> <p>17 Corporation's consolidated debt ratios have</p> <p>18 been under 70 percent since 1996."</p> <p>19 Q. Okay. Do you agree with what your financial</p> <p>20 consultant is stating there?</p> <p>21 A. Yes, and that reference is to the capital</p> <p>22 structure of Hydro and the ratio of debt to</p> <p>23 capital, not the return on equity.</p> <p>24 Q. So you're saying that the financial markets</p> <p>25 wouldn't look at, from a consolidated</p>	<p>1 perspective, Hydro's overall return on equity?</p> <p>2 Is that what you're telling us?</p> <p>3 A. Mr. Browne, I'll have to ask you to repeat</p> <p>4 that. I was reading.</p> <p>5 Q. Fair enough. Are you telling us that the</p> <p>6 financial markets would not be looking at the</p> <p>7 consolidated return on equity which Hydro</p> <p>8 enjoys?</p> <p>9 A. No, I think in the first instance, in response</p> <p>10 to your question, I said that in fact you do</p> <p>11 get financial bond rating agencies look at</p> <p>12 Hydro's consolidated position, as well as the</p> <p>13 regulated position.</p> <p>14 Q. But according to your expert, the financial</p> <p>15 markets, from a--and the debt rating agencies</p> <p>16 are concerned with Hydro's financial</p> <p>17 parameters on a consolidated basis?</p> <p>18 A. To my knowledge, they certainly include that</p> <p>19 in their report.</p> <p>20 Q. Now if we were to look at the consolidated</p> <p>21 return on equity that Hydro would enjoy should</p> <p>22 Hydro get this rate increase they're looking</p> <p>23 for, can we just do that by going to CA-3,</p> <p>24 page 12? And CA-3, page 12, has a figure</p> <p>25 three, rates of return on equity, but down</p>
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<p>1 below, it has rates of return on equity and</p> <p>2 income from operations. Just go to that for a</p> <p>3 moment. It's called Table 6. And when we</p> <p>4 look there, we see the rate of return on</p> <p>5 equity present corporate and regulated, and</p> <p>6 there's a distinction there. I guess the</p> <p>7 regulated is what you're looking for from this</p> <p>8 Board. Is that so?</p> <p>9 A. Yes, that's correct.</p> <p>10 Q. But when we look at the consolidated, we see</p> <p>11 that Hydro would do very, very well should</p> <p>12 this Board grant you the 9.75 percent that you</p> <p>13 are seeking. In 2004, what would be your</p> <p>14 return on equity corporately?</p> <p>15 A. In 2004, the corporate return on equity would</p> <p>16 be 22.9 percent.</p> <p>17 Q. And in 2005, what would it be?</p> <p>18 A. 24.4 percent.</p> <p>19 Q. And in 2006?</p> <p>20 A. 23.6 percent.</p> <p>21 Q. And in 2007?</p> <p>22 A. 23.2 percent.</p> <p>23 Q. Wouldn't you think that these are very</p> <p>24 reasonable rates of return for Hydro</p> <p>25 corporately, Mr. Wells?</p>	<p>1 A. Yes, and these rates of return reflect and are</p> <p>2 related to other aspects of Hydro's operation</p> <p>3 which are not the subject matter of these</p> <p>4 proceedings.</p> <p>5 Q. But they stand out in marked contrast, if we</p> <p>6 can go back to a moment to CA-98, when we look</p> <p>7 at what your consolidated return on equity has</p> <p>8 been in the past. And when we look at the</p> <p>9 consolidated return on equity in 1992, it's</p> <p>10 3.77 percent, correct?</p> <p>11 A. That's correct.</p> <p>12 Q. And 1997, 5.74 percent, correct?</p> <p>13 A. That's correct.</p> <p>14 Q. And in 2002, 9.01 percent? Is that correct?</p> <p>15 A. That's correct.</p> <p>16 Q. Well, how do you explain going from those</p> <p>17 single digits, return on equity, in appearing</p> <p>18 before this Board seeking more money from the</p> <p>19 consumers of the province when your corporate</p> <p>20 return on equity would go into double digits,</p> <p>21 22, 24, 23 percent? Can you explain that to</p> <p>22 us, sir?</p> <p>23 A. Yes. The purpose of this proceeding is to</p> <p>24 look at the capital structure of Hydro and the</p> <p>25 assets deployed that are related to the</p>

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<p>1 MR. WELLS:</p> <p>2 services provided to electrical consumers</p> <p>3 within the province. The figures to which you</p> <p>4 refer, Mr. Browne, on the consolidated basis</p> <p>5 are export sales from our subsidiary greatly</p> <p>6 influence that return to Hydro, but it has</p> <p>7 absolutely no advantage to the issue of the</p> <p>8 operating costs of the electrical systems</p> <p>9 which we operate and which are the subject</p> <p>10 matter of this proceeding. We're dealing with</p> <p>11 a capital structure associated with the</p> <p>12 generation, distribution and transmission of</p> <p>13 energy for our customers on the island of</p> <p>14 Newfoundland and in Labrador, as Newfoundland</p> <p>15 and Labrador Hydro.</p> <p>16 Q. But the separation of your capital structure</p> <p>17 into a regulated capital structure is really a</p> <p>18 facade, isn't it? The financial markets look</p> <p>19 at it as a consolidated capital structure.</p> <p>20 Isn't that correct?</p> <p>21 A. It is not a facade. What we are dealing with</p> <p>22 is an issue of what the capital structure and</p> <p>23 what dollars are put at risk in carrying out</p> <p>24 the provision of the services that Hydro</p> <p>25 carries out for the customers that are</p>	<p>1 involved in this proceeding, and the issue of</p> <p>2 other sales and other activity, unrelated to</p> <p>3 this proceeding, or assets that are not</p> <p>4 related to this proceeding is another matter.</p> <p>5 The other question I might, you know, in</p> <p>6 response to this, says that we're dealing with</p> <p>7 the capital structure of Hydro in relation to</p> <p>8 this proceeding and the debt to capital</p> <p>9 structure of Hydro involved in this proceeding</p> <p>10 and the dollars that are involved in that,</p> <p>11 which ultimately allow the Board to calculate</p> <p>12 the rate base and the rate of return on rate</p> <p>13 base and necessarily the return on equity of</p> <p>14 Hydro and the weighted average cost of</p> <p>15 capital. So these issues to which you refer</p> <p>16 are really not pertinent to this hearing. The</p> <p>17 agencies that are looking at Hydro's capital</p> <p>18 structure, and the facts speak for themselves</p> <p>19 in the consolidated basis, but the more</p> <p>20 pertinent issue, I would suggest to the</p> <p>21 Commissioners here, is the impact of the</p> <p>22 guarantee of the Province on Hydro's debt, and</p> <p>23 the issues that relate to the exposure of the</p> <p>24 Government as an investor in Hydro's regulated</p> <p>25 activity and the risk to which those dollars</p>
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<p>1 are deployed. That's the central issue.</p> <p>2 Q. But don't the healthy rates of return forecast</p> <p>3 on a consolidated basis, the 22, 24, 23</p> <p>4 percents that we see here, do they--would they</p> <p>5 directly impact on Hydro's cost of debt?</p> <p>6 A. No, they don't impact on Hydro's cost of debt</p> <p>7 because the Province of Newfoundland and</p> <p>8 Labrador or the Government of the Province of</p> <p>9 Newfoundland and Labrador guarantees Hydro's</p> <p>10 debt for the purposes of these regulatory</p> <p>11 proceedings.</p> <p>12 Q. These consolidated rates of return, we see the</p> <p>13 comparison of the consolidated rate of return</p> <p>14 in 1992 of three percent, and the single</p> <p>15 digits all throughout the period of 1992 to</p> <p>16 2002. How is it, come 2004, that they are</p> <p>17 jumping to 22, 24 and 23 percent? What</p> <p>18 factors, besides the rate of return that</p> <p>19 you're seeking here, are leading to that rate</p> <p>20 of return? What else is the money coming</p> <p>21 from?</p> <p>22 (12:00 p.m.)</p> <p>23 A. In unregulated activity -</p> <p>24 Q. Yes.</p> <p>25 A. - Hydro sells, exports power to Hydro Quebec</p>	<p>1 from the recall provisions that we have with</p> <p>2 respect to the power contract between</p> <p>3 Churchill Falls (Labrador) Corporation and</p> <p>4 Hydro Quebec.</p> <p>5 Q. So are you going to be doing a lot better</p> <p>6 there than you have in the past? Can you</p> <p>7 elaborate on that?</p> <p>8 A. Well, throughout the 1990s, Hydro did not have</p> <p>9 the opportunity to sell excess recall power</p> <p>10 beyond the local load in the Labrador</p> <p>11 interconnected system. That's a more recent</p> <p>12 development, which allowed Hydro to obtain</p> <p>13 additional revenues by recalling the full 300</p> <p>14 megawatts to which it's entitled under the</p> <p>15 power contract, supplying the Labrador load,</p> <p>16 which is the Labrador Interconnected system,</p> <p>17 and we have a contract in place to sell the</p> <p>18 surplus back to Hydro Quebec.</p> <p>19 Q. And these came about when, in what year are we</p> <p>20 talking?</p> <p>21 A. The first recall contract was put in place on</p> <p>22 March the 9th, 1998.</p> <p>23 Q. And the result was how many more millions of</p> <p>24 dollars were going into Hydro's coffers</p> <p>25 generally?</p>

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<p>1 MR. WELLS:</p> <p>2 A. On average, in that first three-year</p> <p>3 agreement, we averaged about \$25 million a</p> <p>4 year. Actually, it was \$69 million for the</p> <p>5 first three-year contract. The second three-</p> <p>6 year contract, we would anticipate a return of</p> <p>7 approximately \$89 million.</p> <p>8 Q. So Hydro is doing a lot better or forecast to</p> <p>9 do a lot better on account of that recall</p> <p>10 provision since 1999 than what went on before</p> <p>11 1999? Is that a fair comment?</p> <p>12 A. Yes, there are additional sources of revenue</p> <p>13 available to Hydro. I perhaps should</p> <p>14 elaborate just a little, if you're wondering</p> <p>15 what we're doing with all that money. The</p> <p>16 revenues from the export sales are passed</p> <p>17 directly through as dividends, 100 percent, to</p> <p>18 the Government of the Province of Newfoundland</p> <p>19 and Labrador.</p> <p>20 Q. When Hydro goes to the markets to borrow,</p> <p>21 won't the financial analysts be more impressed</p> <p>22 with a Hydro that has a debt capital structure</p> <p>23 of 71 percent as opposed to a debt capital</p> <p>24 structure of 85 percent? Which would they</p> <p>25 prefer?</p>	<p>1 A. Well, when we go to the market to borrow,</p> <p>2 we're not dealing with financial analysts</p> <p>3 then. The others that we may deal with in the</p> <p>4 bond markets may be reading the reports of</p> <p>5 financial analysts, but I think that the issue</p> <p>6 of Hydro's debt to capital structure, in terms</p> <p>7 of consolidated or unconsolidated, is not the</p> <p>8 real issue then, as the Board noted in our</p> <p>9 last rate application. The issue for Hydro's</p> <p>10 obtaining capital in the markets of the world</p> <p>11 at rates that are favourable to consumers was</p> <p>12 contingent on the provincial guarantee, the</p> <p>13 Government guarantee, allow us to access the</p> <p>14 capital markets at favourable rates, and</p> <p>15 therefore, this was thought to be of benefit</p> <p>16 to electrical consumers within the province in</p> <p>17 that the debt guarantee fee associated with</p> <p>18 that was money well spent to secure the</p> <p>19 financing that Hydro's able to receive.</p> <p>20 Q. On the Table 6 there, we have income from</p> <p>21 operations as well and what is forecast for</p> <p>22 Hydro for 2003 and forward, and we have the</p> <p>23 corporate and the regulated, and in 2003, we</p> <p>24 see the income from operation corporate is</p> <p>25 22.5 million. What would that figure</p>
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<p>1 represent generally, Mr. Wells?</p> <p>2 A. That would--the 22.5 million would represent</p> <p>3 the income on a corporate basis. That would</p> <p>4 be Hydro's total income, including its</p> <p>5 regulated activity and its unregulated</p> <p>6 activity, and of course, as you can see, the</p> <p>7 regulated activity is in brackets.</p> <p>8 Q. Yes, sure, but when you look at it in 2004, we</p> <p>9 see the income as increasing to 46. 5</p> <p>10 corporately. Does that include the regulated</p> <p>11 component there, the way that chart is, do you</p> <p>12 know?</p> <p>13 A. I'm a little--I'm not sure what this chart is</p> <p>14 in relation to. I'm just seeing it in the</p> <p>15 centre, but I would think that that does</p> <p>16 include the regulated income. There would be</p> <p>17 corporate and regulated.</p> <p>18 Q. So when you come before this Board, therefore,</p> <p>19 Hydro telling the Board you need another \$ 8</p> <p>20 million in order to survive, wouldn't it be</p> <p>21 fair for the Board to look at Hydro generally,</p> <p>22 the way the financial analysts and markets</p> <p>23 would look at it, as opposed to just the</p> <p>24 regulated activity of Hydro?</p> <p>25 A. No, I think that would be entirely</p>	<p>1 inappropriate. One of the issues, and I think</p> <p>2 in your earlier remarks this morning, Mr.</p> <p>3 Browne, you mentioned on the fact of</p> <p>4 consumers, customers, must really know the</p> <p>5 true cost of electricity that they have to pay</p> <p>6 for, and therefore, in the operations of</p> <p>7 Hydro's regulated business, these are the</p> <p>8 costs that go into it. Whether it would be</p> <p>9 Hydro or some other entity, what is important</p> <p>10 and what, as I understand the whole object of</p> <p>11 this proceeding is for the Board to determine</p> <p>12 what are prudent and reasonable costs</p> <p>13 associated with the utility that's supplying</p> <p>14 the service. And therefore, to look at other</p> <p>15 activities of the utility outside the</p> <p>16 regulated activity would be totally</p> <p>17 inappropriate. A similar thing would take</p> <p>18 place if one were to look at how is Fortis</p> <p>19 making out outside of its endeavours with</p> <p>20 respect to Newfoundland Power. We have to</p> <p>21 focus on the issues that are related to the</p> <p>22 cost of providing the electrical service</p> <p>23 within the province.</p> <p>24 Q. Is that a true comparison to compare</p> <p>25 Newfoundland and Labrador Hydro to Fortis Inc.</p>

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<p>1 BROWNE, Q.C.:  2 and the way they're structured?  3 A. No, but on the spur of the moment, it was the  4 best I could think of. Not an exact  5 comparison, but I'm sure it made my point with  6 you, Mr. Browne.  7 Q. In this application, you give, I think it's  8 two reasons, for seeking money from the  9 consumers, the cost incurred for new supply  10 and the cost of fuel. Now in reference to the  11 second part of that, the cost of fuel, what  12 has Hydro been doing to control the amount of  13 fuel that is burned at the Holyrood generating  14 station?  15 A. Well, I think the evidence as filed,  16 particularly Mr. Haynes' evidence, will  17 describe various initiatives that have been  18 undertaken to ensure that the Holyrood thermal  19 plant operates as efficiently and effectively  20 as is possible, and in the detail of that,  21 these various programs, I would defer to Mr.  22 Haynes' evidence. He can deal with it  23 directly. The other factors, in terms of the  24 operation of Holyrood, the initiatives to keep  25 costs that are down and reasonably prudent in</p>	<p>1 terms of the operation of the facility,  2 various things, again described in Mr. Haynes'  3 evidence, have ensured that we have a plant  4 that is operating, given its age and the age  5 of some of the units, which are over 32 years  6 old, this operates effectively. Of course, I  7 think as the Board is now aware, that the  8 efficiency of the units is dependent also in  9 part on the utilization of the units. If  10 they're running up to capacity or less than  11 capacity, you'll get different results. But  12 all of this is explained in Mr. Haynes'  13 evidence and I think that to the extent that  14 we can extract from a barrel of oil, the  15 energy required, that we're doing a fairly  16 good job.  17 Q. I just wonder, from your own evidence and if  18 you could just go to page 5 on the Economic  19 Outlook, there's a few sentences there which I  20 want you to elaborate upon. If you go to line  21 19 and if you can read line 19 for us, please,  22 beginning with "the recent surge".  23 A. "The recent surge in housing starts has  24 increased short term load growth. Due to the  25 overwhelming preference for electricity as the</p>
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<p>1 energy source of choice for space heating in  2 new construction".  3 Q. And it goes on to say -  4 A. "This preference also applies to non-  5 residential construction".  6 Q. Now, how does that tie in, this preference  7 that consumers have out there for electricity  8 as an energy source of choice and the  9 preference applying to non-residential  10 construction as well, to the amount of fuel  11 that is imported to be consumed at the  12 Holyrood generating station?  13 A. The tie in relates to the fact that Holyrood  14 is forty percent of the energy required on the  15 island interconnected system in the past year  16 and it will continue as to be very important,  17 an integral part of the energy supply  18 requirements for the island interconnected  19 system and therefore, it meets that demand and  20 load.  21 Q. So, is there being more fuel imported as a  22 result of the new construction and the  23 preference for electricity as an energy source  24 for space heating? Is there a direct  25 connection between these two?</p>	<p>1 A. I would think that if one looks at the  2 operating characteristics of the island-  3 interconnected system, that one could draw a  4 conclusion that the Holyrood thermal plant is  5 pressed into service and used most heavily  6 during the winter months when the load  7 requirements of the island-interconnected  8 system will be very high, compared with, say  9 the middle of July.  10 Q. So it will be pressed into heavier service due  11 to the preference for electricity as the  12 energy source of choice for space heating and  13 new construction during the winter months,  14 would it be a heavier -  15 A. Well certainly one of the factors on terms of  16 the demand and the increase in load within a  17 year, would be space heating, electrical space  18 heating.  19 Q. Why isn't it explained to consumers that by  20 putting in electric baseboard radiation into  21 their homes, and indeed to the construction  22 industry, that they are in fact driving the  23 cost at the Holyrood generating station and  24 causing more fuel to be--bunker C fuel to be  25 burned during the winter months at Holyrood?</p>



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<p>1 BROWNE, Q.C.:</p> <p>2 Why aren't consumers being told this?</p> <p>3 A. I think in fact that consumers are, the issue</p> <p>4 is stated in the evidence as filed and in our</p> <p>5 own reviews within Hydro, there is this very</p> <p>6 large preference for electric space heating</p> <p>7 and in new construction, you know, the facts</p> <p>8 speak for themselves, this is what is</p> <p>9 happening. And one of the big issues is</p> <p>10 probably the capital cost, you know, to get</p> <p>11 electric baseboard heating in the home, as</p> <p>12 opposed to, say oil fired, is an alternative.</p> <p>13 There's been a lot of volatility in oil prices</p> <p>14 and that may influence consumers and as well</p> <p>15 as some of the problems that consumers, oil</p> <p>16 users have had with environmental problems.</p> <p>17 So it's low capital cost, it is convenient and</p> <p>18 maintenance free and consumers--well the facts</p> <p>19 speak for themselves, that is the choice that</p> <p>20 they seem to prefer. I don't know what one</p> <p>21 could do to influence the individual at the</p> <p>22 point that they make their decision. I know</p> <p>23 that I have talked to individuals, this is not</p> <p>24 great evidence, but I have talked to</p> <p>25 individuals about their heating requirements</p>	<p>1 and space heating and talked to them about the</p> <p>2 oil and electricity and that relationship</p> <p>3 because I am aware of it. Well, I can tell</p> <p>4 you that I had made very little impact on the</p> <p>5 choice of the individuals to whom I have</p> <p>6 spoken about whether they have oil or</p> <p>7 electricity.</p> <p>8 (12:15 p.m.)</p> <p>9 Q. Have you spoken publicly on the issue? Are</p> <p>10 you out there in the media advertising</p> <p>11 yourself?</p> <p>12 A. No, we did during the course of this past</p> <p>13 winter issue a press release and other, you</p> <p>14 know, and had it published around that the</p> <p>15 high price of No. 6 fuel was having a big</p> <p>16 impact on the cost of our operations and that</p> <p>17 the balances in the rate stabilization plan</p> <p>18 were increasing. So we did endeavour to get</p> <p>19 it out to consumers that the price of fuel</p> <p>20 generally and oil prices in the world were</p> <p>21 affecting the operations of Newfoundland and</p> <p>22 Labrador Hydro and that this would have</p> <p>23 repercussions for electrical consumers because</p> <p>24 the cost of No. 6 fuel, when we explained what</p> <p>25 they were in our rates and what the experience</p>
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<p>1 was, and that the difference would have to be</p> <p>2 recovered through the rate stabilization plan</p> <p>3 and the outstanding balance. We didn't create</p> <p>4 much hype, if I might put it that way, with</p> <p>5 respect to making those kinds of--that</p> <p>6 information known and the press release to</p> <p>7 consumers.</p> <p>8 Q. You've--the corporation undertook an</p> <p>9 advertising campaign suggesting to people that</p> <p>10 they stop putting electric baseboard radiation</p> <p>11 into their homes, that it is causing grief for</p> <p>12 us all, I guess, at Holyrood, and it is</p> <p>13 driving the system. Do you think that would</p> <p>14 have any effect on people who are out there</p> <p>15 making choices as to what forms of heat they</p> <p>16 would incorporate into their homes.</p> <p>17 A. That's a more difficult question that it</p> <p>18 appears on the face of it. There are issues</p> <p>19 here where in the business world, there are</p> <p>20 competing interesting vying for customers for</p> <p>21 their product whether it's propane or oil or</p> <p>22 electricity in the case of Newfoundland Power.</p> <p>23 And the people, the customers that we're</p> <p>24 talking about here in the main, are not Hydro</p> <p>25 customers. You have to look at the systems</p>	<p>1 that we operate and in the case of isolated</p> <p>2 diesel systems, this is not an issue in terms</p> <p>3 of Holyrood or in the Labrador system. The</p> <p>4 rural elements that we operate on the island</p> <p>5 interconnected system are more likely to avail</p> <p>6 of other heating choices such as wood or oil</p> <p>7 and in some cases, electricity.</p> <p>8 So, what has been posed to me is the</p> <p>9 major campaign, you seem to suggest, by Hydro</p> <p>10 to influence the customers of Newfoundland</p> <p>11 Power or to influence their competitors'</p> <p>12 situation in describing what would happen with</p> <p>13 respect to the use of No. 6 fuel at Holyrood.</p> <p>14 I have grave doubts about the efficacy of such</p> <p>15 a campaign, but I'm also more concerned about</p> <p>16 the ethics of such a campaign. If that</p> <p>17 should, indeed be a role thrust upon Hydro.</p> <p>18 Q. When someone is sending you the bill, the more</p> <p>19 electric baseboard radiations out there</p> <p>20 driving the system through construction and</p> <p>21 sub-divisions and the box stores and whatever</p> <p>22 else is out there, ultimately the bill goes</p> <p>23 initially to Hydro, is that not correct?</p> <p>24 A. Well, it's Hydro's responsibility for the</p> <p>25 island interconnected system to ensure that</p>

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<p>1 MR. WELLS:</p> <p>2 the electricity is there to meet the demands</p> <p>3 of consumers which is what we endeavour and</p> <p>4 have done and I think, rather successfully.</p> <p>5 The issue of the costs of electricity and what</p> <p>6 our sources are is a pertinent matter when</p> <p>7 we're at a hearing here before the Public</p> <p>8 Utilities Board. Unfortunately, it doesn't</p> <p>9 seem to be a pertinent matter, in terms of</p> <p>10 policy choices for individuals consumers. And</p> <p>11 they are looking after their own economic self</p> <p>12 interests and for convenience and other</p> <p>13 reasons, they make choices. I think that you</p> <p>14 as well, are strong advocate that they must</p> <p>15 know whether costs are and, indeed, this whole</p> <p>16 hearing, you know, when you look at the</p> <p>17 \$33,000,000.00 of our revenue requirement</p> <p>18 arises from new sources of supply and the</p> <p>19 price of fuel. We're on an island and it</p> <p>20 doesn't take a rocket scientist to figure out</p> <p>21 what our electricity costs are going to be as</p> <p>22 time progresses and demand increases and our</p> <p>23 absolute overwhelming dependence at this</p> <p>24 moment in our history on international oil</p> <p>25 prices. We have very few options.</p>	<p>1 Q. And you told us, you just brought--the Granite</p> <p>2 Canal has just been brought on stream, is that</p> <p>3 correct?</p> <p>4 A. That's correct.</p> <p>5 Q. Okay. What else is out there that you plan to</p> <p>6 develop in the foreseeable future?</p> <p>7 A. Well, as we've described in the evidence, we</p> <p>8 don't forecast capacity deficits and energy,</p> <p>9 or capacity until 2009/2011, it's outlined in</p> <p>10 Mr. Haynes' evidence. Within Hydro's area of</p> <p>11 operations, things that are open to us, we do</p> <p>12 have a potential development within the Bay</p> <p>13 D'Espoir system, another development of</p> <p>14 approximately 38 megawatts. But we have</p> <p>15 pretty well exhausted the benefits of the Bay</p> <p>16 D'Espoir system with Granite Canal and there</p> <p>17 is one site that we would advance to see how</p> <p>18 it would bear up against others when the time</p> <p>19 comes.</p> <p>20 Q. So, if we continue to have the expansion,</p> <p>21 according to your evidence, the overwhelming</p> <p>22 preference for electricity as the energy</p> <p>23 source for space heating, and there's limited</p> <p>24 hydro coming our way, where are we headed</p> <p>25 ultimately on our dependence on fuel for</p>
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<p>1 Holyrood, is that always going to be there?</p> <p>2 A. There are other potential sources of</p> <p>3 electricity from small hydro sites, but they</p> <p>4 have limited capacity and limited energy. The</p> <p>5 only thing that one could possibly foresee</p> <p>6 with Holyrood in the foreseeable future is if</p> <p>7 natural gas were to be available on the</p> <p>8 island. Then, I think we would, depending on</p> <p>9 the price of natural gas, I think that we</p> <p>10 could convert Holyrood and there are other</p> <p>11 good reasons why converting Holyrood from No.</p> <p>12 6 to natural gas could come into play. But</p> <p>13 our options are limited and all the options,</p> <p>14 of which I'm aware, are more expensive and</p> <p>15 would push up the average cost of wholesale</p> <p>16 rate to consumers.</p> <p>17 Granite Canal, we thought, was an</p> <p>18 excellent project in the Bay D'Espoir system.</p> <p>19 It just happened to be within our system and</p> <p>20 at five and a half cents development costs,</p> <p>21 did the bus bar, that is very, very good, but</p> <p>22 it is dragging up the average a little because</p> <p>23 the original Bay D'Espoir development would be</p> <p>24 much more favourable. So, we have limited</p> <p>25 options and wind is also a potential, but wind</p>	<p>1 is, again, a higher cost source of energy.</p> <p>2 Q. In terms of your limited options, when the</p> <p>3 smelter is constructed in Argentia, what will</p> <p>4 be the source of energy for that? Have you</p> <p>5 had discussions with people at Voisey's Bay to</p> <p>6 discuss how that smelter will be energized?</p> <p>7 A. I haven't participated in discussions directly</p> <p>8 in this occasions with Voisey's Bay. There</p> <p>9 has been some discussion between our staff and</p> <p>10 Voisey's Bay Nickel. My understanding is that</p> <p>11 the--what is contemplated in Argentia which</p> <p>12 would affect the island interconnected system,</p> <p>13 in terms of the electricity requirements is</p> <p>14 very limited. It's not a big demand compared,</p> <p>15 say, to a conventional smelter which would be</p> <p>16 quite a substantial addition to Newfoundland's</p> <p>17 requirements.</p> <p>18 Q. Has a cost analysis been carried out at Hydro</p> <p>19 to determine how much more fuel will have to</p> <p>20 be imported, the bunker C variety, as a result</p> <p>21 of the energy requirements for the smelter at</p> <p>22 Argentia?</p> <p>23 A. No, not to my knowledge, not in the specific.</p> <p>24 If you ask Mr. Haynes that question in system</p> <p>25 planning, that's not how we forecast. We put</p>

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<p>1 MR. WELLS:</p> <p>2 all the inputs in to forecasting the</p> <p>3 requirements of the system and anything like a</p> <p>4 smelter or whatever it is they're going to</p> <p>5 construct in Argentia, would be included in</p> <p>6 the demand forecast. And then we do outline</p> <p>7 options for meeting that demand to the extent</p> <p>8 that we are aware of such options.</p> <p>9 Q. Have you ever conducted a study to determine</p> <p>10 how much less fuel would be required at</p> <p>11 Holyrood to import there, if there was an</p> <p>12 incentive for people in urbanized areas,</p> <p>13 granted, they're not in your customer area,</p> <p>14 they're in Newfoundland Power's, to convert</p> <p>15 from electricity to oil? Have you done any</p> <p>16 kind of cost analysis there?</p> <p>17 A. I'm not aware of such a study recently. I</p> <p>18 think and maybe--it's a very dim memory that</p> <p>19 there were some, in there past there has been</p> <p>20 some discussion of the issue of conversions</p> <p>21 and either way, either the oil to electricity</p> <p>22 or electricity to oil, in terms of the</p> <p>23 implications for customers or consumers, but</p> <p>24 I'm not aware of immediate or recent study to</p> <p>25 that effect.</p>	<p>1 Q. Some years ago, along the coast of Labrador,</p> <p>2 Hydro embarked upon a program to encourage</p> <p>3 people to move off electricity, especially for</p> <p>4 heating and put oil furnaces in their homes.</p> <p>5 And there was a rebate that they were getting</p> <p>6 as an incentive to do that. Are you familiar</p> <p>7 with that program.</p> <p>8 A. That must have been before I joined Hydro.</p> <p>9 Q. So, you're not familiar with that?</p> <p>10 A. No, I'm not familiar with it. I could</p> <p>11 understand why one would do that in a diesel</p> <p>12 system, it's just not conducive to have</p> <p>13 electric space heating in an isolated diesel</p> <p>14 system.</p> <p>15 Q. Are you familiar or have you got someone</p> <p>16 familiarizing themselves with the climate</p> <p>17 control plan for Canada which will offer</p> <p>18 incentives to consumers and indeed, to</p> <p>19 industry to bring down emissions. I guess, we</p> <p>20 could look at the Holyrood generating station</p> <p>21 as a cause of great emissions here in this</p> <p>22 province. Is anyone studying that at your -</p> <p>23 A. Through our environmental department, we are</p> <p>24 tracking events as they unfold with respect to</p> <p>25 Kyoto and the position of the government of</p>
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<p>1 Canada and then the provincial governments as</p> <p>2 they unfold with respect to that issue.</p> <p>3 Q. There's an announcement made the summer of</p> <p>4 some hundreds of millions of dollars that the</p> <p>5 federal government was putting into the Kyoto</p> <p>6 protocol and they were seeking service</p> <p>7 providers from various provinces so that</p> <p>8 consumers could take advantage of ways in</p> <p>9 which to use lesser amounts of energy in their</p> <p>10 homes. Isn't Hydro onto that? Wouldn't that</p> <p>11 be a good thing for Hydro to be onto, do you</p> <p>12 think?</p> <p>13 A. Yes, and Hydro is onto that and the initial</p> <p>14 request went to the, obviously, the largest</p> <p>15 distributor of electricity within the</p> <p>16 province, Newfoundland Power and we are in</p> <p>17 discussions with them in terms of the impact</p> <p>18 of the program through the province of</p> <p>19 Newfoundland and Labrador and in our service</p> <p>20 areas.</p> <p>21 (12:30 p.m.)</p> <p>22 Q. Is anyone looking at specifically, the ability</p> <p>23 to suggest to people to convert as part of the</p> <p>24 climate control plan for Canada from</p> <p>25 electricity to oil as a way of bringing down</p>	<p>1 emissions ultimately at the Holyrood</p> <p>2 generating station?</p> <p>3 A. Not that I'm aware, but what you're saying is</p> <p>4 that we would replace the oil burnt at</p> <p>5 Holyrood by oil burnt in individual furnaces.</p> <p>6 There's some advantage to that</p> <p>7 environmentally. I'm not sure what the</p> <p>8 differential would be, but you're just robbing</p> <p>9 Peter to pay Paul in some respects, in terms</p> <p>10 of the emission reduction.</p> <p>11 Q. In the last hearing here before the Board, we</p> <p>12 have Ms. Barbara Pauley from the Federal</p> <p>13 Government really chastising us for using fuel</p> <p>14 at Holyrood to bring electricity to people's</p> <p>15 homes and I think she stated wouldn't it be</p> <p>16 monumentally more sensible if people put the</p> <p>17 oil furnaces in their own homes.</p> <p>18 A. If that had--I recall her statements. It is</p> <p>19 true that on a unit of oil basis that a</p> <p>20 domestic furnace would burn more efficiently</p> <p>21 and it uses a different type of fuel than No.</p> <p>22 6 burnt in bulk at Holyrood, but it begs, Mr.</p> <p>23 Browne, your issue of the predominance of use</p> <p>24 of electric heating and the fact that</p> <p>25 customers would have to enter into a</p>

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<p>1 MR. WELLS:</p> <p>2 considerable expense to retrofit their houses</p> <p>3 and get an alternative to electric space</p> <p>4 heating.</p> <p>5 Q. But there are different forms of electric</p> <p>6 space heating as well, aren't there? There's</p> <p>7 convection, which will bring down your</p> <p>8 electricity consumption by about a third. Are</p> <p>9 you familiar with that? That is a form of</p> <p>10 electric heat which would be opposite to</p> <p>11 baseboard radiation.</p> <p>12 A. I think -</p> <p>13 Q. Has anyone there looked at that?</p> <p>14 A. I'm sorry, anyone where?</p> <p>15 Q. Has anyone at Hydro? Has Hydro--I'm trying to</p> <p>16 determine if Hydro is looking at ways and</p> <p>17 means of conserving and getting consumers to</p> <p>18 conserve and making certain consumers are</p> <p>19 aware of the variations that are out there</p> <p>20 which would help us all in the short term and</p> <p>21 in the long term?</p> <p>22 A. Yes, and I would refer you to our Hydro Wise</p> <p>23 program and the initiative that we've</p> <p>24 undertaken, which is outlined in the evidence</p> <p>25 that's filed. That will encompass a variety</p>	<p>1 of things as it goes forward. But when you</p> <p>2 ask me specifically about an issue of--I think</p> <p>3 that that information was provided by you at</p> <p>4 the last rate hearing. You were talking about</p> <p>5 the benefits of convection currents of</p> <p>6 electric heat and whatnot, but this program</p> <p>7 hasn't evolved to a point where we have</p> <p>8 specifics and the initial thrusts are not in</p> <p>9 that particular area as to the alternates for</p> <p>10 electric heat. You have to remember that in</p> <p>11 Hydro's service area and our customers, when</p> <p>12 you're looking in the rural areas of</p> <p>13 Newfoundland, in the Isolated System, the</p> <p>14 biggest deterrent to electric, not only the</p> <p>15 physical aspects of a diesel system trying to</p> <p>16 meet demand, but also the price factor would</p> <p>17 be an extreme deterrent. And in our rural</p> <p>18 areas, we're almost predominantly all rural.</p> <p>19 We are all rural, as a matter of fact. The</p> <p>20 issues with respect to electric heat are not</p> <p>21 as pertinent, but I think that in doing our</p> <p>22 share to deal with this issue, that the Hydro</p> <p>23 Wise program and the components of the Hydro</p> <p>24 Wise program which have been developed to go</p> <p>25 forward on a longer term basis will be helpful</p>
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<p>1 in making consumers aware, and then as</p> <p>2 government programs advance with respect to</p> <p>3 things such as Kyoto and the need to conserve</p> <p>4 energy, there will be a lot more in play in</p> <p>5 the public arena with respect to conservation</p> <p>6 and the emission of greenhouse gases and where</p> <p>7 they come from and what causes some of the</p> <p>8 problems.</p> <p>9 Q. You mentioned in your evidence previously</p> <p>10 concerning wind power and there's a wind power</p> <p>11 project underway down on the Burin Peninsula.</p> <p>12 Is that correct?</p> <p>13 A. We are currently in negotiations with respect</p> <p>14 to a wind power development.</p> <p>15 Q. And can you update the Board in reference to</p> <p>16 that and tell us what may transpire there?</p> <p>17 A. Only to the extent that what is being</p> <p>18 discussed is a 25-megawatt wind farm and we</p> <p>19 were directed by government to have a review</p> <p>20 done as to the efficacy of wind: what would</p> <p>21 wind mean within the province; what are the</p> <p>22 best sites; what would be the most prudent</p> <p>23 course of action to take with that new</p> <p>24 development. And that was done, and as a</p> <p>25 result of all of that and the reports back,</p>	<p>1 done by the consultant, there is--you know,</p> <p>2 negotiations are ongoing now and putting into</p> <p>3 place a 25-megawatt development, as we've</p> <p>4 outlined in the evidence, but I don't think we</p> <p>5 have much more to say than that at this time.</p> <p>6 If that contract is concluded, it could be--</p> <p>7 any issue related to that would be--any</p> <p>8 implications for the test year or anything</p> <p>9 would be brought forward by Hydro at that</p> <p>10 time, but we're just not there yet.</p> <p>11 Q. So there's no complete date for that?</p> <p>12 A. No.</p> <p>13 Q. There's no date at which that's going to be</p> <p>14 complete, your negotiations, and an</p> <p>15 implementation date for that wind power?</p> <p>16 A. Well, we would hope to complete the</p> <p>17 negotiations as soon as possible and they</p> <p>18 could be--we're not talking a great number of</p> <p>19 months here. It's more like weeks than</p> <p>20 months.</p> <p>21 Q. And that is negotiations are completed in the</p> <p>22 next number of weeks, what would be the time</p> <p>23 frame for that? Do you have any idea? Can</p> <p>24 you tell the Board that?</p> <p>25 A. Not in precise detail, but in the construction</p>

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<p>1 MR. WELLS:</p> <p>2 of a wind farm, certainly, as I understand,</p> <p>3 the construction could start as early as the</p> <p>4 construction season would make it favourable,</p> <p>5 next year in 2004, and how much of the</p> <p>6 development would get in and on stream, I</p> <p>7 really can't comment on.</p> <p>8 Q. But it is foreseeable in 2005, 2006, in those</p> <p>9 years, do you believe?</p> <p>10 A. Yes.</p> <p>11 Q. What would that do to the bunker C component</p> <p>12 of Holyrood? Would that assist in bringing</p> <p>13 down the requirements there?</p> <p>14 A. At a given time and in a given situation, yes,</p> <p>15 it could result in the displacement of fuel</p> <p>16 being burned at Holyrood. Wind, of course, is</p> <p>17 non-dispatchable energy, you'll appreciate, so</p> <p>18 when the wind blows, you take it. If it</p> <p>19 doesn't -</p> <p>20 Q. Mr. Wells, in this application, you're coming</p> <p>21 forward and saying you want the same rate of</p> <p>22 return as a private corporation, as</p> <p>23 Newfoundland Power enjoys. What</p> <p>24 characteristics would Hydro have with a</p> <p>25 private corporation? What similar</p>	<p>1 characteristics would there be?</p> <p>2 A. With respect to the rate of return, the</p> <p>3 characteristic is that Hydro shareholder has</p> <p>4 dollars deployed in the operation of the</p> <p>5 business and as would Newfoundland Power</p> <p>6 shareholders have dollars deployed in the</p> <p>7 operation of the business, and therefore, as</p> <p>8 our expert evidence indicates, the issue</p> <p>9 becomes what are the risks to which these</p> <p>10 dollars are exposed and it is our contention,</p> <p>11 supported by our expert witnesses, that our</p> <p>12 dollars are subject to the same risk as those</p> <p>13 of the investor-owned utility, and that's the</p> <p>14 issue.</p> <p>15 Q. But there are certain projects that you refer</p> <p>16 there in your evidence, the so-called NUGS</p> <p>17 projects in Bishops Falls and with the Corner</p> <p>18 Brook paper mill, that these have to be paid</p> <p>19 for. Is Hydro actually making money on these?</p> <p>20 A. No. What Hydro has done is to enter into</p> <p>21 contracts to secure sources of supply, and we</p> <p>22 pay for that electricity and it's incorporated</p> <p>23 into our costs, which is resulted and</p> <p>24 reflected in our revenue requirement.</p> <p>25 Q. Is it good value though for the dollar, from</p>
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<p>1 your perspective?</p> <p>2 A. Well, these sources of supply help to meet the</p> <p>3 demand and energy requirements, capacity and</p> <p>4 energy requirements that are required for the</p> <p>5 Island Interconnected system. So to that</p> <p>6 extent, they're absolutely essential for the</p> <p>7 continuance of the system and ensure a</p> <p>8 reliable supply of electricity.</p> <p>9 Q. Was there any cost analysis done of that to</p> <p>10 ensure that it is good value that you're</p> <p>11 getting for those initiatives?</p> <p>12 A. In terms of?</p> <p>13 Q. In terms of the cost and what you're paying</p> <p>14 for the electricity, to put electricity on the</p> <p>15 grid from those NUGS projects?</p> <p>16 A. Well, Hydro was directed to negotiate with the</p> <p>17 entities that supply that electricity under</p> <p>18 contract and as it's outlined in our evidence,</p> <p>19 we conducted such negotiations and provided</p> <p>20 the results to government and then government</p> <p>21 directed that we enter into contracts on the</p> <p>22 basis of what had been discussed with the two</p> <p>23 entities.</p> <p>24 Q. And these projects were not reviewable by the</p> <p>25 Public Utilities Board, are they?</p>	<p>1 A. No, they're not.</p> <p>2 Q. So we can't get into the mechanics of them,</p> <p>3 can we?</p> <p>4 A. No, I think that the government has already</p> <p>5 directed the Public Utilities Board with</p> <p>6 respect to the incorporation of those costs.</p> <p>7 Q. And so if these projects were more costly than</p> <p>8 they ought to be, and the electricity that is</p> <p>9 generated from them is more costly than it</p> <p>10 ought to be, it's not something this Board can</p> <p>11 review, is it?</p> <p>12 A. No, that's correct.</p> <p>13 Q. And would that be consistent therefore with</p> <p>14 your theory that Hydro is indeed comparable to</p> <p>15 a private enterprise entity?</p> <p>16 A. On that particular point, I really can't say</p> <p>17 yes or no. You're mixing your metaphors. The</p> <p>18 issue of new sources of supply and the issue</p> <p>19 of whether we're like a private enterprise are</p> <p>20 two entirely different things. If Hydro did</p> <p>21 not exist, the government could direct sources</p> <p>22 of supply to the provincial grid, under the</p> <p>23 general authority and power of government and</p> <p>24 in the public interest would be X or Y.</p> <p>25 Hydro, in this instance, is the vehicle that</p>

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<p>1 MR. WELLS:</p> <p>2 negotiated the contracts and secured the</p> <p>3 supply, at the direction of government. But</p> <p>4 government has reserved the right to make</p> <p>5 decisions, in certain instances, which they</p> <p>6 view to be in the overall public interest.</p> <p>7 Q. Okay. So regardless of whether or not it was</p> <p>8 economically viable from Hydro's perspective,</p> <p>9 you've been so directed? Is that correct?</p> <p>10 A. Yes. I don't think in this instance it has</p> <p>11 anything to do with the economic viability of</p> <p>12 Hydro.</p> <p>13 Q. In reference to government and government -</p> <p>14 A. Pardon me, can I--that's why we're here.</p> <p>15 We're spending \$18 million on new power</p> <p>16 purchases in the test year and this is the</p> <p>17 money we're paying for that power, and we'd</p> <p>18 like to get it back or it will affect our</p> <p>19 financial viability greatly.</p> <p>20 Q. In reference to that theory therefore that</p> <p>21 you're comparable to a private entity, you, in</p> <p>22 the past, your employees have been subject to</p> <p>23 a wage freeze that's been government imposed.</p> <p>24 Is that correct?</p> <p>25 A. Yes, that's correct.</p>	<p>1 Q. Would that be comparable to anything that</p> <p>2 could happen in the private sector?</p> <p>3 (12:45 p.m.)</p> <p>4 A. Yes, I recall back when we had the Wage and</p> <p>5 Price Commission in the Federal Government. I</p> <p>6 lived through a period there, great intensity.</p> <p>7 Q. But more -</p> <p>8 A. That affected everybody.</p> <p>9 Q. - but more particularly speaking, the</p> <p>10 government of the day can at any time impose a</p> <p>11 wage freeze upon employees at its Crown</p> <p>12 corporations, including yours. Is that</p> <p>13 correct?</p> <p>14 A. Yes, government has that authority.</p> <p>15 Q. And are there many private corporations out</p> <p>16 there with a government debt guarantee, that</p> <p>17 you know of?</p> <p>18 A. Private corporations with a government debt</p> <p>19 guarantee?</p> <p>20 Q. Yes, like you have.</p> <p>21 A. I'm not aware of, but--well, I'm not aware of</p> <p>22 any at the moment.</p> <p>23 Q. So that would distinguish you somewhat from a</p> <p>24 corporation in the private sector, wouldn't</p> <p>25 it?</p>
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<p>1 A. To some extent.</p> <p>2 Q. So is it, in fact, accurate for you to come</p> <p>3 forward and say that we need a rate of return</p> <p>4 comparable to the private investor, as</p> <p>5 opposed--because in reality, you're not really</p> <p>6 private, are you?</p> <p>7 A. You're correct, we're not really private.</p> <p>8 We're public, but the issue we're talking</p> <p>9 about, if you'd just indulge me for a moment</p> <p>10 on your line of questions. The issue is not</p> <p>11 whether we're public or private or black or</p> <p>12 green. The issue is what dollars are deployed</p> <p>13 by the shareholder to provide the service, the</p> <p>14 poles and the moving equipment and the wires</p> <p>15 and all that. And if I might, you know,</p> <p>16 that's a dollar, this loony, and if I take</p> <p>17 that and put it in a sock and put it under my</p> <p>18 mattress, I get no return, but it's very</p> <p>19 little risk. If I put it in a bank, I'll -</p> <p>20 Q. Still get no return.</p> <p>21 A. - get a small return. Small return today, but</p> <p>22 again, very little risk. But if I take that</p> <p>23 dollar and put it into poles and lines and</p> <p>24 rotating equipment and employees' wages and</p> <p>25 get all sort of obligations, suddenly that</p>	<p>1 dollar is at more risk, and don't racially</p> <p>2 profile your dollars. It's not whether</p> <p>3 they're black or white. The issue is not who</p> <p>4 owns the dollar. The issue is what are the</p> <p>5 risks that the dollar is subject to. And when</p> <p>6 we talk about Hydro being more akin to an</p> <p>7 investor-owned utility and we ask for a rate</p> <p>8 of return, government dollars are no less than</p> <p>9 Mr. Browne's dollars or my dollars. If you</p> <p>10 put your dollars at risk, then there should be</p> <p>11 a return on those dollars or somebody is</p> <p>12 giving a gift.</p> <p>13 Now the Board, I'm not an expert witness</p> <p>14 on this and this is about all I've got to say</p> <p>15 about it. The fact of the matter is that the</p> <p>16 Commissioners have to make a determination</p> <p>17 that dollars that are not debt, that are</p> <p>18 deployed in the operation of a commercial</p> <p>19 entity, because we are, and you look at the</p> <p>20 shareholder dollars in there, should they not</p> <p>21 attract a return? Or are you going--and in</p> <p>22 accordance with normal principles like Ms.</p> <p>23 McShane has outlined in our evidence, and you</p> <p>24 have a range of opinion, because Professor</p> <p>25 Waverman has an opinion, Ms. McShane has an</p>

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<p>1 MR. WELLS:</p> <p>2 opinion, but the issue, if you look at--just</p> <p>3 look at it from a point of view, that dollar</p> <p>4 goes in and it's at risk, and we're saying</p> <p>5 that the business risk to which the Hydro</p> <p>6 dollar is exposed, which is a government</p> <p>7 dollar, is no less--matter of fact, I would</p> <p>8 argue that it's more, but that's not the</p> <p>9 purpose of the hearing--is no less than what</p> <p>10 the investor-owned utility has in there. The</p> <p>11 only other issue is that we have less dollars</p> <p>12 in equity, so therefore the cost of that is a</p> <p>13 benefit to the consumer.</p> <p>14 So you know, your line of questioning,</p> <p>15 Mr. Browne, has been trying to get me to say</p> <p>16 that Hydro is really not like an investor-</p> <p>17 owned utility. The only point we're making,</p> <p>18 with respect to return on equity, is that the</p> <p>19 dollars employed in our business at risk, by</p> <p>20 the shareholder, are no different than the</p> <p>21 dollars employed by say Newfoundland Power,</p> <p>22 and since the Commissioners have already</p> <p>23 determined what the risk is for Newfoundland</p> <p>24 Power, we didn't want to argue with you any</p> <p>25 more about it, and that's why there's a phrase</p>	<p>1 in my evidence or the corporate evidence that</p> <p>2 says to expedite this issue, let's give up on</p> <p>3 it, recognize that there's a dollar out there</p> <p>4 in poles and equipment and everything else,</p> <p>5 and talk about an appropriate return on</p> <p>6 equity.</p> <p>7 Q. So would you see a plan such as the rate</p> <p>8 stabilization plan, would someone like</p> <p>9 Newfoundland Power take that over and leave</p> <p>10 that on its books for four or five years, 140-</p> <p>11 160 million dollars owing for the period of</p> <p>12 time, or is it only a government-owned utility</p> <p>13 that could effectively do that?</p> <p>14 A. You've got to--Commissioners, I'm sure, are</p> <p>15 quite aware that nobody ever planned, when the</p> <p>16 rate stabilization plan was brought into being</p> <p>17 to help reduce volatility of consumers' bills,</p> <p>18 that we were ever going to have the kind of</p> <p>19 balances that are there now and that is,</p> <p>20 indeed, a major risk for Hydro as of this</p> <p>21 moment. But it was never a risk that anybody</p> <p>22 willingly entered into, nor was anybody forced</p> <p>23 into it. It's circumstances, and that's where</p> <p>24 there sort of got to be a coming together of</p> <p>25 everybody in this room and the Commissioners</p>
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<p>1 and all Newfoundlanders and Labradorians, on</p> <p>2 what it costs to get electricity on this</p> <p>3 island, and unfortunately, we have to burn</p> <p>4 fuel, 3.7 million barrels in 2002 at Holyrood,</p> <p>5 at a cost well in excess of what we had</p> <p>6 forecast would be in the rates, and we have to</p> <p>7 live with the consequence, and I thought the</p> <p>8 Board made a great decision in going to the</p> <p>9 \$26-a-barrel fuel, and we thought then the</p> <p>10 rate stabilization plan bell curve would work,</p> <p>11 that we'd owe customers, customers owed us,</p> <p>12 bills would be stable, nobody hurt. And</p> <p>13 through no fault of anybody, we--you know,</p> <p>14 when Holyrood is operating flat out, as it did</p> <p>15 most of last winter, we'd burn a barrel of oil</p> <p>16 every 4.8 seconds. We spent \$600,000 a day on</p> <p>17 fuel. And if we didn't do it, things would be</p> <p>18 kind of cold and dark on the Island</p> <p>19 Interconnected System. So it's nobody's</p> <p>20 fault. It's no time for recrimination. It's</p> <p>21 just a recognition that this is how we set up</p> <p>22 the system and we don't have a way to get the</p> <p>23 price of fuel and rates closer to the defacto</p> <p>24 price, and you've already expressed your</p> <p>25 concerns about that.</p>	<p>1 But in terms of business risk, for the</p> <p>2 moment, and until we recover the money, as</p> <p>3 directed by the Board, we're at risk on that</p> <p>4 money out there, and it's much bigger than we</p> <p>5 contemplated or, I'm sure, the Board ever</p> <p>6 contemplated, and it's just them's the breaks.</p> <p>7 Q. My question was, would a private investor have</p> <p>8 that risk for such a length of time as you</p> <p>9 have and have that sitting on its books?</p> <p>10 A. If we had a rate stabilization plan in</p> <p>11 Newfoundland, as we have it now, and let's say</p> <p>12 it was part of the structure with private</p> <p>13 investors and there was no Crown corporation,</p> <p>14 the exact same thing could have occurred and</p> <p>15 they would be concerned about getting the</p> <p>16 money back and reducing the risk. But the way</p> <p>17 the plan was designed was to reduce the</p> <p>18 volatility and you're allowed on that debt</p> <p>19 that's owing, a return in terms of interest</p> <p>20 cost, so as long as the thing doesn't get out</p> <p>21 of whack either way, everybody would be happy.</p> <p>22 And I could see private enterprise</p> <p>23 encountering something like a rate</p> <p>24 stabilization plan in the interests of their</p> <p>25 customers to reduce the volatility in power</p>

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<p>1 MR. WELLS:</p> <p>2 rates, you know, that's not unusual in other</p> <p>3 jurisdictions, derivatives or something like</p> <p>4 it or fuel adjustment charges or things like</p> <p>5 that. So there's nothing about the rate</p> <p>6 stabilization plan that makes it unique to a</p> <p>7 Crown corporation. It's just the way we</p> <p>8 wanted to handle the issue of volatile fuel</p> <p>9 prices in this area.</p> <p>10 Q. Do you know of any other jurisdiction in the</p> <p>11 country that has a rate stabilization plan or</p> <p>12 a fuel adjustment charge that is not rectified</p> <p>13 or adjusted at the end of the 12-month period?</p> <p>14 A. I can't think of one this morning, there may</p> <p>15 be, but personally I don't know if there is or</p> <p>16 is not, no.</p> <p>17 Q. In terms of that rate stabilization plan, we</p> <p>18 were here two years ago and Hydro suggested to</p> <p>19 book in a price of a barrel of oil, I think at</p> <p>20 the time of \$20.00 a barrel, which was below</p> <p>21 what the forecaster said it ought to be booked</p> <p>22 in at. The Board, for its own reasons, booked</p> <p>23 it in at \$26.00, I believe, and I believe that</p> <p>24 was below what the forecaster said it was at.</p> <p>25 It didn't work, it hadn't worked up to that</p>	<p>1 point, two years ago. We were already in hawk</p> <p>2 a good bit from the previous concoctions of</p> <p>3 the rate stabilization plan. What is Hydro</p> <p>4 proposing now for a rate stabilization plan</p> <p>5 that does work?</p> <p>6 A. With respect on that point, you said a number</p> <p>7 of things, but the rate stabilization plan, up</p> <p>8 to about 18 months before we had filed our</p> <p>9 last rate application, had worked one would</p> <p>10 have to say from the period 1989 for--</p> <p>11 extremely well. At one point within a two-</p> <p>12 year span prior to our rate application, we</p> <p>13 were actually reducing the outstanding</p> <p>14 balance. For the first time the price of fuel</p> <p>15 had gone below 1250. If there was an error</p> <p>16 made, if one could say is an error, but in</p> <p>17 hindsight, is that maybe the price of fuel</p> <p>18 should have been adjusted or set at higher</p> <p>19 than 1250 in Hydro's rates initially and in</p> <p>20 hindsight, I can say that perhaps Hydro should</p> <p>21 have come back to get an adjustment in the</p> <p>22 rates, but we're only human and when we looked</p> <p>23 at what was happening and the outstanding</p> <p>24 balance would go a little over to this side</p> <p>25 and then it would swing back a bit, and the</p>
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<p>1 Board had set a guideline of \$50,000,000.00</p> <p>2 cap, you know, for Newfoundland Power, and we</p> <p>3 were not looking to increase consumer rates.</p> <p>4 For this whole period of time, the thing, by</p> <p>5 and large, worked. It's only the most recent</p> <p>6 experience, I mean, what's gone wrong or where</p> <p>7 we are having problems now, everyone, is that</p> <p>8 the price of fuel has been highly volatile and</p> <p>9 highly volatile to the high side of any of the</p> <p>10 projections by people that are involved in the</p> <p>11 business of projecting fuel prices. And I</p> <p>12 think many of us accept what's going on in the</p> <p>13 world as why this is happening. But we have,</p> <p>14 in this particular Application, not said to</p> <p>15 dispense with the rate stabilization plan.</p> <p>16 It's a lesser of evils, but the rate</p> <p>17 stabilization plan to the extent that one can</p> <p>18 get the price of fuel, within that bell curve,</p> <p>19 in a right range, and I think the</p> <p>20 Commissioners are moving towards that, and</p> <p>21 we're suggesting a further move, that we might</p> <p>22 crawl through this knot hole. But things are</p> <p>23 not going to be good. The alternative, though</p> <p>24 that you suggest, Mr. Browne, is that</p> <p>25 consumers pay up and pay up now. And I don't</p>	<p>1 know, you know, that's a rough sort of justice</p> <p>2 and you accomplish the price signal, but I</p> <p>3 mean, I shouldn't be adverse to that. Get me</p> <p>4 my money sooner. But I think that if we see</p> <p>5 how events unfold, move the price up as we</p> <p>6 suggest, maybe have some mechanism to deal</p> <p>7 with the issue of trying to keep the price</p> <p>8 around the mean, the price and rates around</p> <p>9 the mean, that this can still be of benefit to</p> <p>10 consumers and not put Hydro at an undue risk.</p> <p>11 Q. Isn't it true that the only ones at risk in</p> <p>12 reference to the rate stabilization plan are</p> <p>13 neither Hydro, nor Newfoundland Power, but</p> <p>14 rather the consumers of the province because</p> <p>15 you're here looking for them to pay now the</p> <p>16 120 million or if it were 200 million, you'd</p> <p>17 be here looking for them to pay that, as well.</p> <p>18 And isn't the basic unfairness of it that</p> <p>19 consumers were not informed prior to turning</p> <p>20 up their heat a notch last winter and the</p> <p>21 winter before, that this is going to be costly</p> <p>22 heat that you have there. And indeed,</p> <p>23 consumers were not informed by neither</p> <p>24 yourselves or Newfoundland Power that it might</p> <p>25 be appropriate for people to put on a sweater</p>



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<p>1 BROWNE, Q.C.:</p> <p>2 and turn it down a bit to save money. Isn't</p> <p>3 it true that we're the only ones at risk and</p> <p>4 we're the only ones who paid and we're the</p> <p>5 only ones who weren't informed?</p> <p>6 A. I think that the tenor of those remarks are</p> <p>7 wrong on a number of counts. First of all</p> <p>8 with respect to risk to consumers, had there</p> <p>9 been no rate stabilization plan, consumers</p> <p>10 would have paid the price of fuel, you know,</p> <p>11 within the month say after the expense was</p> <p>12 incurred. It would be like paying off your</p> <p>13 house without having the benefit of a mortgage</p> <p>14 whatsoever. How many housing starts would we</p> <p>15 have with no mortgages? The issue is not the</p> <p>16 matter of risk, the system itself dictates the</p> <p>17 risk that we're dependant on a price for fuel</p> <p>18 that we can't control. Nothing untoward</p> <p>19 happened with consumers with respect to that.</p> <p>20 They were not at risk in the sense that the</p> <p>21 rate stabilization plan caused their</p> <p>22 electricity rates to go up. What caused their</p> <p>23 rates to go up was the price of fuel and fuel</p> <p>24 that was legitimately spent to get them their</p> <p>25 electricity in the first place. So they're</p>	<p>1 not prejudiced any more than you have oil</p> <p>2 fired heating in your home, you paid, you</p> <p>3 didn't have the benefit of a rate</p> <p>4 stabilization plan.</p> <p>5 (1:00 p.m.)</p> <p>6 To say that consumers were not aware, Mr.</p> <p>7 Browne, your second point, I mean, did we not</p> <p>8 all hear you at the last rate application</p> <p>9 publicly, as you have a want to do, talk at</p> <p>10 length about the rate stabilization plan and</p> <p>11 the effect on consumers? This was all over</p> <p>12 the news. We discussed this and whether it</p> <p>13 sinks in with consumers or even in our type of</p> <p>14 society today, you know, that may help me down</p> <p>15 the road, but if you're building a new house</p> <p>16 and you're trying to get in, you've got all</p> <p>17 the problems of furniture, mortgage, a young</p> <p>18 family and all that side of stuff, and</p> <p>19 electric heat is cheaper to start off this</p> <p>20 month and therefore, you can afford a</p> <p>21 downpayment on a T.V., instead of the extra</p> <p>22 money for putting oil in a house, all of these</p> <p>23 things play into it. So it's really, it's</p> <p>24 really, I don't think, of any real substance</p> <p>25 to help the commission on points like that</p>
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<p>1 that somehow some--that consumers would be</p> <p>2 prejudice because they didn't have to pay</p> <p>3 their bill immediately. It certainly wasn't</p> <p>4 done with any ill intent by the Board that</p> <p>5 introduced the plan or the company that</p> <p>6 proposed it, and everybody else who accepted</p> <p>7 it. You know, we're barking up the wrong tree</p> <p>8 on this one. What we have to try to do is to</p> <p>9 get it to work, or some other means. I mean,</p> <p>10 we've proposed what we think is probably the</p> <p>11 most equitable solution at this time for rate</p> <p>12 payers and for Hydro and for everybody</p> <p>13 involved. We're not, if there were a better</p> <p>14 system, some other way to do it and deal with</p> <p>15 fuel prices and reduce the volatility, we're</p> <p>16 all for it. But, you know, unless there is</p> <p>17 some degree of predictability and there won't</p> <p>18 be with respect to fuel prices, and it doesn't</p> <p>19 look like, while I'm here now, it doesn't look</p> <p>20 like they're going down. I mean, we're not</p> <p>21 going to see \$20.00 barrel of fuel by, you</p> <p>22 know, if we did, then this plan would very</p> <p>23 effectively ease that all out and get back in</p> <p>24 equilibrium again, but it doesn't look that</p> <p>25 way.</p>	<p>1 Q. You mention in your response that people who</p> <p>2 heat their homes with oil, people who heat</p> <p>3 their homes with oil pay as they go or they're</p> <p>4 on a 12-month equal payment plan or something</p> <p>5 similar, I guess. How is it that people--and</p> <p>6 therefore, they are conscious, I guess, of the</p> <p>7 price of oil as it changes and can do</p> <p>8 something about it to conserve, how is it</p> <p>9 people who heat their homes with electricity</p> <p>10 can't have that benefit, the benefit of</p> <p>11 conserving during the winter months, knowing</p> <p>12 full well that this is expensive heat that we</p> <p>13 have here?</p> <p>14 A. We have absolutely no evidence in this</p> <p>15 proceeding to know whether they do or don't.</p> <p>16 People are conscious of their own costs and</p> <p>17 the electricity and the utility bills are a</p> <p>18 monthly fact of life today. There's no</p> <p>19 evidence that people have not adjusted their</p> <p>20 habits with respect to the consumption of</p> <p>21 electricity and cut back their thermostats.</p> <p>22 You know, that's conjecture.</p> <p>23 Q. You haven't seen the statistics which suggest</p> <p>24 that the consumption is actually up in this</p> <p>25 province for -</p>

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<p>1 MR. WELLS:</p> <p>2 A. No, the consumption over, but if there are new</p> <p>3 houses, what we're talking about is the</p> <p>4 increase in demand, because of a multiplicity</p> <p>5 of new homes, what's going on in each</p> <p>6 individual home is a good question. I am sure</p> <p>7 that there are a lot of people in homes today</p> <p>8 with electric heat that are quite conscious of</p> <p>9 the fact that at the end of the month they</p> <p>10 have to pay a bill. And, you know, what more</p> <p>11 can one say about that?</p> <p>12 Q. So is the Company adverse to a 12-month plan</p> <p>13 whereby the price of oil burnt at Holyrood is</p> <p>14 built into consumer's rates based on a 12-</p> <p>15 month projection? Are you adverse to that?</p> <p>16 A. I think at this stage in this proceeding that</p> <p>17 we're not adverse to exploring with anybody a</p> <p>18 way to enhance the situation for all</p> <p>19 concerned. And if it's to the betterment of</p> <p>20 the consumers, I mean, all of this was put in,</p> <p>21 as I understand it in the first place, for the</p> <p>22 benefit of the customers, benefit of the</p> <p>23 consumers of electricity. It didn't come in</p> <p>24 for any other reason. And if it's not thought</p> <p>25 to be a benefit to consumers and there's a way</p>	<p>1 to solve the problem at a better solution,</p> <p>2 then Hydro is not going to be an impediment to</p> <p>3 the achievement of a better solution if we</p> <p>4 could come up with one.</p> <p>5 Q. So you're open to that possibility?</p> <p>6 A. We're certainly open to discussion.</p> <p>7 Q. In terms of the interest that's attracted to</p> <p>8 that plan, the \$120,000,000.00 that's owed and</p> <p>9 the other 40,000,000.00 by Industrials, I</p> <p>10 think it is, the last time I looked. I may be</p> <p>11 corrected on that. What interest rate accrues</p> <p>12 on that and who pays the interest on that?</p> <p>13 A. Consumers, the customers pay the interest</p> <p>14 outstanding and reimburse us, in effect, for</p> <p>15 the interest costs. Because we've already</p> <p>16 borrowed the money and bought the oil and we</p> <p>17 recover the balance as outstanding in the</p> <p>18 plan, plus interest.</p> <p>19 Q. So ultimately you know you can always go to</p> <p>20 the Board to get the bill paid by the</p> <p>21 consumers of the province, including your</p> <p>22 interest in reference to this matter?</p> <p>23 A. We, again, you know, you can't paint a picture</p> <p>24 of this other than what it is, and we bought</p> <p>25 the oil, we provided the electricity to</p>
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<p>1 consumers. We didn't collect the total bill</p> <p>2 related to the cost of producing that</p> <p>3 electricity, so we have an outstanding account</p> <p>4 on which we collect interest. But we have</p> <p>5 also, you have to understand, spent the</p> <p>6 dollars. We just haven't collected them from</p> <p>7 the consumer.</p> <p>8 Q. Mr. Wells, just moving from that for the time</p> <p>9 being, you state in your evidence on page 29,</p> <p>10 lines 6 to 10, that utility customer results--</p> <p>11 that your proposal will result in utility</p> <p>12 customer rates, comparable to jurisdictions in</p> <p>13 Atlantic Canada. Even if you get your</p> <p>14 increase, they still would be comparable.</p> <p>15 What do you mean by "comparable"?</p> <p>16 A. Well, our rates, I was going to say</p> <p>17 traditionally, but certainly in the most</p> <p>18 recent experience, our rates have been better</p> <p>19 than, you know, better than the rates in</p> <p>20 Atlantic Canada, both for our Industrial</p> <p>21 customers and our own customers and wholesale.</p> <p>22 At the present time, if as we propose our</p> <p>23 Application is accepted, and our rates will</p> <p>24 become effective when the Board determines, we</p> <p>25 know that the Industrial customer's rate is</p>	<p>1 still going to be better than any other</p> <p>2 alternative in Atlantic Canada. We're not</p> <p>3 quite so sure exactly where the rates are</p> <p>4 going with respect to the distributors of</p> <p>5 power and residential customers. I'm sure</p> <p>6 somewhere in all of this evidence there's a</p> <p>7 chart or a table related to that, but we're</p> <p>8 competitive and I would expect by the end of</p> <p>9 2004, that we will probably--if we're not</p> <p>10 equal to, we're going to be less than the</p> <p>11 rates in other jurisdictions in Atlantic</p> <p>12 Canada, regain our former position. I mean,</p> <p>13 one of the strengths of our, so far, despite</p> <p>14 the high cost of fuel, I mean where I can sort</p> <p>15 of get on a pedestal and say that when you</p> <p>16 look at Hydro's rates, since 1992, that by far</p> <p>17 the biggest impact on any increase we've</p> <p>18 encountered or are going to encounter relates</p> <p>19 to the cost of fuel and that rates have been</p> <p>20 very stable and secure up to now. Now we're</p> <p>21 getting, you know, we haven't had a new source</p> <p>22 of supply come on stream since Paradise River.</p> <p>23 So when you have to go and get more sources of</p> <p>24 power, that has to be paid for. And</p> <p>25 unfortunately, we have to pay whatever the</p>

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<p>1 MR. WELLS:</p> <p>2 going price is for fuel. This is</p> <p>3 predominantly--and I know you'll have at me on</p> <p>4 our own costs and that's fair ball, but this</p> <p>5 is predominantly the issue for our Industrial</p> <p>6 customers, what facts are affecting the rates</p> <p>7 for electricity in Newfoundland. And if you</p> <p>8 take out the total effect of the fuel</p> <p>9 component, our rates and indeed during our</p> <p>10 last rate application, our Industrial</p> <p>11 customers had the benefit of declining costs</p> <p>12 over the period, in terms of their</p> <p>13 electricity. So, you know, it's a fact. You</p> <p>14 can check it out, but even with these</p> <p>15 increases that people, depending upon who you</p> <p>16 are, paint, and we say they're significant,</p> <p>17 but as significant as they are, as significant</p> <p>18 as the impact is for the rate stabilization</p> <p>19 plan balances, our industrial rates are still</p> <p>20 going to be better than any other place in</p> <p>21 Atlantic Canada. And our other rates are</p> <p>22 going to be very competitive, if not better,</p> <p>23 than other rates in Atlantic Canada.</p> <p>24 Q. Well, let's just take that for a moment.</p> <p>25 You're a member of the Board of Directors of</p>	<p>1 the Canadian Electricity Association, the</p> <p>2 Energy Council of Canada, in the province of</p> <p>3 Nova Scotia, what is the primary form of</p> <p>4 generation there?</p> <p>5 A. The primary form of generation, they had the</p> <p>6 predominant--coal was--they'd be switching</p> <p>7 over to natural gas as it would become</p> <p>8 available within certainly one of their main</p> <p>9 plants. I'm not familiar with precisely how</p> <p>10 far they've gone with the conversions, but -</p> <p>11 Q. But it's not hydrology?</p> <p>12 A. It's not hydrology, no.</p> <p>13 Q. Now, in the province of New Brunswick, what is</p> <p>14 the primary form of generation there?</p> <p>15 A. Thermal hydraulic and atomic energy that makes</p> <p>16 -</p> <p>17 Q. And in the province of Prince Edward Island.?</p> <p>18 A. Very little opportunity, they get most of</p> <p>19 their power from New Brunswick Power.</p> <p>20 Q. And traditionally, what is supposed to be the</p> <p>21 cheapest or the least expensive form of</p> <p>22 generation, is it not hydrology?</p> <p>23 A. Depending on the site and the circumstances,</p> <p>24 yes, Hydro will offer, in the long term, it's</p> <p>25 more capital intensive to start, but in the</p>
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<p>1 long term, Hydro should produce a better</p> <p>2 result. But it also depends on the sites that</p> <p>3 are available to you. Our biggest benefit in</p> <p>4 that regard has been Bay D'Espoir where you</p> <p>5 need a significant amount of water on top of a</p> <p>6 height. And to the extent that that's</p> <p>7 available to you, you can get some good</p> <p>8 results.</p> <p>9 Q. So, when you compare these other provinces who</p> <p>10 have different forms of generation to this</p> <p>11 province which has up to 70 percent, on</p> <p>12 occasion, hydrology, is that really a fair</p> <p>13 comparison when you're comparing the rates</p> <p>14 they have with ours? Shouldn't ours be</p> <p>15 cheaper anyway?</p> <p>16 A. They were and the issue you have to look at is</p> <p>17 in terms of the competitiveness because it</p> <p>18 affects the economy of the different</p> <p>19 provinces. What we are representing here,</p> <p>20 that is in Newfoundland and Labrador, relative</p> <p>21 to the other provinces in Atlantic Canada, we</p> <p>22 are better off and have been better off</p> <p>23 because of circumstance. And the only fly in</p> <p>24 the ointment has been our dependence for the</p> <p>25 amount of energy that we have to get into the</p>	<p>1 system and through oil purchases and then we</p> <p>2 lose our advantages that we had. But the</p> <p>3 point being is that through circumstance, are</p> <p>4 the citizens of Newfoundland and Labrador</p> <p>5 behind the eight ball when it comes to their</p> <p>6 electricity prices? And they have not been</p> <p>7 and indeed, they are not compared to Atlantic-</p> <p>8 -Canadian jurisdictions. Now, in other</p> <p>9 jurisdictions, they have far more advantages</p> <p>10 other than just straight comparison of hydro</p> <p>11 power. We have a very large territory; we</p> <p>12 operate from McCallum to Nain in Hydro. We</p> <p>13 operate isolated diesel systems. The biggest</p> <p>14 story we could have to tell is that there's</p> <p>15 21,000 customers we have on the island</p> <p>16 interconnected system which are classified as</p> <p>17 rural. Do you know they're in 180</p> <p>18 communities, we got 21,000 customers? The</p> <p>19 cost of serving in Newfoundland and the</p> <p>20 climate and the conditions and the fact that</p> <p>21 we have no interconnections, are totally on</p> <p>22 our own, we had done exceedingly well. But</p> <p>23 what we have to be is intelligent enough to</p> <p>24 understand the facts of our circumstances.</p> <p>25 Like, that's why I came here this morning and</p>

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<p>1 MR. WELLS:</p> <p>2 I say in conclusion to the Board in the</p> <p>3 opening direct evidence, that we believe what</p> <p>4 we're proposing with respect to cost to be</p> <p>5 incorporated into our rates are costs that are</p> <p>6 prudent, necessary and the best achievable to</p> <p>7 meet the requirements of the system. Now in</p> <p>8 other times, in other circumstance or some</p> <p>9 other place, you might be able to do better,</p> <p>10 but you know, our claim here is that we have</p> <p>11 done as best as one could to take advantage of</p> <p>12 even the fuel that we have to burn to get the</p> <p>13 electricity produced, you know, in the most</p> <p>14 effective way you could do it.</p> <p>15 (1:15 p.m.)</p> <p>16 The biggest story that we have had on the</p> <p>17 Holyrood thermal plant, since 1996, one of the</p> <p>18 best decisions we ever made, when we got into</p> <p>19 that partnering thing and we took the</p> <p>20 capability factor of Holyrood from 40 to 27</p> <p>21 percent. Big story. That's something that</p> <p>22 all Hydro people, and especially those</p> <p>23 directly involved, could be proud of. So</p> <p>24 everything is relative, and in our</p> <p>25 circumstances, we're doing very well, and the</p>	<p>1 issue is going forward, you know, what are our</p> <p>2 opportunities to meet the electrical</p> <p>3 requirements.</p> <p>4 Q. You mentioned just in your evidence there,</p> <p>5 something I was going to get into later,</p> <p>6 concerning your involvement in how many</p> <p>7 communities, a hundred and -</p> <p>8 A. I think it's 180.</p> <p>9 Q. 180 communities.</p> <p>10 A. Roughly for 21,000 customers. It gets worse</p> <p>11 on the Island Isolated. Eight communities for</p> <p>12 1,000 customers.</p> <p>13 Q. Down in the Burin Peninsula, you service some</p> <p>14 customers there in several communities, is</p> <p>15 that not correct?</p> <p>16 A. Yes, that is correct.</p> <p>17 Q. You have the customers, but who in fact</p> <p>18 services those customers?</p> <p>19 A. You mean supplies the electricity?</p> <p>20 Q. No. Yes, who is the servicing agent down</p> <p>21 there? Is it not Newfoundland Power?</p> <p>22 A. Are you talking about Monkstown and Paradise</p> <p>23 River?</p> <p>24 Q. Yes. There's an isolated--I just noticed,</p> <p>25 there's an isolated area that you have there</p>
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<p>1 that are separate and apart, and I think you</p> <p>2 only have a person reading meters there part</p> <p>3 time, but anyway they have to be serviced has</p> <p>4 to come from Newfoundland Power. Do you know</p> <p>5 anything about that particular issue?</p> <p>6 A. I've had no discussion with anybody on that</p> <p>7 particular. That may very well be the case.</p> <p>8 It would make some sense, but you should ask</p> <p>9 Mr. Haynes, not Mr. Haynes, Mr. Martin about</p> <p>10 that. I'm accepting what you're saying, but I</p> <p>11 mean, with all the things on my plate -</p> <p>12 Q. Okay.</p> <p>13 A. - that servicing of Monkstown is not the--but</p> <p>14 it would make some sense that they could spare</p> <p>15 a lineman or two on occasion.</p> <p>16 Q. Okay. I'll come back to that then with a</p> <p>17 person who can speak to it. On page 15 of</p> <p>18 your evidence, lines 6 to 10, you make</p> <p>19 reference to your mature workforce. You say</p> <p>20 the average age is 45 and approximately 25</p> <p>21 percent of the employees will be eligible for</p> <p>22 retirement over the next five years. And you</p> <p>23 make that statement in the same paragraph in</p> <p>24 which you talk about reducing your workforce</p> <p>25 by approximately 21 percent since 1992. Are</p>	<p>1 you suggesting that once the 25 percent of</p> <p>2 employees are eligible for retirement over the</p> <p>3 next five years that they will not be</p> <p>4 replaced?</p> <p>5 Q. No, I certainly am not. It's just giving the</p> <p>6 demographics of our workforce and the issue</p> <p>7 how predominant an issue human resources are</p> <p>8 within Hydro, in terms of assuring that we</p> <p>9 have the right skills and the right number of</p> <p>10 people to do the job, and as we keep</p> <p>11 emphasizing, we're constantly reviewing</p> <p>12 everything we do, and over the years, in an</p> <p>13 effort to ensure that we're not contributing</p> <p>14 to consumer costs unnecessarily, we have</p> <p>15 changed and altered components of jobs and</p> <p>16 been able to reduce our workforce by the 21</p> <p>17 percent, but you should note in our evidence</p> <p>18 that we also talk about creating 56 new</p> <p>19 positions. So this is not just a dynamic of</p> <p>20 there's people, get rid of them. This whole</p> <p>21 thing within Hydro, especially as we get the</p> <p>22 technology that's available to us now, allows</p> <p>23 us to go through all our processes and by</p> <p>24 reorganization, reinventing, creating new</p> <p>25 positions, getting rid of--but the net effect</p>

<p style="text-align: right;">Page 145</p> <p>1 MR. WELLS:</p> <p>2 has been good. The challenge, I think, that</p> <p>3 we're referring to with respect to our average</p> <p>4 age is that we have to be in a position to</p> <p>5 have competitive wage rates and to attract the</p> <p>6 skills and the people that we need to carry on</p> <p>7 over into the future. We will still be</p> <p>8 seeking to be as efficient as possible and in</p> <p>9 time, we may have less in total working. As</p> <p>10 we review everything and take advantage of</p> <p>11 technology, innovate, whatever can be done to</p> <p>12 keep the costs that we have some influence on</p> <p>13 to a minimum.</p> <p>14 Q. Do you have any ongoing discussions with</p> <p>15 Newfoundland Power in reference to finding</p> <p>16 ways to deal with duplications in the system</p> <p>17 and to bring about more efficiencies in the</p> <p>18 system for the benefit of consumers generally</p> <p>19 on the island portion of the service?</p> <p>20 A. We've had discussions and results have been</p> <p>21 filed in the evidence pre-filed, if that's</p> <p>22 what you're referring to.</p> <p>23 Q. Yes, and I'm just wondering where we are with</p> <p>24 it. Is it over and done?</p> <p>25 A. Well, the results are set out in the evidence</p>	<p style="text-align: right;">Page 146</p> <p>1 of the discussions with Newfoundland Power at</p> <p>2 various times, and we have discussions ongoing</p> <p>3 with respect to system reliability and</p> <p>4 operations, operational issues, all the time,</p> <p>5 and we review a variety of things that we've</p> <p>6 talked about and it's expressed in the</p> <p>7 evidence, the metering, exchange of equipment,</p> <p>8 things like that.</p> <p>9 Q. Mr. Wells, we're getting close to 1:30, which</p> <p>10 is the time, I think, this is supposed to end.</p> <p>11 I think I'm just about through with you. I</p> <p>12 just want to review my notes overnight and can</p> <p>13 we continue in the morning, Mr. Chairman?</p> <p>14 CHAIRMAN:</p> <p>15 Q. Sure.</p> <p>16 BROWNE, Q.C.:</p> <p>17 Q. Thank you. Thank you, Mr. Wells.</p> <p>18 CHAIRMAN:</p> <p>19 Q. Thank you, Mr. Wells. Thank you, Mr. Browne.</p> <p>20 This brings to a conclusion, I guess, the</p> <p>21 first day of this public hearing, and I'm sure</p> <p>22 there's probably some of you perhaps, much to</p> <p>23 your chagrin, will be here day after day.</p> <p>24 There's others perhaps who will only be here</p> <p>25 today. I notice there's been a good deal of</p>
<p style="text-align: right;">Page 147</p> <p>1 interest from the Industrial Customers and</p> <p>2 certainly we appreciate that interest. And</p> <p>3 the media, I know, has been here most of the</p> <p>4 morning as well. So thank you for that. And</p> <p>5 we'll reconvene at 9:00 tomorrow morning.</p>	<p style="text-align: right;">Page 148</p> <p>1 CERTIFICATE</p> <p>2 I, Judy Moss Lauzon, hereby certify that the</p> <p>3 foregoing is a true and correct transcript in the</p> <p>4 matter of Newfoundland and Labrador Hydro's 2003</p> <p>5 General Rate Application for approval of, among</p> <p>6 other things, its rates commencing January , 2004,</p> <p>7 heard on the 6th day of October, A.D., 2003 before</p> <p>8 the Board of Commissioners of Public Utilities,</p> <p>9 Prince Charles Building, St. John's, Newfoundland</p> <p>10 and Labrador and was transcribed by me to the best</p> <p>11 of my ability by means of a sound apparatus.</p> <p>12 Dated at St. John's, Newfoundland and Labrador</p> <p>13 this 6th day of October, A.D., 2003</p> <p>14 Judy Moss Lauzon</p>