

Page 1	Page 2
<p>1 (10:03 A.M.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. Good morning. I guess winter has finally hit</p> <p>4 us, by the looks of it outside. I'd like to</p> <p>5 welcome, indeed, everybody here this morning</p> <p>6 for the beginning of this public hearing into</p> <p>7 what is now Newfoundland and Labrador Hydro's</p> <p>8 Revised 2006 General Rate Application, and to</p> <p>9 all the participants, including the applicant,</p> <p>10 intervenors, the respective counsels and their</p> <p>11 support staff, along with any members of the</p> <p>12 public or media that are here, I extend to</p> <p>13 each of you a warm welcome and I look forward</p> <p>14 to a productive and indeed, fair public</p> <p>15 hearing.</p> <p>16 My name is Robert Noseworthy and I am</p> <p>17 Chair and CEO of the Public Utilities Board,</p> <p>18 and for this hearing, I will serve as Chair of</p> <p>19 the Panel of two, which has been delegated</p> <p>20 with the responsibility to hear this</p> <p>21 particular application by Hydro, and my</p> <p>22 colleague joining me on the panel is</p> <p>23 Commissioner Darlene Whalen and Darlene is</p> <p>24 also Vice-Chair of the Board. I'd also like</p> <p>25 to introduce, on my far left, the Board's</p>	<p>1 secretary, Ms. Cheryl Blundon, and next to</p> <p>2 Cheryl is Ms. Dwanda Newman, who is the Board</p> <p>3 counsel.</p> <p>4 I'd ask, at this point, if persons seated</p> <p>5 at the tables representing the applicant and</p> <p>6 each of the registered intervenors to please</p> <p>7 introduce yourself and indicate in what</p> <p>8 capacity you are participating in the hearing,</p> <p>9 and each counsel will be given the opportunity</p> <p>10 to make an opening statement later. So here</p> <p>11 I'm just seeking, for the purposes of record,</p> <p>12 an introduction of who's who essentially,</p> <p>13 beginning with Hydro, if you would.</p> <p>14 MR. YOUNG:</p> <p>15 Q. Good morning, Chair, Vice-Chair. My name is</p> <p>16 Geoff Young. I'm counsel for Hydro. With me</p> <p>17 this morning is Ms. Gillian Butler, who will</p> <p>18 be counsel also in this GRA.</p> <p>19 CHAIRMAN:</p> <p>20 Q. Thank you. Consumer Advocate.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. Good morning, Mr. Chairman, Commissioner</p> <p>23 Whalen. Tom Johnson, the consumer advocate in</p> <p>24 these proceedings. With me is Stephen</p> <p>25 Willar, with whom you are familiar from past</p>
Page 3	Page 4
<p>1 hearings here. So, pleased to be here this</p> <p>2 morning.</p> <p>3 CHAIRMAN:</p> <p>4 Q. Thank you. Industrial Customers.</p> <p>5 HUTCHINGS, Q.C.:</p> <p>6 Q. Thank you, Mr. Chairman. Joseph Hutchings,</p> <p>7 and with me, as previously, Paul Coxworthy,</p> <p>8 representing the Industrial Customers of</p> <p>9 Newfoundland and Labrador Hydro. We're Corner</p> <p>10 Brook Pulp and Paper, Abitibi Consolidated</p> <p>11 Grand Falls, Voisey's Bay Nickel Company,</p> <p>12 North Atlantic Refining, and a new edition,</p> <p>13 Aur Resources, and present in the room with us</p> <p>14 today is Mr. David McDonald, who is the Chair</p> <p>15 of the Industrial Group at this time.</p> <p>16 CHAIRMAN:</p> <p>17 Q. Good morning. Newfoundland Power, please.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. Good morning, Chair, Vice-Chair. Ian Kelly,</p> <p>20 and with me, Gerard Hayes as counsel for</p> <p>21 Newfoundland Power, and also present in the</p> <p>22 room is Mr. Lorne Henderson, Director of</p> <p>23 Regulatory Affairs for the company.</p> <p>24 CHAIRMAN:</p> <p>25 Q. Thank you very much. I think pretty well</p>	<p>1 everybody is familiar with one another, and</p> <p>2 you're familiar with us, we're familiar with</p> <p>3 you and I look forward to working with you</p> <p>4 throughout the course of the hearing.</p> <p>5 For those of you in attendance this</p> <p>6 morning who may not be familiar with the role</p> <p>7 of the Public Utilities Board, and with the</p> <p>8 indulgence indeed of those who are, I will</p> <p>9 take a brief moment to outline this role, for</p> <p>10 those perhaps who are not quite familiar with</p> <p>11 the process and what we do.</p> <p>12 The Board derives its authority to</p> <p>13 conduct this hearing from Provincial statutes</p> <p>14 and legislation, primarily the Public</p> <p>15 Utilities Act and the Electrical Power Control</p> <p>16 Act. The Board has an obligation under this</p> <p>17 legislation to regulate electric utilities</p> <p>18 operating in the Province and this includes</p> <p>19 Hydro. The panel, which I just introduced,</p> <p>20 has been charged with the responsibility to</p> <p>21 hear the application and in accordance with</p> <p>22 our legislative responsibilities, we have a</p> <p>23 duty to hear the evidence presented by the</p> <p>24 applicant, Hydro, intervenors and other</p> <p>25 interested parties, and at the end of the</p>

Page 5	Page 6
<p>1 process, render a fair and equitable decision 2 on the application itself.</p> <p>3 The statutes require the Board to make 4 decisions that are reasonable and just and not 5 discriminatory. The legislation requires that 6 the utility be allowed to earn a just and 7 reasonable financial return. The legislation 8 also dictates that the power be delivered to 9 customers in the province at the lowest 10 possible cost, while ensuring safe and 11 reliable service. In fulfilling its statutory 12 responsibilities, the Board must protect the 13 interests of all parties, including producers, 14 retailers and consumers of electricity. In 15 doing this, it must also be sensitive and 16 strive to balance the interests of each class 17 of consumer, whether they be households, small 18 businesses, industries, whether modest or 19 large users of electricity.</p> <p>20 Just to provide a little background, from 21 the Board's perspective, on the receipt of the 22 Application and the process followed to date, 23 and I'll leave the introduction of the 24 application itself to Hydro. The original 25 General Rate Application from Hydro was</p>	<p>1 received by the Board on August the 3rd, 2006. 2 The Board held a pre-hearing conference 3 following on September the 7th to identify 4 registered intervenors and set the procedures 5 and schedule for the public hearing, which was 6 initially slated to begin on November the 1st, 7 2006. In advance of the hearing, the Board 8 requested the parties to engage in a 9 settlement process. The purpose of this 10 settlement process was to challenge the 11 parties to enter into negotiations in order to 12 reach agreement to the extent possible on the 13 myriad of issues contained in Hydro's original 14 application.</p> <p>15 As opposed to addressing each and every 16 issue in this more costly public hearing 17 forum, the objective of the Board was to 18 reduce the number of actual hearing days 19 devoted to hearing the application, thereby 20 reducing costs, streamlining the hearing 21 process itself, and hopefully at the end of 22 the day, contributing to some greater 23 regulatory efficiency. And I'm advised the 24 parties embarked upon this settlement process 25 with a particular zeal and I'm happy to report</p>
Page 7	Page 8
<p>1 the agreement reached far exceeded the initial 2 expectations of the Board.</p> <p>3 The parties submitted the final 4 components of their settlement agreement in 5 November past, and by mid December, Hydro 6 filed its revised GRA, based on these 7 agreements. Shortly following, the Board 8 issued two orders granting interim approval of 9 electricity rates, effective January the 1st, 10 2007, which saw virtually no rate increase for 11 residential customers of either Hydro or 12 Newfoundland Power. Furthermore, Hydro's 13 Industrial Customers received a decrease of 14 13.9 percent, resulting from both the 15 settlement agreement itself, combined with a 16 contribution by Government towards the 17 industrial component of the Rate Stabilization 18 Plan.</p> <p>19 By contrast, Hydro's original general 20 rate application filed in August 2006, which 21 was the focus of the settlement agreement, 22 sought a rate increase for residential 23 customers of between 4.6, up to 20 percent, 24 and for Industrial Customers, a rate increase 25 of 8.1 percent, and Hydro, I understand, will</p>	<p>1 have a presentation later this morning or 2 indeed tomorrow, depending on how it goes, 3 outlining more detail on the scope of this 4 agreement, and I'll have a little bit more to 5 say at that time on the substantive work of 6 the parties in achieving this result.</p> <p>7 We have therefore reached a stage here 8 this morning with a great deal of work 9 accomplished. We now have a revised General 10 Rate Application from Hydro, which is the 11 subject of this particular public hearing, and 12 this application contains the results of the 13 settlement agreement incorporating 14 substantially reduced electricity rates for 15 consumers, which to date have been approved by 16 the Board on an interim basis. This revised 17 application now contains significantly fewer 18 residual issues, which Hydro will be 19 introducing during the course of this public 20 hearing.</p> <p>21 Before concluding, again with the 22 indulgence of most of the people in this room, 23 I'm sure, I'd like to briefly explain what 24 will happen during this public hearing process 25 for those that might not be as familiar.</p>

Page 9	Page 10
<p>1 Over the next several days, each of the</p> <p>2 parties, including the applicant, Hydro, and</p> <p>3 the intervenors will be afforded the</p> <p>4 opportunity in turn to present their case</p> <p>5 before the panel, in the form of direct</p> <p>6 evidence, which will then be the subject of</p> <p>7 cross-examination or questioning by other</p> <p>8 parties, as well as Board counsel, Ms. Newman,</p> <p>9 and also questions from the panel as may be</p> <p>10 appropriate. The hearing involves one of</p> <p>11 presenting, examining and questioning the</p> <p>12 information and evidence filed with the Board</p> <p>13 to ensure that all evidence, examination and</p> <p>14 evaluation needed to support Board decisions</p> <p>15 on rates and other matters contained in the</p> <p>16 application are placed before the panel. The</p> <p>17 entire process will enable the panel to weigh</p> <p>18 the full body of evidence before it, both</p> <p>19 written and oral, in order to arrive at a fair</p> <p>20 and equitable decision that will serve, we</p> <p>21 trust, to balance the interests of all parties</p> <p>22 as required by the legislation.</p> <p>23 This application affects every consumer</p> <p>24 of electricity in the Province, and with this</p> <p>25 in mind, the Board has published notice</p>	<p>1 providing an opportunity for public</p> <p>2 participation by consumers or interested</p> <p>3 organizations wishing to make a presentation,</p> <p>4 either directly before the Board or</p> <p>5 alternatively by way of written comment.</p> <p>6 Persons wishing to appear before the Board</p> <p>7 were requested to contact the Board as of this</p> <p>8 past Friday, January the 19th, to allow for</p> <p>9 appropriate scheduling and travel arrangements</p> <p>10 to be made, as may be necessary, and letters</p> <p>11 of comment may be received by the Board up to</p> <p>12 and including the final day of the public</p> <p>13 hearing, currently scheduled for February the</p> <p>14 1st.</p> <p>15 I'm sure that Mr. Johnson, the Consumer</p> <p>16 Advocate, will also entertain any</p> <p>17 presentations made directly to him up to that</p> <p>18 time as well, I presume, Mr. Johnson.</p> <p>19 These represent the conclusion of my more</p> <p>20 general remarks, and there are a number of</p> <p>21 other items, including some housekeeping</p> <p>22 items, which I'd like to now just briefly</p> <p>23 review.</p> <p>24 In addition to the paper documentation</p> <p>25 filed in relation to this application, which</p>
Page 11	Page 12
<p>1 is located on a couple of trolleys, I think,</p> <p>2 over there by Ms. Blundon, the Board has also</p> <p>3 posted this entire array of documentation on</p> <p>4 its web site. Other documentation which may</p> <p>5 be presented during the hearing, including</p> <p>6 daily transcripts, will also be posted on the</p> <p>7 Board's web site.</p> <p>8 In addition, I'd also like to welcome</p> <p>9 back Mr. Terry O'Reilly, an employee of Hydro,</p> <p>10 who will be assisting during the hearing with</p> <p>11 electronically retrieving the evidence</p> <p>12 referenced by counsels, and this will be</p> <p>13 displayed on the table monitors and the larger</p> <p>14 monitors on the sides of the room, so that</p> <p>15 hopefully everybody in the room will be able</p> <p>16 to follow the evidence. I'd like to thank</p> <p>17 you, Mr. O'Reilly, as well for once again</p> <p>18 agreeing to this assignment. I don't know if</p> <p>19 it's your second or third time, is it?</p> <p>20 MR. O'REILLY:</p> <p>21 Q. I believe it's my third.</p> <p>22 CHAIRMAN:</p> <p>23 Q. Third. So you pulled the short straw again, I</p> <p>24 guess, did you? Anyway, thanks a million.</p> <p>25 The binders you see next to Ms. Blundon</p>	<p>1 contain the official version of the evidence</p> <p>2 for this hearing and these will be used for</p> <p>3 reference purposes, as needed, throughout the</p> <p>4 hearing, in the event the evidence cannot be</p> <p>5 displayed electronically or some discrepancy</p> <p>6 exists between the electronic and the paper</p> <p>7 record.</p> <p>8 (10:15 A.M.)</p> <p>9 Parties who may have concerns or issues</p> <p>10 with creature comforts in this room, be it lay</p> <p>11 out, supplies, files, or records, should bring</p> <p>12 these matters to the attention of Ms. Blundon,</p> <p>13 the Board's secretary, and we'll make every</p> <p>14 effort to assist you in that regard.</p> <p>15 These proceedings are being recorded by</p> <p>16 Discoveries Unlimited, and Mr. Bruce Moss is</p> <p>17 here as the operator, and this is being done</p> <p>18 under the supervision of the Board secretary,</p> <p>19 Ms. Blundon, and will be transcribed</p> <p>20 throughout the afternoon and the evening,</p> <p>21 these proceedings will be. These</p> <p>22 transcriptions will be e-mailed to the parties</p> <p>23 immediate upon completion, with the paper copy</p> <p>24 available by the commencement of the hearing</p> <p>25 on the following day, and in this way, we will</p>

Page 13	Page 14
<p>1 try and maintain continuity and have an up-to-</p> <p>2 date and current record of the proceedings as</p> <p>3 they unfold. Persons addressing the panel</p> <p>4 may, for the benefit of transcription, simply</p> <p>5 refer to Commissioner Whalen by name and</p> <p>6 myself as the Chair.</p> <p>7 The normal sitting time will be 9 a.m. to</p> <p>8 1:30 p.m., with a half hour break from 11 to</p> <p>9 11:30, and I wish the parties would adhere to</p> <p>10 these times. For the purposes of this</p> <p>11 morning, I think we're just going to play it</p> <p>12 by air and see where we are around 11:30 and</p> <p>13 maybe there might be some flexibility required</p> <p>14 around that to take our break then.</p> <p>15 Counsels and others representing the</p> <p>16 parties have designated seating arrangements,</p> <p>17 and I would ask the witnesses to take their</p> <p>18 assigned seating to my right, unless making a</p> <p>19 presentation or referring to a display. Board</p> <p>20 hearings are indeed not Court trials, however</p> <p>21 evidence is given under oath and the</p> <p>22 procedures governing contact are somewhat</p> <p>23 similar to a Court. The Board's main goal is</p> <p>24 to get the facts on the record in a way that</p> <p>25 is convenient to the parties and in the public</p>	<p>1 interest. A witness may swear an oath on the</p> <p>2 Bible or a solemn affirmation may be</p> <p>3 administered, and I would ask counsel</p> <p>4 introducing the witnesses to indicate the</p> <p>5 latter preference, where applicable. Also,</p> <p>6 some other non-Christian oath, as appropriate,</p> <p>7 may be administered, but I would ask counsel</p> <p>8 for advance notice so that necessary</p> <p>9 arrangements may be made in these instances.</p> <p>10 And I'd also finally ask counsel to</p> <p>11 refrain from reading long passages of pre-</p> <p>12 filed evidence into the record, and I</p> <p>13 appreciate the need to recite certain evidence</p> <p>14 during cross-examination for clarity or</p> <p>15 emphasis, but I'd ask for your cooperation in</p> <p>16 keeping to a minimum, in the interest of time.</p> <p>17 In summary, I would ask that the parties,</p> <p>18 throughout these proceedings, adhere to the</p> <p>19 rules of procedures, as established. I want</p> <p>20 to acknowledge all parties for the tremendous</p> <p>21 amount of work you have all expended in</p> <p>22 reaching this stage of the proceeding here</p> <p>23 today, and I am hopeful that this work will</p> <p>24 now position us to go forward into a</p> <p>25 productive, efficient and expeditious hearing</p>
Page 15	Page 16
<p>1 during the remainder of the week.</p> <p>2 I'll now ask Ms. Newman to enter the</p> <p>3 matter before us and to confirm the issuance</p> <p>4 of public notice and advise of any other</p> <p>5 preliminary items. Good morning, Ms. Newman.</p> <p>6 MS. NEWMAN:</p> <p>7 Q. Good morning, Mr. Chair and Vice-Chair, others</p> <p>8 in the room. I can confirm that the Board did</p> <p>9 receive a fully constituted application from</p> <p>10 Newfoundland and Labrador Hydro on August 3rd,</p> <p>11 2006, seeking, among other things, approval of</p> <p>12 the rates to be charged as of January 1, 2007,</p> <p>13 for the supply of power and energy to its</p> <p>14 customers, the rules and regulations</p> <p>15 applicable to the supply of electricity to its</p> <p>16 customers, and such other matters as may</p> <p>17 appear just and reasonable upon the hearing of</p> <p>18 the application.</p> <p>19 Notice of this application was published</p> <p>20 in newspapers throughout the province,</p> <p>21 beginning on August 19th, 2006. A pre-hearing</p> <p>22 conference was held on September 7th, 2006,</p> <p>23 and in this pre-hearing conference, the Board</p> <p>24 established the rules of procedure for this</p> <p>25 proceeding, the intervenors, which are seated</p>	<p>1 here today, being the Consumer Advocate, the</p> <p>2 Industrial Customers and Newfoundland Power.</p> <p>3 A schedule of dates was also established for</p> <p>4 the hearing and the Board also set aside the</p> <p>5 issue of the approval of the depreciation</p> <p>6 methodology, which was sought by Hydro, this</p> <p>7 issue to be dealt with in a process beginning</p> <p>8 in 2007.</p> <p>9 The schedule of dates established at the</p> <p>10 pre-hearing conference contemplated a November</p> <p>11 1 start, as referenced, Mr. Chair, and the</p> <p>12 parties sought postponement of this hearing,</p> <p>13 as they were progressing well through the</p> <p>14 negotiation process, and in fact, had filed</p> <p>15 one agreement on October 20th, settling some</p> <p>16 of the issues, and thought that it might be</p> <p>17 possible to file some further agreements. So</p> <p>18 the Board postponed the start of the hearing</p> <p>19 with a date to be established later, and in</p> <p>20 fact, as referenced, Mr. Chair, the parties</p> <p>21 did come to some substantive agreement, and on</p> <p>22 December 6th, 2006 filed three further</p> <p>23 agreements, and Hydro simultaneously filed a</p> <p>24 revised application.</p> <p>25 Notice of this revised application was</p>

Page 17	Page 18
<p>1 published in newspapers throughout the 2 province, beginning on January 6th. In this 3 notice, the Board set out the date of January 4 19th for request to make a presentation and to 5 date, the Board has not received any request 6 to make a presentation during this hearing 7 process, and also set out the date of January 8 26th for letters of comment, so there's still 9 time for more letters of comment to come in.</p> <p>10 Throughout the process, there has been a 11 significant exchange of information, as 12 demonstrated and referenced by you, behind the 13 Clerk of the Board. I believe that 14 substantively the RFI's have all been 15 answered. There is a couple that I will 16 verify, but I understand that most, if not 17 all, have been answered. And I can confirm 18 that the matter has been duly constituted and 19 the Board has authority to hear this today.</p> <p>20 CHAIRMAN: 21 Q. Thank you, Ms. Newman. I understand all 22 parties wish to make opening statements. Is 23 that correct?</p> <p>24 MR. JOHNSON: 25 Q. That's correct.</p>	<p>1 CHAIRMAN: 2 Q. Okay. We'll begin with that now, beginning 3 with Hydro. Good morning, Mr. Young, I guess.</p> <p>4 MR. YOUNG: 5 Q. Thank you, Chair. Hydro is pleased to appear 6 before the Board today for the purpose of 7 setting rates for its customers. This is a 8 general rate application, a GRA as we refer to 9 them, with a difference, in that we are 10 appearing requesting that the Board approve as 11 final rates the interim rates that the Board 12 has already approved, on the basis of 13 negotiated settlements that have been filed 14 with it.</p> <p>15 In Hydro's two previous GRA's and in the 16 rate referrals that proceeded them, most, if 17 not all, of the issues were determined by the 18 Board following adversarial hearings, which 19 included very little in the way of settlement 20 of substantive issues. In this filing, the 21 Board challenged the parties to find a middle 22 ground and to use other and more creative 23 means of resolving their differences. By the 24 time of the first meeting to discuss this 25 case, all parties had already concluded that</p>
Page 19	Page 20
<p>1 contesting all elements of a GRA was 2 unnecessarily expensive and time consuming. 3 Hydro is happy to report that all of the 4 intervenors showed a willingness to engage in 5 meaningful and effective negotiations that 6 would seek reasoned and principled 7 compromises, would result in savings to 8 consumers of electricity, and would provide 9 Hydro with sufficient revenues to ensure that 10 it could continue to provide to its customers 11 a competitively priced, adequate, safe and 12 reliable supply of electrical power and 13 energy.</p> <p>14 Just further to that, Mr. Chair, I think 15 if you glance around this room, you would 16 capture most of the people who worked 17 diligently in this process. It wouldn't be all 18 of the people, and I would point out that 19 notably absent is Mark Kennedy, the Board- 20 appointed facilitator, who was instrumental in 21 assisting us, particularly in the late stages 22 of negotiations.</p> <p>23 The result of negotiations is a rate case 24 that has been all but completely agreed upon 25 between the applicant and the intervenors.</p>	<p>1 This means that a rate hearing that might have 2 typically taken months may this time be 3 completed within a week. This settlement has 4 enabled Hydro to pass onto its customers 5 savings in regulatory costs. It's something 6 that we're quite proud of at Hydro.</p> <p>7 We are very grateful to the Board for its 8 guidance and patience in these negotiations 9 and to the Consumer Advocate, our Industrial 10 Customers, and to Newfoundland Power for their 11 hard work, sense of fair play in the results 12 oriented engagement and through their 13 foresight to see that their clients and the 14 consumers they represent could be assured of a 15 fair outcome through cooperation and the 16 creative seeking of common ground.</p> <p>17 While settling a rate case requires less 18 resources, time and money than a fully 19 contested hearing, I am here to tell you that 20 it has not been easy. It does require an 21 extensive amount of work, in some ways 22 comparable to fighting it out before the 23 panel. The examination of information, of 24 operations and financial data, of regulatory 25 issues, was every bit as challenging and as</p>

Page 21	Page 22
<p>1 intensive as we have experienced in fully 2 contested hearings. The record that is before 3 the Board to consider contains some 650 4 Request for Information, filling perhaps a 5 dozen large binders, and a considerable amount 6 of that information has been fully tested and 7 analyzed in the negotiation process.</p> <p>8 The settlement we have reached is in the 9 form of four agreements that have been filed 10 with the Board that deal with a full range of 11 costing methodology, rate setting and revenue 12 requirement issues. All of the quantitative 13 issues have been resolved to the satisfaction 14 of Hydro and the registered intervenors.</p> <p>15 There remains a small number of 16 qualitative regulatory issues that are 17 unresolved, and Hydro is pleased to provide 18 additional information and testimony so that 19 the Board can resolve these.</p> <p>20 Hydro is cognizant that notwithstanding 21 that the parties here presented the settlement 22 agreement to the Board and that Hydro has 23 refiled its case in accordance with those 24 settlements, before it signs the Order, the 25 Board must still be satisfied that the</p>	<p>1 interest of all stakeholders to whom the Board 2 is responsible had been properly and 3 adequately considered and that the outcomes 4 are fair, just and reasonable. To that end, 5 Hydro remains available and willing to provide 6 the Board and the intervenors with the 7 additional information and assistance that may 8 be needed so that the Board can carry out its 9 legislative duties under the Public Utilities 10 Act and the Electrical Power Control Act.</p> <p>11 What does this settlement mean? In its 12 original filing of August 3rd, Hydro was 13 seeking to recover \$443,395,000 in forecast 14 costs. In Hydro's revised filing of December 15 6th, this figure has been reduced by more than 16 \$12 million to \$431,079,000. In terms of 17 consumer impacts, in our original filing, the 18 level of increase for most domestic customers 19 on the Island was 4.6 percent, with some 20 customers on the Island and in Labrador 21 getting higher levels of increases.</p> <p>22 We are happy to report that in our 23 December 6th refiling, the impact on customers 24 has been dramatically reduced so that most 25 customers will get very small rate increases,</p>
Page 23	Page 24
<p>1 if any, typically pennies on a monthly 2 domestic electricity bill, and that's 3 regardless of where you live in the Province 4 or from which electrical system you get your 5 service.</p> <p>6 Although the full details of Hydro's 7 revised filing are before the Board, I would 8 like to point out that in proposing these 9 rates on the basis of the settlement 10 agreements, Hydro has adhered to the method of 11 determining its return on rate base as set out 12 by the Board in Order No. P.U. 14 (2004). In 13 Hydro's original filing, we were seeking a 14 return on rate base of 7.63 percent, based 15 upon a return on equity of 5.20 percent. In 16 its present filing, Hydro is seeking a return 17 on rate base of 7.44 percent, based on a 18 return on equity of 4.47 percent. However, 19 these figures were derived on bases that are 20 consistent with the method that was used in 21 Hydro's original filing.</p> <p>22 In Order No. P.U. 41 (2006), the Board 23 approved rates based on Hydro's December 6th 24 filing on an interim basis, pursuant to 25 Section 75 of the Public Utilities Act. At</p>	<p>1 this time, Hydro is requesting that these 2 rates be made final, pursuant to Section 70 of 3 the Act, and that the Board approve these 4 rates, rules and regulations, to provide for 5 Hydro's recovery of expenses and a return on 6 rate base pursuant to Section 80 of the Act.</p> <p>7 I should point out to the Board and to 8 any members of the public who may be present 9 with us today, and I don't see many of the 10 members of the public, all parties for the 11 most part, that there are a few remaining 12 issues that will be the subject of testimony 13 and cross-examination throughout this week. 14 These issues represent a small minority of the 15 issues that the parties confronted in this 16 rate case. The vast majority of the issues 17 have been resolved efficiently and amicably 18 amongst the parties and in the way that these 19 things turn out, all those resolved issues 20 combined will likely receive less attention in 21 this hearing room than those few issues that 22 remain to be resolved outside the negotiation 23 process.</p> <p>24 Before I conclude, I'm pleased to 25 introduce Hydro's witnesses in this matter,</p>

Page 25	Page 26
<p>1 and a brief discussion of the nature of their 2 testimony. Our first witness with Mr. Ed 3 Martin, Hydro's President and CEO. This will 4 be his first opportunity to appear before the 5 Board. He will adopt his pre-filed testimony 6 and provide some additional brief direct 7 testimony.</p> <p>8 Mr. Glen Mitchell, Hydro's Manager of 9 Rates and Financial Planning, will adopt his 10 pre-filed evidence and will be giving a 11 presentation on the substance of the four 12 agreements and the revised filing, and the 13 impacts of those on customers and upon Hydro.</p> <p>14 Mr. Jim Haynes, Hydro's Vice-President 15 Regulated Operations, together with Mr. Rob 16 Henderson, Hydro's Manager of System 17 Operations and Customer Services, will adopt 18 the pre-filed regulated activities testimony. 19 But more importantly, for the purposes of 20 these proceedings, will be addressing the bulk 21 of the questions on the unresolved issues.</p> <p>22 Mr. Mark Bradbury, Hydro's Corporate 23 Comptroller and Treasurer, will adopt the 24 Company's pre-filed financial testimony, and 25 more particularly, in this context will be</p>	<p>1 defending Hydro's proposed automatic 2 adjustment mechanism.</p> <p>3 In closing, on behalf of Hydro, I would 4 like to again thank the Board for issuing a 5 challenge to Hydro and to the intervenors to 6 use different and creative methods to bring 7 this rate case in a more efficient basis, and 8 I would reiterate that, in Hydro's view, the 9 settlements agreements and the December 6th 10 re-filing demonstrate that Hydro and the 11 parties have met that challenge with very 12 positive results for all concerned. Thank 13 you.</p> <p>14 CHAIRMAN: 15 Q. Thank you very much, Mr. Young. Good morning, 16 Mr. Johnson. 17 (10:30 A.M.) 18 MR. JOHNSON: 19 Q. Good morning. Mr. Chairman, Commissioner 20 Whalen, I'm pleased to represent the domestic 21 and general consumers of electricity 22 throughout Newfoundland and Labrador in this 23 proceeding. Given that the parties have 24 managed to enter into agreements which resolve 25 a great number of the issues involved in this</p>
Page 27	Page 28
<p>1 case, my remarks naturally will be more brief 2 than otherwise would have been the case.</p> <p>3 MS. NEWMAN: 4 Q. Excuse me, Mr. Johnson, maybe if you pull the 5 microphone over. We're having trouble.</p> <p>6 MR. JOHNSON: 7 Q. Hydro's General Rate Application--is that 8 better?</p> <p>9 MS. NEWMAN: 10 Q. That's better, good.</p> <p>11 MR. JOHNSON: 12 Q. Hydro's General Rate Application filed in 13 August of 2006, as we've heard, sought rate 14 increases of 4.6 percent to 20 percent, 15 approximately, excluding Government 16 departments. Following a negotiation process 17 established by the Board as part of the GRA 18 proceeding, Hydro filed a revised application 19 in early December proposing lower rates. The 20 revised application reflects an agreement of 21 all the parties to the GRA and significantly 22 reduces or eliminates all rate increases 23 originally proposed. To take but one example, 24 residential consumers on the Interconnected 25 System will see a very negligible increase of</p>	<p>1 approximately eight cents on a \$100 2 electricity bill, as opposed to the 4. 6 3 increase as originally filed.</p> <p>4 My understanding is that Mr. Glen 5 Mitchell, Hydro's Manager of Rates and 6 Financial Planning, will provide the Board a 7 presentation which addresses the agreements 8 reached as amongst all the parties and the 9 impacts on the customers of Hydro, and indeed 10 the impacts on Hydro itself, for the 11 consideration of the Board. These agreements, 12 of course, have been filed with the Board and 13 have been reviewed and examined by the Board's 14 independent financial consultants.</p> <p>15 For my part, as the Consumer Advocate, I 16 am pleased that owing to a number of factors 17 and the outcome of the negotiation process, 18 consumers have been spared the rate increases 19 outlined in the original rate filing. As I'm 20 sure you will agree, there is no need to take 21 a poll to find out how consumers feel about 22 rate increases for electricity, or as I'm sure 23 you have found out, about increases for 24 petroleum products. 25 Negotiation processes, such as those</p>

Page 29	Page 30
<p>1 employed successfully in this case, are 2 rightly to be encouraged, even though they 3 won't, in all cases, produce agreements which 4 are as comprehensive as those that the 5 parties, with the assistance of the Board 6 appointed facilitator, Mr. Mark Kennedy, were 7 finally able to reach in this case. In fact, 8 as the Board recognizes, alternative dispute 9 resolution processes are a vital component of 10 modern public utility regulation; regulation, 11 which at its heart, seeks to balance the 12 interest of consumers with those of the 13 utility.</p> <p>14 The request for information process, 15 which in this case involved some 650 requests 16 for information, resulting in thousands of 17 pages of data and analysis, assisted the 18 parties and their consultants to get down to 19 the issues so that informed and meaningful 20 discussions could take place, and the 21 perspectives of all parties could be given on 22 those various issues. Such negotiations and 23 discussions are by no means easy, as they are 24 still, of course, taking place amongst parties 25 with various and sometimes competing</p>	<p>1 interests. However, the good faith engagement 2 of all parties gave rise to reasoned consensus 3 on a number of issues. The process, I should 4 also say, was more conducive to identifying 5 practical solutions to the problems than is 6 often the case within the context of more 7 traditional adversarial hearing processes. In 8 my judgment, consumers have reaped a benefit 9 from this process.</p> <p>10 Besides the positive results on the rate 11 side, which are contained in Hydro's revised 12 filing, I am also pleased that the parties 13 have agreed to undertake comprehensive review 14 processes relating to the rate stabilization 15 plan and rate design. The latter involving 16 the reflection of marginal costs in rate 17 design. This represents real progress on a 18 number of fronts. The parties have 19 acknowledged that reflecting marginal costs in 20 rate designs is consistent with Generally 21 Accepted Principles. Rates for marginal 22 demand and energy use that reflect marginal 23 costs send more efficient price signals to 24 consumers and are consistent with energy 25 efficiency and demand management programs and</p>
Page 31	Page 32
<p>1 environmental initiatives, such as greenhouse 2 gas emissions reductions. The outcome of 3 these reviews should lead to improvements that 4 will further benefit electricity consumers in 5 this province, and indeed, should also benefit 6 our electrical system more generally.</p> <p>7 I would like to take this opportunity to 8 acknowledge the extensive efforts of all the 9 parties to these agreements. I would also 10 like to acknowledge the Board's significant 11 role in supporting and facilitating the use of 12 alternative dispute resolution mechanisms in 13 this GRA. As my friend, Mr. Young, has 14 indicated, pursuant to the terms of the 15 parties agreement on revenue requirement, the 16 parties have acknowledged that certain issues 17 remain to be resolved, and these issues will 18 be the subject of viva voce evidence in this 19 hearing.</p> <p>20 As regards these outstanding issues, I 21 will be calling an expert witness, Mr. Doug 22 Bowman, with whom the Board is familiar from 23 previous proceedings. He shall be addressing 24 what we regard as a need for Hydro to prepare 25 a clear reliability policy or procedure</p>	<p>1 identifying minimum reliability, performance 2 benchmarks upon which to evaluate and audit 3 reliability expenditures. I want to be very 4 clear here, we are not saying Hydro is 5 spending too much or too little on 6 reliability. We are saying that there is a 7 need for a policy so we can make better such 8 judgments in the future. Having regard to the 9 fact that Hydro has invested \$182 million from 10 2001 to 2005 in capital upgrades and 11 improvements and plans to improve by 20 12 percent on its past five year average for 13 distribution reliability, consumers need, we 14 submit, the most solid means possible of 15 evaluating these expenditures and their 16 effectiveness.</p> <p>17 Mr. Bowman shall also be addressing the 18 need for Hydro to initiate tracking and 19 reporting of certain performance indicators, 20 as well as the need for Hydro to initiate 21 reporting of performance indicators with 22 performance externally benchmarked to a 23 comparable peer group of utilities.</p> <p>24 We regard these issues as being critical 25 to Hydro's stated corporate goal of achieving</p>

Page 33	Page 34
<p>1 operational excellence. Consumers have a 2 vital interest to see that Hydro actually 3 achieves operational excellence. These issues 4 are critical to ratepayers who have a right to 5 rates that are as low as possible and 6 consistent with reliable and safe service.</p> <p>7 Dr. William Canon, who is the chair of 8 the Faculty Board and a teaching fellow in 9 Finance at Queen's University in Ontario, will 10 testify in relation to Hydro's proposal for an 11 automatic adjustment formula. Dr. Canon holds 12 a Ph.D in Business Economics from Harvard. 13 Amongst his experience, he has advised staff 14 of the Ontario Energy Board and has presented 15 evidence to the OEB on his guidelines on a 16 formula based return on common equity.</p> <p>17 In a nutshell, it will be our contention 18 that Hydro's proposed formula, which 19 incorporates a constant or unchanging value 20 for the embedded cost of debt for years beyond 21 the test year, could be improved. Dr. Canon 22 maintains that using the 2007 test year 23 embedded cost of debt in the formula makes the 24 formula calculated weighted average cost of 25 capital a less than ideal reflection of the</p>	<p>1 weighted average cost of capital that Hydro is 2 likely to experience in years post 2007.</p> <p>3 In my closing comments to the Board, I 4 will also address, in further detail, the 5 appropriateness of an integrated resource 6 planning exercise. The parties have agreed 7 that there won't be much evidence directed on 8 that issue, but I would say that the Consumer 9 Advocate and the Industrial Customers will be 10 submitting, at the end, that parties should be 11 given leave to apply to the Board as regards 12 the initiation of an integrated resource 13 planning exercise.</p> <p>14 We understand and are cognizant of the 15 fact that the Provincial Government and its 16 energy plan is due for release in 2007, having 17 been delayed from earlier estimates as to its 18 release date. The idea behind the request for 19 leave to reapply to the Board is that we would 20 like Hydro to move this matter forward within 21 a reasonable time period following the release 22 of the energy plan, presuming it will be 23 released in the not too distant future. 24 Should the energy plan be delayed a longer 25 period, we would wish Hydro to proceed with</p>
Page 35	Page 36
<p>1 the IRP initiative and would seek the Board's 2 appropriate direction in that regard at that 3 time.</p> <p>4 As regards the issues of oil purchase 5 practices of Hydro and conservation 6 initiatives, it would be my intention to 7 address these in cross-examination with 8 Hydro's witnesses when they appear.</p> <p>9 I look forward to making more detailed 10 submissions on behalf of consumers at the 11 conclusion of the evidence. Thank you, and I 12 look forward to the commencement of the 13 hearing.</p> <p>14 CHAIRMAN:</p> <p>15 Q. Thank you very much, Mr. Johnson. Good 16 morning, Mr. Hutchings.</p> <p>17 HUTCHINGS, Q.C.:</p> <p>18 Q. Good morning, Mr. Chairman, and thank you. I 19 will first just add, on behalf of Industrial 20 Customers, our thanks to all of the other 21 participants in the settlement negotiations, 22 those who are here, Mr. Kennedy who has been 23 mentioned, and also the experts who attended 24 from time to time, including Patrick Bowman, 25 to participate in these settlement</p>	<p>1 negotiations and all of whose input was 2 necessary in order to reach the very valuable 3 agreements that were reached.</p> <p>4 This is certainly a significant part of 5 the evolution of the regulatory process here, 6 I think, and this is a process that I've been 7 following on and off, I just figured out, for 8 almost 25 years, and the process has become 9 much more sophisticated in many ways, and the 10 parties, I think, have become more 11 sophisticated in their approaches to this 12 issue of electricity price regulation.</p> <p>13 The process of negotiation that we 14 undertook, I think, allows a great deal of 15 flexibility in the solutions that can be put 16 forward, which go beyond what we would 17 normally expect the Board to be in a position 18 to order or direct, and I think that is one of 19 the great advantages of that system.</p> <p>20 I must say, for the Board's benefit, that 21 throughout the entire process, there was 22 always an overriding concern that whatever the 23 parties agreed to, the Board ultimately needed 24 to be in a position to be able to approve an 25 order and know that the proper scrutiny had</p>

Page 37	Page 38
<p>1 been given to all of the information and 2 issues before the Board could feel comfortable 3 in approving whatever came out of this 4 process, and that was a constant theme 5 throughout the negotiations, not in the sense 6 of any sort of threat to the proceedings at 7 all, but simply in the sense that we needed to 8 continue to be constantly aware of the Board's 9 role and to try to ensure that as far as 10 possible, Board staff were kept in the loop, 11 shall we say, and that the parties didn't go 12 off on tangents that the Board would not be 13 able to deal with.</p> <p>14 But, the process is an evolving one in 15 itself, the settlement process. What we need 16 to bring to the Board, obviously, is an 17 agreement that will allow the Board to issue 18 an order directing particular rates and 19 dealing with particular issues. In many 20 instances, you will find compromises of the 21 type that the Board wouldn't necessarily be 22 able to incorporate into an order. Certain 23 parties take position X, certain parties take 24 position Y. The compromise may be, okay, we 25 will accept position X for the time being and</p>	<p>1 we will undertake a study and we will both 2 agree that we will undertake a study and 3 produce the necessary data to determine 4 whether or not position Y might not be the 5 appropriate one or whether there's some 6 intermediate position, and this represents an 7 interim understanding among the parties, which 8 is a very valuable one, prevents the necessity 9 of the Board spending a lot of time dealing 10 with that particular issue to come out at an 11 either X or Y position, and may, by the time 12 we come back to the Board again at another 13 hearing, allow for an agreement upon some 14 position, either X or Y or somewhere in 15 between, that the parties can ask the Board to 16 implement at that time. Obviously we need to 17 keep the Board in the loop with respect to how 18 these various review processes will work 19 through the agreements that have been made, 20 and at the same time the parties need the 21 freedom to interact with one another and come 22 up with whatever innovative solutions can 23 facilitate this process. And this is in 24 keeping, of course, with the position that the 25 Industrial Customers have put from the</p>
Page 39	Page 40
<p>1 beginning of their active involvement in 2 intervening here, and that is that we are a 3 bottom line group. The additional cost 4 associated with determining what the price of 5 electricity will be ought to be minimized and 6 we need to ensure that Industrial Customers as 7 well as others can access power at the lowest 8 possible rates.</p> <p>9 It would be inappropriate, I think, for 10 me to conclude my remarks without mentioning 11 the Industrial Customer who is no longer 12 participating in these proceedings, and that 13 is the Abitibi Stephenville operation which 14 has not been able to continue in operation. 15 Abitibi Stephenville and particularly Mr. 16 Mildean (phonetic) who was chair of the 17 industrial group for quite awhile, made a 18 great contribution, I think, to this process 19 through the years and it is certainly 20 unfortunate for the people of Stephenville and 21 the surrounding area that that operation is 22 not in a position to continue.</p> <p>23 We are certainly working toward in all 24 aspects an economic situation that will not 25 threaten the continuation of any of the</p>	<p>1 existing Industrial Customers and hopefully 2 will entice other industrial customers, such 3 as Aur Resources, to come to the province and 4 contribute to economic activity here.</p> <p>5 In terms of this specific hearing, there 6 is but one issue that remains outstanding that 7 the Industrial Customers will make submissions 8 on, and that is the integrated resource 9 planning issue, as my friend, Mr. Johnson, has 10 already mentioned, and he accurately states 11 the position that will be the position of the 12 Industrial Customers in that regard. This is 13 simply an issue that should not be allowed to 14 fall off the table. And with leave to the 15 parties to apply when necessary I think that 16 can be resolved without a great deal of 17 controversy.</p> <p>18 We do not anticipate calling any evidence 19 at this hearing and we will not be taking 20 specific positions on the other outstanding 21 issues that have been outlined by Mr. Johnson 22 or mentioned by Mr. Young in their 23 submissions. We look forward to an 24 opportunity to present to the Board, or to 25 view the presentation to the Board of the</p>

Page 41	Page 42
<p>1 agreements that the parties have reached and</p> <p>2 hope that the Board will see fit to issue the</p> <p>3 necessary order approving as a permanent rate,</p> <p>4 the final rate, the interim rates that have</p> <p>5 been previously approved. Thank you, Mr.</p> <p>6 Chairman.</p> <p>7 CHAIRMAN:</p> <p>8 Q. Thank you, Mr. Hutchings. Mr. Kelly?</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Thank you, Chair. Newfoundland Power is</p> <p>11 pleased to have participated in the</p> <p>12 negotiation process leading to the four</p> <p>13 settlement agreements which have been filed</p> <p>14 with the Board. To the best of my knowledge</p> <p>15 this is the first time in this jurisdiction</p> <p>16 that a settlement agreement has been reached</p> <p>17 with respect to a utilities revenue</p> <p>18 requirement. The negotiated settlement of the</p> <p>19 various issues reflected in the four</p> <p>20 agreements represents a significant</p> <p>21 advancement for the regulatory process in this</p> <p>22 jurisdiction. In other Canadian and North</p> <p>23 American jurisdictions negotiated settlements</p> <p>24 are an accepted part of the regulatory</p> <p>25 framework. Negotiated settlements are</p>	<p>1 consistent with sound public utility practice.</p> <p>2 They result in regulatory efficiency, thereby</p> <p>3 facilitating benefits for all parties and,</p> <p>4 most importantly, for customers.</p> <p>5 Newfoundland Power would like to thank</p> <p>6 all those who participated in the process. We</p> <p>7 would like to specifically mention the</p> <p>8 important contribution made by the Consumer</p> <p>9 Advocate during the negotiation process and,</p> <p>10 in addition, we would like to recognize the</p> <p>11 contribution and role of Mr. Mark Kennedy and</p> <p>12 the Board staff in facilitating the process.</p> <p>13 I believe I speak for all of the parties here</p> <p>14 in saying that we hope in the future to be</p> <p>15 able to build upon the lessons learned during</p> <p>16 this process with the expectation that</p> <p>17 negotiated settlements will become a</p> <p>18 continuing and important component of the</p> <p>19 regulatory process.</p> <p>20 Newfoundland Power does not anticipate</p> <p>21 calling evidence in this proceeding. We will</p> <p>22 address the issues that arise in examination</p> <p>23 and in our final submissions. Thank you, Mr.</p> <p>24 Chairman.</p> <p>25 CHAIRMAN:</p>
Page 43	Page 44
<p>1 Q. Thank you, Mr. Kelly. Ms. Newman, do you have</p> <p>2 any final comments or anything? Okay, we'll</p> <p>3 proceed on now. I guess, Ms. Butler, I'll</p> <p>4 have you call your first witness, please?</p> <p>5 BUTLER, Q.C.:</p> <p>6 Q. Yes, Mr. Chairman, I call Mr. Ed Martin to the</p> <p>7 stand. And in terms of giving you some sense</p> <p>8 of the timing, Mr. Martin's opening statement</p> <p>9 will be approximately ten minutes.</p> <p>10 CHAIRMAN:</p> <p>11 Q. Good morning, Mr. Martin.</p> <p>12 MR. MARTIN:</p> <p>13 Q. Good morning.</p> <p>14 CHAIRMAN:</p> <p>15 Q. Take your time in getting ready and let us</p> <p>16 know when you are.</p> <p>17 MR. MARTIN:</p> <p>18 Q. Ready, Mr. Chair.</p> <p>19 CHAIRMAN:</p> <p>20 Q. Okay, thank you. I'd like to welcome you here</p> <p>21 this morning.</p> <p>22 MR. EDWARD MARTIN (SWORN)</p> <p>23 CHAIRMAN:</p> <p>24 Q. Thank you, very much, Mr. Martin. When you're</p> <p>25 ready, Ms. Butler.</p>	<p>1 BUTLER, Q.C.:</p> <p>2 Q. Thank you, Mr. Chairman. Mr. Martin, you're</p> <p>3 President and Chief Executive Officer of</p> <p>4 Newfoundland and Labrador Hydro?</p> <p>5 A. Yes, I am.</p> <p>6 Q. And in this capacity you prepared a pre-filed</p> <p>7 testimony which was filed in August of 2006,</p> <p>8 is that correct?</p> <p>9 A. That's correct.</p> <p>10 Q. And do you adopt that pre-filed testimony</p> <p>11 today as your sworn testimony?</p> <p>12 A. I do.</p> <p>13 Q. In addition to that pre-filed testimony, Mr.</p> <p>14 Martin, do you have some opening comments for</p> <p>15 the Board?</p> <p>16 A. Yes, I do. And good morning to all. I'd just</p> <p>17 like to say it's been a real learning</p> <p>18 experience for me, this whole regulatory</p> <p>19 process. And I've been struck, you know, but</p> <p>20 the commitment of everyone involved.</p> <p>21 When I first came in, to be honest, I had</p> <p>22 heard a lot of things about the way the</p> <p>23 hearings were going to go, the time it was</p> <p>24 going to take and the atmosphere that was</p> <p>25 generally prevalent there and I'd say it's</p>

Page 45	Page 46
<p>1 something I probably wasn't looking too 2 forward to, although it was a necessary thing, 3 obviously. But I've been struck by what's 4 happened all the same.</p> <p>5 I think Hydro has felt really pushed, I 6 think, primarily by the Board, to do something 7 better, to try to find a better way and the 8 people came to me and said they really wanted 9 to put a lot of effort into this, and they 10 did. I was struck by the various 11 participants, the Consumer Advocate, the 12 Intervenors and everybody else who was 13 involved. Although the negotiations were 14 obviously tough and lots of detail, I was sort 15 of struck by the fact that the ratepayer was 16 at the core of what was trying to be achieved. 17 And I remember one morning Mr. Mitchell 18 actually came in and sat in and he said, you 19 know, we're going to be delayed a bit further, 20 he said, I think we have a real chance to do 21 something here with respect to something we've 22 never been able to do before, and he was 23 right. And my compliments to everyone, 24 including our team, who put a lot of effort 25 into trying--in terms of trying to get there.</p>	<p>1 And I do think it bodes well for the future.</p> <p>2 I'm not going to dwell on it because I 3 could really echo comments that Mr. Young 4 made, and others, and I'm in the same light 5 with respect to, you know, the complimentary-- 6 or trying to offer compliments to everybody, 7 and hopefully we can keep this going.</p> <p>8 I am acknowledging there are six 9 outstanding items, and my team is prepared to 10 go into those in some depth. The way we're 11 structured now Mr. Haynes is accountable for 12 the regulated utility, the regulated 13 operations and I spend my time with Mr. Haynes 14 and his team talking principles in terms of 15 where we want to go on these types of issues. 16 And I'm certainly prepared to talk about those 17 principles today, but you'll find, I think, 18 when we get into a lot more detail, I will 19 likely defer to Mr. Haynes and his team with 20 respect to getting into more detail. But 21 certainly wide open to discuss the principles, 22 and we've had extensive discussions in terms 23 of where we think we'd like to go on some of 24 those issues.</p> <p>25 Two other items I'd just like to briefly</p>
Page 47	Page 48
<p>1 discuss, and I think there's been a lot of 2 interest in this and I've been coached to say 3 people would probably like to hear something 4 about the future of Hydro, the vision for 5 Hydro, where Hydro is going, so I'm going to 6 talk about that for a moment. And also 7 there's been a lot of discussions with respect 8 to the rate of return and I want to give my 9 thoughts in terms of where that could go, 10 eventually what our plans are with respect to 11 that.</p> <p>12 So first on the vision for Hydro. When I 13 took this role, it was predicated on the fact 14 that the company was intending to focus on two 15 things. One was maintaining the integrity of 16 the base business. And I had a lot of 17 discussions with our Board of Directors and 18 the shareholder around that, and it was 19 aligned with my own thinking that prior to 20 considering any type of growth or expansion in 21 a company, you have to ensure that the base 22 business is solid is your first primary 23 consideration and never take your eye off the 24 ball with respect to that. I've learned that 25 the hard way in other roles I've been in where</p>	<p>1 I didn't necessarily do that in some of my 2 earlier days, but it's a good lesson to learn, 3 though. You have to look after the base 4 business. It was crystal clear that that was 5 the number one, the number one focus. But 6 following that the shareholder and the Board 7 of Directors were interested in leveraging the 8 expertise and what Hydro had to bring to the 9 table to expand the operations into some other 10 areas. So I'd like to talk about those in the 11 context of how we've set up the business since 12 I've arrived. And I think that's the simplest 13 way. We try to keep the descriptions simple 14 so that folks can understand which way we're 15 headed.</p> <p>16 We have four key lines of business. Line 17 number one is the regulated utility, our base 18 business, as I mentioned, the primary focus of 19 the Company. The second business unit is the 20 Upper Churchill. Most people refer to it as 21 the CFL(Co) but it's a division in our 22 company. It's a flagship asset for the 23 company, world class, and we feel it needs 24 that kind of focus to have a division onto 25 itself. Our third division is the Lower</p>

Page 49	Page 50
<p>1 Churchill. And the fourth division is new 2 business. So that, simply put, is how we're 3 organized now.</p> <p>4 Under new business, I would just like to 5 talk about that for a moment. We're focused 6 on two things there, primarily. One is 7 expanding into the oil and gas business, and 8 we're looking both at equity ownership, 9 onshore and offshore, potentially, and we're 10 also looking at and considering getting 11 involved in the sister business of Hydro, the 12 transportation of natural gas. In addition to 13 that we're looking at alternate energy, but 14 primarily wind would be our key focus. So 15 under new developments I tend to look at it at 16 this point as oil and gas and wind. And 17 there's several other things that we're going 18 to consider as well, but you can only focus on 19 some many things at one time and we have 20 deferred many things into the future somewhat 21 until we get a proper focus on the items I 22 mentioned. Organizationally that's the four 23 key lines of business.</p> <p>24 The other part of our reorganization was 25 that I believe in having direct</p>	<p>1 accountability. People should have direct 2 accountability. You should be able to finger 3 one person for performance in a particular 4 area. And that's what we've done; we have a 5 vice-president in charge of each one of those 6 four divisions. And because of that focus in 7 terms of being able to finger one individual 8 for performance, we have pulled out some of 9 the support services to report directly in to 10 me, such as human resources, finance and such. 11 I don't believe, from an operating 12 perspective, that the operating people should 13 have distractions with respect to what they 14 should be trying to achieve every day, every 15 morning they get up, so we've pulled out the 16 support services groups. These groups are 17 focused on providing the service to the 18 operating groups.</p> <p>19 I like to refer to Hydro as an operating 20 and engineering company. Financial services, 21 HR, these types of things, they are support 22 services for our operations and engineering 23 company and that's tended to be the way we've 24 structured and the focus we've brought to the 25 Company.</p>
Page 51	Page 52
<p>1 In terms of the new business development, 2 we're taking our time. We're going to do 3 things right. We're not in a rush. We need 4 to get the right deals done, so you may see 5 some activity soon, you may see it somewhat 6 later. We're going to basically take our 7 time, put the proper business processes in 8 place so that we're making the proper 9 decisions and that will drive us, it won't be 10 a matter of timing.</p> <p>11 And with respect to the regulated 12 utility, the regulated part of the business, 13 we know it's critical, and as I said, we focus 14 on that as our base business. But the second 15 thing is from a cost perspective, we know it's 16 critical to ensure that the costs which are 17 associated with the regulated utility can be 18 clearly associated with the regulated utility, 19 and we spend a lot of time putting business 20 processes in place. And actually, there was a 21 lot of tremendous processes in place at Hydro 22 when I arrived from a cost perspective. It's 23 what I would feel, I'd like to use the term 24 best in class, but I probably couldn't compare 25 to anything. In my experience with other</p>	<p>1 organizations I've worked with the cost 2 structure, the ability to segregate costs at 3 Hydro are better than I've seen elsewhere. So 4 this is not something I've brought to the 5 Company, it's something that was there. But I 6 will say that we have, and I have brought this 7 in and it has been confirmed by my people that 8 the emphasis we're putting on it, on those, on 9 that cost distribution is very, very 10 significant, because we understand the 11 implications of that and we're going to make 12 sure that that is not going to be compromised.</p> <p>13 So that's all I really had to say with 14 respect to the vision piece, where we're 15 going. Obviously we're zooming right down. I 16 mean, this hearing is about the regulated 17 utility and I'd like to just talk about one 18 issue with respect to that, that's the rate of 19 return issue.</p> <p>20 And in our own internal deliberations at 21 the Company there was a lot of suggestions or 22 we had, you know, a lot of folks who were 23 thinking about let's go after that rate of 24 return that we introduced in the previous rate 25 hearing. And when we looked at the data,</p>

Page 53	Page 54
<p>1 though, I wasn't prepared to do that right 2 now. 3 (11:00 A.M.) 4 I think the Board had provided some excellent 5 insights and had challenged the Company to 6 consider certain types of things prior to 7 addressing the rate of return issue. We've 8 been successful in addressing some of those, 9 but I don't feel comfortable coming forward 10 with what I call half a loaf. I think, you 11 know, we want to get all of our ducks in a 12 row, we want to make sure that we've 13 considered everything the Board has said. If 14 we agree that that's the right way to go, I 15 think we have to do that and show we've done 16 it. There's things there that we feel that we 17 don't necessarily agree with, but we have to 18 be able to come forward with a well thought 19 out, in depth, you know, description of why we 20 don't understand that and then make our case 21 at that point. And it's my intention to 22 pursue that aggressively and but not to 23 address this issue with the Board until we can 24 clearly say that we have the facts in front of 25 us that we need to have.</p>	<p>1 That's all I really had to say. I'll 2 turn it back to Gillian. 3 Q. Thank you, Mr. Martin. Mr. Chairman, this 4 concludes the opening statement from Mr. 5 Martin and he is available for cross- 6 examination. 7 CHAIRMAN: 8 Q. Thank you, Ms. Butler. When you're ready, Mr. 9 Johnson. 10 MR. JOHNSON: 11 Q. Good morning, Mr. Martin. 12 A. Good morning. 13 Q. Much of what I would want to address with you 14 has to do with Hydro's commitment to operation 15 excellence. And there's the interplay with 16 that concept with the reliability initiative 17 and the ability to audit the effectiveness of 18 that initiative and the peer group reporting 19 initiative. And I take it that Hydro's 20 commitment to operational excellence is tied 21 to the provision of least cost reliable power 22 to its consumers, that's the whole idea of the 23 exercise of operational excellence? 24 A. That's correct. 25 Q. Right. And I take it this is a term that both</p>
Page 55	Page 56
<p>1 yourself and Mr. Haynes use in your written 2 evidence from time to time, operational 3 excellence. And I want to preface my remarks 4 by saying consumers, I think, are relatively 5 pleased with how the rate impacts happened 6 this time around. So these questions are 7 directed towards ensuring to the greatest 8 extent possible we keep on paying as low as 9 possible. At page 11 of your evidence, Mr. 10 Martin - 11 BUTLER, Q.C.: 12 Q. Mr. Martin, would you prefer the binder or do 13 you want to follow it on the screen? 14 A. I think I'll just listen to it. I got a funny 15 feeling I know where the questions are going. 16 MR. JOHNSON: 17 Q. Could you tell me where they're going? 18 A. I hope you're not waiting for a reply to that 19 question. 20 Q. No, I'm not. Actually, I should have referred 21 you to page 12, in fact, where you indicate 22 that Hydro is committed to operational 23 excellence in providing least cost reliable 24 power to the consumers of the province by 25 doing several of those things which are set</p>	<p>1 out in bullet form, managing costs in 2 challenging circumstances, exploring 3 opportunities to address rising fuel costs, 4 ensuring a reliable system, providing value to 5 electricity consumers demonstrated by rates 6 that are comparable to other jurisdictions, 7 working towards improving safety and 8 environmental performances, etcetera. These 9 are the means by which you achieve this thing 10 called operational excellence. But how do you 11 define operational excellence, can you define 12 it independent from the things you're trying 13 to do to reach it? 14 A. Maybe I can walk down through some of my 15 thinking with respect to your question in 16 terms of just how I'm looking at actually 17 running the business overall. And when I do 18 this, I think I'm going to touch on a lot of 19 the issues that have arisen with respect to 20 benchmarking and how that is utilized; it's 21 going to touch on some maintenance planning; 22 it's going to touch on setting reliability 23 criteria and such. And maybe from that we can 24 pursue some questions to get into more detail.</p>

Page 57	Page 58
<p>1 But the way I look at the business is I</p> <p>2 think of three boxes, cost, reliability and</p> <p>3 then I look at increasing demand which might</p> <p>4 require new generation. So in other words,</p> <p>5 the first two, cost and reliability are with</p> <p>6 your existing assets, how you're going to</p> <p>7 manage that for the benefit of the ratepayer,</p> <p>8 and then the third thing is with respect to</p> <p>9 demand growth, how will you meet new</p> <p>10 generation needs.</p> <p>11 Take cost first. I look at cost</p> <p>12 obviously in two categories, operating costs</p> <p>13 and capital costs. And under operating costs</p> <p>14 you look at many things, but two things in</p> <p>15 particular. That's the amount of fuel we're</p> <p>16 burning in Holyrood and then the controllable</p> <p>17 costs in our business. So I put that aside</p> <p>18 for a second.</p> <p>19 What drives cost? And we've had many</p> <p>20 discussions internal to the Company with</p> <p>21 respect to this. And I believe what drives</p> <p>22 costs, I have to go to the other side of the</p> <p>23 equation. And if I look at reliability first,</p> <p>24 talking about existing generation, I believe</p> <p>25 cost should be driven by what it takes to</p>	<p>1 maintain the reliability criteria that we set.</p> <p>2 So the first thing we have to do is set some</p> <p>3 reliability criteria, and when we set</p> <p>4 reliability criteria, that gives us a frame in</p> <p>5 terms of what to base our thinking on. And</p> <p>6 then following that, we put together a</p> <p>7 comprehensive maintenance plan. And once we</p> <p>8 have that comprehensive maintenance plan and</p> <p>9 philosophy in place that's going to drive</p> <p>10 maintaining existing assets or in some cases</p> <p>11 it's going to tell us we have to replace them.</p> <p>12 That is what's going to drive your op costs</p> <p>13 and your capital costs. So that's the flow,</p> <p>14 the way I see it.</p> <p>15 Go over to the third piece then, the</p> <p>16 demand which could drive new generation.</p> <p>17 That's a different parameter but that's also</p> <p>18 going to drive your capital costs, any new</p> <p>19 generation.</p> <p>20 So when you get back to the cost side of</p> <p>21 things, on the capital cost side of things I</p> <p>22 believe that our costs are driven by new</p> <p>23 demand, capital costs, and also the need to</p> <p>24 replace existing assets which we'll have to</p> <p>25 decide and based on this reliability criteria,</p>
Page 59	Page 60
<p>1 maintenance planning, etcetera.</p> <p>2 And then from an operating cost</p> <p>3 perspective the operating costs are driven</p> <p>4 primarily by the long-term maintenance</p> <p>5 planning of the existing assets as well as oil</p> <p>6 and Holyrood, which I'm not going to talk</p> <p>7 about right now. That's where we get into</p> <p>8 some of the other things we're doing.</p> <p>9 But back to the controllable costs. You</p> <p>10 know, I believe that, and I think in terms of</p> <p>11 what I've talked about internally, actually</p> <p>12 reading some of the evidence that's been</p> <p>13 presented, I think we're generally in the same</p> <p>14 thread in terms of how the business, you know,</p> <p>15 should be run. And I believe that at hearings</p> <p>16 such as this we should be focused, you know,</p> <p>17 primarily from an operating cost perspective,</p> <p>18 on reliability criteria and a long-term</p> <p>19 maintenance philosophy and plan. And I think</p> <p>20 that would be high value as we move forward to</p> <p>21 have experts in terms of operating and</p> <p>22 engineers, operating people and engineers on</p> <p>23 both sides talking about those kinds of things</p> <p>24 and getting that aligned, then generally the</p> <p>25 costs will flow from that, primarily, or also</p>	<p>1 realizing that we have internal company cost</p> <p>2 controls and all those kinds of things would</p> <p>3 have to happen. But primarily the costs</p> <p>4 should be driven by how we land on what the</p> <p>5 proper reliability criteria are and what the</p> <p>6 proper maintenance philosophy is.</p> <p>7 Now that gets me into--that sounds, you</p> <p>8 know, you can make that sound simple. And I</p> <p>9 think that's where internally when we have our</p> <p>10 discussions people get concerned, you know,</p> <p>11 because once we have an absolute like, okay,</p> <p>12 what are reliability criteria, let's just set</p> <p>13 them and move on, let's benchmark this stuff,</p> <p>14 well all of a sudden everything gets grey</p> <p>15 again. And I think that's okay. I've seen</p> <p>16 that happen in other businesses I've been in.</p> <p>17 I've actually lead benchmarking processes for</p> <p>18 two different companies in my previous life</p> <p>19 and I have a relative amount of experience</p> <p>20 with the good things about that and the things</p> <p>21 that are a lot more difficult.</p> <p>22 So if I could just talk about setting the</p> <p>23 reliability parameters just in my own mind and</p> <p>24 why we are going to have some interesting</p> <p>25 discussions around that. Primarily it's an</p>

Page 61	Page 62
<p>1 iterative process. Whenever you have 2 something like that, if folks are thinking in 3 terms of, look, let's just set these, but then 4 you get into an iterative process, that's when 5 things get grey. And think that's what we 6 have to do, though, with respect to 7 reliability parameters. Several factors I 8 think have to be considered. And this is not 9 an exhaustive list, this is just some of my 10 own thoughts and have to be developed further. 11 These are the types of principles I'm talking 12 about. This will fall to Mr. Haynes, though, 13 in terms of applying this, I mean, he's the 14 one accountable for it. So I'm just giving 15 some principles the benefit of some of the 16 thinking that we've had. But we got to 17 consider things like are we an isolated system 18 or not. And we are, particularly on the 19 island. That likely is going to lead us to a 20 higher standard of care re generation 21 reliability than you may have in other 22 jurisdictions because we do not have the 23 opportunity, in many cases, to replace 24 generation from elsewhere. Other 25 jurisdictions are critical. What are they</p>	<p>1 doing, what are their reliability stats, how 2 are they doing on cost basis, what's their 3 safety record, what's their environmental 4 record, what's their weather like in 5 comparison? We also then have to look at, 6 okay, and we've done some of this in our 7 groups, you take that data and you feed it 8 into your operating people and your engineers 9 and you say, okay, now taking that into 10 account, can you give us an idea of how much 11 we can improve and maintain without a 12 significant cost increase. That's not a final 13 thing, but you need to know that, you need to 14 know where the trip points are. And we always 15 use the, you know, I call it the grossest 16 example or the most obvious example on the 17 Northern Peninsula where there's, you know, a 18 single radial line up there. You could 19 obviously improve reliability significantly by 20 putting another line in up there, but it's not 21 going to work for us because it's just going 22 to be too expensive. But that's a gross 23 example, in quotation marks, just to explain. 24 We have to run those kinds of things and bring 25 that piece of data back in and make sure we</p>
Page 63	Page 64
<p>1 understand that. We have to understand their 2 maintenance philosophy. We have to know what 3 the minimal standard for reliability that has 4 to be achieved. I mean, there's a certain 5 minimum level that we just can't go under. 6 What are customer expectations? We have to 7 understand what they are. And then I believe 8 what happens then is that we run those numbers 9 and we sit down internally and obviously it's 10 going to be with some of the other folks from 11 the Board and the Consumer Advocate, other 12 Intervenors and I think by virtue of reviewing 13 that data on an iterative once, twice, three 14 times, you're going to start to land on a set 15 of parameters and likely it's going to be in a 16 band that we are comfortable in agreeing to, 17 but it's going to take, I think, a few times 18 to go through that. So basically, you know, 19 set some standards, cycle them around, get 20 some cold eyes input on that, cycle again and 21 generally, as I said, you start to land in 22 around the parameters. And you'll never--I 23 think it's going to be difficult to get to a 24 single point. I think you're going to come up 25 with a band that we're probably saying, yeah,</p>	<p>1 if we're in that band, that's a reasonable 2 place to be. 3 Now once you have that, once you have 4 those reliability parameters, then you get 5 down to maintenance planning. That's going to 6 drive your maintenance planning as well as in 7 addition to those parameters you're also going 8 to have your manufacturer specs, you're going 9 to also overlay some more thinking around are 10 we different because we do not have backup 11 systems. We have to go to our operating folks 12 in the field and our engineers who have been 13 in this business for a long time and know this 14 business inside out. And armed with that, 15 they have to come up with a comprehensive 16 long-term maintenance plan. And we have 17 pockets and good pieces of that in Hydro right 18 now in certain sections. 19 An endeavour that we're chasing ourselves 20 right now is to put that under one umbrella 21 and make sure that we are centralizing 22 accountability for that with the engineering 23 group, although it's going to be a lot of, 24 obviously a lot of input from the operations 25 folks. But to get a comprehensive long-term</p>

Page 65	Page 66
<p>1 maintenance plan in place for the Company, in 2 a lot of cases it's just a matter of pulling 3 together what's there. But I will say it's a 4 bit dispariten, (sic.) you know, in some 5 different groups they have some things, in 6 other groups they have something else and in 7 some groups maybe it's, they understand it 8 extremely well because they've been working 9 with it for many years, it's just a matter of 10 documenting it. And we're in the process of 11 laying out that maintenance plan so we get it 12 under one umbrella in one document and 13 something that we can all look at and 14 consider.</p> <p>15 So that's a pretty long-winded answer, I 16 guess, in terms of a simple question, but I 17 was trying to just lay out the philosophy of 18 it.</p> <p>19 Now once again, I'll just jump to 20 benchmarking for a second, because it's 21 obviously going to be a key piece of setting 22 the reliability parameters and measuring 23 performance.</p> <p>24 (11:15 A.M.)</p> <p>25 But I've been a bit--I think we need a</p>	<p>1 lot more dialogue in this because I found it's 2 been a bit of a different focus with respect 3 to some of the discussions we've had around 4 benchmarking in Hydro. And with some of the 5 information I've seen from the experts and 6 other dialogue is that in my experience with 7 benchmarking, it's been focused not as much on 8 reporting performance, but it's been a tool 9 for targeting best practice improvements. So 10 I'm not sure where we all are on it just yet, 11 but I get the sense in our discussions that if 12 there's 100 points to apply in terms of 13 benchmarking, my experience, I'm used to 14 having 20 percent would be on reporting and 15 performance measurement, 80 percent, 80 points 16 of the effort would go towards actual, 17 actually finding proper analogues and going to 18 those analogues or those other companies or 19 areas that have substantially better 20 performance than yourself and working directly 21 with those folks to find out what they're 22 doing different, if anything. And that's 23 where I see 80 percent of the effort with 24 respect to benchmarking. So I'm personally a 25 big supporter of benchmarking from that</p>
Page 67	Page 68
<p>1 perspective.</p> <p>2 But I had a couple more notes I wanted to 3 walk through philosophically and give you an 4 idea where I'm coming from with respect to 5 where I believe the emphasis should be. So I 6 am an advocate for benchmarking, but I believe 7 there's, you know, that's in the context of 8 three key points. I think benchmarking is one 9 of many tools to be used in performance 10 improvement. I think you have to be careful 11 how you use benchmarking. I think you have to 12 focus on finding the right analogue and 13 allowing that analogue adjustments for actual 14 differences.</p> <p>15 Most recent benchmarking effort I've been 16 involved in leading was with respect to 17 offshore platforms, an example there with 18 respect to our cost per barrel of production 19 at that particular time several adjustments 20 had to be made for ice in the North Atlantic. 21 So, for instance, if you had supply vessels 22 that had to be ice strengthened, tankers that 23 had to be double hulled and ice strengthened, 24 you had to put a greater standard of care into 25 engineering some of the top sides elements,</p>	<p>1 you had to, in the case of, say, Hibernia, you 2 had to put some teeth in for ice management, 3 etcetera, etcetera. Then you had to find a 4 way to pull some of those costs out because 5 they're just not repeated in other areas. Can 6 be done. Takes time. So that's my point, we 7 have to find the right analogues and we have 8 to allow for some adjustments. But the 9 primary purpose, as I mentioned, is to find 10 successful best practices and go after those 11 things.</p> <p>12 And I had a list, a quick list of 13 learnings I jotted down last night when I was 14 going through. This is not comprehensive, you 15 know, I'm just--these are types of principles 16 that we're talking about. And I have lots of 17 energy to go into it in more depth, probably 18 outside of this arena. I think we need to 19 discuss it a lot better. So these are just 20 some learnings that I have learned over a 21 couple of instances of implementing 22 benchmarking programs. Number one, you need a 23 comprehensive plan. It needs to be a long- 24 term focus of the company. You got to find a 25 way to have operations and engineering folks</p>

Page 69	Page 70
<p>1 buy in; if they don't, you'll fail, and 2 sometimes it's tough to get them to do that, 3 so it has to come from within. From a best 4 practices perspective I have personally made 5 the mistake before, I learned the first time 6 and I changed it the second time, you have to 7 focus on one or two areas of improvement. If 8 you focus on five or ten different things from 9 a benchmarking best practice review, you're 10 destined to fail. You have to pick one thing 11 and focus on that over a period of time until 12 you got it and then go for the next thing. 13 Don't use it to beat up on people, it won't 14 work. People just generally drop out of the 15 effort and you don't get the results you're 16 looking for. Spend time picking the right 17 analogues to get the most benefit. Avoid high 18 level composite benchmarks, and that's in the 19 context of best practice. If you go high 20 level, my experience has been you lose the 21 benefit of finding that right analogue where 22 you can go and actually talk to some other 23 operations individual or some other engineer 24 who has been successful in doing something 25 better at the ground level, and you lose that</p>	<p>1 in the composites. It costs money so you got 2 to check your value, but generally it's there. 3 And the other one is don't--well, these are my 4 own words here now, but I just said don't beat 5 it to death, is my--when you find the two or 6 three key improvements, as I said, work them, 7 be focused on those, get it done, but take a 8 break every now and then in terms of allowing 9 that to work, and after six months after that 10 maybe go after another one. It's been my 11 experience that people, you know, who are 12 pushing these things, it's a tremendous stress 13 because you're really, you know, asking people 14 to accept that they may not be performing as 15 well as they could be in certain areas, then 16 you're asking them to go out and talk to other 17 people who are doing something better than 18 they are and find it, and people find that 19 generally stressful. If you give them room to 20 do it and focus on one thing, so give them a 21 bit of a break and reward that performance, 22 generally speaking, a few months later they're 23 ready to go after it again. Back to my 24 earlier point, if you try to do ten things at 25 one time and keep it all going non-stop, it</p>
Page 71	Page 72
<p>1 generally loses steam and after a year and a 2 half or two years, for whatever reason, it 3 peters out, has been my experience with it. 4 Q. Thank you. That's useful. It provides a very 5 good overview of where you're headed on these 6 issues. I'm starting to think perhaps we 7 don't disagree at all and perhaps we're 8 agreeing with each other violently, as Mr. 9 Kelly sometime says. I mean, there's no doubt 10 that you've identified the need to--that 11 reliability spending is a key driver of costs 12 that get passed on to the consumer. And I 13 take it that there's no doubt in your mind 14 that you need as much information as you can 15 possibly get your hands on, in terms of coming 16 up with what reliability standards that the 17 company is going to seek in its operations, 18 and you're nodding in agreement for the 19 record. And would that also, in terms of 20 seeking the proper reliability standards for 21 Newfoundland and Labrador Hydro's customers, I 22 take it you would agree with me, we want to be 23 comparing apples to apples, not apples to 24 oranges, in terms of other companies type of 25 service area. Some service areas are easier</p>	<p>1 serviced and can be expected to have higher 2 reliability than others, would that be fair? 3 A. I agree. 4 Q. And to that end, you know, Newfoundland Hydro 5 having a very rural distribution network, take 6 but one example, would want to make sure that 7 it's keeping up with its peers and 8 expectations in other jurisdictions with 9 similarly situated customers? 10 A. I agree. I think that's a critical point, 11 yes. 12 Q. Okay. And then you also refer to the fact 13 that you really got to find out what customers 14 want, you got to ask them, you got to spend 15 some time in asking customers about the level 16 of service that they would find acceptable? 17 A. That's correct. 18 Q. Okay, would there be anything particularly 19 wrong if all of this is evidently important 20 and it needs a bit of structure to it, would 21 there be anything wrong, in your judgment, 22 from the utility, stakeholders, the Board, 23 having a hand in a more formal policy or 24 procedure as it relates to reliability, as 25 they do in certain other jurisdictions?</p>

Page 73	Page 74
<p>1 Wouldn't that be helpful, in terms of Hydro's</p> <p>2 providing an assurance and demonstrating that</p> <p>3 it means what it says, that it's providing</p> <p>4 least-cost power?</p> <p>5 A. I think that the answer is yes, you know,</p> <p>6 we're going to prepare a way forward and it's,</p> <p>7 you know, it's going to hold water. And as</p> <p>8 far as sharing that, having folks participate</p> <p>9 in that, we'd probably welcome it. The more</p> <p>10 cold eyes review you can get, the more</p> <p>11 information and expertise you can put into</p> <p>12 something like that, it's better. As a matter</p> <p>13 of fact, when you're benchmarking, you'd like</p> <p>14 to share that stuff with other companies so</p> <p>15 that you're trading back and forth, you know,</p> <p>16 getting the benefit of that. I think a</p> <p>17 critical point is, though, in terms of the</p> <p>18 principle that I just talked about, I think</p> <p>19 it's critical to establish those together</p> <p>20 first, so that we're not talking like this as</p> <p>21 we go there.</p> <p>22 Q. Right.</p> <p>23 A. You know, to make sure that the things I</p> <p>24 talked about, targeting things, what it's</p> <p>25 going to be used for, how to get the</p>	<p>1 analogues, you know, how to actually execute</p> <p>2 it in terms of, you know, it can't be all</p> <p>3 things to all people. I think those things, a</p> <p>4 lot of dialogue has to go in that, so that</p> <p>5 when we sit down together to look at this</p> <p>6 stuff, we're coming from the same principle</p> <p>7 base when you start. And I think that's going</p> <p>8 to give our company, you know, some more</p> <p>9 comfort that we can just open it up and take</p> <p>10 the advice then and find a way forward. And I</p> <p>11 also believe that we're going to find a band,</p> <p>12 it's going to be very difficult to pin</p> <p>13 something down, and if we also agree that is,</p> <p>14 you know, understand this is a difficult</p> <p>15 process, might make it sound simple, but it's</p> <p>16 difficult and it's going to be iterative, and</p> <p>17 you're going to get to a point where it's not</p> <p>18 going to be totally perfect and that's where</p> <p>19 the band comes in. Once you establish those</p> <p>20 principles, I think, well whatever we do,</p> <p>21 whatever we document is going to hold water,</p> <p>22 so it should be shared.</p> <p>23 Q. And in terms of the achievement of operational</p> <p>24 excellence, let's say it's in customer</p> <p>25 satisfaction, you know, people being satisfied</p>
Page 75	Page 76
<p>1 with the courtesy of five-year old employees</p> <p>2 when they pick up the phone and talk being</p> <p>3 one, satisfaction with service reliability,</p> <p>4 and others, I take it that it's a truism that</p> <p>5 to seek to improve on these, generally</p> <p>6 requires more money than just seeking to</p> <p>7 maintain the present level?</p> <p>8 A. I wouldn't necessarily agree with that, I</p> <p>9 think it depends. If you take a look at,</p> <p>10 let's just say maintenance planning, for</p> <p>11 instance, if we do the things we talked about,</p> <p>12 in terms of making sure we have a</p> <p>13 comprehensive maintenance plan in place, based</p> <p>14 on the parameters that we talked about, that</p> <p>15 will generally lead you to improve your focus</p> <p>16 on where you want to spend your money. And I</p> <p>17 think it's, you know--the reason I'm saying</p> <p>18 it's not entirely that way is that it depends,</p> <p>19 because once you get into the maintenance</p> <p>20 plan, you understand where you're going,</p> <p>21 you're focused on the key things and you have</p> <p>22 your maintenance procedures which gives you,</p> <p>23 you know, the proper timing to maintain assets</p> <p>24 and/or replace, that gives you some</p> <p>25 flexibility to spread your costs as well on a</p>	<p>1 planful fashion. So you may be able to take</p> <p>2 the same pool of costs and just spread them</p> <p>3 differently so that you're not necessarily</p> <p>4 increasing costs in one year or another. I</p> <p>5 think the maintenance planning with drive that</p> <p>6 kind of thing, so I can't sit here and say</p> <p>7 that reliability improvement is necessarily</p> <p>8 going to increase costs. I think it comes</p> <p>9 down to managing how best you allocate the</p> <p>10 costs that are generated from a long-term</p> <p>11 maintenance plan. So it may in some cases, it</p> <p>12 may not--I think that's something that has to</p> <p>13 be looked at in more depth. I don't believe</p> <p>14 you can make a blanket statement on that.</p> <p>15 Q. But I think your evidence indicated that some</p> <p>16 hundred and eighty-two million dollars was</p> <p>17 spent between 2001 and 2005 in capital</p> <p>18 upgrades and improvements, and would we not be</p> <p>19 spending more money on upgrades and</p> <p>20 improvements depending upon how high up we're</p> <p>21 targeting the increase of reliability over</p> <p>22 present levels? I mean, if I were to say</p> <p>23 look, we're going to aim for thirty percent</p> <p>24 improvement in reliability, would you not</p> <p>25 expect that that's going to cost more than</p>

Page 77	Page 78
<p>1 maintaining present levels as a general rule?</p> <p>2 A. Not as a general rule, but I take your point</p> <p>3 that, you know, it could drive costs. I take</p> <p>4 your point there, but I'm just trying to avoid</p> <p>5 a general rule on that because I think there's</p> <p>6 a lot of planning that goes into that and I'll</p> <p>7 come back to the point I made about the</p> <p>8 iterative process when you're developing these</p> <p>9 reliability parameters. And that's exactly</p> <p>10 the point I'm getting at there, is that I</p> <p>11 think we are able to find that out, understand</p> <p>12 that better as we set the reliability</p> <p>13 criteria. That's the whole basis of what</p> <p>14 we're talking about, I think. If we just pick</p> <p>15 a number, you know, thirty percent, without</p> <p>16 the iterative process and all these various</p> <p>17 things I mentioned should come into it, I</p> <p>18 think the bottom line if we do it that way, we</p> <p>19 won't know if we're increasing costs, you</p> <p>20 know, for just purely reliability</p> <p>21 perspectives. I think we need to understand</p> <p>22 that before we do it. And that's why I'm</p> <p>23 coming back to say that it could happen, but</p> <p>24 if it does, it would be a considered decision</p> <p>25 because we would have gone through some idea</p>	<p>1 of--in an iterative process amongst us all, in</p> <p>2 terms of what the proper reliability standards</p> <p>3 should be. If that yields increased costs,</p> <p>4 then we're going to have to consider doing it</p> <p>5 because you would have reason for it that</p> <p>6 would be supported, substantiated and aligned</p> <p>7 with everyone's thinking.</p> <p>8 I think obviously one of our first</p> <p>9 things, as I think we've demonstrated over the</p> <p>10 years and we've demonstrated again here, in</p> <p>11 conjunction with everybody we will be looking</p> <p>12 for creative ways to spread the cost properly,</p> <p>13 to allocate them properly to avoid as much as</p> <p>14 possible increasing cost to the ratepayer, and</p> <p>15 that's all part of that iterative process. So</p> <p>16 that's why I'm just--I'm not saying it</p> <p>17 couldn't happen, but I don't like the idea of</p> <p>18 a general rule. I think that's exactly what</p> <p>19 is going to be yielded out of the process of</p> <p>20 how we set those.</p> <p>21 Q. But there would be no doubt, I take it, in</p> <p>22 your mind that coming out of that iterative</p> <p>23 process, you want to have a solid handle on</p> <p>24 what that extra striving for enhanced</p> <p>25 reliability is going to cost?</p>
Page 79	Page 80
<p>1 (11:30 A.M.)</p> <p>2 A. Can I just rephrase it a little bit, not to be</p> <p>3 difficult, but I mean it could reduce costs.</p> <p>4 I think the idea that this kind of work could,</p> <p>5 you know -</p> <p>6 Q. That's fair play.</p> <p>7 A. - we're just going to pick something to, you</p> <p>8 know, we're going to pick some reliability</p> <p>9 criteria that could increase costs. We may</p> <p>10 find in some areas as you move ahead, that</p> <p>11 we're doing maintenance too frequently in some</p> <p>12 areas, there could be a cost decrease. I</p> <p>13 think, you know, we have to put the time into</p> <p>14 the actual understanding of the reliability</p> <p>15 criteria and the maintenance philosophy. Once</p> <p>16 we get that right, as I said earlier, you</p> <p>17 know, the cost impact will generally fall out,</p> <p>18 whether it be up or down. And at that point,</p> <p>19 I think we need to do an iteration and come</p> <p>20 back and check that and make sure now we're</p> <p>21 not doing something that doesn't make a lot of</p> <p>22 sense for us, and over that process, as I</p> <p>23 indicated, my experience has been when you</p> <p>24 generally land on that band that we're all</p> <p>25 generally comfortable with, and then following</p>	<p>1 that, the cost will be more of an outcome.</p> <p>2 Then we have the ability to try to manage</p> <p>3 those, you know, within the parameters, but</p> <p>4 generally the cost will become an outcome and</p> <p>5 I think our highest value of work is to spend</p> <p>6 upon setting that basis.</p> <p>7 Q. What's the tie in to--let us assume for the</p> <p>8 moment that there would be extra costs--in one</p> <p>9 scenario let us assume that there'd be extra</p> <p>10 costs for enhancing the reliability, take that</p> <p>11 as a given.</p> <p>12 A. Okay.</p> <p>13 Q. How does Hydro go about determining whether</p> <p>14 customers really value what you're aiming to</p> <p>15 do, so that for them it's worth the candle.</p> <p>16 A. Well that would have been taken into account</p> <p>17 in respect to setting them. As I mentioned,</p> <p>18 one of the parameters was customer</p> <p>19 expectations and it's one of many, but that's</p> <p>20 the type of information that has to be</p> <p>21 incorporated in, in the setting of the</p> <p>22 parameters. And you raised some excellent</p> <p>23 points, I think what we're getting at, now</p> <p>24 this is not a simple process, but you know,</p> <p>25 you can get there. But I believe that we need</p>

Page 81	Page 82
<p>1 to incorporate that in a setting of a</p> <p>2 standards, find out what their expectations</p> <p>3 are, understand them and we're going to have</p> <p>4 to overlay some reasonable thinking on that as</p> <p>5 well, because--maybe I should back up a bit.</p> <p>6 We're going to have to be fairly exact on how</p> <p>7 we ask them that question, because if you ask</p> <p>8 someone would they like one hundred percent</p> <p>9 reliability, they'll say yeah, I'd love one</p> <p>10 hundred percent reliability. And if you tell</p> <p>11 them that's going to cost you a lot of money,</p> <p>12 they'll say hold on now, let me just think</p> <p>13 about that for a second.</p> <p>14 So I think we have to be, you know,</p> <p>15 careful in how we ask that question and make</p> <p>16 sure that we're getting information and that</p> <p>17 people understand the implications, and we're</p> <p>18 going to have to overlay some thinking</p> <p>19 ourselves, I think, as a group of responsible</p> <p>20 people here, in terms of how we might filter</p> <p>21 some of that information we receive. But how</p> <p>22 do we do that? Well that's when we pull in</p> <p>23 the information from other jurisdictions, we</p> <p>24 pull in the thinking of our operating</p> <p>25 engineering people, some cold eyes review and</p>	<p>1 that's why I'm saying there's a lot of</p> <p>2 thinking has to go into that. Then we review</p> <p>3 that, check the costs and I know I'm repeating</p> <p>4 myself here a bit, but my experience has been</p> <p>5 that iterative process, bringing all those</p> <p>6 things in, it's difficult but eventually you</p> <p>7 get down to a band that you can probably say I</p> <p>8 think this is the right band and that's what</p> <p>9 drives you from there on in.</p> <p>10 Q. Your point is interesting about people needing</p> <p>11 to know, you know, the quid pro quo, and I</p> <p>12 don't know if you noticed in the corporate</p> <p>13 customers, it is very interesting that I think</p> <p>14 something like twenty percent or so indicated</p> <p>15 that a half hour outage would cost them money,</p> <p>16 but that out of that twenty percent, it was</p> <p>17 striking that only thirteen percent said that</p> <p>18 they would be prepared to pay any extra money</p> <p>19 to avoid it. So it goes to show.</p> <p>20 A. Goes to show Mr. Haynes is going to have his</p> <p>21 hands full getting this thing sorted out,</p> <p>22 isn't it? (laughter)</p> <p>23 Q. Just to turn to the level of what I regard as</p> <p>24 being a very, very high level of satisfaction</p> <p>25 reliability amongst both residential and</p>
Page 83	Page 84
<p>1 commercial customers, I think in your evidence</p> <p>2 at page 19, there's no need to go for it, but</p> <p>3 just for the record, you indicate that</p> <p>4 customer satisfaction with reliability has</p> <p>5 remained at around 93 percent from 2003 to</p> <p>6 2005. And I did some digging around and noted</p> <p>7 that if you look at the survey results for the</p> <p>8 Residential group, which appears at CA-1, page</p> <p>9 30, that really it's less than two percent of</p> <p>10 customers who are actually not satisfied with</p> <p>11 the residential reliability service. Do you</p> <p>12 have a sense of how that compares to how</p> <p>13 others are doing?</p> <p>14 A. I'd defer that question to Mr. Haynes, I don't</p> <p>15 have that data at my fingertips.</p> <p>16 Q. But there would be no doubt that that would be</p> <p>17 highly satisfactory from your point of view,</p> <p>18 those types of statistics?</p> <p>19 A. I'd need the comparisons to say that, I think</p> <p>20 it sounds good, but you'd need to have the</p> <p>21 comparisons and I think Mr. Haynes and company</p> <p>22 have more detail on that than I do.</p> <p>23 Q. As you know Hydro has targeted twenty percent</p> <p>24 improvement in distribution reliability</p> <p>25 figures and we've had this somewhat high level</p>	<p>1 discussion as to, you know, improving</p> <p>2 reliability over existing standards comes with</p> <p>3 additional costs or not. Do you know or have</p> <p>4 a sense or is this a question better for Mr.</p> <p>5 Haynes, as to what Hydro's projections will be</p> <p>6 as to what this will actually cost consumers</p> <p>7 or add in terms of cost to the system?</p> <p>8 A. Two things, I'd like to defer the actual</p> <p>9 detailed numbers and questions to Mr. Haynes</p> <p>10 and company, but if I could just talk about a</p> <p>11 principle for a second because we had some in-</p> <p>12 depth discussions around this, Mr. Haynes and</p> <p>13 I, with respect to the twenty percent.</p> <p>14 Because the question you get to, obviously, is</p> <p>15 that if you keep improving my twenty percent,</p> <p>16 you know, you're going to get to a point where</p> <p>17 you're going to drive costs through the</p> <p>18 ceiling for no, you know, really extra</p> <p>19 benefit, other than a very small percentage at</p> <p>20 a certain point, which is true, I think I can</p> <p>21 obviously see that.</p> <p>22 But a couple of points on that is that</p> <p>23 first of all there's a twenty percent</p> <p>24 improvement on a five-year average we're</p> <p>25 looking at, but that's probably not the main</p>

Page 85	Page 86
<p>1 principle. I think we need to put some more 2 parameters around reliability, maintenance, 3 all the stuff I just talked about, and we 4 talked about that internally. And that takes 5 time and effort and we're not there yet 6 entirely, but Mr. Haynes and I wanted to put a 7 reliability improvement target out there, 8 because targets do focus people and it tends 9 to focus people in doing the right things. 10 And we couldn't wait, we felt, until we had 11 all the work done before we set a target 12 because you could lose yourself, you know, 13 several years of performance enhancement and 14 improvement.</p> <p>15 So what I asked Mr. Haynes to do, in 16 conjunction with his people, is to come up 17 with a target that had some substantiation to 18 it, something we felt would not spike costs in 19 the short term because we would be doing a 20 reallocation that would be designed to focus 21 the effort, and in the meantime, make it 22 substantial enough that folks felt a little 23 squeezed. So it wasn't a perfect process, but 24 we picked a number to start with and that's 25 what we're using. It's not perfect, it may</p>	<p>1 not be right, but we're going to get to it. 2 But we wanted to put something in place and 3 that was something we looked internally at our 4 own band, we thought we would accomplish the 5 focus, we would target something that was 6 obtainable, it was not going to drive costs 7 hugely, we didn't feel, and we took the 8 approach to do it, to get people focused into 9 short term. And we're going to continue that 10 kind of thinking until we get this scoped out 11 a little bit more to our satisfaction. But 12 there are break points that we're very 13 cognizant of, you know, as I said, once we get 14 the parameters more set, it will take care of 15 itself, but in the interim over the next 16 while, we're very cognizant of not putting in 17 targets that are going to spike costs for the 18 sake of having targets, we're not going to do 19 that.</p> <p>20 But as far as the details go in terms of 21 how that was calculated and stuff, that would 22 be--Mr. Haynes would be better at describing 23 the details.</p> <p>24 Q. Would you regard it as important, as a matter 25 of principle, given that Hydro is a regulated</p>
Page 87	Page 88
<p>1 utility, doesn't face competitor pressures, et 2 cetera, as a matter of principle would you not 3 regard it as important for Hydro to be able to 4 demonstrate, after the fact, how its capital 5 program and how its reliability operation 6 regime produced "X" results following those 7 steps or activities or expenditures? In other 8 words, some sort of means by with others, 9 including the Board, Consumer Advocate, could 10 audit results, vis-a-vis expenditure effort?</p> <p>11 A. Well, we're doing it internally, so I don't 12 know, I imagine folks could have a look at it 13 in any event, I don't know how that works or 14 Jackie might be able to help you on that, I'm 15 cautious, as I learn this business, I don't 16 like to leap out too quickly on something, but 17 it's my understanding, I mean, internally 18 that's what we're driving, obviously, we are 19 setting our performance measures, you know, 20 we're measuring performance to get holding 21 people accountable to performance 22 improvements. Is that publicly available?</p> <p>23 Q. Mr. Martin, I want to assure you, in all my 24 questions I'm not leading you astray. 25 (laughter)</p>	<p>1 A. I'm beginning to feel the weight of My Haynes 2 on my back here again, keeping me honest.</p> <p>3 Q. No need whatever to talk to Mr. Young.</p> <p>4 A. But is that available to, you know, Geoff, 5 publicly and stuff like that, how does that 6 work?</p> <p>7 MR. YOUNG:</p> <p>8 Q. I think, Mr. Martin, if you have a look at the 9 Public Utilities Act, there is nothing which 10 is not available to the Board, if it so 11 chooses.</p> <p>12 A. And that's the way we operate, I mean, what we 13 do, we expect the things that we're doing from 14 a performance perspective from everything, we 15 expect that it would potentially be public and 16 that's the way we think when we do these 17 things.</p> <p>18 CHAIRMAN:</p> <p>19 Q. You're not seeking to be intransparent.</p> <p>20 A. No, that's right, we're assuming that we're 21 going to be transparent.</p> <p>22 Q. Mr. Johnson, it's eking its way up towards 12, 23 will you be another while yet or -</p> <p>24 MR. JOHNSON:</p> <p>25 Q. Perhaps a little break wouldn't hurt.</p>

Page 89	Page 90
<p>1 CHAIRMAN:</p> <p>2 Q. Yes, I think we'll exercise a prerogative,</p> <p>3 take a break now if that's okay.</p> <p>4 MS. BUTLER:</p> <p>5 Q. Mr. Chairman, I wonder if Mr. Johnson could</p> <p>6 give some indication to Mr. Martin of how much</p> <p>7 longer he's going to be, just for his own</p> <p>8 planning purposes.</p> <p>9 CHAIRMAN:</p> <p>10 Q. Fair enough, if he can.</p> <p>11 MR. JOHNSON:</p> <p>12 Q. Yes, I'd say maybe a half hour.</p> <p>13 CHAIRMAN:</p> <p>14 Q. Okay, and we'll take--we have a loss of</p> <p>15 energy, this first morning we'll just take a</p> <p>16 twenty-minute break, how's that? Thank you.</p> <p>17 (RECESS)</p> <p>18 (12:15 P.M.)</p> <p>19 CHAIRMAN:</p> <p>20 Q. Thank you. Ms. Newman, anything before we</p> <p>21 start?</p> <p>22 MS. NEWMAN:</p> <p>23 Q. No, Mr. Chairman.</p> <p>24 CHAIRMAN:</p> <p>25 Q. Thank you. I understand that Mr. Johnson will</p>	<p>1 probably be half an hour and that the</p> <p>2 questioning beyond that might be quite</p> <p>3 limited, so it looks like we could be finished</p> <p>4 conceivably before 1:00 to entertain the</p> <p>5 presentation, which I understand is half an</p> <p>6 hour?</p> <p>7 MS. NEWMAN:</p> <p>8 Q. Approximately.</p> <p>9 CHAIRMAN:</p> <p>10 Q. And hopefully our stomach's present contents</p> <p>11 can sustain us until 2:00 perhaps, so with</p> <p>12 everybody's agreement, if we could--I can</p> <p>13 assure you it won't go beyond 2:00 and</p> <p>14 hopefully we'll finish up before then, so if</p> <p>15 everybody is okay with that, that's how we'll</p> <p>16 proceed?</p> <p>17 MS. BUTLER:</p> <p>18 Q. Thank you.</p> <p>19 CHAIRMAN:</p> <p>20 Q. Ready Mr. Martin? When you're ready.</p> <p>21 MR. JOHNSON:</p> <p>22 Q. Mr. Martin, I just want to discuss with you,</p> <p>23 you know, I thought you were leaving the oil</p> <p>24 business when you were going to Hydro, but</p> <p>25 you're really in the oil business with the</p>
Page 91	Page 92
<p>1 amount of fuels being consumed and the cost</p> <p>2 that that has for consumers. And I think that</p> <p>3 the record would indicate from the revised</p> <p>4 filing in the test year, you're expecting to</p> <p>5 burn somewhere in the vicinity of 137 million</p> <p>6 dollars worth of oil for Holyrood, which</p> <p>7 obviously dwarfs other expenditures. And I'm</p> <p>8 interested from the point of view of the</p> <p>9 strategy and the focus that you've put on it,</p> <p>10 whether you thought about revisiting oil</p> <p>11 purchase practices which were last reviewed a</p> <p>12 few years ago when the price of oil was</p> <p>13 significantly less than what we are now paying</p> <p>14 for?</p> <p>15 A. You're referring to hedging and some of the</p> <p>16 things such as that, you mean?</p> <p>17 Q. Yes, and just review generally of what you're</p> <p>18 presently doing?</p> <p>19 A. For the day-to-day management of fuel</p> <p>20 consumption, I would defer that to Mr. Haynes</p> <p>21 and his group in terms of that kind of detail.</p> <p>22 From a more corporate perspective, I think I'd</p> <p>23 like to make a couple of points, one on</p> <p>24 hedging which we've talked about, and the</p> <p>25 other one, probably the most important is</p>	<p>1 what's the future going to hold and from a</p> <p>2 hedging perspective first, I've had experience</p> <p>3 with hedging, primarily my experience has been</p> <p>4 in terms of enabling projects in the industry</p> <p>5 I came from before, to mean a particular</p> <p>6 hurdle rate if there's a lot of risk attached</p> <p>7 to it, so if you were going to develop a</p> <p>8 particular field and because your risk profile</p> <p>9 was such that investors wanted to ensure that</p> <p>10 you had, not a guarantee, but a reasonably</p> <p>11 strong assurance you were going to receive a</p> <p>12 return a particular hurdle rate, then I've had</p> <p>13 some experience in locking in oil prices</p> <p>14 longer term to show investors that you are</p> <p>15 probably going to pretty much be guaranteed if</p> <p>16 you take this kind and other construction</p> <p>17 risks and stuff, that you would be able to</p> <p>18 attain a certain rate of return. And I say</p> <p>19 that's probably one of the few--the only</p> <p>20 values a company can really use hedging for</p> <p>21 because if you use hedging for, in our</p> <p>22 particular case and Hydro's case, something</p> <p>23 other than that, to be able to purchase fuel</p> <p>24 and kind of lock prices down and try to</p> <p>25 control volatility, as well as potentially</p>

Page 93	Page 94
<p>1 maybe save some costs by virtue of hedging, I 2 don't think that we're equipped to do it. I 3 don't think we have the expertise and I think 4 if you look at, for instance, the PIRA 5 forecast of any of the formal forecast that 6 are out there. I always draw people's 7 attention when we talk to hedging about their 8 high and low. I don't focus on the average, I 9 focus on the high and low and that high and 10 low will generally tell you that they don't 11 have a very good idea where oil prices are 12 going, and they have huge staffs and resources 13 that go into that, we don't and I don't think 14 it's our expertise. In a rising oil price 15 scenario, hedging would probably--you'd look 16 good in a long run, but we all understand the 17 volatility of oil pricing and when you're on 18 the other end of a hedging program where 19 you've lost money on it. I don't think we 20 would have a defensible case to be able to say 21 why we felt we had the expertise more so than 22 anybody else to handle that. As far as the 23 volatility thing goes, I believe the RSP 24 arrangements are probably as good as we're 25 going to get and I think from Hydro's</p>	<p>1 perspective, we just don't feel equipped. 2 We're not in that business. I believe we're 3 in the business of operations and engineering 4 and providing the lowest possible cost, power 5 reliability, all the regular stuff that is 6 very important to us, but we're not in the 7 business of hedging and I don't think we have 8 the expertise to do it and I think that we 9 would be fine doing that until we ended up 10 losing money, and I don't think we would have 11 a defensible position after that to our 12 ratepayer to say why we thought we could do 13 okay with it. So I'm generally not in favour 14 of hedging. 15 I think the more important question with 16 Holyrood we've been struggling with, is what 17 does the future hold? We've taken--there's 18 two approaches being looked at. One is 19 probably shorter term, trying to analyze ways 20 in which we can be more efficient in terms of 21 how we mix our power, to try to get the 22 maximum benefit out of the Hydro resources. 23 We've looked at opportunities, such as wind, 24 where we feel comfortable that we will be able 25 to provide electricity at a cost which is we</p>
Page 95	Page 96
<p>1 feel is going to be substantially less than 2 Holyrood in the long term, and we're pursuing 3 that to the point that the system can handle 4 it. And we're also carrying on with some 5 studies with respect to some of the smaller 6 Hydro developments we have left, such as 7 Portland Creek and Island Pond and other 8 opportunities to see if we can effectively 9 displace oil at Holyrood. And we are also 10 looking at, you know, the longer term. Now 11 when you get into the longer term, I'm not 12 going to be able to speak a lot about that 13 today, because a lot of that is going to be 14 addressed in the Provincial Energy Plan and we 15 have had some input into that, in the context 16 of it, but suffice to say, we see what 17 everyone else sees, I think, is that our long- 18 term future is generally thermal on the 19 Island, unless we do something different. 20 With respect to accessing power in Labrador 21 and when you get into that, you get into the 22 whole Lower Churchill question and you get 23 into the potential for a DC link and then you 24 get into the whole question of Holyrood, is it 25 going to be replaced or not, and all those</p>	<p>1 issues are being dealt with in the Energy 2 Plan, so I'm not free to talk about them at 3 this point. But I think suffice to say that, 4 you know, it's recognized and the problems 5 from a policy perspective, they have to look 6 at things, such as what's the long-term vision 7 for the Province, you know, are we, as a 8 province--and I'm not saying this, I'm just 9 saying as a policy perspective the Government 10 has to look at if we are going to, you know, 11 want to be an expanding vibrant community, 12 what's that going to take in the long run? 13 How competitive do we have to be with our 14 electricity prices. You have to weight that 15 against the cost of development, such as the 16 Lower Churchill and the DC link, you have to 17 weigh that against the possibility you can 18 finance that kind of thing and put the whole 19 package together, et cetera, et cetera, and 20 all that is actually being churned, you know, 21 as we speak and not much more I can say about 22 it, other than I believe the Government plans 23 to have some direction on that. 24 Q. Just heading back for a moment to the hedging 25 type issue, has there been any direction from</p>

Page 97	Page 98
<p>1 the talk at Hydro to further study the issue 2 and determine what other utilities are doing, 3 in terms of they're struggling with high oil 4 prices as well, not just us. Has there been 5 any direction taken in that regard, since it 6 was last looked at?</p> <p>7 A. Well the only direction I gave them is don't 8 bother with it because I just don't believe 9 it's something that we should get into. A 10 further study, I don't know if that would be 11 of value, I just don't think that that's a 12 good thing for Hydro to be involved with, for 13 the reasons I stated.</p> <p>14 Q. You referred to the Provincial Energy Plan, do 15 you have a sense as to when that can be 16 expected?</p> <p>17 A. Only what's been said publicly, I think I'd 18 only be repeating what the Minister had said.</p> <p>19 Q. With respect to the issue of conservation, 20 you've now, as outlined in the application, 21 hired someone at Hydro dedicated to that role 22 and putting some more money directed towards 23 those efforts. And you indicated in a press 24 release which accompanied the original filing 25 back in August, that a key focus for Hydro is</p>	<p>1 providing customers with the right energy 2 efficiency tools and information to help 3 conserve electricity and manage consumption. 4 And in your judgment when you arrived at 5 Hydro, was that something that had not been 6 properly focused upon?</p> <p>7 A. I can't speak about the past too clearly, but 8 I know there was energy at the Company to 9 pursue conservation in a much more in-depth 10 fashion. I don't know the drivers for it, I 11 think in our discussions between the staff and 12 such who would have been involved in this, 13 their interest was very high. I think there 14 was potentially some confusion over who would 15 be best to lead and co-ordinate this effort. 16 So we sat down and said well let's, as a 17 group, let's talk about this and we agreed it 18 was a critical initiative and we were saving 19 energy, which in itself is good, but I think 20 if you look at the Holyrood situation, here is 21 an opportunity probably for a minimal cost 22 expenditure if you can convince people to have 23 a culture of conservation, that's coming right 24 off the bill. So I think from that 25 perspective we said, well, you know, let's</p>
Page 99	Page 100
<p>1 take the bull by the horns here. Let's take a 2 leadership role from a conservation 3 perspective, but let's do it prudently. We 4 said we needed to have some principles, we 5 needed to look at where it could go and what 6 we discovered--maybe I should say what I 7 discovered, I think most of the people who 8 were working with me knew this, when I was 9 informed about, from people who had a lot more 10 knowledge about this than I did, is that they 11 said okay, we take a leadership role but let's 12 take our time. They said let's establish a 13 comprehensive plan. Obviously they had done a 14 bunch of research and had understood the fact 15 that there are limitations to what you can 16 achieve with respect to conservation. So the 17 idea was let's get a comprehensive plan in 18 place, let's look at other jurisdictions. 19 Let's learn from them so that we're not 20 studying and repeating things that have 21 already been found out elsewhere to be very 22 effective. And in the meantime, let's make 23 sure we keep our eye on the ball that once you 24 achieve a certain level and other best 25 practice jurisdictions haven't been able to go</p>	<p>1 past that, well let's not beat it to death. 2 Let's target what we think we can reasonable 3 achieve as high value. And there has to be a 4 direct cost benefit optimization.</p> <p>5 The other thing that we looked at was to 6 say, you know, we have Newfoundland Power who 7 has some excellent initiatives on the go. We 8 knew the Department of Environment at the 9 Government had some initiatives on the go. We 10 looked around, there's other things happening. 11 And we said, what we'd like to do is in 12 addition to all of this, is make an effort to 13 pool all these resources, if we can, and 14 that's some of the efforts we're taking 15 because in jurisdictions like Newfoundland and 16 Labrador where we have a small population and 17 a concentration of resources, we feel as a 18 general principle if we can get everyone 19 together in a room and there's various sources 20 of funding and activities taking place, if we 21 can come up with a combined aligned approach, 22 pool the available capital from all these 23 different areas and go together as one single 24 rifle shot on this thing, we think we're going 25 to get a much bigger bang for our buck. So</p>

Page 101	Page 102
<p>1 that's what drove us to suggest that we should</p> <p>2 hire somebody just to make it happen, and</p> <p>3 that's generally the process we're following.</p> <p>4 So when I say put together a comprehensive</p> <p>5 plan, all those things are being looked at in</p> <p>6 there. At the same time, there's short-term</p> <p>7 things that we're trying to get off the ground</p> <p>8 because we know they work, they've been proven</p> <p>9 and we're not just going to stand still and</p> <p>10 wait for the plan when we know things will</p> <p>11 work. So that's the extent of my knowledge</p> <p>12 and understanding of it. I, in conjunction</p> <p>13 with the vice-president, have given it the</p> <p>14 green light to proceed in that manner and we</p> <p>15 have some goals and objectives around that</p> <p>16 this year and I'll know more when the</p> <p>17 accountable people report on a monthly basis</p> <p>18 how things are going.</p> <p>19 Q. You speak of the goals and objectives that</p> <p>20 have been set, what are they?</p> <p>21 A. The key one is a comprehensive plan. The</p> <p>22 other stuff is--and that's from a corporate</p> <p>23 level, the other stuff is more detailed stuff,</p> <p>24 you can talk to Mr. Henderson about that in</p> <p>25 some detail, a bunch of people are heavily</p>	<p>1 involved in that. But just as--well, you know</p> <p>2 the way it works, as a management philosophy</p> <p>3 and we spent a lot of time together setting</p> <p>4 the longer term goals, the three to five year</p> <p>5 objectives and the annual objectives, go</p> <p>6 through all the philosophy of this and we</p> <p>7 locked that down and then the VPs and</p> <p>8 generally in power at that point to go ahead</p> <p>9 and manage their piece of the business. And</p> <p>10 my interaction with them is day to day if I</p> <p>11 can help them or advise them or lend some</p> <p>12 credibility to them. There is monthly</p> <p>13 performance meetings that we go over where we</p> <p>14 are with respect to what they're accountable</p> <p>15 for and generally those meetings are held so</p> <p>16 that if things are on target, we don't discuss</p> <p>17 them. The two or three things that are off</p> <p>18 the rails, we all jump on board and that's</p> <p>19 what we spend the meeting on, trying to find</p> <p>20 out either we're going to live with it or</p> <p>21 we're going to re-resource or we're going to</p> <p>22 do something. So that's generally the way it</p> <p>23 works, so I think the detail in terms of the</p> <p>24 performance measures and how it's going within</p> <p>25 each of the divisions, would be better handled</p>
Page 103	Page 104
<p>1 by Mr. Haynes or Mr. Henderson. I'm trying to</p> <p>2 use some other names than Hayne's, he's giving</p> <p>3 me a rough time downstairs.</p> <p>4 Q. Can I ask you, would you regard it as a</p> <p>5 rightful and proper role of Hydro in taking</p> <p>6 this lead role and working in concert with</p> <p>7 others, to get the information out there</p> <p>8 respecting the relative cost of your product</p> <p>9 verses competing products for the heating of</p> <p>10 homes in particular, and for instance and I</p> <p>11 won't drag you through this, but in once of</p> <p>12 the RFI's, I think it was CA-19, it gave a</p> <p>13 comparison between what it would cost to heat</p> <p>14 a home with electricity at the then proposed</p> <p>15 rates, verses what it would cost to heat a</p> <p>16 home at rates as set by the Board, actually,</p> <p>17 in relation to petroleum products for various</p> <p>18 areas around the Province. And it was notable</p> <p>19 that there was a fair spread in favour of</p> <p>20 people heating with their own products bought</p> <p>21 from Ultramar, Irving, you name it, as opposed</p> <p>22 to heating from the product that they're</p> <p>23 getting either from you directly or</p> <p>24 indirectly. Would you regard that as a proper</p> <p>25 role, education role for Hydro to update</p>	<p>1 consumers as to the relative cost as part of</p> <p>2 conservation?</p> <p>3 A. The only reason I'm hesitating is we're</p> <p>4 touching on the energy plan a little bit again</p> <p>5 because that's the topic that is discussed</p> <p>6 there. But I can speak from Hydro's</p> <p>7 perspective, personally speaking, you know, I</p> <p>8 don't necessarily think so. I think that if</p> <p>9 you look at all these jurisdictions that I</p> <p>10 mentioned who are involved in conservation</p> <p>11 initiatives, the Government in particular,</p> <p>12 there's some meetings and discussions going on</p> <p>13 with those folks, but I would think that Hydro</p> <p>14 would focus on the things that we hold the</p> <p>15 closest and stuff, but from an overall</p> <p>16 perspective, the Province might be the better</p> <p>17 coordination lead on some of that stuff</p> <p>18 potentially, but that's my own opinion and</p> <p>19 some of those things are being discussed in</p> <p>20 the energy plan. Certainly not meant to avoid</p> <p>21 it, but I just think that, you know, if you're</p> <p>22 looking at the overall entity in the Province,</p> <p>23 you could look at all aspects of conservation.</p> <p>24 The Province is probably the best position,</p> <p>25 you know.</p>

Page 105	Page 106
<p>1 Q. What would be the impediment if Hydro, I would 2 assume, plans on interfacing with customers 3 about how to seal windows and how to have a 4 more efficient delivery of hot water or all of 5 these things, drafts, you name it, in light of 6 that type of interface with the customer, and 7 let us presume that you're sincere about 8 having, helping people to conserve, what would 9 be the impediment to then saying to them, 10 look, in the present time, given the cost of 11 oil at Holyrood, here is the spread between 12 how you could be heating your home with oil, 13 verses electricity as an ongoing consumer 14 awareness initiative.</p> <p>15 A. I wasn't listening very well, I don't think, I 16 answered the wrong question. If you look at 17 what I was talking about, I know you didn't 18 ask this, I was talking about maybe the 19 overall coordination of all the sectors. But 20 whatever was decided as a group, yes, I think 21 with respect to our customers, Hydro would be 22 the right one to, you know, actually put the 23 data out there and go after our customers. We 24 have the connections, we have the ability and 25 I would say absolutely we should be the ones</p>	<p>1 putting some of that data out there. I was 2 thinking about something else. I was thinking 3 about maybe the overall central coordination 4 of it.</p> <p>5 Q. Fair comment. Because I don't know if you 6 were living in the Province some years ago 7 when there used to be a picture of an open 8 furnace and dollar bills flying into the 9 furnace and which I'm sure was shocking to 10 people. We haven't seen those ads in quite 11 some time. Do you have any ideas as to how 12 Hydro could go about communicating the 13 relative cost differences to customers on a 14 regular basis so that it could use the 15 information?</p> <p>16 A. I think Mr. Henderson would be the best one to 17 go through the details on that. I know they 18 have some really good ideas and they're 19 working that in the plan.</p> <p>20 Q. Maybe dollars flying into space heaters or - 21 In terms of, let me ask you regarding the 22 future outlook, what changes or improvements 23 we can expect to see in Hydro the next time 24 they're before the Board in a rate case? 25 Where you are now verses where you expect to</p>
Page 107	Page 108
<p>1 be.</p> <p>2 A. Well I look at a key focus for us right now 3 and has been for the last period of months, 4 has been our maintenance planning and asset 5 management process, some of the stuff we 6 talked about earlier this morning. We're 7 driven to get that documented as we outlined 8 and use that to drive our planning.</p> <p>9 Q. Is there anything else in terms of, you know, 10 Ed Martin will be disappointed if by the next 11 time we're here this hasn't been achieved, 12 that hasn't been achieved, et cetera. That's 13 where I'm coming from.</p> <p>14 A. Well that would be one. Safety performance 15 would be the other one. Newfoundland and 16 Labrador Hydro's safety performance is 17 unacceptable in my mind and right now we're 18 focused on improving that safety performance 19 to where it should be. And those would be the 20 two things. We have a list of other things, 21 but just fundamentally I believe you have to 22 focus on one or two things at a time or else 23 you're going to fail, and those would be the 24 two that were focused on. And once we get 25 those captured and accomplished, then we'll be</p>	<p>1 able to pick the next one or two.</p> <p>2 Q. With respect to one of the instances in which 3 I suppose you could say you benchmark in your 4 evidence your performance, vis-a-vis other 5 jurisdictions, you talk about rates and us 6 having comparable rates to other jurisdictions 7 is an indicator of something or other, and 8 will that continue to be important to you as 9 an indicator and do you have any thoughts 10 about how reliable that is an indicator of 11 really anything, given our being blessed with 12 hydraulic resources compared to other 13 provinces, is that really something that is 14 all that relevant?</p> <p>15 A. I believe it's relevant, it's one measure that 16 we look at, but as far as the fundamental 17 performance driver, I think we've talked about 18 the things here this morning that are more 19 fundamental to the performance, which we 20 establish a reliability criteria in the 21 process we talked about, that's going to drive 22 our maintenance planning, plus our capital 23 plans. It's a virtue of understanding where 24 we want to be, you know, with this iterative 25 process in terms of what we're trying to</p>

Page 109	Page 110
<p>1 achieve. That will drive where we are with</p> <p>2 respect to costs and we have to--we have</p> <p>3 decided that we're going to provide a</p> <p>4 particular level of reliability, we're going</p> <p>5 to understand what that means in terms of new</p> <p>6 bills and maintenance planning, and we're</p> <p>7 going to manage to that. And I think that's</p> <p>8 probably going to be the most important part</p> <p>9 of managing our reliability and cost</p> <p>10 performance. What falls out as a cost--I</p> <p>11 can't say we're not going to look at other</p> <p>12 jurisdictions, naturally we are, I mean, we're</p> <p>13 in a competitive world, we're trying to retain</p> <p>14 and attract industry. We're trying to give</p> <p>15 our residential ratepayers a competitive</p> <p>16 advantage as much as we can, but I'd have to</p> <p>17 say that's more of an outcome measure than a</p> <p>18 fundamental driver.</p> <p>19 Q. Going to the investor owned utility type</p> <p>20 return, which you've spoke to in your initial</p> <p>21 comments, what remains to be done in your</p> <p>22 judgment before the cake is baked and you</p> <p>23 don't have to come in looking for a half of</p> <p>24 loaf?</p> <p>25 A. I asked the same question internally and I</p>	<p>1 haven't got it satisfactorily answered just</p> <p>2 yet, so I don't think it would be wise for me</p> <p>3 to jump ahead because I don't have the actual</p> <p>4 factual data I need on that. We're obviously</p> <p>5 taking what the Board has provided us and some</p> <p>6 excellent thoughts and comments saying we're</p> <p>7 pulling in information from other areas and</p> <p>8 putting it altogether and I just didn't feel</p> <p>9 prepared to address that now and I still</p> <p>10 don't, so I'd like to defer that, if I could,</p> <p>11 until I get a more comprehensive answer.</p> <p>12 Q. Are you regularly updated on--I presume you</p> <p>13 are--regularly updated as to where you are</p> <p>14 along on that process of having the winning</p> <p>15 conditions in place, we'll say?</p> <p>16 A. Most definitely.</p> <p>17 Q. Yeah, and do you have any thoughts as to, you</p> <p>18 know, the minimal that Hydro shall have to</p> <p>19 demonstrate in order to be looked upon and be</p> <p>20 serious about having an investor owned utility</p> <p>21 rate?</p> <p>22 A. I have some thoughts, but I can't ground them</p> <p>23 in principle just yet, so I generally won't go</p> <p>24 there unless I got the facts. You know, I</p> <p>25 have some general thoughts, but there's people</p>
Page 111	Page 112
<p>1 that have a lot more understanding and depth</p> <p>2 of knowledge in our organization on that topic</p> <p>3 and I would defer to them to get the</p> <p>4 information we need and present it. I</p> <p>5 certainly have an oversight and understanding</p> <p>6 of how the business works, but in the details</p> <p>7 of what's actually going to be required and</p> <p>8 the theory of how this is handled and the</p> <p>9 utility setting and everything else, that's</p> <p>10 not my expertise at this time, so I'm</p> <p>11 deferring to them, ask them for the same</p> <p>12 things. And I appreciate your question</p> <p>13 because I'm asking the exact same questions.</p> <p>14 I just haven't got it answered to my</p> <p>15 satisfaction yet, not because it hasn't been</p> <p>16 diligently worked, it's just that there's a</p> <p>17 lot to it and we've been focused on some other</p> <p>18 things over the last year, year and a half.</p> <p>19 Q. Those are my questions for you, Mr. Martin.</p> <p>20 Thank you.</p> <p>21 CHAIRMAN:</p> <p>22 Q. Thank you, Mr. Johnson and Mr. Martin. Mr.</p> <p>23 Hutchings, do you have any -</p> <p>24 HUTCHINGS, Q.C.:</p> <p>25 Q. No, I certainly hope Mr. Martin won't feel</p>	<p>1 slighted at all if we say we have no questions</p> <p>2 for him at this time, Mr. Chairman.</p> <p>3 CHAIRMAN:</p> <p>4 Q. Mr. Kelly?</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. I have no questions either, Mr. Chairman.</p> <p>7 Thank you, Mr. Martin.</p> <p>8 CHAIRMAN:</p> <p>9 Q. Ms. Newman?</p> <p>10 MS. NEWMAN:</p> <p>11 Q. Yes, I do have a couple of questions. Good</p> <p>12 afternoon, Mr. Martin. I have just two or</p> <p>13 three questions and they relate to context and</p> <p>14 future expectations. The first question I</p> <p>15 have is I wonder if you could tell us how the</p> <p>16 approval of this revised application, as filed</p> <p>17 in December, would ensure the financial</p> <p>18 integrity of Hydro in 2007 and also moving</p> <p>19 forward until the next general rate</p> <p>20 application?</p> <p>21 A. We've looked closely at that. I think in</p> <p>22 particular, you know, it avoids a loss that we</p> <p>23 were faced with, and by virtue of the</p> <p>24 agreements that have been reached and the</p> <p>25 interim order, I might add, was important for</p>

Page 113	Page 114
<p>1 us as well because of the impact that we would</p> <p>2 have had if we'd gone into the year without</p> <p>3 the agreements, the immediate impact would</p> <p>4 have been significant, with respect to our</p> <p>5 loss potential. So it avoids a loss and</p> <p>6 brings us back to a measure of profitability</p> <p>7 and so from that perspective, you know, we</p> <p>8 think it's given us the financial stability we</p> <p>9 need at this point.</p> <p>10 Q. I'd like to refer you to page 20 of your</p> <p>11 evidence, and this relates to the return that</p> <p>12 Hydro is seeking in its revised application.</p> <p>13 At page 20, line 21, "according to the credit</p> <p>14 rating agencies, the current rate of return is</p> <p>15 low when compared to investor owned utilities</p> <p>16 and many Crown owned utilities. Hydro</p> <p>17 believes there continues to be inherent risks</p> <p>18 of a low rate of return on Hydro's financial</p> <p>19 integrity. Hydro is working to address the</p> <p>20 Board's areas of concern related to this</p> <p>21 matter and intends to bring this issue to the</p> <p>22 Board for reconsideration in the future," and</p> <p>23 the Consumer Advocate has just gone through,</p> <p>24 you know, kind of pursuing what those issues</p> <p>25 might be, and I understand that you're still</p>	<p>1 working on that and that's fine. What I</p> <p>2 wondered, if you could provide some comments</p> <p>3 on what these risks might be and whether they</p> <p>4 are concerns for the Board, or should be, from</p> <p>5 Hydro's perspective, concerns for the Board in</p> <p>6 approving this revised application?</p> <p>7 A. Well, I think the key risk is of a lower rate</p> <p>8 of return, it's risk management. We have</p> <p>9 significant assets and if you look at the</p> <p>10 risks that are associated with those types of</p> <p>11 assets, it does lead you to understand that in</p> <p>12 some cases you may have unexpected costs occur</p> <p>13 over the course of a period of years. That's</p> <p>14 the nature of risk. We're into risk</p> <p>15 minimization obviously, but the nature of risk</p> <p>16 is something could come up, and I think that's</p> <p>17 the key piece, is that you look at the assets</p> <p>18 we have, the risks associated with our</p> <p>19 business, I think that, you know, the smaller</p> <p>20 margin doesn't allow us probably as much</p> <p>21 ability to absorb unexpected costs as we think</p> <p>22 our business should attract. That would be</p> <p>23 the key piece.</p> <p>24 Q. Okay, and is that a concern that Hydro feels</p> <p>25 the Board should factor into its consideration</p>
Page 115	Page 116
<p>1 of the revised application?</p> <p>2 (12:45 P.M.)</p> <p>3 A. Not at this time. We've stood back to say,</p> <p>4 okay, you know, we look at a year or two, and</p> <p>5 we say what kind of risk do we have? What are</p> <p>6 we doing to manage those risks? What--and</p> <p>7 we're talking about things like the</p> <p>8 maintenance planning and reliability</p> <p>9 improvements. We've spent a lot of time, from</p> <p>10 an operational perspective, going through each</p> <p>11 of the assets and considering what risks are</p> <p>12 there over the next several years, looked at</p> <p>13 what we've done over the past couple of years</p> <p>14 to alleviate some of that risk. In all</p> <p>15 honesty, we've married that with where we are</p> <p>16 right now with respect to putting our thoughts</p> <p>17 finally together in terms of where the rate of</p> <p>18 return is, and it's not crystal clear, but</p> <p>19 there's a balance there that we feel that we</p> <p>20 were better to focus on other things right</p> <p>21 now. We think we can manage these risks over</p> <p>22 the next year or two, but we don't think</p> <p>23 sustainable in the long term, and we just made</p> <p>24 a considered balanced decision that we think</p> <p>25 we're going to live with that for, you know, a</p>	<p>1 year or two and then come back with the full</p> <p>2 picture at a future date. So we think we</p> <p>3 have--we think we're okay in the short term,</p> <p>4 but it's not something we can sustain longer</p> <p>5 term.</p> <p>6 Q. Okay. The second part of that, you've sort of</p> <p>7 led us down the path, is how this agreement</p> <p>8 positions Hydro in terms of the revised</p> <p>9 application, sorry, positions Hydro vis-a-vis</p> <p>10 rate stability. What are Hydro's expectations</p> <p>11 in the near to medium term for consumers in</p> <p>12 the Province with regard to rates?</p> <p>13 A. Well, there's nothing in the rates that we</p> <p>14 feel that is going to--in this agreement</p> <p>15 that's going to drive an unexpected rate</p> <p>16 shock. I think, you know, you take the oil</p> <p>17 situation out of the picture, which for</p> <p>18 obvious reasons, we can't see anything else in</p> <p>19 the short term that's going to create any</p> <p>20 unexpected rate shock and we are providing</p> <p>21 stable rates over the near term. It's always</p> <p>22 difficult to define near term, but you know,</p> <p>23 we're looking in the next--within the next</p> <p>24 couple of years. We feel that we're going to</p> <p>25 have relatively stable rates, putting aside</p>

Page 117	Page 118
<p>1 the impacts of oil and such.</p> <p>2 Q. Okay. I have one last question and that</p> <p>3 relates to, I guess, medium to long-term</p> <p>4 challenges or issues that you expect Hydro's</p> <p>5 going to have to face in the next two to ten</p> <p>6 years, if you could just highlight the top</p> <p>7 three concerns, issues, challenges that you</p> <p>8 think you're going to have to face?</p> <p>9 A. Well, I generally look at things in terms of</p> <p>10 from a risk perspective, in two categories:</p> <p>11 people and assets. I think on the people</p> <p>12 side, we have an aging work force. We're not</p> <p>13 alone there, but our work force is aging and</p> <p>14 both the trades folks as well as the</p> <p>15 management and supervisory folks, I think are</p> <p>16 numbers are showing in the next five years</p> <p>17 we're looking at a 25 to 30 percent retirement</p> <p>18 expectation and over the next ten, up to 40 to</p> <p>19 50 percent, which is huge numbers for a</p> <p>20 company of what we do. So I see that as a</p> <p>21 significant challenge, and we have work</p> <p>22 ongoing with respect to dealing with both of</p> <p>23 those issues, and part of that is salary costs</p> <p>24 and particularly in two areas. I think the</p> <p>25 trades, which we're finding that, for the</p>	<p>1 obvious reasons of what's going on in this</p> <p>2 country, particularly in Alberta, you know,</p> <p>3 our tradespeople are not being compensated in</p> <p>4 a manner which is going to enable us to retain</p> <p>5 them. So we're going to have to address that,</p> <p>6 and that's going to mean more money, but</p> <p>7 that's just a fact of the matter. And the</p> <p>8 other thing I think we're going to find a</p> <p>9 problem with is in the remote areas. I mean,</p> <p>10 the young people today, in the more rural</p> <p>11 areas of the province, I mean, we're finding</p> <p>12 they're thinking differently than their</p> <p>13 parents did, in terms of what opportunities</p> <p>14 are there, how many want to stay and stuff, I</p> <p>15 think that's going to be an issue we're going</p> <p>16 to be facing over the next five to ten years,</p> <p>17 which is going to really test us in terms of</p> <p>18 how we're going to fill those positions. But</p> <p>19 we're working strategies on each of those,</p> <p>20 comprehensive strategies in each of those</p> <p>21 areas.</p> <p>22 On the asset side, the assets are also</p> <p>23 aging, and I think you're going to see our</p> <p>24 maintenance planning and all the reliability</p> <p>25 stuff that we've talked about, I think you're</p>
Page 119	Page 120
<p>1 going to see that is going to drive, over the</p> <p>2 longer term, some increasing costs to be able</p> <p>3 to, you know, modify, upgrade, replace in some</p> <p>4 cases, some of these aging assets. I think</p> <p>5 that's a fact we're going to have to face, and</p> <p>6 I already mentioned one, which I can't talk</p> <p>7 too much about, is, you know, I think we're</p> <p>8 facing a thermal future in the absolute long</p> <p>9 term, unless we do something different.</p> <p>10 That's the piece that is being looked at in</p> <p>11 the energy plan as well.</p> <p>12 Q. Thank you. Those are all my questions.</p> <p>13 CHAIRMAN:</p> <p>14 Q. Thank you, Ms. Newman. Is there any</p> <p>15 particular redirect?</p> <p>16 BUTLER, Q.C.:</p> <p>17 Q. No, Mr. Chairman. Thank you very much.</p> <p>18 CHAIRMAN:</p> <p>19 Q. Commissioner Whalen, any questions?</p> <p>20 VICE-CHAIR WHALEN:</p> <p>21 Q. No. No, no, Ms. Newman--the issue of the</p> <p>22 aging work force was something that I wanted</p> <p>23 to pursue, but I think you've covered that, so</p> <p>24 that's fine. Thank you.</p> <p>25 CHAIRMAN:</p>	<p>1 Q. Just, I guess, what I see in terms of your--do</p> <p>2 you see Hydro in a couple of years--I guess in</p> <p>3 terms of performance targets, you're focusing</p> <p>4 on your--I think you've commented on the fact</p> <p>5 you're developing a comprehensive sort of</p> <p>6 maintenance plan as being a particular focus</p> <p>7 for what you'll be doing over the next little</p> <p>8 while, and that will essentially be driving</p> <p>9 some of your cost components, depending on</p> <p>10 what comes out of that, in terms of what type</p> <p>11 of reliability you want to achieve, what type</p> <p>12 of reliability targets ultimately, and you</p> <p>13 mentioned, I think, the whole issue of safety</p> <p>14 performance as being another focus for the</p> <p>15 organization, and as being probably two of</p> <p>16 your key performance factors at this point in</p> <p>17 time, because I think I heard you saying that</p> <p>18 really there's no point in outlining five or</p> <p>19 ten of these because it's better to</p> <p>20 concentrate and focus on particular areas on a</p> <p>21 priority basis.</p> <p>22 Do you see--I guess what I'm not seeing,</p> <p>23 I'm looking at page 13, for example, which</p> <p>24 outlines Hydro's operations and maintenance</p> <p>25 and brings--shows a trend analysis up to 2007.</p>

Page 121	Page 122
<p>1 Do you see, sort of, Hydro coming up with--and 2 I'm talking about specific quantitative 3 performance indicators, if you will, over time 4 in terms of a three or five year planning 5 horizon. One of the concerns that we would 6 have, you mentioned there's nothing here that 7 would present any issue as far as rate shock 8 or rate instability is concerned. For 9 example, and I don't know if this would be-- 10 and how you'd get there, but I mean, if Hydro 11 went to a full ROE as an investor owned 12 utility, certainly that would have some impact 13 in terms of the revenue requirement. You 14 mentioned the fact, I think as well, of 15 additional money possibly for trades that 16 might be required to satisfy Hydro's needs, 17 certainly in the not too distant future, based 18 on some of the demographics you're seeing 19 within your own work force. And I'm just--you 20 talked about the aging assets and asset 21 management and what that would mean in terms 22 of costs as well, and I guess I can see a 23 combination of some of these things taking 24 hold that may have some impact, in terms of-- 25 and substantial impact in terms of rates and,</p>	<p>1 if you could comment generally on how you see 2 that type of thing evolving, how it gets dealt 3 with, you know. Do you see, you know, 4 performance targets that you may be in a 5 position to outline to the Board, recognizing 6 that there's more work to be done in the short 7 and possibly the long term? I mean, you're 8 trying to get, I think, the organization, if 9 you will, up and running, and I can appreciate 10 that that takes some time.</p> <p>11 A. We're definitely going to come up with some 12 KPIs on--you know, cost wise it's critical for 13 us, and I believe that, yes, the maintenance 14 piece and all those things I mentioned are 15 going to drive costs.</p> <p>16 Q. Right.</p> <p>17 A. But I do believe that, in my analysis of Hydro 18 so far, I think that there are pockets of 19 Hydro that may be over resourced in some 20 areas, but I think there's very significant 21 pockets that are under resourced, and I see 22 that by geography and I also see that by, you 23 know, Ops and engineering versus admin, and I 24 see it in particular areas. So it's difficult 25 to get at all that, because that's the way</p>
Page 123	Page 124
<p>1 business goes, but where I'm leading with this 2 is we are going--we are setting costs KPIs, 3 and once again, they may not be perfect, but 4 it is going to focus us in terms of addressing 5 some of those issues. Because I think that 6 there is room to reallocate some resources in 7 Hydro too. So I'm not seeing a--I'm not 8 feeling a general cost decrease. I don't 9 think we're overstaffed. I think we're not-- 10 the jigsaw is not necessarily in the right 11 place, and I believe our cost KPIs are going 12 to drive us to deal with that more 13 effectively.</p> <p>14 So that's just a perspective where I see 15 it coming from and how we're going to achieve 16 that is we're getting to that. I mean, we 17 looked at doing-- back in the fall of 2006, we 18 were going to do a more comprehensive analysis 19 of that, but with everything else that was on 20 the go, I didn't see value in sending the 21 organization off on another direction until we 22 had sorted some other things out. So that's 23 coming. So in the meantime, we'll have the 24 cost KPIs. It's going to drive us to address 25 that and we're doing some ongoing work in</p>	<p>1 terms of how we can reorganize.</p> <p>2 As far as, I've looked at--you know, it 3 is obviously tough to get a handle on where 4 the people situation is going, but 5 intuitively, we've cut pretty deep in some 6 areas, you know, particularly in the rural 7 areas. The operations folks, we've cut pretty 8 deep there. There's a minimum standard of 9 safety, I think, which is critical to maintain 10 that we're going to have to make sure we're 11 not going too deep. There's situations where 12 we might have an individual going out alone 13 more than--into places maybe where, you know, 14 I'm a little uncomfortable. They are going 15 out alone. We're going to have to look at all 16 that. So to be frank, I don't see, you know, 17 people coming down. I don't necessarily see 18 them going up, but I don't feel the pressure 19 is we have a lot more room to cut in the 20 operations and engineering area, particular in 21 the rural areas.</p> <p>22 So our emphasis is going to be to try to 23 reallocate and look at Hydro Place and once 24 again, there's pockets there of departments 25 that are--have been cut pretty close and are</p>

Page 125	Page 126
<p>1 flat out, and our depth of expertise in behind 2 the first level of management, in some cases, 3 is not deep enough. But then there's other 4 areas, and I hesitate to mention them because 5 of the organizational implications of that, 6 but there's some areas which we feel compelled 7 we're going to have to look at, because they 8 just seem to be--you know, have some extra 9 staff there, but I can never say that until 10 you do the analysis. But that's the type of 11 thing we're going to be looking at there as 12 well, trying to do some reallocation there. 13 And also, if you look at the retirements 14 coming up and the way the--you know, 15 everything that's going to be happening over 16 the next while, there may be an opportunity, 17 if we see the need, to shift some 18 administrative head counts into the ops and 19 engineering piece of it. Difficult to do in 20 some cases because we may have a rural issue 21 and a Hydro Place urban issue and that might 22 be difficult to do, but we're taking it on to 23 see what we can accomplish there, you know. 24 So pretty--I'm not being too specific, 25 just to give an idea of some of the things</p>	<p>1 that we're looking at, and I will say though, 2 I don't foresee an overall shift down. I 3 don't necessarily see a shift up. I see more 4 of maybe a reallocation of resources, right 5 now, what I'm feeling, but I don't have the 6 facts to support that just yet. 7 Q. And I'm not trying to get at here where 8 they're going, up, down or--I'm just trying 9 to--do you see these translating, at a point 10 in time, into a set of sort of corporate 11 objectives that the Board can focus on, in 12 terms of what it is that you're trying to 13 achieve when you get the opportunity to--I'm 14 sure there are more things that you actually 15 want to look at perhaps before you're in a 16 position to do that. I'm just wondering, at 17 the end of the day, from where we sit, is this 18 something that we can expect might be 19 forthcoming from Hydro? 20 A. Yes, it will be, and I mean, I'm looking--the 21 process that I'm used to is, you know, 22 generally at the Board level and at the senior 23 management level, you take a ten-year outlook 24 based on a whole bunch of things and then when 25 you get into the senior management group, you</p>
Page 127	Page 128
<p>1 cut that to a five-year outlook. In all 2 honesty, you know, the fourth and fifth years 3 are usually a bit shaky on that stuff, but you 4 do it. You know, you end up--I find the first 5 three years are where you really focus on. So 6 the first one is your objective for that year 7 that your performance measures are based on. 8 But the next couple usually give you a pretty 9 good idea of where you're going and we're in 10 that process now actually of doing that. 11 We're in our second round. 12 (1:00 P.M.) 13 Last year, we instituted this process and 14 changed our planning process significantly, 15 and normally you would finish that process 16 probably by the end of January. Last year, we 17 had to defer it. We ended up getting into 18 July. We just had to keep going back to the 19 well because every--and certain amount of 20 engagement we were looking for, and every time 21 we landed on something, it was--and I tested 22 it, we didn't go deep enough. So rather than 23 have a--we were in a learning mode last year, 24 so rather than cut things off and have a set 25 of performance measures we could say we're</p>	<p>1 done on time, that were low quality, I took 2 the plunge last year to say, well, no, let's 3 just keep working it. It's not perfect for 4 last year, but it's going to get the process 5 clear, and we ended up in July, we finally, 6 you know, set those KPIs, which was a 7 considered decision, but we learned a lot. 8 This year, we're still not there, but it 9 looks like we're going to be--by the end of 10 January, it looks like we're going to have 11 them this year. And that would include our 12 own corporate level objectives, the 13 departmental VP objectives, as well as their 14 personal performance objectives. I'm 15 targeting the end of January. It might be 16 into February, but a big improvement. I would 17 say next year we're probably going to be in a 18 situation where we're going to have that back 19 to, you know, January the 15th, you know, cut 20 off, because I'm starting to see some momentum 21 going right now in terms of how that's being 22 handled down through the organization. 23 Q. You did make the comment targets do focus 24 people and the corollary of that, targets 25 focus organizations as well, I guess, and it's</p>

Page 129	Page 130
<p>1 a matter at a point in time of hoping again, 2 you know, that from a corporate perspective 3 and a corporate overview we'd get a sense of 4 where you and your Board of Directors feel 5 Hydro will be going, in terms of some of these 6 corporate objectives, I suppose, and corporate 7 plans that you might have.</p> <p>8 A. We'll be pleased to share those, and I think 9 they'll be ready sooner than later, when you 10 think in terms of years, you know.</p> <p>11 Q. Just briefly, and again, as CEO of the 12 organization, you talked about your goal 13 setting, your monthly performance meetings. 14 You talked about things around targets, you 15 don't discuss them. Would you just share with 16 me, and I'm not looking for a long expose, but 17 really your management philosophy and how 18 things get done within Hydro and what 19 processes you're engaged in now, and believe 20 me, we're not--we have no interest in becoming 21 any part of the--we respect the situation in 22 terms of management, but just the sense of how 23 things operate within Hydro, from your level 24 down, I guess, and how you see things get done 25 within the organization itself.</p>	<p>1 A. Well, I start off, I believe, particularly 2 with the vice presidents, I mean, I believe, 3 you know, they're running their own business. 4 Each of the four lines of business, we've 5 hired the right people to run their own 6 business, so I'm not intending to be involved 7 in the day-to-day running of that business. 8 So that's, you know, they have a very high 9 level of empowerment, but my personal 10 philosophy is you just can't give empowerment 11 unless you do two things. You give a clear 12 expectation of how you expect these people are 13 going to perform, from both a behavioural 14 perspective and also from a technical 15 perspective, and so there are very clear 16 expectations that are set, in terms of what 17 they're expected to bring to the organization. 18 And then, the second thing is you have to have 19 100 percent alignment in terms of what the 20 goals and objectives and long-term strategy 21 is. Without that, you'll fail because they'll 22 be empowered to do something that you may not 23 even be thinking about.</p> <p>24 So we spend a massive amount of time-- 25 most of my time is spent on the planning</p>
Page 131	Page 132
<p>1 cycle, with the vice presidents. We have 2 instituted a process where we take a cross 3 section of the organization, from the 4 tradespeople and the utility workers in the 5 rural areas up through supervisors and 6 management and we form separate goal teams. 7 We set a series of eight goals that we're 8 heading for. We do that together as a VP 9 group. In those eight goals, we have a cross 10 section of employees make up goal groups. 11 Each one of those goal groups is led by a VP, 12 and those people work that goal and work the-- 13 all the information comes into it and then 14 those people are expected to go back and 15 inform their fellow workers, which is why we 16 got delayed last year. All that happened, it 17 was great to say, when we went out into the 18 field, done one trip and you know, some people 19 didn't know what in the hell was going on, so 20 we just had to recycle and go back and do some 21 of that.</p> <p>22 But in any event, these goal groups come 23 up and then that particular vice-president, 24 with the rest of the leadership team, will go 25 back in the leadership team role and will</p>	<p>1 review those eight goals, where they come 2 from. We'll get alignment in terms of where 3 we're trying to go, and at that point, based 4 upon all the inputs and all the benchmark data 5 and everything, and I might have some top end 6 adjustments or Mr. Haynes might have some top 7 end adjustments, but that's handled at the 8 leadership team level, the final lock down, 9 and we've also included the IBEW in the 10 leadership team, with respect to that last 11 final cut. We've taken the IBEW executive 12 because we know we are going to fail without 13 them in some of the things that we're trying 14 to achieve.</p> <p>15 So then last going off, we're there and 16 we'll cut--we'll finalize these things and the 17 agreement with the IBEW is that, when it gets 18 right down to it, I have the hammer, and you 19 know, if there's any disagreement or any 20 confusion, I'll just say that's the way it's 21 going to be, and that's the way it's going to 22 be, but in the meantime, we've had a lot of 23 engagement throughout.</p> <p>24 But armed with that, we have a series of 25 detailed objectives for a five-year period.</p>

Page 133	Page 134
<p>1 As I mentioned, the first three are probably 2 more solid. The first one is locked down. 3 And once we do that and sign off on it, they 4 take those corporate objectives. The VPs have 5 the same process in their departments, and 6 they lock down, and then I do the personal 7 performance contracts with the vice presidents 8 that have both a performance in terms of 9 achieving some activities, but it's also 10 behavioural part, which you know, how they're 11 expected to lead, and then we lock those down 12 and sign off, and then they're on their own to 13 run that business, and you know, they're 14 accountable for it then. We have it in such a 15 way, they're fingered for the accountability. 16 If they perform, everything's fine. If they 17 don't, we have to deal with that. And through 18 the course of the year, we spend a lot of 19 time--that's why at these performance meetings 20 on a monthly basis, we only spend time on the 21 problem areas, because as we've agreed, if we 22 share the problem areas, we share 23 accountability and then it's up to the 24 organization to make some decisions, are we 25 going to take resources from here to fix that</p>	<p>1 or are we going to just absorb it, and we make 2 those decisions as a leadership team then, and 3 then we all take accountability and we have 4 the best chance to reallocate and have our 5 best chance for making it. 6 Just our last go around, we had one 7 instance where we had some environmental 8 measures that were missed, for instance, at 9 the end of the year, and we called the 10 accountables in from the field in the 11 environmental department, great people, I 12 mean, really hard workers, but they had to 13 come to the leadership team and they were told 14 that look, performance wise, fantastic, A 15 plus, you know, and the work you put in, A 16 plus. Then we said, but you broke the 17 cardinal rule, is that you kept telling us, 18 until November the 29th or December the 2nd 19 that things were fine and that's the only area 20 in the organization where someone tripped in 21 terms of--and we had no time to react. So 22 they were heavily chastised. I mean, there 23 has to be consequences for actions, in terms 24 of that one piece, because the goal is not to 25 punish people for not performing. The goal is</p>
Page 135	Page 136
<p>1 to find out as early as you can when you have 2 to do reallocation of resources throughout the 3 year. So we spent a lot of time on being 4 clear to them, great on performance and what 5 you did, but you're taking a knock here 6 because you didn't tell us in time to be able 7 to react. You know, so that's sort of an 8 example of what happens. 9 Then day to day, the VPs run the business 10 and I'm there to advise, help where I can. 11 I'm into a lot of detail, probably more than 12 I'd like to be at this point, but it's a 13 learning experience. We're trying to find out 14 how we react with each other, and I think over 15 the last three or four months, it's becoming 16 clear and you're starting to see more a 17 typical, you know, break there, in terms of 18 those--the VPs are running the day-to-day 19 business and, you know, I'm coming back 20 looking more up and out, and it's starting to 21 evolve now. 22 Q. Thank you. Ms. Butler, anything else? 23 BUTLER, Q.C.: 24 Q. I think I go last. 25 CHAIRMAN:</p>	<p>1 Q. Pardon? 2 BUTLER, Q.C.: 3 Q. I think I go last on questions following the 4 panel. 5 CHAIRMAN: 6 Q. Okay. Anybody else? 7 KELLY, Q.C.: 8 Q. Back to Ms. Butler. 9 CHAIRMAN: 10 Q. That was an assumption I was making. 11 BUTLER, Q.C.: 12 Q. I can say no questions, Mr. Chairman, thank 13 you. 14 CHAIRMAN: 15 Q. Okay. Thank you very much. Thank you, Mr. 16 Martin. I found your testimony to be very 17 forthcoming and very cooperative. Thank you 18 very much. 19 A. Thank you. 20 Q. It is ten after. I understand that hopefully 21 the presentation is a half hour and I think 22 the questions will probably be limited, if any 23 at the end, so we'd have the--we can get this 24 in before 2:00. Mr. Mitchell is making the 25 presentation, I think, is that correct?</p>

Page 137

Page 138

1 BUTLER, Q.C.:
 2 Q. Yes, he is, Mr. Chairman. Thank you. I'd ask
 3 him to come forward, and I think Mr. O'Reilly
 4 has the stack of slides. In the interest of
 5 time, Mr. Chairman, while we're waiting for
 6 those to get handed out, I'll just ask the
 7 witness to be sworn.
 8 CHAIRMAN:
 9 Q. Sure, okay. Good afternoon, Mr. Mitchell.
 10 Would you take the Bible in your right hand?
 11 MR. GLEN MITCHELL (SWORN)
 12 BUTLER, Q.C.:
 13 Q. Mr. Mitchell, you are Manager of Rates and
 14 Financial Planning with Newfoundland and
 15 Labrador Hydro?
 16 A. Yes, I am.
 17 Q. And in that capacity, you too filed pre-filed
 18 testimony in this case back in August 2006?
 19 A. Yes, I did.
 20 Q. And for the benefit of your attendance here
 21 today, do you adopt that pre-filed testimony
 22 as your sworn testimony, Mr. Mitchell?
 23 A. Yes, I do.
 24 Q. And at the Board's direction, have you
 25 prepared a presentation relative to what

1 everybody who has spoken today has described
 2 as being a very successful negotiation
 3 resulting in four separate agreement.
 4 A. Yes, I have.
 5 Q. You can lead us through it at your
 6 convenience.
 7 A. Okay. For anybody who knows me, Mr. Chairman,
 8 once you put lunch on the other side of this
 9 presentation, it kind of speeds it up.
 10 First of all, I'd like to thank the other
 11 parties. I am presenting this on behalf of
 12 the four parties to the negotiations. We did
 13 run the presentation back among the parties
 14 and incorporated their comments. Obviously,
 15 I'm giving the presentation, so, I ask your
 16 indulgence on anything I say from Hydro's
 17 perspective, obviously, that's where I'm
 18 coming from, but I'll try to be fair to the
 19 process as well.
 20 In terms of what I will present today,
 21 I'll present a summary of the agreements,
 22 summary of the rate changes, put it in some
 23 context in terms of rate comparisons across
 24 the country. And as well, summarize the
 25 process and the outcomes. Obviously, we were

Page 139

Page 140

1 all introduced this morning to the parties to
 2 this process; the Consumer Advocate,
 3 Industrial Customers, Newfoundland Power and
 4 Hydro. The negotiations were tough at times,
 5 but I think all the other parties were fair in
 6 terms of the agreements that we came to and
 7 the negotiations and so on. The parties are
 8 pleased to put forward the agreements and we
 9 feel that it results in a win, win for all,
 10 including most importantly, the ratepayers in
 11 the Province who benefit from the reduced
 12 costs and stable rates as well.
 13 Well, the agreements are summarized. On
 14 October 20, there was a first agreement on
 15 cost of service, rate design and the rate
 16 stabilization plan. Basically, that agreement
 17 dealt with the marginal cost study and it sets
 18 out rate design principles and outlines 2007
 19 rate and RSP reviews that are going to happen
 20 this year.
 21 Just as a bit of a background on that
 22 one, the marginal cost study was an important
 23 issue and you're aware of, over the past
 24 couple of hearings. And we had the experts in
 25 St. John's here for a day and we did come to a

1 negotiated settlement as to how the marginal
 2 cost should be incorporated into rates in this
 3 jurisdiction. So, we have successfully dealt
 4 with that issue which was probably the biggest
 5 issue from the last rate hearing. So, that
 6 was successfully dealt with.
 7 November 23rd there were three other
 8 agreement signed; revenue requirement
 9 agreement which basically settles the amounts
 10 for the 2007 Cost of Service Study and as
 11 well, the RSP calculations. There was a
 12 further agreement on cost of service and rate
 13 design and the other issues that were
 14 outstanding and basically, it dealt with the
 15 report on the value of the NP generation.
 16 Again, over the last couple of hearings, that
 17 was a significant issue from these hearings.
 18 And Stone and Webster did a report on that and
 19 it did get settled. And as well, that second
 20 agreement on November 23, there were some
 21 other RSP issues and as well, there was an
 22 agreement on rural isolated rates.
 23 (1:15 P.M.)
 24 And finally, there was an agreement on
 25 Labrador interconnected rates as well. It

Page 141	Page 142
<p>1 outlines the 2007 rate freeze and a rate 2 levelization in the 2008 to the 2011 period. 3 The next slide, there's several points 4 coming up now that are common to all the 5 agreements. So, I've categorized them upfront 6 here. The agreements represent a reasoned 7 consensus of the parties. There are 8 individual agreements on various issues and 9 they're not intended to be severable. It is 10 intended that the cross-examination of witness 11 on agreed upon issues would be limited to 12 questions of clarification. And parties 13 recommend that the Board make its 14 determination regarding agreed upon issues on 15 the basis of the parties' agreements. Parties 16 consent to admission, to the record of all 17 pre-filed testimony and exhibits related to 18 issues which were agreed upon. And issues not 19 agreed upon, should be determined by the Board 20 based on the full record of the hearing. So, 21 that is a section that was common to all the 22 agreements. 23 In terms of summary of the revenue 24 requirement and RSP and other issues, the 25 slide that's in front of you now is basically</p>	<p>1 a summary of the amounts or the numbers that 2 came out of the agreements in regard to 3 revenue requirement. There was a forecast-- 4 changes were incorporated. We did redid the 5 forecast for the 2007 amounts and there was a 6 reduction in fuel cost, interest rates and so 7 on, that amounted to 9.5 million dollars. And 8 there was an amount for errors and omissions 9 of a half million, for a total of 10 million. 10 There were other revenue requirement changes 11 which basically would be negotiated items, 2 12 million dollars. There was an amount, a 13 fairly significant amount of the RSP hydraulic 14 credit which was used in 2007 rates. And if I 15 just might add on that one, that was 16 incorporated into 2007 rates in light of the 17 fact that there was going to be a RSP review 18 done in 2007. And as well, at that time, from 19 Hydro's perspective anyway, we knew or there 20 was a good chance, excellent chance, that we 21 would be above the guide curve going into 22 2007. So, it was almost to the effect that in 23 addition to this 23 million, there was more 24 money in the bank, so to speak, in terms of 25 having good water, levels of water in our</p>
Page 143	Page 144
<p>1 reservoirs. So, that 23 million was used, at 2 that time to incorporate into 2007 and 2008 3 rates. And the effects on each of the 4 customers classes are shown there. 5 Newfoundland Power, a credit of 13 million in 6 2007 and seven million in 2008. And the 7 Industrial Customers, one million in 2007 and 8 two million in 2008. 9 As well, the CFB Goose Bay Revenue Credit 10 was put back against the 2007 revenue 11 requirement. And that was an amount of three 12 million dollars. And as well, the rate 13 implementation date of January 1 was agreed 14 upon in terms of interim rates. Further 15 points in the agreement, the cost of service 16 methodology was agreed upon with respect to 17 functionalization, classification and 18 allocation. Rate design principle were 19 accepted and used by the parties in reaching 20 an agreement and are set out in attachment A 21 to the October 20, 2006 agreement. And I 22 might say that these principles were a matter 23 that was discussed and negotiated among the 24 experts to the hearing as well. 25 In terms of a summary of the effect on</p>	<p>1 Newfoundland Power's rates from the agreement, 2 Newfoundland Power's rate will continue to be 3 a two part energy structure with the run out 4 block set at Holyrood fuel costs. The demand 5 rate will be reduced to \$4.00 per kilowatt per 6 month to better reflect current marginal 7 capacity costs. And again, the was a 8 negotiated settlement, that was one of the 9 important items coming out of the negotiations 10 with the experts as well. Demand billing rate 11 will continue to apply to a single winter 12 peak. However, that demand billing approach 13 is going to be reviewed this year with a 14 review to see whether it shouldn't be 15 reflected in more winter months. So, we will 16 be meeting with Newfoundland Power and the 17 other parties as well to discuss that. And 18 that's to be submitted to the Board by June 19 30. 20 With regard to Industrial Customer rates, 21 while the level of the 2007 rates will 22 decrease, the existing rate structure for 23 Industrial Customers will continue to apply. 24 However, the Industrial Customer rate 25 structure will be reviewed in 2007 in</p>

Page 145	Page 146
<p>1 accordance with a negotiated framework for 2 that rate design review. And again, that 3 framework is included in attachment to the 4 agreement.</p> <p>5 Hydro will host a technical conference on 6 this issue with the parties--in the agreement 7 it says, as soon as practicable, but in no 8 case, later than October 31, 2007. And it's 9 agreed that the parties would use best efforts 10 to have a January 1, 2008 rate implementation.</p> <p>11 With regards to the rate stabilization 12 plan, in 2007 Rate Stabilization Plan Design 13 objectives will be defined. And what this 14 basically is, is a look at the Rate 15 Stabilization Plan, it's been in place for 20 16 years now and there's some elements in there 17 other than fuel and hydrology and, I guess, in 18 discussing adding some more items into the 19 Rate Stabilization Plan and considering the 20 issues that are already included, it was felt 21 that it was a time to sit back and say, is the 22 Rate Stabilization Plan designed to do the 23 objectives that the parties would like. So, 24 it's a step back and have a new look at the 25 Rate Stabilization Plan. We're going to be</p>	<p>1 looking at the necessity of the load variation 2 component, enhancing the price signal for 3 marginal consumption and possibly simplifying 4 the RSP as well by tracking some provisions 5 elsewhere, other than in the Rate 6 Stabilization Plan. Again, Hydro will host a 7 technical conference on that issue as soon as 8 practicable, but no later than October 31 and 9 it's agreed that the parties would use best 10 effort to incorporate the results of that in 11 2008 rates.</p> <p>12 On the next slide, it's just an overall 13 summary of the reviews that are going to 14 happen in 2007. We are going to establish 15 terms for these reviews by February 1st and 16 that's as per the agreements. With regard to 17 the Newfoundland Power rate review, we're 18 targeting a June 30 filing. And in regard to 19 the IC rate review and the RSP review, we're 20 targeting technical conference at the end of 21 October and rate implementation on January 1, 22 2008. So, these are the targets.</p> <p>23 With regard to other items, customer 24 specifically assigned charges will continue to 25 be calculated as in the past. There was an</p>
Page 147	Page 148
<p>1 acceptance of the treatment of customer own 2 generation in the cost of service in 3 accordance with Stone & Webster's 4 recommendations. And that was basically an 5 agreement to continue to give Newfoundland 6 Power credit for their generation at embedded 7 cost. There was a couple of items that are 8 excluded that were there before and that is 9 the transmission credit. And as well, it was 10 agreed that there would be no affect on the 11 system load factor from Newfoundland Power's 12 generation. So, there's a couple of items 13 that got adjusted there.</p> <p>14 Hydro had proposed changes to the 15 treatment of CFB Goose Bay revenue credit. 16 And as well, had proposed changes to the RSP 17 to include RSP diesel fuel--I'm sorry--to 18 included rural diesel fuel and purchase power 19 cost variances. But as part of this 20 agreement, it was agreed that we would 21 withdraw that at this time. And it would be 22 part of the RSP review.</p> <p>23 Part of the agreement as well was that 24 Newfoundland Power's load forecast would be 25 reduced to exclude the effect of their</p>	<p>1 refurbishing of the Rattling Brook generating 2 station, that had the effect of the reducing 3 fuel costs on the system. And the Industrial 4 Customers had some benefit from that. All 5 components of rural isolated rates will be 6 subject to Newfoundland Power's rate 7 adjustments between General Rate Applications, 8 similar to rural island interconnected 9 customers. And that was triggered, this time, 10 by isolated customers having a higher than 11 average rate increase in Hydro's proposal. 12 And what actually happens there is they miss a 13 couple of the rate stabilization plan 14 adjustments along the way and there's a 15 catchup period. So, it was felt that really 16 that these adjustments should be done 17 periodically as island customers are done.</p> <p>18 As was spoken of earlier this morning, 19 there are a half a dozen issue outstanding; 20 automatic adjustment formula, integrated 21 resource planning, reliability, benchmarking, 22 oil purchasing and hedging and conservation.</p> <p>23 I'll summarize some of the rate changes 24 coming out of the agreements, but the on the 25 slide that's shown, there's a couple of items</p>

Page 149	Page 150
<p>1 other than amounts coming out of the</p> <p>2 agreements that do affect customers rates.</p> <p>3 And these are a couple of instances where the</p> <p>4 Province has contributed money and basically,</p> <p>5 there was a ten million dollars contribution</p> <p>6 to the Rate Stabilization Plan back last year</p> <p>7 paying off, in effect, Stephenville's RSP</p> <p>8 balance, historic balance. The Province is</p> <p>9 also committed to funding rural isolated areas</p> <p>10 where these larger than average increases that</p> <p>11 I spoke of a minute ago, they have funded this</p> <p>12 cause so that there would be a phasing there</p> <p>13 over the next couple of years.</p> <p>14 Slide 19 shows our original filing and</p> <p>15 the effect of the agreements as well as the</p> <p>16 contributions that I just spoke of. So, I</p> <p>17 won't read out those amounts, but one thing I</p> <p>18 will point out is that up until a couple of</p> <p>19 days ago, the amount for Industrial Customers</p> <p>20 was 13.9 percent decrease. But the Rate</p> <p>21 Stabilization Plan for December was completed</p> <p>22 late last week and we've incorporated the</p> <p>23 latest Rate Stabilization actuals to December</p> <p>24 for Industrial Customers. So, their decrease</p> <p>25 is now 18.3 percent.</p>	<p>1 As well, we've outlined future rate</p> <p>2 changes regarding the filing in December</p> <p>3 versus what's actually going to happen in</p> <p>4 terms of the agreement. And it's important to</p> <p>5 note that in filing, the numbers that are</p> <p>6 shown here, for instance, in Labrador West,</p> <p>7 these rates changes were going to occur in any</p> <p>8 event, without a general rate application or</p> <p>9 they were planned to occur if the Board were</p> <p>10 to approve them. So, these rate changes are</p> <p>11 shown and then on the right hand side is the</p> <p>12 resulting changes coming out of the agreement.</p> <p>13 So, in the case of Labrador West, for example,</p> <p>14 the domestic customer class, there was a</p> <p>15 planned 18 to 20 percent annual increase in</p> <p>16 each of 2007 and 2008. That's basically been</p> <p>17 spread out now over four years, 2008 to 2011.</p> <p>18 So, I won't read out each of these amounts,</p> <p>19 but basically the rate increases are spread</p> <p>20 out over a longer period of time. One thing I</p> <p>21 will highlight, on the screen under Happy</p> <p>22 Valley/Goose Bay, there's a larger general</p> <p>23 service class that's shown. That's probably</p> <p>24 never made it to your printed copies, but</p> <p>25 there was one item that was missed there that</p>
Page 151	Page 152
<p>1 we've included. And that's larger general</p> <p>2 service, 0.7 to 7.8 percent in 2007; that</p> <p>3 range of increases is no moved out to 2008.</p> <p>4 To put the rate changes in some context,</p> <p>5 we've gone back to July of 2004, our last rate</p> <p>6 change. And since then, there's be a 4.7 RSP</p> <p>7 increase in July of 2005, 4.8 percent in 2006.</p> <p>8 And then there was a planned 4.6 percent</p> <p>9 increase because of the General Rate</p> <p>10 Application planned for January '07 and as we</p> <p>11 know, that's now down to, for residential</p> <p>12 customers, it's down to .08 percent. That</p> <p>13 decrease, 4.6 percent down to .08 percent,</p> <p>14 there's a pie chart showing the reasons for</p> <p>15 that; 54 percent of it is due to the RSP</p> <p>16 hydraulic credit which was put against</p> <p>17 Newfoundland Power's rate and 46 percent of it</p> <p>18 was due to a revenue requirement change as</p> <p>19 part of the agreements.</p> <p>20 With regard to Industrial Customers, on</p> <p>21 January '05, they had a 10 percent annual</p> <p>22 increase. They have a 6 percent annual</p> <p>23 increase on January of '06. In October of</p> <p>24 2006, there was a six percent annual decrease</p> <p>25 because of government action. And as well,</p>	<p>1 Hydro's planned 8.2 percent annual increase is</p> <p>2 now down to an 18.3 percent decrease. So,</p> <p>3 again, the reason for that decrease is</p> <p>4 outlined in the pie chart; 64 percent of it is</p> <p>5 due to the historic plan which is mainly the</p> <p>6 contribution of the 10 million dollars by</p> <p>7 government; 28 percent of it is due to the</p> <p>8 current Rate Stabilization Plan and eight</p> <p>9 percent is because of the revenue requirement</p> <p>10 change.</p> <p>11 I've outline residential bill comparison</p> <p>12 with other provinces and obviously Manitoba</p> <p>13 Hydro, BC Hydro, Hydro Quebec are the leaders</p> <p>14 and have been for quite some time, in terms of</p> <p>15 rates. We are looking at, in terms of our own</p> <p>16 rate, looking at competitiveness within</p> <p>17 Atlantic Canada and you can see that the rate</p> <p>18 is competitive within Atlantic Canada. New</p> <p>19 Brunswick Power, the government intervened</p> <p>20 there and they had put a cap on the rate</p> <p>21 increase last year. Maritime Electric is</p> <p>22 subject to six percent GST only and they don't</p> <p>23 get the provincial portion. And as well, Nova</p> <p>24 Scotia Power, the government there has given</p> <p>25 an HST rebate as well. So, the island</p>

Page 153	Page 154
<p>1 interconnected rate is competitive within 2 Atlantic Canada. On the next slide, it just 3 outlines some increases that have been asked 4 for recently. Nova Scotia Power have 5 requested a 7.5 percent increase effective 6 April 1, 2007. Hydro Quebec, 2.8 percent 7 increase effective April 1. SaskPower has 8 requested a 4.3 percent increase. 9 (1:35 P.M.) 10 A. And interestingly enough, last week there was- 11 -a Notice came out with regard to a negotiated 12 settlement affecting a reduction in BC. So, 13 the BC rate increase, effective July 1, 2006 14 went from 4.7 down to 1.5 and there's a little 15 bit more to that one. I think there's a two 16 percent rider going on again February 1, but 17 this just gives an idea of the rate changes 18 that are happening around the country. With 19 regard to Industrial rates, obviously, they're 20 competitive with the decrease there, 4. 9 21 cents, a little bit less than Hydro Quebec. 22 I'm sure Mr. Hutchings is pleased. SaskPower, 23 NB Power, Nova Scotia Power and so on are 24 higher, obviously, than our Industrial rate. 25 Again, New Brunswick Power had an amount that</p>	<p>1 was approved by the regulator, but the 2 government had put a cap on the increase 3 there. 4 Some commentary here on the process and 5 just put it a little bit in perspective. I 6 know you, Mr. Chair, had spoke earlier about 7 the cost and so on. If you look back at the 8 rate hearing cost that was paid by Hydro back 9 in 2001, it was 4.3 million dollars, and in 10 2003 it was 3.8 million dollars. So it's 11 fairly significant cost. But on the following 12 chart there we don't have all the costs in on 13 this hearing just yet, but we know an estimate 14 of Hydro's internal salaries, a component of 15 the earlier slide and in relation to 2003 16 we're about half the internal cost of the 2003 17 hearing. And as well, the time from the 18 filing to interim rate implementation was five 19 months this time and previously it was 13 and 20 15 months. Having said that, we did start 21 this process back earlier in the year, so 22 there was some work that went into this prior 23 to our filing. 24 Requests for information are outlined on 25 the next slide. There's around 650 requests</p>
Page 155	Page 156
<p>1 for information this time round. 2003 there 2 were around 1500. And just a couple of items 3 on that. The negotiations do streamline the 4 process, it is felt. The parties are able to 5 talk directly with each other and so on. But 6 one aspect of that is that there is still a 7 need to get a certain amount of information on 8 the record, and so that's why there's 650 9 RFIs. There is a need to document what's 10 being done. I think from Hydro's perspective 11 we would say that the ones that are on the 12 record are the harder ones from previous 13 times, and maybe a lot of the information was 14 shared that's not here this time. So I think 15 the ones that are on the record are solid, 16 tough RFIs for the most part. That's the way 17 Hydro would spin it, anyway. Information, as 18 we said, still has to get on the record, so. 19 In terms of the drivers for the success 20 this time round, we did have some success the 21 last hearing with the rate stabilization plan 22 negotiations. These were fairly complex 23 negotiations and it was felt that that was at 24 least some indication of what could be done in 25 the future. Another very important driver,</p>	<p>1 obviously, was the direction given by the 2 Board early last year. The Board has sent out 3 a letter to the parties and they had spoken to 4 the parties that they would like to see the 5 cooperation of the stakeholders and permit 6 timely conclusion to what was planned to be 7 two GRAs last year. They required, you 8 required a proactive approach from everybody 9 to allow the general rate applications to move 10 forward at an unprecedented pace, and Hydro 11 was requested to discuss with the parties the 12 intended schedules and any other steps that 13 could be taken to facilitate the timeline that 14 the Board had outlined. 15 The other background here was that it was 16 known that in the United States, particularly 17 there's--it's fairly common to settle issues 18 and even settle the entire rate case. In 19 Canada it's becoming more common, as was just 20 mentioned with regard to British Columbia, 21 that regulators pursue alternate dispute 22 resolution, so there was that background 23 there. It's also felt that the province, 24 we're only half a million people and, you 25 know, there is an onus on participants to have</p>

Page 157	Page 158
<p>1 an efficient and effective process which is 2 less time consuming and costly than probably 3 the past processes. And this time round the 4 circumstances were developed which facilitated 5 settlement, and that's basically we were able 6 to have practically no rate increase. I guess 7 we would only hope in the future when, you 8 know, no doubt there will be rate increases in 9 the future that there will still be able to be 10 settlement in spit of having some rate 11 increases.</p> <p>12 The outcomes, negotiated settlement does 13 result in more efficient and effective process 14 with cost savings and resource savings. The 15 resulting savings, cost savings have been 16 shared with customers in the form of lower 17 rates. Also, Hydro provided information to 18 the province, and, as was seen, they came with 19 a couple of solutions in regards to industrial 20 rates and isolated customer rates.</p> <p>21 The negotiated settlement did permit a 22 thorough and rigorous review of Hydro's 23 application and in this regard the regulatory 24 process has been respected.</p> <p>25 Solutions were developed during this</p>	<p>1 process which may not have even been 2 considered or achievable in a contested 3 hearing. And I think that was mentioned 4 earlier, as well. And we feel that negotiated 5 settlement has resulted in a win, win such 6 that the agreement resulted in a January 1st 7 rate implementation which was requested by 8 Hydro.</p> <p>9 And Mr. Martin had spoken earlier about 10 Hydro getting back to a level of 11 profitability. This chart in front of you 12 shows from 2003 up to 2007. And basically 13 what happens here is that in 2003 there was a 14 loss on our regulated operations. We did, by 15 implementing rates in 2004, return again to a 16 level of profitability. Again, as you move 17 away from a test year the return, with 18 increasing costs and so on, the return will 19 decline. And again, in 2007 with the new 20 rates in place, obviously we're projecting to 21 earn a return and a measure of profit this 22 year, otherwise, there would have been a loss. 23 And that's shown on the next chart. It was 24 very important to Hydro in this case to get a 25 rate on January 1st. As you can see, once you</p>
Page 159	Page 160
<p>1 go past January 1st, if the rate 2 implementation was delayed, there's a quick 3 deterioration in our level of profit. And 4 that's why it's so important--it's because of 5 the demand energy rate structure with 6 Newfoundland Power, obviously the winter 7 period is very important. And you know, in 8 the future I think we're going to have to 9 target, in some manner, a January 1st rate 10 implementation. As you can see from the 11 chart, had we not got the rates all year, it 12 would have been an eight million dollar loss, 13 eight or nine million dollar loss.</p> <p>14 Some questions about your short-term 15 financial picture was asked of Mr. Martin. 16 And this may be somewhat of a repeat, but 17 Hydro has returned to a level of profitability 18 and thus is able to avoid a loss which was 19 projected this year and it would have had a 20 negative impact, obviously, on the Company. 21 This has been accomplished, return to a level 22 of profitability has been accomplished with 23 virtually no rate increases and without 24 jeopardizing employee safety, customer service 25 or future rate stability. An increase in the</p>	<p>1 level of the return without a rate increase 2 has been achieved through cost reductions and 3 the big items there were fuel and interest and 4 as well through the use of the RSP hydraulic 5 surplus.</p> <p>6 I think Mr. Martin again spoke about this 7 area in terms of Hydro's short-term financial 8 picture and in terms of Hydro's financial 9 plans in the near term. In Hydro's filed 10 evidence it is stated that there continues to 11 be inherent risks of a low rate of return on 12 Hydro's financial integrity and Hydro is 13 working to address these issues, so. I think 14 Ms. Newman had asked Mr. Martin these 15 questions, so.</p> <p>16 With regard to future general rate 17 applications, I think there has been a 18 maturing of the regulatory process in the 19 province, as has been mentioned earlier. The 20 parties do encourage future negotiation 21 processes and it's recognized that the Board 22 plays a very important part in this, as has 23 been expressed earlier with regard to this 24 process, and that is that the Board pursues 25 this as a means of solving some of the rate</p>

Page 161

1 issues. So we encourage the Board to continue
2 along this line of thinking and pursue this
3 with the parties.
4 Again, I had a note here to thank Mr.
5 Kennedy, who was a facilitator in the process,
6 so, and as well the Board staff who we had met
7 with a couple of times, so. So that's it from
8 our perspective.
9 BUTLER, Q.C.:
10 Q. Mr. Chairman, I wonder if I might point out,
11 the discrepancy between the hard copy and the
12 electronic copy of slide 20 should be
13 something that we would want to correct. So
14 and I might have missed it, but have the
15 slides been labelled with an exhibit number?
16 MS. NEWMAN:
17 Q. No. We'll do that now, it's GM No. 1. And
18 they should be sent to us electronically, I
19 guess, if they haven't already then and we'll
20 get the correct version electronically.
21 BUTLER, Q.C.:
22 Q. Thank you, very much.
23 CHAIRMAN:
24 Q. Thank you, Mr. Mitchell, Ms. Butler. This is
25 a joint presentation. I'll give anybody the

Page 163

1 one is PUB-23 NLH. And this RFI relates to
2 the revenue requirement agreement, and in
3 particular it relates to the settlement in
4 relation to the Natuashish costs. I wonder if
5 you can clarify for the record if the
6 Natuashish costs is to be put off to the
7 future, including the issue of whether there's
8 to be any recovery? Reading the RFI answer, I
9 just wanted to make sure that that was clear
10 on the record that the entire issue was being
11 put off, not just the timing or the amount.
12 MR. YOUNG:
13 Q. Mr. Chair, if it please the Board, I'd like to
14 respond to that, if I might? I think this is,
15 to some degree, a matter of legal
16 interpretation and regulatory practice more
17 than it is specifically rates evidence, as
18 such. And I'd also indicate that to some
19 degree this question which is being posed and
20 at this point being answered by me is one
21 that's really in relation to the agreement.
22 So it may be that I'm speaking or mis-speaking
23 the common interpretation. And of course, if
24 other counsel for other parties have a
25 slightly different take on this, I'd ask them

Page 162

1 opportunity to comment briefly, if they wish.
2 MR. JOHNSON:
3 Q. Mr. Chairman, I don't plan to make any further
4 comments.
5 CHAIRMAN:
6 Q. Anybody else?
7 HUTCHINGS, Q.C.:
8 Q. Nothing further.
9 CHAIRMAN:
10 Q. Okay. Ms. Newman? No?
11 MS. NEWMAN:
12 Q. Yes, Mr. Chairman. I'm wondering, I'm
13 prepared to proceed, I have about two
14 questions. This is new information to the
15 Board in that it wasn't pre-filed. If you
16 wish, you know, I can proceed and ask the
17 questions, we can get it over with or we could
18 bring Mr. Mitchell back tomorrow.
19 CHAIRMAN:
20 Q. I think we had a target of two. That seems to
21 be achievable, so if everybody is okay, go
22 ahead, yeah.
23 MS. NEWMAN:
24 Q. So both questions, Mr. Mitchell, relate to
25 RFIs that the Board put to Hydro. The first

Page 164

1 to correct it. But our perspective on this is
2 we would draw a distinction between matters of
3 regulatory practice as to what's going on
4 here. And let me explain. The issue of
5 whether or not a cost incurred in a single
6 year which is then deferred to be recovered in
7 a subsequent year is all that this agreement
8 relates to. So, for example, put this in some
9 perspective, it is possible that we may incur
10 costs in 2007 in relation to this issue. We
11 don't, at this point, know for sure. And in
12 the agreement we said were that to occur,
13 would the parties object to Hydro applying to
14 the Board to defer those costs into a later
15 year. And that does raise issues of
16 regulatory practice and principles. My
17 understanding of the agreement on this point
18 is that the parties do not have any problem
19 with Hydro making the application as to the
20 deferral. And sometimes, of course, this
21 comes into retroactive rate making or recovery
22 of costs later, something you'd normally have
23 to ask the Board special leave for, and our
24 understanding is the parties don't object to
25 that. But that doesn't answer the other

Page 165	Page 166
<p>1 issue, as to whether or not any of these</p> <p>2 specific costs would be agreed to by the Board</p> <p>3 or by the parties, from the point of view of</p> <p>4 their consent, and the manner of the recovery.</p> <p>5 So if I can, just to be clear here, what the</p> <p>6 parties, as I understand it, are doing in this</p> <p>7 agreement is permitting Hydro to apply to the</p> <p>8 Board without objecting to the principle of</p> <p>9 the deferral. But the level of cost recovery</p> <p>10 is not something that they have joined issue</p> <p>11 in at all and they would be free to make any</p> <p>12 representations to the Board on that point at</p> <p>13 all. I hope that clarifies it.</p> <p>14 MS. NEWMAN:</p> <p>15 Q. If there's no comment from the other parties,</p> <p>16 they're all in agreement, that's fine from my</p> <p>17 perspective in terms of clarifying that issue.</p> <p>18 Thanks.</p> <p>19 The next RFI, next issue, the last</p> <p>20 question is similar. It relates to the</p> <p>21 agreement and interpretation of how that's to</p> <p>22 be applied by the Board. I'm referring to an</p> <p>23 RFI put to Hydro, it's PUB-25, 25, NLH. And</p> <p>24 that comes from the first agreement, the cost</p> <p>25 of service agreement where everyone will</p>	<p>1 recall there was three reviews that were</p> <p>2 contemplated; the wholesale power rate design</p> <p>3 for Newfoundland Power; the rate design for</p> <p>4 the ICs; and the redesign of the RSP to better</p> <p>5 meet design objectives. And this agreement</p> <p>6 lays out in some detail the process that's to</p> <p>7 be followed in terms of these reviews, and to</p> <p>8 some degree some principles that were deemed</p> <p>9 to be important. It does set out some</p> <p>10 timelines and some obligations on the various</p> <p>11 parties. I just want to clarify for the</p> <p>12 record that the aspects of this agreement that</p> <p>13 relate to process and principles are severable</p> <p>14 in the sense that the parties are not seeking</p> <p>15 the sanction of the Board of those particular</p> <p>16 things, and in fact, they're very fluid and</p> <p>17 may change over the course of the development</p> <p>18 of these three reviews?</p> <p>19 MR. YOUNG:</p> <p>20 Q. Mr. Chair, you might notice that Ms. Newman</p> <p>21 was looking at me when she asked the question,</p> <p>22 and it's probably appropriate because I'm</p> <p>23 going to jump in again. I don't think Mr.</p> <p>24 Mitchell will be upset with that.</p> <p>25 A. Feel free.</p>
Page 167	Page 168
<p>1 Q. And the answer to the RFI, I think,</p> <p>2 essentially indicates Hydro's view on this,</p> <p>3 but I should elaborate, obviously, because an</p> <p>4 elaboration is required. I would like to make</p> <p>5 it clear that if the Board felt that these had</p> <p>6 to be severable from Hydro's perspective, that</p> <p>7 would be fine, but I should explain why we</p> <p>8 feel that way. As opposed to the various</p> <p>9 things in the agreement which have direct</p> <p>10 impact on revenue requirement or on the</p> <p>11 outcome or the December the 6th filing, and</p> <p>12 particularly costing methodologies, what these</p> <p>13 review processes do is set out a framework for</p> <p>14 the parties to negotiate further. And the</p> <p>15 parties, in their discussions, determined that</p> <p>16 it would be better and more productive if they</p> <p>17 were to put that within some sort of framework</p> <p>18 other than just we'll get back together again</p> <p>19 in the summer, put some time tables on that,</p> <p>20 list the principles that we were going to</p> <p>21 engage in and discuss. If the Board were to</p> <p>22 take no particular view on any of those</p> <p>23 agreements or were to advise the parties that</p> <p>24 the agreements that the parties have made,</p> <p>25 which doesn't really form part of the revised</p>	<p>1 filing, as such, if they were to advise the</p> <p>2 parties, Hydro or the parties that some of</p> <p>3 these timelines might be, for example,</p> <p>4 ambitious or that there might be other issues</p> <p>5 that we would wish to pursue, we would be only</p> <p>6 too happy to receive that guidance, either</p> <p>7 through the Board directly or from the Board</p> <p>8 staff, if it's communicated in that manner.</p> <p>9 But at core here we don't believe, and again,</p> <p>10 I would ask the other parties to add their</p> <p>11 viewpoint if it differs from this one, but at</p> <p>12 core here we don't believe that the nature of</p> <p>13 this portion of the agreement really requires</p> <p>14 the Board to take any particular action on it</p> <p>15 and in that sense we see that it is severable</p> <p>16 if necessary, but not necessarily severable,</p> <p>17 if I can put it that way. I don't know if</p> <p>18 that clarifies that.</p> <p>19 MS. WHALEN:</p> <p>20 Q. Except for the last three words.</p> <p>21 MR. YOUNG:</p> <p>22 Q. I'm probably beating up an old historical</p> <p>23 metaphor. But I guess our perspective is that</p> <p>24 if the Board determines it has to take a view</p> <p>25 on this and it has to carve these out as part</p>

Page 169	Page 170
<p>1 of the agreement, we're fine with that. We</p> <p>2 don't feel the Board's jurisdiction would be</p> <p>3 moved to have to do that, though. We think</p> <p>4 the parties have essentially communicated to</p> <p>5 the Board something we intend to carry on to</p> <p>6 do and it doesn't require any particular</p> <p>7 remedy order of the Board on that part.</p> <p>8 CHAIRMAN:</p> <p>9 Q. Any particular comment?</p> <p>10 HUTCHINGS, Q.C.:</p> <p>11 Q. Mr. Chair, if I might, and we discussed this</p> <p>12 in the counsel meeting earlier on. I think,</p> <p>13 you know, in terms of the relationship between</p> <p>14 the parties here, I mean, the agreements were</p> <p>15 not severable because they were all a part of</p> <p>16 a package and we all agreed to do those</p> <p>17 things. But simply because these review</p> <p>18 processes are in the agreements doesn't</p> <p>19 necessarily mean that the Board has to order</p> <p>20 anything, as Mr. Young has pointed out. So</p> <p>21 from the Board's point of view, I think you</p> <p>22 need to consider what order you want to make</p> <p>23 about rates and any other specifics, you don't</p> <p>24 need to make any order about these processes,</p> <p>25 I don't think. But the parties will</p>	<p>1 nonetheless and have agreed to be bound by</p> <p>2 what they've agreed to, so it is severable in</p> <p>3 that sense in that the Board doesn't have to</p> <p>4 deal with it, but as amongst ourselves, it's</p> <p>5 part of the package.</p> <p>6 CHAIRMAN:</p> <p>7 Q. Thank you. Anything else?</p> <p>8 MS. NEWMAN:</p> <p>9 Q. I have no further questions.</p> <p>10 MR. JOHNSON:</p> <p>11 Q. I adopt the words of my learned friend.</p> <p>12 MS. NEWMAN:</p> <p>13 Q. Thank you, Mr. Mitchell, for yours and your</p> <p>14 able assistants wonderful answers. Thank you.</p> <p>15 CHAIRMAN:</p> <p>16 Q. Thank you, Ms. Newman. Commissioner Whalen,</p> <p>17 any questions?</p> <p>18 VICE-CHAIR WHALEN:</p> <p>19 Q. I have no questions. Thank you, Mr. Mitchell.</p> <p>20 That was very helpful.</p> <p>21 CHAIRMAN:</p> <p>22 Q. I have no particular questions, Mr. Mitchell,</p> <p>23 just I guess some final--do you have any</p> <p>24 redirect?</p> <p>25 BUTLER, Q.C.:</p>
Page 171	Page 172
<p>1 Q. I have no redirect, Mr. Chairman. I'm just</p> <p>2 curious as to whether the witness, once the</p> <p>3 panel is finished with the questions, is</p> <p>4 relieved because anticipating the panel, Mr.</p> <p>5 Henderson and Mr. Haynes, then first thing</p> <p>6 tomorrow morning.</p> <p>7 CHAIRMAN:</p> <p>8 Q. That would be my understanding. Mr. Haynes</p> <p>9 and Mr. Henderson are the next scheduled</p> <p>10 witnesses, Ms. Newman? Is that correct?</p> <p>11 MS. NEWMAN:</p> <p>12 Q. Yes, yes.</p> <p>13 CHAIRMAN:</p> <p>14 Q. We'll be fine. Just, I guess, just one final</p> <p>15 comment, and I won't belabour this, but as I</p> <p>16 indicated this morning, I guess, in my opening</p> <p>17 remarks, I want to commend all the parties in</p> <p>18 terms of the work in this area and what's been</p> <p>19 accomplished here. I think it is indeed</p> <p>20 significant. I know, Mr. Mitchell, it's</p> <p>21 reflected in terms of the costs in here, but</p> <p>22 just to comment. I think the first fully</p> <p>23 regulated hearing of Hydro in 2001, I was here</p> <p>24 about three months at the time, took 61 days,</p> <p>25 as I recall. I didn't know I had such</p>	<p>1 discipline and strength. I avoided the</p> <p>2 temptation of alcohol as a remedy to see me</p> <p>3 through it, to tell you the truth. But in any</p> <p>4 event, 61 days, which was quite a marathon</p> <p>5 hearing, respecting the fact that it was the</p> <p>6 first fully regulated hearing of Hydro at the</p> <p>7 time. 2003, 35 days, you know, and I think</p> <p>8 the consensus is, by the end of this week</p> <p>9 hopefully, we will have concluded the</p> <p>10 substantive part of the hearing. So it is a</p> <p>11 remarkable achievement, there's no question</p> <p>12 about it, and I think there's--again,</p> <p>13 everybody respects the fact that there's no</p> <p>14 expectation that this, a settlement process is</p> <p>15 always going to be as successful as this, but</p> <p>16 certainly, I think it behooves all of us to</p> <p>17 try this in the first instance, in the</p> <p>18 interest of regulatory efficiency and reduced</p> <p>19 costs, and see what can be achieved. There's</p> <p>20 no doubt about that. And I fully realize</p> <p>21 there may be improvements to this past process</p> <p>22 as well, and as far as the Board is concerned,</p> <p>23 we're committed to working with the parties to</p> <p>24 see what they can be, certainly, and if</p> <p>25 there's anything that makes sense here and we</p>

1 can streamline this process a little bit
2 further, well, that's fine, we're all wanting
3 to do that.

4 I think with regard to the capital budget
5 process, there's been some headway made there
6 as well, and I think there's some guidelines,
7 I believe, going out, the provisional
8 guidelines, to see what, if any, improvements
9 can be made in that area. So I think we're
10 all working toward the same end here, and it
11 seems there is a good measure of cooperation,
12 and hopefully that can continue, in the
13 interest of ratepayers and ultimately in
14 improving the regulatory efficiency of these
15 processes in general. So I just want to make
16 those final comments, I guess. Thank you very
17 much.

18 2:00 right on the button--one minute to.
19 In any event, that concludes the proceeding
20 for today. I'd like to thank Mr. Martin as
21 well for his appearance here this morning, and
22 Mr. Mitchell, and we'll see everybody 9:00
23 tomorrow morning with Mr. Henderson and Mr.
24 Haynes. Thank you.

1 CERTIFICATE

2 I, Judy Moss, hereby certify that the
3 foregoing is a true and correct transcript in the
4 matter of Newfoundland and Labrador Hydro's Revised
5 2006 General Rate Application heard on the 22nd day
6 of January, A.D., 2007 before the Board of
7 Commissioners of Public Utilities, Prince Charles
8 Building, St. John's, Newfoundland and Labrador and
9 was transcribed by me to the best of my ability by
10 means of a sound apparatus.

11 Dated at St. John's, Newfoundland and Labrador
12 this 22nd day of January, A.D., 2007
13 Judy Moss