

Page 1	Page 2
<p>1 (9:02 a.m.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. Good morning. Are there any preliminary</p> <p>4 matters, Ms. Newman?</p> <p>5 MS. NEWMAN:</p> <p>6 Q. Yes, good morning, Chair and Commissioners. I</p> <p>7 believe there's a couple of documents that</p> <p>8 Newfoundland Power has filed this morning.</p> <p>9 They may wish to just want to explain the two</p> <p>10 of them.</p> <p>11 MR. MYLES:</p> <p>12 Q. Mr. Chair, yesterday, I advised the Board that</p> <p>13 we would be filing a revision to that table on</p> <p>14 the Corner Brook upgrade for the Walbourne</p> <p>15 station, and that's one of the revisions. And</p> <p>16 the second one is an undertaking was given</p> <p>17 yesterday with respect to depreciation rate</p> <p>18 for meters, and that's marked U-1.</p> <p>19 CHAIRMAN:</p> <p>20 Q. Thank you.</p> <p>21 COMMISSIONER MARTIN, Q.C.:</p> <p>22 Q. I just have one question and I'm not sure if</p> <p>23 you can answer it, Mr. Myles, now the panel is</p> <p>24 gone. But in looking at the load forecast,</p> <p>25 five-year forecast from yesterday, Walbourne's</p>	<p>1 4 and 5 T2, I understood that with the new</p> <p>2 substation--or that this old chart included</p> <p>3 the new substation, and that the one filed</p> <p>4 this morning is without the new substation.</p> <p>5 Is that correct?</p> <p>6 MR. MYLES:</p> <p>7 Q. That's correct. The difference--well,</p> <p>8 actually the problem with yesterday's chart</p> <p>9 was that the Bayview actually was showing one</p> <p>10 of the alternatives that was being considered</p> <p>11 and not--so under the category of existing, I</p> <p>12 don't have it in front of me. Maybe help if I</p> <p>13 do that. Under the category of existing, it</p> <p>14 was showing 45 and that was premised on a 25</p> <p>15 kVA transformer being installed there, which</p> <p>16 is not the option which is being considered.</p> <p>17 So the column was incorrect and so that's what</p> <p>18 we've done is change it. So now what you see</p> <p>19 is, as I understand it, this is the way it is</p> <p>20 now without the changes, subject to the two</p> <p>21 notes that are there. So for example, Bayview</p> <p>22 currently has 20. Walbourne's has the two</p> <p>23 transformers, one's a 20, one's a 15. The one</p> <p>24 that's in--the Walbourne's transformer at 15</p> <p>25 is the going that's going to be transferred</p>
Page 3	Page 4
<p>1 into Bayview and the new 25 goes into</p> <p>2 Walbourne's.</p> <p>3 So this is the current forecast without</p> <p>4 any of that happening, and that's why you can</p> <p>5 see, if you look at Bayview, going into the</p> <p>6 future, for example, 2003 existing is a 20.</p> <p>7 If you look at 2004, the load is 22.6. So</p> <p>8 next year, Bayview will be over capacity, as</p> <p>9 it would be in all the following years.</p> <p>10 Similarly, if you go down to Walbourne's for</p> <p>11 T2, the existing is 15, and you'll see that</p> <p>12 for this year, it's showing 16.6. So that</p> <p>13 transformer is now overloaded, and then from</p> <p>14 there on, that transformer is overloaded. So</p> <p>15 what you're seeing is this is the existing</p> <p>16 load forecast based on what is there, and this</p> <p>17 is what demonstrates to you the need for the</p> <p>18 new transformer and how by doing what's</p> <p>19 proposed, which is putting the new 25 in and</p> <p>20 then shifting the 15, you can accommodate the</p> <p>21 existing load.</p> <p>22 COMMISSIONER MARTIN, Q.C.:</p> <p>23 Q. What does 111 percent mean on yesterday's</p> <p>24 chart with the new capacity for Walbourne?</p> <p>25 MR. MYLES:</p>	<p>1 Q. Just bear with me for a minute. 111 percent</p> <p>2 on that bottom line, I'd have to confer. I</p> <p>3 don't know the answer to that.</p> <p>4 COMMISSIONER MARTIN, Q.C.:</p> <p>5 Q. All right.</p> <p>6 MR. MYLES:</p> <p>7 Q. If you want, I can--the engineers are back</p> <p>8 there, if you want to break for a minute, I</p> <p>9 can go find the answer.</p> <p>10 COMMISSIONER MARTIN, Q.C.:</p> <p>11 Q. Okay.</p> <p>12 CHAIRMAN:</p> <p>13 Q. Perhaps we can just get the answer to that and</p> <p>14 provide it during the course. You can get it</p> <p>15 during the break and we can provide it a bit</p> <p>16 later.</p> <p>17 MR. MYLES:</p> <p>18 Q. That's fine.</p> <p>19 CHAIRMAN:</p> <p>20 Q. I propose to, and this has already been</p> <p>21 discussed between counsel, to take a break at</p> <p>22 10:30 and then assess where we are with the</p> <p>23 witnesses and the panel in terms of what the</p> <p>24 rest of the schedule might be for the day,</p> <p>25 whether we'd break at 12:30 and come back at</p>

Page 5	Page 6
<p>1 CHAIRMAN:</p> <p>2 1:30 or whatever. So we'll assess that, you</p> <p>3 know, at that particular point in time. So at</p> <p>4 this point, Mr. Myles, if you could just</p> <p>5 introduce the next panel.</p> <p>6 MR. MYLES:</p> <p>7 Q. Thank you, Mr. Chairman, Commissioners. The</p> <p>8 panel who are up now, the first person closest</p> <p>9 to me is Michael Mulcahy and to Michael's left</p> <p>10 is Peter Collins and they will -</p> <p>11 CHAIRMAN:</p> <p>12 Q. Good morning, gentlemen.</p> <p>13 MR. MICHAEL MULCAHY, SWORN</p> <p>14 MR. PETER COLLINS, SWORN</p> <p>15 Q. Thank you.</p> <p>16 MR. MYLES:</p> <p>17 Q. Mr. Mulcahy, can you please state your name,</p> <p>18 your position and what you are testifying on</p> <p>19 today?</p> <p>20 MR. MULCAHY:</p> <p>21 A. My name is Michael Mulcahy. I'm the vice-</p> <p>22 president of Customer and Corporate Services</p> <p>23 for Newfoundland Power and as such am</p> <p>24 responsible for a number of areas within the</p> <p>25 Company, such as human resources, safety,</p>	<p>1 customer service and information technology.</p> <p>2 I'll be testifying on how information</p> <p>3 technology assists the Company to achieve its</p> <p>4 business goals and obligation of providing</p> <p>5 reliable, low-cost electrical service.</p> <p>6 Q. Mr. Mulcahy, do you adopt your pre-filed</p> <p>7 testimony?</p> <p>8 MR. MULCAHY:</p> <p>9 A. Yes, I do.</p> <p>10 Q. Mr. Collins, can you please state your name,</p> <p>11 position and what you are testifying on today?</p> <p>12 MR. COLLINS:</p> <p>13 A. Yes. My name is Peter Collins and I am</p> <p>14 manager of Information Services department at</p> <p>15 Newfoundland Power. I will be testifying on</p> <p>16 the proposed \$3.948 million expenditure in</p> <p>17 information systems in the 2004 Capital Budget</p> <p>18 Application. As well, I will be updating the</p> <p>19 Board regarding the open BMS issue and the</p> <p>20 life expectancy of our customer service</p> <p>21 systems.</p> <p>22 Q. And Mr. Collins, do you adopt your pre-filed</p> <p>23 testimony?</p> <p>24 MR. COLLINS:</p> <p>25 A. Yes, I do.</p>
Page 7	Page 8
<p>1 Q. Mr. Mulcahy, as part of the 2004 Capital</p> <p>2 Budget Application, the Company has filed an</p> <p>3 updated Information Technology Strategy Report</p> <p>4 for the years 2004 to 2008, and that can be</p> <p>5 found in Volume 1. Has Newfoundland Power's</p> <p>6 strategy for information technology investment</p> <p>7 changed since the first report was filed in</p> <p>8 1999?</p> <p>9 MR. MULCAHY:</p> <p>10 A. Newfoundland Power's information technology</p> <p>11 strategy has basically remained the same since</p> <p>12 the first report was submitted. Our</p> <p>13 investment in technology helps us to decrease</p> <p>14 costs while delivering on a commitment of</p> <p>15 providing reliable service to customers.</p> <p>16 Additional investments in technology will be</p> <p>17 necessary to ensure we maintain the benefits</p> <p>18 gained from past expenditures as well as</p> <p>19 improve upon them. The focus for the next</p> <p>20 five years will be on the enhancement and</p> <p>21 upgrades of existing software and hardware.</p> <p>22 Q. Mr. Mulcahy, could you please advise the Board</p> <p>23 what the Company has identified as the main</p> <p>24 drivers for information technology investment</p> <p>25 at Newfoundland Power and how it has</p>	<p>1 benefitted the Company?</p> <p>2 (9:15 a.m.)</p> <p>3 MR. MULCAHY:</p> <p>4 A. The main drivers for investment are customer</p> <p>5 service, operational efficiencies,</p> <p>6 reliability, safety and environment. The main</p> <p>7 drivers for information technology investment</p> <p>8 are linked to these and support these drivers.</p> <p>9 Information technology is integral to the</p> <p>10 Company's business and its ability to operate</p> <p>11 efficiently. Technology is the key to the</p> <p>12 Company's ability to answer approximately</p> <p>13 460,000 customer calls per year, process</p> <p>14 approximately 2.4 million meter readings, and</p> <p>15 issue approximately 2.4 million customer bills</p> <p>16 annually, and process the respective payments.</p> <p>17 Through technology, like the outage</p> <p>18 notification system, the Company can inform up</p> <p>19 to 16,000 customers at once of outages. The</p> <p>20 Company has improved customer service by</p> <p>21 providing our customers with the choice of how</p> <p>22 they interact with the Company. For example,</p> <p>23 website activity has increased 45 percent</p> <p>24 since 2002. This equates to approximately</p> <p>25 15,000 hits per month, with the majority in</p>

Page 9	Page 10
<p>1 MR. MULCAHY:</p> <p>2 the customer service area, and the Company has</p> <p>3 received and responded to more than 5,000</p> <p>4 customer e-mails to date this year.</p> <p>5 Also, technology gives us the opportunity</p> <p>6 to create operational efficiencies that were</p> <p>7 not available just a few short years ago. The</p> <p>8 Company has adopted a web-based application</p> <p>9 that allows employees to complete their</p> <p>10 expense reports online, thus eliminating the</p> <p>11 data entry function. This reduces costs as</p> <p>12 well as improves timeliness and reliability of</p> <p>13 data. From a reliability perspective, the</p> <p>14 system control centre monitors and controls</p> <p>15 the electrical grid through the SCADA system.</p> <p>16 This assists in providing quicker, more</p> <p>17 accurate crew response to outages. Asset</p> <p>18 management tools enable the Company to more</p> <p>19 effectively manage its substation and</p> <p>20 generation assets, thereby reducing emergency</p> <p>21 interruptions and increasing reliability and</p> <p>22 reducing costs.</p> <p>23 The reality is that technology investment</p> <p>24 is a required expenditure in today's</p> <p>25 environment. It is one essential element in</p>	<p>1 providing least cost customer service,</p> <p>2 reliability of service and gaining operational</p> <p>3 efficiencies.</p> <p>4 Q. Mr. Mulcahy, what other factors affect</p> <p>5 Newfoundland Power's information technology</p> <p>6 investment?</p> <p>7 MR. MULCAHY:</p> <p>8 A. Just as it is necessary to invest in the</p> <p>9 electrical system to maintain plant,</p> <p>10 technology requires the same ongoing</p> <p>11 investment to safeguard against the</p> <p>12 obsolescence of the technology and ensure that</p> <p>13 the benefits are sustained. Obsolescence can</p> <p>14 occur for two reasons, technical and</p> <p>15 functional. Technical obsolescence occurs</p> <p>16 when a technology becomes outdated, unreliable</p> <p>17 or is no longer supported by the vendor.</p> <p>18 Functional obsolescence occurs when a</p> <p>19 technology can no longer support the business</p> <p>20 requirements that it is required to support.</p> <p>21 Ongoing capital investment is necessary to</p> <p>22 ensure that obsolescence does not impede</p> <p>23 customer service, reliability or efficiencies.</p> <p>24 Investment in information technology is</p> <p>25 also driven by new business requirements. For</p>
Page 11	Page 12
<p>1 example, as the internet becomes more readily</p> <p>2 available, customers expect Newfoundland Power</p> <p>3 to offer more services on the internet. This</p> <p>4 investment provides customer choice as to how</p> <p>5 they interact with the Company and when they</p> <p>6 interact with the Company. Our research</p> <p>7 indicates that approximately 40 percent of the</p> <p>8 customers have internet access at home.</p> <p>9 Newfoundland Power responds to these</p> <p>10 expectations in order to service customers as</p> <p>11 best it can. For example, electronic billing</p> <p>12 or e-billing, as it is known, is becoming more</p> <p>13 prevalent. Newfoundland Power implemented</p> <p>14 electronic billing earlier this year. Since</p> <p>15 then, over 500 customers have signed up for</p> <p>16 the e-billing option without the Company</p> <p>17 announcing its availability. Customers</p> <p>18 visiting our website saw its availability and</p> <p>19 signed up for the service. The e-billing</p> <p>20 process is completely automated, saving the</p> <p>21 cost of printing and mailing the bill.</p> <p>22 Q. If I could refer you to Appendix C of the</p> <p>23 Information Technology Strategy Report, Mr.</p> <p>24 Mulcahy, Appendix C to that report explains</p> <p>25 principles that guide your information</p>	<p>1 technology investment. Can you discuss these</p> <p>2 principles for the Board?</p> <p>3 MR. MULCAHY:</p> <p>4 A. Newfoundland Power has adopted a conservative</p> <p>5 approach to investment in information</p> <p>6 technology. The following principles were</p> <p>7 adopted to guide technology investments and to</p> <p>8 ensure that investments are in the best</p> <p>9 interest of the customer and the Company. The</p> <p>10 principles are: purchase from leading vendors;</p> <p>11 buy versus build where it is appropriate;</p> <p>12 minimize diversity; consider the cost of a</p> <p>13 product over its lifetime.</p> <p>14 Purchasing from leading vendors</p> <p>15 minimizing premature obsolescence and</p> <p>16 maximizes support availability. Leading</p> <p>17 vendors such as Cisco Systems and Microsoft</p> <p>18 provide support for their products for a very</p> <p>19 long time, due to significant size of their</p> <p>20 customer base. Where it makes economic sense,</p> <p>21 we prefer to buy an existing technology rather</p> <p>22 than build one. For example, Newfoundland</p> <p>23 Power purchased the Great Plains Software to</p> <p>24 support its financial, human resources and</p> <p>25 material management functions. This approach</p>

Page 13	Page 14
<p>1 MR. MULCAHY:</p> <p>2 is generally less expensive and faster to</p> <p>3 implement than building an in-house</p> <p>4 application.</p> <p>5 Minimizing diversity is also important</p> <p>6 for controlling costs. Minimizing the</p> <p>7 diversity of installed technologies allows the</p> <p>8 Company to keep a streamlined spare parts</p> <p>9 inventory, as well as minimize retraining</p> <p>10 requirements of staff.</p> <p>11 Considering the cost of an asset over its</p> <p>12 life span is also important for minimizing</p> <p>13 costs. Costs related to the implementation,</p> <p>14 support, ongoing maintenance and licensing</p> <p>15 fees are all factors that are considered</p> <p>16 before technology is purchased.</p> <p>17 Q. Mr. Mulcahy, what is the Company's overall</p> <p>18 philosophy for information technology</p> <p>19 investment?</p> <p>20 MR. MULCAHY:</p> <p>21 A. The overall philosophy for the information</p> <p>22 technology investment mirrors the investment</p> <p>23 philosophy of the Company. Newfoundland Power</p> <p>24 is focused on extending asset life of its</p> <p>25 investments and this practice reduces costs.</p>	<p>1 This philosophy underpins our focus on</p> <p>2 application enhancements and upgrades. From</p> <p>3 cascading PCs and servers to enhancing the CSS</p> <p>4 system, the Company ensures that investments</p> <p>5 are maximized.</p> <p>6 Q. And what is the focus that you see for</p> <p>7 information systems over the next couple of</p> <p>8 years and how will this affect the Capital</p> <p>9 Budget?</p> <p>10 MR. MULCAHY:</p> <p>11 A. The previous capital budgets were focused on</p> <p>12 obsolescence issues and resulted in the</p> <p>13 purchase of several new applications. Once</p> <p>14 installed, these applications have presented</p> <p>15 opportunities for further improvements in</p> <p>16 customer service and productivity. Over the</p> <p>17 next several years, the information systems</p> <p>18 budget will be focused on enhancing the use of</p> <p>19 these applications in order to improve</p> <p>20 customer service, reliability and operating</p> <p>21 efficiencies. Basically, we will be focused</p> <p>22 on getting more out of what we have. Because</p> <p>23 of this focus, the information systems budget</p> <p>24 is trending low over the next several years.</p> <p>25 Q. Thank you. Mr. Collins, could you please</p>
Page 15	Page 16
<p>1 briefly describe the projects for 2004 in the</p> <p>2 information systems category in the Capital</p> <p>3 Budget?</p> <p>4 MR. COLLINS:</p> <p>5 A. I'll ask Mrs. Combden to bring up the Volume</p> <p>6 1, Schedule B, page 8 of 80, for me, please.</p> <p>7 The application enhancement project--there are</p> <p>8 six projects for information systems for 2004</p> <p>9 proposed. The application enhancement project</p> <p>10 is required to obtain further improvements</p> <p>11 from existing applications, such as the</p> <p>12 customer service system, the internet website</p> <p>13 and the asset management system. This project</p> <p>14 reflects the Company's commitment to invest in</p> <p>15 its existing technology assets to achieve</p> <p>16 improvements in customer service, operating</p> <p>17 efficiencies and reliability, while at the</p> <p>18 same time extending their useful life. For</p> <p>19 example, the operations engineering</p> <p>20 enhancements are required to provide better</p> <p>21 access and quality data to assist operations</p> <p>22 and engineering staff to manage the work in</p> <p>23 the field.</p> <p>24 The application environment project is</p> <p>25 necessary in order to sustain the gains that</p>	<p>1 have already been obtained through investment</p> <p>2 in technology through such things as software</p> <p>3 upgrades. The customer systems replacement</p> <p>4 project will allow us to not only improve</p> <p>5 customer service, but also allow the Company</p> <p>6 to reduce its reliance on the open BMS</p> <p>7 operating system, which I'll discuss later.</p> <p>8 The network infrastructure project is the</p> <p>9 second year of a two-year project to replace</p> <p>10 obsolete network components across the</p> <p>11 Company. The PC infrastructure project is</p> <p>12 required to allow the Company to keep its PCs</p> <p>13 and associated technology from becoming</p> <p>14 obsolete. In 2004, we will be replacing 109</p> <p>15 of the Company's 606 PCs. The shared server</p> <p>16 infrastructure project provides the Company</p> <p>17 with the ability to keep its computer hardware</p> <p>18 from becoming obsolete, including the hardware</p> <p>19 for the SCADA system and the customer service</p> <p>20 system.</p> <p>21 These projects are collectively focused</p> <p>22 on improving customer service, overall</p> <p>23 operating efficiencies and reliability by</p> <p>24 maximizing the value of the investment already</p> <p>25 made in information technology.</p>

Page 17	Page 18
<p>1 MR. MYLES:</p> <p>2 Q. Mr. Collins, back in 2001 and again in 2002,</p> <p>3 the Company informed the Board of its concerns</p> <p>4 regarding the obsolescence of the open BMS</p> <p>5 operating system and the Company's plan for</p> <p>6 dealing with this significant risk to customer</p> <p>7 service. Can you briefly describe this issue</p> <p>8 for the Board?</p> <p>9 MR. COLLINS:</p> <p>10 A. In 2000, we became aware that industry support</p> <p>11 for open BMS was in decline. At the time,</p> <p>12 many of the Company's business applications,</p> <p>13 including the financial, human resources,</p> <p>14 payroll, inventory, problem call logging and</p> <p>15 customer service system, all used open BMS.</p> <p>16 We felt it was necessary to inform the Board</p> <p>17 of the issue and begin taking appropriate</p> <p>18 actions since these systems were a vital</p> <p>19 component of the Company's ability to provide</p> <p>20 least cost reliable service to customers.</p> <p>21 Q. And can you please update the Board as to the</p> <p>22 steps that have been taken to mitigate this</p> <p>23 risk?</p> <p>24 MR. COLLINS:</p> <p>25 A. Since 2001, through our normal course of</p>	<p>1 upgrading and replacing applications, we have</p> <p>2 successfully replaced many of the business</p> <p>3 applications that were running on open BMS.</p> <p>4 For example, in 2001, the Board approved the</p> <p>5 business support systems project which</p> <p>6 resulted in the replacement of the finance,</p> <p>7 human resources, payroll, purchasing and</p> <p>8 inventory applications. In our 2003 Capital</p> <p>9 Budget, we included the outage management</p> <p>10 project, which will replace the Company's</p> <p>11 problem call logging and interruption systems.</p> <p>12 So we have been able to reduce the risks</p> <p>13 associated with running business applications</p> <p>14 on open BMS through our normal process of</p> <p>15 upgrading and replacing applications to</p> <p>16 address customer service requirements needed</p> <p>17 to achieve or maintain operating efficiency</p> <p>18 gains.</p> <p>19 In 2003, we also completed a detailed</p> <p>20 study of the options available to address the</p> <p>21 open BMS issue in relation to the Company's</p> <p>22 most complex application, the customer service</p> <p>23 system. The results of this study have been</p> <p>24 filed with the Board and can be found in</p> <p>25 Volume 4, Appendix 3.</p>
Page 19	Page 20
<p>1 Q. Mr. Collins, can you please describe this</p> <p>2 study to the Board and summarize the results?</p> <p>3 MR. COLLINS:</p> <p>4 A. This study considered two issues. In addition</p> <p>5 to the open BMS issue, we also took the</p> <p>6 opportunity to examine the functionality of</p> <p>7 the customer service system in terms of how</p> <p>8 well it is fulfilling the customer needs,</p> <p>9 service needs of the Company. The functional</p> <p>10 review confirmed that CSS will meet our</p> <p>11 customer service needs for the foreseeable</p> <p>12 future. In our technical review, we</p> <p>13 investigated three options which included an</p> <p>14 economic analysis. Number one, first option</p> <p>15 was continue to invest in the customer service</p> <p>16 system on open BMS through enhancements.</p> <p>17 Secondly, we looked at migrating the</p> <p>18 customer service system to another platform,</p> <p>19 away from open BMS, at a cost of approximately</p> <p>20 \$6 million. And number three was to purchase</p> <p>21 a completely new customer system for as much</p> <p>22 as \$15 million. The highlight of our findings</p> <p>23 is that the first option, that being to keep</p> <p>24 what we have on open BMS and continue to</p> <p>25 enhance it, was the best option. We feel we</p>	<p>1 can continue to get value from the customer</p> <p>2 service system until at least 2008, thereby</p> <p>3 extending the life of this critical system.</p> <p>4 This means we do not have to entertain the</p> <p>5 more expensive options of platform migration</p> <p>6 or the purchase of a new system at this time.</p> <p>7 Although issues associated with running</p> <p>8 business applications on open BMS remain, the</p> <p>9 short community and term risks have</p> <p>10 diminished. Together with the steps we have</p> <p>11 already taken to reduce our own risk exposure</p> <p>12 to open BMS, this has resulted in the Company</p> <p>13 being able to extend the life of the customer</p> <p>14 service system and defer the cost of replacing</p> <p>15 this system for several years.</p> <p>16 Q. Mr. Collins, given that there are still risks</p> <p>17 remaining by running the customer service</p> <p>18 system on open BMS, why do you believe that</p> <p>19 the risks are now manageable?</p> <p>20 MR. COLLINS:</p> <p>21 A. There are several things that changed over the</p> <p>22 past number of months. When Hewlett Packard</p> <p>23 purchased Compaq last year, Compaq was the</p> <p>24 vendor for open BMS at the time, a lot of</p> <p>25 uncertainty about the future of open BMS</p>

Page 21	Page 22
<p>1 MR. COLLINS:</p> <p>2 existed. However, since that time, HP has</p> <p>3 renewed its commitment, Hewlett Packard has</p> <p>4 renewed its commitment to open BMS and has</p> <p>5 provided us with a road map for their future</p> <p>6 investment in open BMS. Also, because of</p> <p>7 Hewlett Packard's stated commitment, our two</p> <p>8 other primary customer service system software</p> <p>9 vendors, that being Oracle and Cognos, have</p> <p>10 provided us with written confirmation that</p> <p>11 they will continue to support their respective</p> <p>12 software products on open BMS. With the</p> <p>13 commitment of these three vendors, we felt</p> <p>14 that the risks for the customer service system</p> <p>15 has diminished and is now at a manageable</p> <p>16 level. As well, going forward, justified</p> <p>17 enhancements to the customer service system</p> <p>18 that limit the Company's exposure to open BMS</p> <p>19 will be considered. The customer assistance</p> <p>20 replacement project, on page 72 of 80, in</p> <p>21 Schedule B, and further described in Volume 4,</p> <p>22 Appendix 3, are examples of this approach to</p> <p>23 managing risk.</p> <p>24 Q. Mr. Collins, can you advise the Board what all</p> <p>25 this means to customers?</p>	<p>1 MR. COLLINS:</p> <p>2 A. Well, this is great news for customers, since</p> <p>3 the Company and its customers will continue to</p> <p>4 get value out of this critical system for the</p> <p>5 next several years, postponing for the</p> <p>6 foreseeable future the high cost of migrating</p> <p>7 or replacing the customer service system.</p> <p>8 Q. Thank you. Mr. Mulcahy, do you have any</p> <p>9 closing comments?</p> <p>10 MR. MULCAHY:</p> <p>11 A. Yes. In closing, we believe the projects</p> <p>12 before the Board as part of this Capital</p> <p>13 Budget will enable the Company to achieve its</p> <p>14 goal and obligation to providing low cost,</p> <p>15 reliable electrical service to the customers</p> <p>16 of Newfoundland Power.</p> <p>17 Q. Thank you, Mr. Mulcahy and Mr. Collins. Mr.</p> <p>18 Chair, I have no further questions for this</p> <p>19 panel.</p> <p>20 CHAIRMAN:</p> <p>21 Q. Thank you, Mr. Myles. Mr. Young?</p> <p>22 MR. YOUNG:</p> <p>23 Q. I have none. Thanks.</p> <p>24 CHAIRMAN:</p> <p>25 Q. Mr. Kennedy?</p>
Page 23	Page 24
<p>1 MR. KENNEDY:</p> <p>2 Q. Thank you, Chair, Commissioners. Mr. Mulcahy</p> <p>3 and Mr. Collins, I wonder if we could start</p> <p>4 with the customer service system and the</p> <p>5 issues surrounding the open BMS. And just to</p> <p>6 set the groundwork, I guess, your customer</p> <p>7 service system itself performs several</p> <p>8 functions and I think you've provided a</p> <p>9 document in Volume 4, Tab Information Systems,</p> <p>10 Appendix A, Attachment A. Unfortunately,</p> <p>11 that's not going to get you very far because</p> <p>12 there's an awful lot of documents in that</p> <p>13 Attachment and it's kind of buried into a</p> <p>14 third of it. I note actually that of this</p> <p>15 binder, the vast majority of it deals with the</p> <p>16 open BMS issue. Would that be a fair</p> <p>17 assessment?</p> <p>18 MR. MULCAHY:</p> <p>19 A. Yes, it would.</p> <p>20 MR. COLLINS:</p> <p>21 A. Well, and the customer service system issue.</p> <p>22 Q. Sure, okay, and if I could paraphrase,</p> <p>23 ultimately the Company decided that there was</p> <p>24 no need to worry in the short medium term</p> <p>25 about replacing the customer service system</p>	<p>1 because of issues involving open BMS?</p> <p>2 MR. COLLINS:</p> <p>3 A. That's correct.</p> <p>4 Q. Okay. The remaining portion of the volume</p> <p>5 deals with the actual budget that you are</p> <p>6 seeking approval for?</p> <p>7 MR. COLLINS:</p> <p>8 A. That's correct.</p> <p>9 Q. Right, okay. And there's a document, Appendix</p> <p>10 C actually in the tab I referenced earlier,</p> <p>11 the Appendix 3, Attachment A. Then there's</p> <p>12 one called Appendix C. It's after the second</p> <p>13 blue page, that might help the Commissioners.</p> <p>14 (9:30 a.m.)</p> <p>15 MR. COLLINS:</p> <p>16 A. Appendix C?</p> <p>17 Q. There's two blue page inserts and it's the</p> <p>18 document immediately after the second blue</p> <p>19 page. I think you might have an exceedingly</p> <p>20 difficult time trying to find that in</p> <p>21 electronic version, if it's not</p> <p>22 compartmentalized. Maybe that's it there.</p> <p>23 Yes, that's it. Okay, great. So I just</p> <p>24 wanted to make sure that we're all aware of</p> <p>25 exactly what the customer service system does,</p>

Page 25

Page 26

1 MR. COLLINS:
 2 and this document is titled the function
 3 description. So I take it by that that these
 4 are the major, as is indicated, the major
 5 functional aspects of the customer service
 6 system, correct?
 7 MR. COLLINS:
 8 A. That's correct.
 9 Q. All right. And they are service orders, so
 10 that's some sort of routing to your call
 11 centre and back out again? Is that right?
 12 MR. COLLINS:
 13 A. Well, it's when we take calls from customers,
 14 whether like a new service hook up and that
 15 sort of thing, so that we can then route calls
 16 to technicians for that work.
 17 Q. Okay. You've got general data maintenance,
 18 meter reading. So as I understood it, your
 19 individual meter readers are hooked in to your
 20 customer service system as well?
 21 MR. COLLINS:
 22 A. They have a hand-held device that they use to
 23 read meters and when they come back to work in
 24 the afternoon, after reading the meters, it
 25 goes into a cradle and we have--that happens

1 right across the island and we have a
 2 collection process that collects all those
 3 meter readings and gets it imported into CSS
 4 for billing that night.
 5 Q. Right. And your CSS actually uploads then the
 6 next set of meter reading that that meter
 7 reader will be doing the next day, correct?
 8 MR. COLLINS:
 9 A. That's correct.
 10 Q. And then you've got pre-billing and billing
 11 and pending work queues, cash processing,
 12 credit and collections and accounts
 13 receivable. So is it fair to say that the
 14 customer service system is really your billing
 15 system?
 16 MR. COLLINS:
 17 A. Billing is certainly a part of what it does,
 18 that's for sure.
 19 Q. Okay. And this customer service system was
 20 put in place in 1990, I believe?
 21 MR. COLLINS:
 22 A. '91 I think is the year, Mr. Kennedy.
 23 Q. Okay. And at the time it was introduced, it
 24 had a projected expected life or useful life
 25 of 20 years?

Page 27

Page 28

1 MR. COLLINS:
 2 A. Yes, that's correct.
 3 Q. So at the time it was brought in, in '91, the
 4 Company was indicating that the expected life
 5 was that this customer service system would be
 6 useable up to at least 2011?
 7 MR. COLLINS:
 8 A. That's correct.
 9 Q. And then as a result of some concerns
 10 regarding the possible erosion in open BMS,
 11 which is what your customer service system
 12 runs on, you decided to study the issue to see
 13 whether you should consider replacing it
 14 earlier than was otherwise projected?
 15 MR. COLLINS:
 16 A. That's correct.
 17 Q. And after going out and canvassing the
 18 situation, most current data indicates that
 19 the concerns have dissipated, that you look
 20 like you'll have support both from the
 21 provider of open BMS, but as well as the
 22 companies that make your software tools that
 23 you need to write code on open BMS to at least
 24 2009 or 2011?
 25 MR. COLLINS:

1 A. Yes, that's correct, and also, Mr. Kennedy, I
 2 guess, some of the steps that we've already
 3 taken to minimize risk of other applications
 4 that run on open BMS as well, having those
 5 taken care of and with the customer service
 6 system largely the one that's remaining there
 7 right now, yes, we certainly felt our risks
 8 were at a manageable level.
 9 Q. Okay. And under that Attachment A, your first
 10 document is the sort of--it's entitled the
 11 replacement analysis, July 16th, 2003, and it,
 12 I take it, from my review, tries to tie in
 13 together and make sense of, if you will, all
 14 of the various documents that come after it,
 15 the various opinions and information circulars
 16 issued by your software providers, the
 17 provider of open BMS -
 18 MR. COLLINS:
 19 A. I lost your reference. I'm sorry, Mr.
 20 Kennedy.
 21 Q. Okay. Under Volume 4, the Information
 22 Systems, Appendix 3.
 23 MR. COLLINS:
 24 A. Yes.
 25 Q. Attachment A, the very first document.

Page 29	Page 30
<p>1 MR. COLLINS:</p> <p>2 A. Attachment A, okay. Yes, okay.</p> <p>3 Q. Okay. So this is, if I could, your sort of</p> <p>4 your master document that brings together all</p> <p>5 the information that's contained in all the</p> <p>6 subsequent documents?</p> <p>7 MR. COLLINS:</p> <p>8 A. Right. Just summarize that three or four</p> <p>9 inches down to something that we can digest.</p> <p>10 Q. About a half an inch, yes. And God love you,</p> <p>11 you put an executive summary in so we don't</p> <p>12 even have to read the full amount of that</p> <p>13 document, I suppose, to get a sense of what</p> <p>14 your conclusions are. If, as is indicated,</p> <p>15 that your support seems to be fine, HP is</p> <p>16 committed to support open BMS, for instance,</p> <p>17 until 2011, Oracle says its going to support</p> <p>18 until at least 2009, why is it that you're</p> <p>19 going to go back and revisit this issue again</p> <p>20 in 2006, as is indicated in the executive</p> <p>21 summary?</p> <p>22 MR. COLLINS:</p> <p>23 A. Okay. In our discussions with HP and with HP</p> <p>24 being the vendor for open BMS, they've</p> <p>25 indicated to us that around the 2006 time</p>	<p>1 frame is when they're going to have a big</p> <p>2 decision point for themselves. While right</p> <p>3 now they're saying that they're committed to</p> <p>4 open BMS, in 2006, they're changing out a</p> <p>5 major hardware platform that open BMS runs on</p> <p>6 and they're changing that from--not to get too</p> <p>7 technical, but they're going from an Alpha</p> <p>8 platform to an Itanium platform, and that's</p> <p>9 going to involve a lot of costs for them.</p> <p>10 They've actually started that work right now.</p> <p>11 So in 2006, we felt that that's a milestone</p> <p>12 for HP for us to check in with them to see if</p> <p>13 they're still on track, see if their</p> <p>14 commitment is still there, and certainly, if</p> <p>15 that's still there, we would hope that it's</p> <p>16 still there, and we can continue to get life</p> <p>17 out of that customer service system.</p> <p>18 Q. Okay. So in the business, that's known as the</p> <p>19 road map, correct, the technology road map</p> <p>20 that a company is following for the</p> <p>21 development of its own technology?</p> <p>22 MR. COLLINS:</p> <p>23 A. Yes, that's correct.</p> <p>24 Q. Okay. And the road map right now calls for</p> <p>25 this shift to a new architecture, the Itanium</p>
Page 31	Page 32
<p>1 architecture?</p> <p>2 MR. COLLINS:</p> <p>3 A. Yes, that's correct.</p> <p>4 Q. And so you want to check in, in 2006, to make</p> <p>5 sure that's all going according to plan?</p> <p>6 MR. COLLINS:</p> <p>7 A. Yes.</p> <p>8 Q. All right. So that there's no surprises and</p> <p>9 you get caught short on open BMS?</p> <p>10 MR. COLLINS:</p> <p>11 A. Yes, because the problem with getting caught</p> <p>12 short is that where this system is so complex</p> <p>13 and so vital to providing a customer service</p> <p>14 function for us, the amount of lead time that</p> <p>15 you would need once--you know, if there is a</p> <p>16 problem in 2006, you're looking at two to</p> <p>17 three years to actually replace a system like</p> <p>18 this. So as much lead time as we can get, as</p> <p>19 much warning we can get is certainly very</p> <p>20 prudent if we have to replace something.</p> <p>21 Q. You don't want to give your CFO a heart attack</p> <p>22 by explaining that your billing system is</p> <p>23 obsolete tomorrow?</p> <p>24 MR. COLLINS:</p> <p>25 A. No, absolutely not.</p>	<p>1 Q. There's a discussion on page 3 of that</p> <p>2 document, in the executive summary, the one</p> <p>3 that we just referenced, the analysis, about</p> <p>4 what are the options? Do you see where I am?</p> <p>5 Midway through page 3?</p> <p>6 MR. COLLINS:</p> <p>7 A. Yes.</p> <p>8 Q. And if I could paraphrase, there were three</p> <p>9 options that the Company looked at. One was</p> <p>10 to replace--potential replacement of the</p> <p>11 existing customer service system with an</p> <p>12 entirely new customer service software</p> <p>13 application, correct?</p> <p>14 MR. COLLINS:</p> <p>15 A. That's correct, yes.</p> <p>16 Q. The second option was the potential of</p> <p>17 migrating your existing customer service</p> <p>18 system to a new operating system, one other</p> <p>19 than open BMS, correct?</p> <p>20 MR. COLLINS:</p> <p>21 A. Yes, that's correct.</p> <p>22 Q. And the third option was to run the customer</p> <p>23 service system as it exists today on the open</p> <p>24 BMS, as it exists today, and then monitor the</p> <p>25 situation again in the future, in 2006, that</p>

Page 33	Page 34
<p>1 MR. MYLES: 2 was the third option considered? 3 MR. COLLINS: 4 A. That's right. 5 Q. And as we noted, that was the--the third 6 option is the one the Company has selected at 7 this point in time? 8 MR. COLLINS: 9 A. Yes. 10 Q. All right. Now, I noted at page 46 of this 11 same document--do you have page 46 there? 12 MR. COLLINS: 13 A. Yes, I'm just looking for my pen. Okay. 14 Q. Okay, in the second paragraph of that page, 15 it's a discussion concerning the option of if 16 a package were purchased and I think that's 17 referring to if an entirely new customer 18 service system application was purchased to 19 replace your existing one, if option number 20 one was selected at some point in the future? 21 MR. COLLINS: 22 A. Yes. 23 Q. Okay. And it discusses that it would be in 24 excess of ten million dollars and that the 25 project duration would be 18 to 24 months.</p>	<p>1 And then it says, "A key benefit is that many 2 of the outstanding functional enhancements for 3 the existing system would be delivered as 4 features of the package." Is it fair to say 5 that and there's further references to the 6 option of replacing your existing customer 7 service system with an entirely new package, 8 the Medigroup (phonetic) studied that one for 9 you as well? 10 MR. COLLINS: 11 A. Yes. 12 Q. That in all likelihood, if the Company was to 13 select that option in the future, it would be 14 a package that would include many of the 15 existing functions of your customer service 16 system, and as well, some of the planned for 17 enhancements of your customer system? 18 MR. COLLINS: 19 A. Yes, that would be fair to say. 20 Q. Okay. And is it fair to say that you take 21 that into account by indicating that in light 22 of that possibility, any enhancements that you 23 make to your existing customer service system 24 now, must have a short payback period? 25 MR. COLLINS:</p>
Page 35	Page 36
<p>1 A. Yes, we take that into account. Certainly, 2 you know, it was--our expectation at this 3 point in time that the customer service system 4 will be lasting into the 2000--well certainly 5 beyond our planning horizon of 2008, but we 6 think certainly into 2011, we would be looking 7 for payback within those years, certainly. 8 (9:45 p.m.) 9 Q. Right, so if we do--so when you say and I 10 guess just to make sure, the bottom of page 11 52, you've got those Newfoundland Power icons 12 on the bottom of your page that are slowing it 13 up. Section 2.5 "Functional Enhancement 14 Strategy, 1 to 5 Years". And it starts, "The 15 following is the functional enhancement 16 strategy in light of continuing to maintain 17 CSS on the open BMS platform." Then you go, 18 "Since the complete replacement of the CSS is 19 not planned within the next 1 to 5 years, some 20 components of the system will require 21 significant upgrade or replacement within that 22 time period. In addition, during this period 23 the Company may pursue new programs and 24 technologies to advance customer service and 25 reduce ongoing costs. Such upgrades must be</p>	<p>1 justified within a short payback period, 2 considering the potential for a CSS 3 replacement as early as 2008, assuming that 4 your 2006 study recommends replacement and the 5 project begins immediately." Okay, let's just 6 take those statements one at a time, if we 7 could. The first one, "Since a complete 8 replacement of the CSS is not planned within 9 the next one to five years, some components of 10 the system will require significant upgrade or 11 replacement within that time period." And I 12 guess it might be just the awkwardness of the 13 statement, but I fail to see why if the 14 complete replacement is not planned within the 15 one to five years, that that will then end up 16 requiring that some components of the system 17 need a significant upgrade or replacement? 18 How does one follow the other, I guess? How 19 does the fact that if you don't plan to do a 20 replacement in the next one to five years, 21 then require you to do significant upgrades or 22 replacement during that period of time on some 23 components? 24 MR. COLLINS: 25 A. Well certainly the fact that we're not</p>

Page 37	Page 38
<p>1 MR. COLLINS:</p> <p>2 replacing the big monster customer service</p> <p>3 system within one to five years, as we say</p> <p>4 there, doesn't necessarily mean that we just</p> <p>5 stand still and not do any enhancements or any</p> <p>6 replacement of components within that system.</p> <p>7 For example, in our 2004 application, we're</p> <p>8 proposing to replace the print bill function.</p> <p>9 And the print bill function is several</p> <p>10 thousand lines of programming code in the</p> <p>11 customer service system, a core system, and</p> <p>12 while we are able to get the bills out and</p> <p>13 that sort of thing with that, we have very</p> <p>14 little ability to be able to change the format</p> <p>15 of the bill. The most we can do really is to</p> <p>16 change some message text on the bottom, so we</p> <p>17 have very limited functionality and we find,</p> <p>18 you know, certainly we've heard feedback from</p> <p>19 the Board that customers are asking about our</p> <p>20 bill format and they find it confusing.</p> <p>21 Q. Okay, I guess it may be one of semantics, but</p> <p>22 I just want to make sure I understand. It's</p> <p>23 not the case then that since you're not</p> <p>24 replacing it, that's what's requiring you to</p> <p>25 make the enhancements, so it would be better</p>	<p>1 termed that although you're not--since you're</p> <p>2 not replacing it, if you do make any changes,</p> <p>3 it's got to be an enhancements of the existing</p> <p>4 system?</p> <p>5 MR. COLLINS:</p> <p>6 A. That's correct.</p> <p>7 Q. So it's not a case of one causing the other?</p> <p>8 MR. COLLINS:</p> <p>9 A. No, that's correct. Those requirements for</p> <p>10 enhancement were always there.</p> <p>11 Q. Right, and that would be the case irrespective</p> <p>12 of whether you were replacing the system or</p> <p>13 not, in the sense that if you're not replacing</p> <p>14 the system until 2010, then you know what the</p> <p>15 payback period is, that's the next step we'll</p> <p>16 get to.</p> <p>17 MR. COLLINS:</p> <p>18 A. Well certainly, and, you know, a big component</p> <p>19 of why we would modify the customer service</p> <p>20 system is also to respond to what customers</p> <p>21 are asking, justified on the basis of improved</p> <p>22 customer service is certainly a big component</p> <p>23 of anything we do with the customer service</p> <p>24 system.</p> <p>25 Q. If you were replacing the system in a year's</p>
Page 39	Page 40
<p>1 time, if you knew that today, it would change</p> <p>2 the water on the beans in so far as deciding</p> <p>3 to do enhancements to your existing system or</p> <p>4 not?</p> <p>5 MR. COLLINS:</p> <p>6 A. Yes, absolutely.</p> <p>7 Q. And it's a possibility that you may have to</p> <p>8 switch this out in 2008?</p> <p>9 MR. COLLINS:</p> <p>10 A. We're not planning for that right now.</p> <p>11 Q. No, but in 2006, you're going to view again</p> <p>12 and there's a potential, as we just referenced</p> <p>13 in the previous quote, that a replacement</p> <p>14 could come as early as 2008?</p> <p>15 MR. COLLINS:</p> <p>16 A. That's only a potential. Frankly, with the</p> <p>17 way technology changes, I mean, I could get a</p> <p>18 phone call next year from a vendor that says</p> <p>19 things have changed and we may be looking at</p> <p>20 replacing it sooner, but, you know, from all</p> <p>21 of our information right now, what we can</p> <p>22 gather from these software vendors, these</p> <p>23 technology vendors, we're going to be okay</p> <p>24 until certainly beyond the 2008 time frame.</p> <p>25 And the 2006 check in is really just something</p>	<p>1 we want to do for prudence, just to be prudent</p> <p>2 about it.</p> <p>3 Q. Yes, you can only go by the best information</p> <p>4 you have at any given moment.</p> <p>5 MR. COLLINS:</p> <p>6 A. Certainly.</p> <p>7 Q. Sure. And so in the last sentence there that</p> <p>8 in the event that you do do such upgrades,</p> <p>9 they must be justified within a short payback</p> <p>10 period, considering the potential for a CSS</p> <p>11 replacement as early as 2008. So when you</p> <p>12 look to doing enhancements, possible</p> <p>13 enhancements to the existing customer service</p> <p>14 system, is that the time frame we're dealing</p> <p>15 with then, that they would have to show a</p> <p>16 payback between when you do the work, if you</p> <p>17 do it in 2004 and 2008, that it has a four-</p> <p>18 year payback period?</p> <p>19 MR. COLLINS:</p> <p>20 A. I guess you're speaking of a purely financial</p> <p>21 analysis, is that what you're speaking -</p> <p>22 Q. Well I'm just using, I guess that was the next</p> <p>23 question is justified within a short payback</p> <p>24 period, I guess what was it meant by the</p> <p>25 Company when it said "justified by a short</p>

Page 41	Page 42
<p>1 MR. MYLES:</p> <p>2 payback period"? I took that to mean that</p> <p>3 there would be an economic analysis conducted</p> <p>4 to ensure that the enhancement being proposed</p> <p>5 would have a payback period or payback shown</p> <p>6 in the period allotted to it, which in this</p> <p>7 case would be a four-year period, 2004 to</p> <p>8 2008.</p> <p>9 MR. COLLINS:</p> <p>10 A. I mean, I think certainly a financial</p> <p>11 analysis, I mean, we haven't done a cost</p> <p>12 benefit analysis from a purely financial</p> <p>13 perspective on each of these individual</p> <p>14 enhancements. Some of these we're responding</p> <p>15 to what we have in the budget is really to</p> <p>16 improve respond to customer requirements for</p> <p>17 improvements, and certainly keeping in mind</p> <p>18 that there may be an end of life, 2008, 2010,</p> <p>19 2011, some of the enhancements that we have in</p> <p>20 our budget for 2004 involve moving some</p> <p>21 components of what's in CSS, off of open BMS,</p> <p>22 so that if the time ever comes that we have to</p> <p>23 replace the CSS and hopefully it doesn't, but</p> <p>24 if the time ever comes, those pieces that we</p> <p>25 have moved off are salvageable because if you</p>	<p>1 have to buy a new package, five, six, seven</p> <p>2 years out, you don't have to put those</p> <p>3 components that you know are salvageable, so</p> <p>4 hopefully in that time frame, 2008, 2010, the</p> <p>5 cost of a new package will be less as a result</p> <p>6 because we wouldn't have to buy as much.</p> <p>7 Q. Okay, so it would be fair to say that where</p> <p>8 the enhancement is of a nature that would</p> <p>9 permit an economic analysis to be conducted</p> <p>10 upon, for instance, an operational efficiency</p> <p>11 that's going to be achieved, that that</p> <p>12 analysis should take into account that your</p> <p>13 payback period ends by 2008, potentially?</p> <p>14 MR. MULCAHY:</p> <p>15 A. I think if the proposal is solely based on an</p> <p>16 economic analysis, yes, that would be a fair</p> <p>17 statement. But I think as Mr. Collins</p> <p>18 referenced earlier, there are a number of</p> <p>19 other factors that go into determining whether</p> <p>20 or not an enhancement or an upgrade will take</p> <p>21 place.</p> <p>22 Q. Sure and perhaps, Mr. Mulcahy, it might be of</p> <p>23 assistance then if we just scroll down a</p> <p>24 little bit onto page--that same page, 53, and</p> <p>25 you've got "As an aid to determine if an</p>
Page 43	Page 44
<p>1 enhancement to a specific area of the CSS is</p> <p>2 required, one or more of the following</p> <p>3 characteristics should be present." And just</p> <p>4 go through them, "A particular CSS component</p> <p>5 is causing significant problems or errors,</p> <p>6 such as incorrect information or billings.</p> <p>7 Number two, "The problem affects the general</p> <p>8 population of customers as a whole". Number</p> <p>9 three, "Significant manual intervention is</p> <p>10 required to administer the program correctly</p> <p>11 or keep it on track." Number four, "The CSS</p> <p>12 component is limited in its ability to respond</p> <p>13 to specific requests on a timely basis."</p> <p>14 Number five, "The CSS component does not meet</p> <p>15 the Company's business objectives." And</p> <p>16 number six, "Expected benefits outweigh costs,</p> <p>17 assuming a relatively short payback period."</p> <p>18 So the last one there, I guess, is a repeat of</p> <p>19 the first one. So we've got five indications</p> <p>20 or, I guess the Company calls them</p> <p>21 characteristics, one or more of which should</p> <p>22 be present when you're deciding whether to do</p> <p>23 a CSS enhancement, is that correct?</p> <p>24 MR. MULCAHY:</p> <p>25 A. Yes.</p>	<p>1 Q. Okay. So let's just turn now to Appendix 3 in</p> <p>2 your book, "Information Systems". And this is</p> <p>3 the project that you were referring to</p> <p>4 earlier, Mr. Collins, I believe, the proposal</p> <p>5 to change your customer bill design format and</p> <p>6 printing?</p> <p>7 MR. COLLINS:</p> <p>8 A. Actually a \$226,000.00 project that it refers</p> <p>9 to three pieces, one of which is the customer</p> <p>10 bill design format and printing.</p> <p>11 Q. Right, and I think PUB-99 gave us a breakdown</p> <p>12 of what each of those were. And PUB-99 shows</p> <p>13 that the breakdown for these three projects</p> <p>14 are 118,000 for changing the customer bill</p> <p>15 design; 68,000 for the customized CSS letters;</p> <p>16 and then the third one, \$40,000.00 for some</p> <p>17 reporting tools that you want to add to your</p> <p>18 CSS system. Okay, so just if we could go back</p> <p>19 to the Appendix 3, please. The description of</p> <p>20 this project says, "That the project consists</p> <p>21 of several enhancements to the customer</p> <p>22 service system that reduced the dependence on</p> <p>23 the open BMS operating system. Through this</p> <p>24 project, computer programs will be retired</p> <p>25 from the open BMS system in keeping with the</p>

Page 45	Page 46
<p>1 MR. MYLES: 2 findings of the customer service system 3 replacement analysis." So just on the second 4 point, is the justification for this project 5 twofold then, one to respond to what 6 Newfoundland Power sees as a customer-driven 7 request; and then two, that it also is 8 justified in the fact that you're developing 9 an aspect of your customer service system that 10 operates on a new operating system, not open 11 BMS and that therefore, that lowers your 12 dependence on the open BMS operating system? 13 MR. COLLINS: 14 A. Yes, that's correct. 15 Q. So let's just go after--talk about the second 16 one first. The justification that you're 17 lowering your dependence on the open BMS 18 operating system. As far as we're aware, the 19 open BMS system, as we indicated, is good to 20 2009 or 2011, correct? 21 MR. COLLINS: 22 A. So far, yes. 23 Q. Okay, so if that's the case, why would 24 Newfoundland Power be now trying to lower its 25 dependent on the open BMS system?</p>	<p>1 MR. COLLINS: 2 A. As I indicated earlier, we're certainly going 3 to do a check in, in 2006, to make sure that 4 what we've been hearing as late as May, June 5 of this year, is still holding true. And 6 industry analysts, like Gartner, say that open 7 BMS is still risky. We feel, we've taken care 8 of our short to medium term risks as far as 9 our customer service is concerned, our ability 10 to be able to serve customers, but that 11 doesn't mean that we should just stand still 12 and not do anything to make sure that some of 13 those long-term risks are taken care of. So 14 that being reducing the reliance of open BMS 15 through projects that we're putting forth as 16 part of that \$226,000.00. 17 Q. So how do you reconcile your decision here or 18 your proposal with the fact that one of your 19 options that are still a possibility would be 20 to replace your entire existing customer 21 service system with an entirely new package, 22 that as we've indicated may include customer 23 bill design format and printing? Let me sort 24 of break that down. The purchase of a new 25 replacement customer service system,</p>
Page 47	Page 48
<p>1 potentially that new customer service system 2 would include customer bill design format and 3 printing capabilities? 4 MR. COLLINS: 5 A. Yes, absolutely. 6 Q. And so if Newfoundland Power were to pursue 7 that option, 2006 you put your head back up 8 out of the fox hole and you determine it 9 doesn't look good for open BMS again, so you 10 make a decision, Board approved to proceed 11 with the replacement of the customer service 12 system by 2008 with an entirely new customer 13 service package, that that includes customer 14 bill design format and printing, that's what 15 they do. Now you've got an obsolete module 16 that you've built for \$226,000.00 in 2004, 17 correct? That's a risk? 18 (10:00 a.m.) 19 MR. COLLINS: 20 A. No, that's not correct at all, actually, 21 because what we would plan to do, certainly 22 what Mr. Kennedy is saying is true in that new 23 customer service system packages that are out 24 there on the market for the ten, fifteen 25 million dollar range have everything that</p>	<p>1 you'll ever want to do, and more, with a 2 customer service system, but you can buy 3 modules, you don't have to buy the whole 4 pieces. If we get certainly approval to do 5 this project, this customer bill design format 6 and print, that's a module come 2008 or 7 whenever that, you know, if that ever hits us 8 that we have to replace it, that's a module we 9 don't have to buy. So you can take the 10 benefits that we're getting from this 11 particular project and bring it forward, no 12 matter if we buy a package or not. 13 Q. Okay, and this new module that you're 14 proposing, what will that be built on, what 15 operating system will that work on? 16 MR. COLLINS: 17 A. Well it's actually, it's the same system that 18 our e-bills use today, actually because what 19 happened--what's happening is printers, the 20 printers that we use to print our bills are 21 very intelligent printers. They are able to 22 determine when a customer bill--just before a 23 customer bill prints if that bill is going to 24 be sent to the printer to go in an insert or 25 to be mailed or, of if it's going to be sent</p>

Page 49	Page 50
<p>1 MR. COLLINS:</p> <p>2 electronically. They are notices that are</p> <p>3 going to be electronically to the customers.</p> <p>4 So that printing is proprietary software from</p> <p>5 the printer manufacturer, I think, Mr.</p> <p>6 Kennedy, I stand to be corrected on that, but</p> <p>7 ICON is the printer manufacturer. The</p> <p>8 software I think is a company out of Quebec--</p> <p>9 I'm pretty sure it's a company out of Quebec,</p> <p>10 I just don't remember the software itself.</p> <p>11 But that software will be doing the--has the</p> <p>12 ability to be able to do the design and the</p> <p>13 formatting of the bill for us. So what will</p> <p>14 happen is when we actually print or send the</p> <p>15 customer's bill to print, the printer takes</p> <p>16 over and before it actually prints the bill,</p> <p>17 it will format it, it will do what it has to</p> <p>18 do with it, whether that's e-mail it, format</p> <p>19 it before it prints it.</p> <p>20 Q. Okay, the question though I think was this new</p> <p>21 customer bill design format and print</p> <p>22 application that you're proposing, what</p> <p>23 operating system will that work on?</p> <p>24 MR. COLLINS:</p> <p>25 A. I believe it's--I stand to be corrected, but I</p>	<p>1 believe it's a Microsoft Windows platform.</p> <p>2 There's, again, it's an area that I'm not</p> <p>3 completely familiar with because it is run by</p> <p>4 our Production Center, but we have a large</p> <p>5 printer over there that is able to print out,</p> <p>6 you know, in excess of 10,000 bills a night</p> <p>7 and it's connected to another box, and that</p> <p>8 box, I believe it's a Windows 2000 box, Mr.</p> <p>9 Kennedy, if that answers your question.</p> <p>10 Q. Okay, and isn't it a distinct possibility that</p> <p>11 if you were to exercise the option of</p> <p>12 purchasing an entirely new customer service</p> <p>13 system package that you would have technical</p> <p>14 issues and compatibility issues between this</p> <p>15 new module that you're building in 2004 and</p> <p>16 the new customer service system package that</p> <p>17 you buy, if you were to buy one in 2007?</p> <p>18 MR. COLLINS:</p> <p>19 A. I think you're going to have to ask me that</p> <p>20 again, Mr. Kennedy.</p> <p>21 Q. All right, you're writing a new--the proposal</p> <p>22 is to write a new customer service bill design</p> <p>23 format and print application, that's to</p> <p>24 operate on, your best indication Microsoft</p> <p>25 Windows platform.</p>
Page 51	Page 52
<p>1 MR. COLLINS:</p> <p>2 A. Right.</p> <p>3 Q. There's a potential that you may exercise the</p> <p>4 option to purchase a new customer service</p> <p>5 system that would operate on not open BMS,</p> <p>6 some other new system. Isn't it possible that</p> <p>7 when you go to purchase that new customer</p> <p>8 service system, that your new customer service</p> <p>9 system won't talk to your new customer bill</p> <p>10 design print and format module?</p> <p>11 MR. COLLINS:</p> <p>12 A. I think the answer to that is possible, but</p> <p>13 not probable. What we have really going on</p> <p>14 there, if I can think ahead 8 years, would be</p> <p>15 a new customer service system potentially</p> <p>16 that's creating, that's generating all of the</p> <p>17 bill. Before--when it goes to print it, it</p> <p>18 will just send a stream of data, ones and</p> <p>19 zeros, to a printer for processing. So</p> <p>20 whether that printer has Microsoft Windows on</p> <p>21 it or whether it has Unix on it or whether it</p> <p>22 has Lennox on it, I don't, you know, from what</p> <p>23 I know about technology, Mr. Kennedy, whether</p> <p>24 that's--that new package runs on Unix or</p> <p>25 Windows or whatever, is not going to make any</p>	<p>1 difference. You're just passing data back and</p> <p>2 forth.</p> <p>3 Q. All right, let's just look to the other</p> <p>4 justification for these projects that they are</p> <p>5 driven by customer requirements. I think it's</p> <p>6 been indicated in a number of replies to some</p> <p>7 information requests that you had yet to work</p> <p>8 out what that new bill design format and print</p> <p>9 would be, correct?</p> <p>10 MR. COLLINS:</p> <p>11 A. That's correct.</p> <p>12 Q. And that's because you've yet to conduct any</p> <p>13 focus groups or the like on your customers to</p> <p>14 determine what it is that they would want in a</p> <p>15 new bill, correct?</p> <p>16 MR. COLLINS:</p> <p>17 A. Yes, that's correct. We don't want to start</p> <p>18 spending money on this sort of thing until we</p> <p>19 have certainly Board approval.</p> <p>20 Q. Okay, so where is the driver for this project</p> <p>21 then coming from? You reference that you</p> <p>22 heard indications from the Board, I think you</p> <p>23 said. Has the Board indicated that it wants</p> <p>24 to see a new project involving customer bill</p> <p>25 design format and printing?</p>

Page 53	Page 54
<p>1 MR. COLLINS:</p> <p>2 A. When I said the Board, we've gotten--I don't</p> <p>3 get direct feedback from the Board myself, I</p> <p>4 know that our customer service people, they</p> <p>5 hear from Mr. Byrne and that sort of thing,</p> <p>6 but from the information that I am aware of,</p> <p>7 Mr. Kennedy, customers have a hard time</p> <p>8 reading their bill. Not all customers,</p> <p>9 certainly, but certainly some customers,</p> <p>10 especially when you talk about EPP payments</p> <p>11 and there's a line there that talks about, you</p> <p>12 know, your current EPP payment today, Equal</p> <p>13 Payment Plan payment to date, how much you</p> <p>14 owe, if you got operating--that sort of thing.</p> <p>15 We have very little flexibility as to how we</p> <p>16 can present that information to the customer,</p> <p>17 and we certainly feel there's an opportunity</p> <p>18 for us, in terms of improved customer service,</p> <p>19 to make that bill a lot more legible, a lot</p> <p>20 more readable to them.</p> <p>21 Q. Okay, I wonder if we could switch to your</p> <p>22 application "Environment Proposal", it's under</p> <p>23 Appendix 2 under "Information Systems". And</p> <p>24 similar to the previous project we looked at,</p> <p>25 there was an RFI that asked for a breakdown of</p>	<p>1 the individual cost on this project and that's</p> <p>2 under PUB-86. And PUB-86 indicated that the</p> <p>3 Microsoft Enterprise Agreement was 210,000;</p> <p>4 your database and development software is</p> <p>5 budgeted at 56,000; Environment Management</p> <p>6 Software is No. 3, is 227; and you've got</p> <p>7 application software at 247; and SCADA</p> <p>8 Development Environment of 51. Now, am I</p> <p>9 gathering correctly from some of the responses</p> <p>10 to the RFIs that this section of your budget</p> <p>11 proposal, the projects entitled "Application</p> <p>12 Environment" relate specifically to upgrades</p> <p>13 to the existing software or the purchase of</p> <p>14 new software?</p> <p>15 MR. COLLINS:</p> <p>16 A. It's largely upgrades, I think, Mr. Kennedy,</p> <p>17 but it's not only, it's not only upgrading</p> <p>18 software, the Application Environment is how</p> <p>19 we have it termed here, whether it's--it's</p> <p>20 environment, but not in the green sense of the</p> <p>21 word "environment". We have a production</p> <p>22 environment and the production environment has</p> <p>23 our applications, like CSS, SCADA, problem</p> <p>24 call logging, outage notification systems,</p> <p>25 those kinds of things. Those are what our</p>
Page 55	Page 56
<p>1 employees and customers rely on to serve them.</p> <p>2 Before we would make any changes to that</p> <p>3 production environment, we would have a test</p> <p>4 environment that's quite similar in set up, in</p> <p>5 nature to the production environment. We have</p> <p>6 software tools in there for diagnosing any</p> <p>7 bugging things, we would put software upgrades</p> <p>8 on that test environment before putting them</p> <p>9 in production, that sort of thing, just to</p> <p>10 make sure that in the event--I think it may</p> <p>11 have been in one of your RFIs, Mr. Kennedy,</p> <p>12 you stated it nicely there, actually, in your</p> <p>13 question that when you put software in, a need</p> <p>14 to upgrade software, you could have more--you</p> <p>15 could have something break. There's nothing</p> <p>16 worse to a computer system than making a</p> <p>17 change and if you--with a test environment,</p> <p>18 which is what, you know, this application</p> <p>19 environment talks about, with a good test</p> <p>20 environment where we could put software</p> <p>21 upgrades on, that certainly limits our risk</p> <p>22 and our impact on things that are in</p> <p>23 production environment, where our customer</p> <p>24 service system and everything are used. I</p> <p>25 hope I explained that correctly to you, Mr.</p>	<p>1 Kennedy.</p> <p>2 Q. The record will show that. Okay, I wanted to</p> <p>3 look at just the first one, the Microsoft</p> <p>4 Enterprise Agreement which is per PUB-86, is</p> <p>5 sub-budgeted for \$210,000.00. And you explain</p> <p>6 that this is an agreement that you have with</p> <p>7 Microsoft that allows you to make, if I could,</p> <p>8 a blanket payment that covers upgrades to many</p> <p>9 of the Microsoft applications that you're</p> <p>10 using in your environment?</p> <p>11 MR. COLLINS:</p> <p>12 A. Yes, spread out over a kind of a three-year</p> <p>13 period.</p> <p>14 Q. And those are as indicated on that first page,</p> <p>15 Microsoft Word, Excel, Powerpoint, Access,</p> <p>16 Outlook, SQL Server Client Access, correct?</p> <p>17 MR. COLLINS:</p> <p>18 A. Which page are you referring to?</p> <p>19 Q. Page 1 of 4--I'm sorry, if we could go back to</p> <p>20 Appendix 2, sorry. Correct, these are -</p> <p>21 MR. COLLINS:</p> <p>22 A. Sorry, ask the question again.</p> <p>23 Q. Okay. So, what we're dealing with here are an</p> <p>24 exploration, if you will, of the option</p> <p>25 available to the Company to upgrade its</p>

Page 57

Page 58

1 MR. MYLES:
 2 existing Microsoft application. And those
 3 existing Microsoft applications are as per
 4 page one of four on that Appendix 2, Microsoft
 5 Word, Excel, Powerpoint, Access, Outlook and
 6 your SQL Service Lines.
 7 MR. COLLINS:
 8 A. Yes. And I guess for clarification purposes,
 9 when we say Microsoft applications, we're
 10 referring to the components that actually go
 11 on your PC that you're using, not the back-end
 12 applications, not the server based
 13 applications, Mr. Kennedy.
 14 Q. Right. This covers your desktop portion of
 15 your Microsoft application.
 16 MR. COLLINS:
 17 A. Certainly, further, in PUB-90, I believe it
 18 is, that list is put in a table.
 19 Q. Yes, we'll get to that.
 20 MR. COLLINS:
 21 A. Okay.
 22 Q. Before we jump there--and you had three
 23 options. One was do nothing now and pay for
 24 next new licenses to upgrade in the future.
 25 Option two was to purchase the Microsoft

1 select agreement for each instance of the
 2 software. And option three was renew the
 3 existing agreement, the Microsoft agreement at
 4 the proposed discount. Now, when we flip the
 5 next page and this your first revision. There
 6 was actually a second revision filed, I think
 7 all that was changed was some formatting
 8 issues that were on this page.
 9 MR. COLLINS:
 10 A. It was just the bullet at the bottom, I think.
 11 Q. And your paragraph numbering got fooled up, I
 12 think. That database development software is
 13 supposed to be number two because it shows up
 14 on the second revision, but one question
 15 first. In the original document, that was
 16 filed as part of your application, under this
 17 box, the do nothing option was still expressed
 18 as \$1,420.00. Then you had select agreement,
 19 \$361.00 and Enterprise Agreement, \$288.00.
 20 And then once it was revised, that first
 21 revision, the numbers got bumped to the
 22 numbers we see there now. So, the select
 23 agreement went from originally \$361.00 to
 24 \$1,083.00 and the Enterprise agreement went
 25 from \$288.00 to \$864.00. Could you just

Page 59

Page 60

1 explain, please, for us, the reason why these
 2 numbers changed on the revision.
 3 MR. COLLINS:
 4 A. That table, the original table which I don't
 5 know if we have on record anymore, I'll take
 6 the Enterprise agreement, for instance. It
 7 was \$288.00, it's now \$864.00 and what that
 8 288 represents, it was a one year cost, but
 9 that table was meant to represent a three year
 10 cost. So, we pick that up actually while we
 11 were answering RFIs and we thought we would
 12 make the correction to the record.
 13 Q. So, in the case of the Enterprise agreement,
 14 you took the 288 and just grossed it up by
 15 three.
 16 MR. COLLINS:
 17 A. Multiplied by three.
 18 Q. Okay. In the case of the Select agreement
 19 that was originally 361, that was just grossed
 20 up by three.
 21 MR. COLLINS:
 22 A. That's correct.
 23 Q. Okay. But now the budget that you have for
 24 the Microsoft Enterprise agreement of
 25 \$210,000.00, that's based on your one year

1 provision of the upgrading to your licenses,
 2 correct?
 3 MR. COLLINS:
 4 A. That's a component of it, certainly.
 5 Q. If I take the 288 as being equivalent of one
 6 year under your Microsoft agreement for your
 7 original filing and I multiple it by the 597
 8 personal computers that is indicated that
 9 that's what these costs are associated for. I
 10 get \$179,000.00 as the total.
 11 MR. COLLINS:
 12 A. I thought it was 172 actually.
 13 Q. Okay, maybe it's 172. Could you explain what
 14 the difference is between the 172 and then the
 15 210,000 that you have booked?
 16 (10:15 a.m.)
 17 MR. COLLINS:
 18 A. Sure. Maybe I need to back up probably to
 19 March/April 2002 when we were looking at this
 20 Enterprise agreement with Microsoft. With the
 21 options that we looked at, we had--there was
 22 three in front of us--we could have decided
 23 that, you know, we would buy the software as
 24 we need it. And projecting out over the three
 25 years, from that point in time being early

Page 61	Page 62
<p>1 MR. COLLINS:</p> <p>2 2002, we were able to see that there was a</p> <p>3 number of software upgrades coming over that</p> <p>4 three year period. So, based on which ones we</p> <p>5 felt we were going to be upgrading over those</p> <p>6 three years, we felt that the cost over those</p> <p>7 three years was going to cost us in the order</p> <p>8 of \$1,420.00 per PC.</p> <p>9 A second option we looked at was a Select</p> <p>10 agreement from Microsoft, the second point in</p> <p>11 that table. And that cost with those same</p> <p>12 assumptions about what we were going to</p> <p>13 upgrade on the desktop PCs for those 597 PCs</p> <p>14 was going to be 1,083. The EA agreement</p> <p>15 option was \$864.00 with the assumptions over</p> <p>16 that period. Now, Mr. Kennedy's question was</p> <p>17 on that 864 as of the 172, where we have 210</p> <p>18 that we're asking for. You got to remember</p> <p>19 that the Enterprise agreement or these</p> <p>20 agreement at Microsoft only cover certain</p> <p>21 types of software as listed in PUB-90. In</p> <p>22 2002, we also required additional software</p> <p>23 from Microsoft. An example would be Microsoft</p> <p>24 Project, another example would be a drawing</p> <p>25 tool called Visio. And because of an</p>	<p>1 Enterprise agreement, by signing onto an</p> <p>2 Enterprise agreement, if we didn't have the</p> <p>3 agreement, sorry, and we had to purchase that</p> <p>4 software, that software would have cost of</p> <p>5 \$72,000.00 at that point it time, that's</p> <p>6 outside the Enterprise agreement. Being under</p> <p>7 an Enterprise agreement, we could split that</p> <p>8 \$72,000.00 over a three year period. And any</p> <p>9 time I'm faced with the option of deferring</p> <p>10 some of those costs for the years, I mean, I</p> <p>11 think that's certainly of great benefit. So,</p> <p>12 we were able to take that \$72,000.00, break it</p> <p>13 down by three which was \$24,000.00 a year. If</p> <p>14 we add that \$24,000.00 to the 172 which was</p> <p>15 the base Enterprise agreement, you get</p> <p>16 \$195,000.00. So, there's still a 210 there</p> <p>17 that we have to reconcile, I understand, Mr.</p> <p>18 Kennedy.</p> <p>19 So, looking at 2004, there's still some</p> <p>20 software, there's two server database software</p> <p>21 from Microsoft that we need. There's Palm</p> <p>22 Windows 2000 server software products that we</p> <p>23 need. That brings the total to \$14,000.00,</p> <p>24 excuse me, \$15,000.00. So, if you look at the</p> <p>25 three components again, the base EA agreement</p>
Page 63	Page 64
<p>1 which was going to be 172, because we were</p> <p>2 under the EA agreement and we could spread</p> <p>3 that large cost of \$72,000.00 over three</p> <p>4 years, impacting 24,000. That gets us to 195.</p> <p>5 And then the third year, this third amount</p> <p>6 here to get us to 210 is the additional</p> <p>7 software that we feel we need as a Company to</p> <p>8 operate in 2004. So, we package it all under</p> <p>9 the Enterprise agreement, Mr. Kennedy, because</p> <p>10 what happens is that first, it's easier to</p> <p>11 track for us and we get discounts with</p> <p>12 Microsoft if you have an Enterprise agreement</p> <p>13 and you need a software package that's going</p> <p>14 to cost you a thousand dollars, round number,</p> <p>15 you'll get a 15 to 20 percent discount on it</p> <p>16 if you have this Enterprise agreement. That's</p> <p>17 why we've included the 210.</p> <p>18 Q. Okay. If I take that 210,000 though and I</p> <p>19 divide it by the number of personal computers</p> <p>20 you have, 597, and the I grossed it up for</p> <p>21 the three years, I get a number of 1,055. So,</p> <p>22 is it not the case then that under this number</p> <p>23 one, that's the number I need to compare to</p> <p>24 the do nothing scenario of 1420.</p> <p>25 MR. COLLINS:</p>	<p>1 A. No, it's not; that's not the case at all. The</p> <p>2 \$864.00, what that number is and what that</p> <p>3 \$1,420.00 is exactly the software products</p> <p>4 that are shown in Tab 1 in PUB-90.</p> <p>5 Q. Okay. Let's just go to that because we've</p> <p>6 referenced it a couple of times and we should</p> <p>7 bring it up for the benefit of the Panel.</p> <p>8 MR. COLLINS:</p> <p>9 A. I'm sorry, your question.</p> <p>10 Q. No, no, no, that's okay. So, in this case of</p> <p>11 PUB-90, we've got a list of the items that are</p> <p>12 what comprised the \$1,413.00, it's \$1,420. 00</p> <p>13 in our table we were looking at a minute ago.</p> <p>14 But a reconciliation or a breakdown of how the</p> <p>15 \$1,420.00 was arrived at, is that correct?</p> <p>16 MR. COLLINS:</p> <p>17 A. Right, so that table that we were looking at a</p> <p>18 minute ago which had the, I think it was 864</p> <p>19 for the EA agreement would be the cost of</p> <p>20 those same products under the EA agreement,</p> <p>21 the total cost of those same products under</p> <p>22 the EA agreement over that three years.</p> <p>23 Q. Okay. And so the remaining portion, excuse</p> <p>24 me, of the difference, the forty odd thousand</p> <p>25 dollars between the 172 and the 210, that's</p>

Page 65	Page 66
<p>1 MR. MYLES:</p> <p>2 for software, you're acquiring new licenses</p> <p>3 for under the Microsoft agreement that are not</p> <p>4 included in that table 1.</p> <p>5 MR. COLLINS:</p> <p>6 A. Yes, because Microsoft, as I said earlier that</p> <p>7 base or the core enterprise agreement from</p> <p>8 Microsoft only includes these products here.</p> <p>9 So, when we wanted to buy or needed to buy</p> <p>10 Microsoft Project and Visio, we could not--</p> <p>11 they're not part of the Enterprise agreement</p> <p>12 per se, but because we have an Enterprise</p> <p>13 agreement, we can get discounts, we can spread</p> <p>14 costs over the life of the agreement and that</p> <p>15 sort of thing, Mr. Kennedy.</p> <p>16 Q. Okay. Now, in this option under your</p> <p>17 Microsoft agreement, if we just go back to</p> <p>18 that Appendix 2, please and we go to the first</p> <p>19 page, please, scroll, to the bottom. Yes.</p> <p>20 Under number three there, "renew the existing</p> <p>21 Microsoft agreement as a proposed discount".</p> <p>22 And you go, "this provides the Company with</p> <p>23 the ability to use the latest releases of the</p> <p>24 identified software for a three-year period.</p> <p>25 And these licenses are paid for at the same</p>	<p>1 time, once a year following accounts of the</p> <p>2 personal computers". So, let's say at the end</p> <p>3 of this three-year period, you don't renew</p> <p>4 anything, do you have the ability to use the</p> <p>5 applications on the computers then at that</p> <p>6 point?</p> <p>7 MR. COLLINS:</p> <p>8 A. Yes, absolutely. After this agreement</p> <p>9 expires, we actually own that software, so</p> <p>10 it's a asset that we own. Microsoft is not</p> <p>11 going to come in and take anything away. It's</p> <p>12 an investment that we've made, it's our</p> <p>13 software.</p> <p>14 Q. Okay. If you could just go to the database</p> <p>15 and development software and you've got a</p> <p>16 budget of \$56,000.00 for this item, correct?</p> <p>17 MR. COLLINS:</p> <p>18 A. Yes.</p> <p>19 Q. And I think as is being indicated in NLH-74,</p> <p>20 this is all for application development, this</p> <p>21 56,000, correct?</p> <p>22 MR. COLLINS:</p> <p>23 A. NLH?</p> <p>24 Q. NLH-74, it's just this is where the breakdown</p> <p>25 for these various budget items are and it's</p>
Page 67	Page 68
<p>1 56,000 under application development for</p> <p>2 database and development software.</p> <p>3 MR. COLLINS:</p> <p>4 A. Yes.</p> <p>5 Q. Okay. So, is this an application development</p> <p>6 that you would do in house?</p> <p>7 MR. COLLINS:</p> <p>8 A. No, we said in the NLH-74 that, actually we</p> <p>9 had a bit of a difficult time breaking out our</p> <p>10 costs as Newfoundland and Labrador Hydro asked</p> <p>11 us to. So, the best option, best available</p> <p>12 option that we could put that \$56,000.00 into,</p> <p>13 Mr. Kennedy, was application development</p> <p>14 because we're not buying any software. What</p> <p>15 we're going to be doing in house with that</p> <p>16 \$56,000.00, I guess, is the process around</p> <p>17 installing the database software upgrades,</p> <p>18 doing the testing and that sort of thing. So,</p> <p>19 there's no development as such going on. It's</p> <p>20 just that putting the software on, testing it,</p> <p>21 not only staff from my own department testing</p> <p>22 it, Mr. Kennedy, from a technical perspective,</p> <p>23 but also having Mr. Ludlow's staff come in for</p> <p>24 a day or so and test to make sure that</p> <p>25 something didn't break as a result of that</p>	<p>1 software upgrade. So, that's essentially what</p> <p>2 we meant there by that \$56,000.00. Because</p> <p>3 it's pigeon holed into that application</p> <p>4 development thing, it's more, you know, there</p> <p>5 was kind of nowhere else to put it really</p> <p>6 because there wasn't (phonetic) an application</p> <p>7 to purchase.</p> <p>8 Q. Okay. You indicate there that these upgrades</p> <p>9 will ensure that Company's business</p> <p>10 applications continue to function in a stable</p> <p>11 and reliable manner as well as insuring an</p> <p>12 appropriate level of vendor support is</p> <p>13 sustained, correct? Do you see where I'm</p> <p>14 reading that?</p> <p>15 MR. COLLINS:</p> <p>16 A. No.</p> <p>17 Q. Okay, it's database and development software.</p> <p>18 Oh, I'm sorry, I keep thinking that the screen</p> <p>19 is showing something different than it is.</p> <p>20 Appendix 2 and the second page and then the</p> <p>21 paragraph right underneath, okay, sorry about</p> <p>22 that. So, there was some follow-up RFIs to</p> <p>23 that statements and PUB-95 was one of the</p> <p>24 first ones. And PUB-95, this was, I think the</p> <p>25 reference you were making earlier about the</p>

Page 69	Page 70
<p>1 MR. MYLES:</p> <p>2 introduction of applications sometimes</p> <p>3 creating stabilities or incompatibilities.</p> <p>4 And we asked you to provide specific examples</p> <p>5 of how the proposed data base upgrade will</p> <p>6 "ensure this Company's business applications</p> <p>7 continue to function in a stable and reliable</p> <p>8 manner". And the second paragraph says,</p> <p>9 "there are no specific examples of how the</p> <p>10 proposed database upgrade will insure that the</p> <p>11 Company's business applications continue to</p> <p>12 function in a stable and reliable manner".</p> <p>13 And I'm going to get you to comment on this, I</p> <p>14 just want to go through the three RFIs first.</p> <p>15 PUB-96 was describe what aspects of the</p> <p>16 existing database which will not continue to</p> <p>17 function and or become unstable unless</p> <p>18 upgraded. And your part reply there is "no</p> <p>19 specific aspect of the existing database has</p> <p>20 been identified as being likely to become</p> <p>21 unstable or no longer function unless</p> <p>22 upgraded".</p> <p>23 And then PUB-97, "what specific</p> <p>24 additional support will be provided by the</p> <p>25 vendor as a result of the database upgrade and</p>	<p>1 what specific support will be lost as a result</p> <p>2 of failing to upgrade". And the answer, "in</p> <p>3 the case of the proposed upgrades there is not</p> <p>4 additional support being obtained as a result</p> <p>5 of completing the upgrade. However, one of</p> <p>6 the products to be upgraded is not compatible</p> <p>7 with databases currently in production and as</p> <p>8 such, the vendors does not provide support for</p> <p>9 the product". And I think you indicated that</p> <p>10 was an Oracle database in a subsequent RFI.</p> <p>11 So, in light of those three RFI replies</p> <p>12 that indicated that you can't provide any</p> <p>13 specific examples of how the database upgrade</p> <p>14 will ensure that your business applications</p> <p>15 continue to function in stable manners, that</p> <p>16 there's not specific aspect of the existing</p> <p>17 database likely to become unstable and that</p> <p>18 there is no additional support being obtained</p> <p>19 as a result of the upgrade. Can you explain</p> <p>20 to me, again, why the statement was made that</p> <p>21 that was the case, as a justification for the</p> <p>22 project?</p> <p>23 MR. COLLINS:</p> <p>24 A. Sure, there was a number of follow-up RFIs,</p> <p>25 Mr. Kennedy. I'll take you to PUB-185 just as</p>
Page 71	Page 72
<p>1 a visual aid as I answer your question. The</p> <p>2 reason for that statement in the justification</p> <p>3 is, it really comes down to list management.</p> <p>4 And one of the things that I have to do as</p> <p>5 manager of an IS department with Newfoundland</p> <p>6 Power that has in excess of 30 business</p> <p>7 applications that I have to keep functioning</p> <p>8 for the Company, is to try to ensure, the best</p> <p>9 that I can, that all my software is working</p> <p>10 well together. The reason for the way those</p> <p>11 were answered in those RFIs that you</p> <p>12 referenced, Mr. Kennedy, was you know, the</p> <p>13 peculiar thing about software is that, you</p> <p>14 know, if it's working, it's not likely to</p> <p>15 break. If it's working; it's working. But</p> <p>16 there's so many interdependencies with</p> <p>17 software.</p> <p>18 For instance, the customer service system</p> <p>19 has several software vendors that we--we're</p> <p>20 using several products from different software</p> <p>21 vendors to build the customer service system.</p> <p>22 If one of those software vendors decides that</p> <p>23 they're going to do an upgrade, there's huge</p> <p>24 impacts for us. We got to look at all the</p> <p>25 other pieces of software that that software</p>	<p>1 touches within the customer service system to</p> <p>2 make sure that nothing is going to break</p> <p>3 because that vendor doesn't know how we're</p> <p>4 using his software in our product.</p> <p>5 So, the reason for the justification in</p> <p>6 the application environment project, the</p> <p>7 reason for wording it that way is that it's</p> <p>8 all about balancing the risk. The visual aid</p> <p>9 I put up on the screen, we are several</p> <p>10 versions behind on several software products.</p> <p>11 And these software products, Microsoft Sequel</p> <p>12 server, Oracle database management, Erwin</p> <p>13 application development. Those are use</p> <p>14 throughout our 30 business applications. So,</p> <p>15 for me, I guess what I have to do, when I'm</p> <p>16 looking out and planning my 2004 expenditures</p> <p>17 application environment, I want to make sure</p> <p>18 I'm not snowplowing, I guess is the best word,</p> <p>19 too many version upgrades ahead of me. So, I</p> <p>20 want to get through some of those version</p> <p>21 upgrades so that, you know, I'm not faced with</p> <p>22 upgrading 50 products in a subsequent year.</p> <p>23 So, I'm trying to just stay a little bit ahead</p> <p>24 of the game here, not trying to, you know,</p> <p>25 jump to the latest releases as soon as it</p>

Page 73	Page 74
<p>1 MR. COLLINS: 2 comes out because, I believe, that makes 3 absolutely no sense, but certainly not get too 4 far behind either. So, I think that's 5 probably the best way I can answer that. 6 Q. Chair, you were going to break at 10:30, I 7 believe. 8 CHAIRMAN: 9 Q. Yes. 10 MR. KENNEDY: 11 Q. We're there now. 12 CHAIRMAN: 13 Q. I'd like to break at this time if we could, 14 somebody does have a commitment and so we'll 15 break for 15 minutes. 16 (RECESS - 10:30 a.m.) 17 (RESUMED at 10:47 a.m.) 18 MR. CHAIRMAN: 19 Q. Mr. Kennedy. 20 MR. KENNEDY: 21 Q. Chair, I believe Mr. Myles, for Newfoundland 22 Power is just going to speak to that Exhibit 23 that they revised. 24 MR. MYLES: 25 Q. Thank you, Mr. Chair. Commissioner Martin,</p>	<p>1 you had a question this morning about the last 2 table that we had in and you referred to 3 Walbourne's T-2 which is the last line and the 4 column on the right shows 111 percent and on 5 the new one it would show 129 percent. And 6 what that column is doing is identifying in 7 the five year period, the capacity 8 utilization, the highest capacity utilization 9 of the transformer. So, for example, on the 10 old one at 111 percent, the peak occurred in 11 2003. I can show you on the new one if that's 12 what you have in front of you. On the new 13 one, the percentage is 129 percent per 14 Walbourne's T-2. And what that is showing is 15 that in the column 2008 you can see the bold 16 number 19.3 and that would be 29 percent over 17 the rated capacity of that transformer of 15 18 MBA. So that's what that column is showing. 19 And so any number that is over 100 percent is 20 indicating a transformer that's working in 21 excess of its load capacity and needs 22 attention. 23 MARTIN, Q.C.: 24 Q. Okay, thanks. 25 CHAIRMAN:</p>
Page 75	Page 76
<p>1 Q. Thank you, Mr. Myles. Mr. Kennedy. 2 MR. KENNEDY: 3 Q. Thank you, Chair. Commissioners. I wonder if 4 we could just start again with Appendix 2 of 5 the Information Systems and specifically if we 6 could go to page two of that document and this 7 is the Environment Management software. It's 8 number two on that page, number three on the 9 second revision. And as it's indicated 10 previously in PUB-86 this project is broken 11 down again into cost of \$274,000, Mr. Collins, 12 is that correct--sorry, \$227,000. 13 CHAIRMAN: 14 Q. What was the PUB reference again? 15 MR. KENNEDY: 16 Q. PUB-76, Chair. 17 MR. COLLINS: 18 A. Yes, that's correct. 19 Q. Okay. And this project, this refers to the 20 technology and processes used to develop, 21 configure, test, implement and maintain 22 applications and hardware throughout the 23 company. And upgrade to the company's backup 24 recovery software and upgrades to the 25 company's workload application. Then you go,</p>	<p>1 "Benefits include improvements to the 2 reliability and stability of the company's 3 back-up and recovery process." Number two, if 4 we could just--now, "Reduction in cost 5 associated with data corruption or application 6 down time." Three, "Consolidation of software 7 use for backing up information." And four, 8 "Consolidation of back-up and recovery 9 processes." Now, Mr. Collins, those items 10 there, the benefits that you're expecting to 11 derive from this project of the upgrades to 12 your applications under your "Environment 13 Management" software heading, let's just take 14 them one at a time. "Improvements to the 15 reliability and stability of the company's 16 back-up and recovery process", would you agree 17 with me, I guess, that that's certainly one 18 that's more qualitative than quantitative in 19 the tough to assess or put a dollar figure on 20 what those improvements to the reliability and 21 stability of your back-up and recovery 22 processes would, how it would potentially 23 ultimately benefit the company in a dollar 24 sense.</p>

Page 77	Page 78
<p>1 MR. COLLINS:</p> <p>2 A. Yes. Difficult to put a number on that.</p> <p>3 Q. Let's go to number two, "Reduction in cost</p> <p>4 associated with data corruption or application</p> <p>5 down time." A little closer to the bone would</p> <p>6 you agree in the sense that there is a dollar</p> <p>7 cost savings associated with this project</p> <p>8 projected?</p> <p>9 (11:00 a.m.)</p> <p>10 MR. COLLINS:</p> <p>11 A. No, this project was--no, there's been no cost</p> <p>12 justification. I think I'd put it in the same</p> <p>13 boat as the first bullet really, Mr. Kennedy,</p> <p>14 in terms of--the reduction costs we're talking</p> <p>15 about there is when an application is down,</p> <p>16 that's--I know that's technical but an</p> <p>17 application doesn't work or there's data</p> <p>18 corruption within an application, there's</p> <p>19 going to be costs associated with that because</p> <p>20 our call centre agents or our assistant</p> <p>21 control centre personnel will not be able to</p> <p>22 use an application to be able to serve its</p> <p>23 customers. So that's the kinds of cost that</p> <p>24 we refer to there.</p> <p>25 Q. Okay, but the number two is reduction and</p>	<p>1 costs associated with data corruption or</p> <p>2 application down time and then you--I guess</p> <p>3 the example is "Certain back-up procedures</p> <p>4 have failed in the past requiring the company</p> <p>5 to re-run these back up jobs during peak hours</p> <p>6 causing overall system performance</p> <p>7 degradation." And I guess, am I correct in</p> <p>8 assuming that when that back-up procedure</p> <p>9 failed and it required you to run back-ups</p> <p>10 during peak hours, that there was a cost</p> <p>11 associated with that? Your back-up fails and</p> <p>12 you have to do another back-up or some manual</p> <p>13 intervention in your process, that there's a</p> <p>14 cost associated with that manual intervention?</p> <p>15 MR. COLLINS:</p> <p>16 A. Yes, when we do back-ups we do back-ups of our</p> <p>17 many, many megabytes of data, off hours, so we</p> <p>18 do it overnight. And I have staff actually</p> <p>19 have to work throughout the night in order to</p> <p>20 back things off the tape, take those tapes off</p> <p>21 site so that in case we do have a major</p> <p>22 problem, we do have those tapes that we can go</p> <p>23 to the restore thing. We've had occurrences</p> <p>24 in the past and I believe that it's an</p> <p>25 attachment maybe to one of the RFIs, I think</p>
Page 79	Page 80
<p>1 it might be NLH-84, but I can check that later</p> <p>2 if we need to, that we've had failures of the</p> <p>3 processes of backing up our data. So what</p> <p>4 happens is that we can't just say, all right,</p> <p>5 well let's wait till the next night to back</p> <p>6 that up because during the day there's going</p> <p>7 to be many, many things that have changed</p> <p>8 again, obviously. So what we would do is for</p> <p>9 safety reasons, it's not in the Earl Ludlow</p> <p>10 safety reasons but for IT safety reasons, we</p> <p>11 would back that data up during the day and</p> <p>12 what happens there is that that's a very</p> <p>13 intensive process on our computer systems. So</p> <p>14 what happens is there's a degradation in</p> <p>15 system performance and performance of the</p> <p>16 system goes down. And our call centre agents</p> <p>17 notice that. I'll get the phone calls from</p> <p>18 the customer service managers saying they're</p> <p>19 finding it slow over here, what's going on,</p> <p>20 you know, and I proceed to explain it to them.</p> <p>21 So there's certainly been some hardware</p> <p>22 failures, you know, that have caused those</p> <p>23 kinds of events to happen, Mr. Kennedy.</p> <p>24 Quantifying the cost associated with call</p> <p>25 centre agents not being able to access the</p>	<p>1 screen if they need to within CSS to be able</p> <p>2 to serve a customer, that's very difficult to</p> <p>3 do, but certainly there's a cost there</p> <p>4 nonetheless.</p> <p>5 Q. But there is--would you agree that a more</p> <p>6 identifiable would be the cost associated with</p> <p>7 if you installed--if you make these upgrades</p> <p>8 as you're proposing, you're indicating that</p> <p>9 you won't have the same back-up procedure</p> <p>10 problems and therefore, you'll be able to</p> <p>11 forego these manual interventions that are</p> <p>12 presently required from time to time when your</p> <p>13 back-up procedures fail and therefore, you'll</p> <p>14 be able to forego the cost associated with</p> <p>15 those ad hoc back-up -</p> <p>16 MR. COLLINS:</p> <p>17 A. I think what you may be implying is that we</p> <p>18 will never--when we do this we will never ever</p> <p>19 have a problem again. I don't think we can</p> <p>20 assume that. I think based on my staff's</p> <p>21 experience with using these back-up procedures</p> <p>22 over the last, gee, eight, nine years, they</p> <p>23 found that it has failed on them. I've gotten</p> <p>24 staff calls in the middle of the night to go</p> <p>25 in and actually fix something for our computer</p>

Page 81	Page 82
<p>1 MR. COLLINS:</p> <p>2 operators who are in there 24 hours a day. So</p> <p>3 we're hoping that, you know, this will,</p> <p>4 because of the age of some of the procedures</p> <p>5 that are there, the age of the software, that</p> <p>6 there will be a reduction in the amount of</p> <p>7 call-out time certainly and the slowness that</p> <p>8 our customer service agents experience, you</p> <p>9 know, when there is a failure.</p> <p>10 Q. You would, presumably, be able to try to</p> <p>11 ballpark at least the number of manual</p> <p>12 intervention back-ups, these secondary back-</p> <p>13 ups, if you will, or medial back-ups, that</p> <p>14 you'll be able to eliminate them, some of them</p> <p>15 by virtue of making this enhancement to the</p> <p>16 application, enhancement to this environment?</p> <p>17 MR. COLLINS:</p> <p>18 A. I guess all I can say is that they'll be</p> <p>19 lessened. I mean we would expect based on,</p> <p>20 again, the age of this stuff, the amount of</p> <p>21 data that we've added to the 30 applications</p> <p>22 over time, that there will be lessening of</p> <p>23 failures. I mean I certainly wouldn't want to</p> <p>24 make that investment unless I really believed</p> <p>25 that, you know this is going to help.</p>	<p>1 Q. And the third point, "Consolidation of</p> <p>2 software used for backing up information" and</p> <p>3 I guess then related to that is the fourth</p> <p>4 point, "Consolidation of the back-up and</p> <p>5 recovery processes", correct?</p> <p>6 MR. COLLINS:</p> <p>7 A. Um-hm.</p> <p>8 Q. And so, the idea is that you would have a</p> <p>9 consolidated back-up process instead of having</p> <p>10 individual back-ups; one for your open BMS;</p> <p>11 one for your Windows, one for Unix and so</p> <p>12 forth, correct?</p> <p>13 MR. COLLINS:</p> <p>14 A. That would be the plan, yes.</p> <p>15 Q. And would you agree with me that there would</p> <p>16 be associated cost savings with that step,</p> <p>17 that being able to consolidate your back-up</p> <p>18 software and with that, consolidating the</p> <p>19 actual back-up process, will allow you to</p> <p>20 forego certain steps that you have to do now</p> <p>21 because you don't have your back-ups</p> <p>22 consolidated?</p> <p>23 MR. COLLINS:</p> <p>24 A. Well, and certainly I guess intuitively, I</p> <p>25 absolutely agree with you. There's -</p>
Page 83	Page 84
<p>1 Q. Okay, if you agree then that there is -</p> <p>2 MR. COLLINS:</p> <p>3 A. Excuse me, Mr. Kennedy, I think I should</p> <p>4 explain kind of what this proposal is about,</p> <p>5 just so that we all know because I don't want</p> <p>6 to get too technical here for the Board. But</p> <p>7 what we have is an open BMS system which, as I</p> <p>8 talked about earlier, runs our customer</p> <p>9 service system. Our Unix system that I speak</p> <p>10 about there is our SCADA system. And our</p> <p>11 Windows systems, those have things like outage</p> <p>12 notification, problem call logging so that we</p> <p>13 can log calls for customers, that sort of</p> <p>14 thing. So there's three very disparate</p> <p>15 systems that are backed up in a central</p> <p>16 location. The disparity occurs because each</p> <p>17 of these systems have their own different</p> <p>18 flavours of tape drives in them, they have</p> <p>19 their own different types of tapes that go in</p> <p>20 the tape drive. They have their own different</p> <p>21 software that we use to run the back-up. So,</p> <p>22 just intuitively speaking, having all this</p> <p>23 consolidated so that, you know, all the tape</p> <p>24 drives are the same, the software that we're</p> <p>25 using across all the products is the same,</p>	<p>1 certainly allows for efficiencies in that</p> <p>2 regard. Very hard to quantify though, Mr.</p> <p>3 Kennedy.</p> <p>4 Q. I guess that's where the point of departure is</p> <p>5 isn't it, that you're indicating that you're</p> <p>6 going to be able to--this proposal is going to</p> <p>7 allow you to consolidate all your back-up</p> <p>8 processes, that's going to allow you to forego</p> <p>9 having to go through the--that you just</p> <p>10 described it, a more complicated process of</p> <p>11 doing back-ups, and that there are cost</p> <p>12 savings to be achieved by virtue of being able</p> <p>13 to forego that more complicated back-up</p> <p>14 process. And yet there's been no attempt here</p> <p>15 to identify what those cost savings are or an</p> <p>16 attempt to conduct a cost benefit analysis to</p> <p>17 see whether spending \$227,000 to do this is</p> <p>18 warranted?</p> <p>19 MR. COLLINS:</p> <p>20 A. No, we didn't do a cost benefit analysis in</p> <p>21 that strict sense of the word, certainly, you</p> <p>22 know, or I wouldn't have certainly put it here</p> <p>23 for us on the record. But what we have though</p> <p>24 is we have a lot of cost avoidance things</p> <p>25 going on because if you can reduce the amount</p>

Page 85	Page 86
<p>1 MR. COLLINS:</p> <p>2 of times that you have to have manual</p> <p>3 intervention, if you can make all this</p> <p>4 software consistent so that our computer</p> <p>5 operator who is backing this stuff up in the</p> <p>6 evening knows that no matter if it's Unix or</p> <p>7 SCADA or DMS or CSS or Windows or the 28 other</p> <p>8 applications or so we have, that they just</p> <p>9 have a consolidated view of things as far as</p> <p>10 they're concerned, rather than having to know,</p> <p>11 you know, this piece of software for that</p> <p>12 application, this piece of back-up software</p> <p>13 for that application and so on. So we didn't</p> <p>14 quantify it, Mr. Kennedy, but--because we</p> <p>15 found it very difficult to try to put a number</p> <p>16 on that.</p> <p>17 Q. Okay, if we could go to "Application</p> <p>18 Enhancement" which is under Appendix 1. And,</p> <p>19 Mr. Collins, is it fair to say that this</p> <p>20 project title, "Application Enhancement"</p> <p>21 differs from the application environment</p> <p>22 section of your budget as we've just been</p> <p>23 discussing in that the application</p> <p>24 enhancements are actual enhancements being</p> <p>25 made to existing applications?</p>	<p>1 MR. COLLINS:</p> <p>2 A. Yes, that's correct.</p> <p>3 Q. As opposed to the application environment</p> <p>4 which are either a renewal of licenses or</p> <p>5 upgrades -</p> <p>6 MR. COLLINS:</p> <p>7 A. Upgrades to software, that's right.</p> <p>8 Q. Or the purchase of new software.</p> <p>9 MR. COLLINS:</p> <p>10 A. Right. This is really making our applications</p> <p>11 that we have today, do more.</p> <p>12 Q. Right. Would it be put also another way,</p> <p>13 taking advantage of the increased</p> <p>14 functionality that you obtained when you did</p> <p>15 an upgrade on an existing piece of software,</p> <p>16 now you need to extract that benefit that's</p> <p>17 available by that new function that's in the</p> <p>18 upgrade?</p> <p>19 MR. COLLINS:</p> <p>20 A. Yes, certainly those possibilities are there</p> <p>21 with the upgrade, yes, certainly they would</p> <p>22 show up here.</p> <p>23 Q. And, again, we have a breakdown of the</p> <p>24 individual costs for these and it's in PUB-73.</p> <p>25 And this is the breakdown of the--the total</p>
Page 87	Page 88
<p>1 project cost is one million three fifty-five.</p> <p>2 Your cost for business support systems is</p> <p>3 \$189,000 and that includes two parts, your</p> <p>4 process improvements and your bar coding and</p> <p>5 then there's the breakdown for the 189,</p> <p>6 correct? The 75,000 for your process</p> <p>7 improvements and then 114,000 for bar coding,</p> <p>8 correct?</p> <p>9 MR. COLLINS:</p> <p>10 A. Yes, that's correct.</p> <p>11 Q. So, let's just look at your bar coding</p> <p>12 section. Can we go back to Appendix 1,</p> <p>13 please, the second page. All right, bar</p> <p>14 coding of \$114,000, you indicate that "It</p> <p>15 involves the implementation of bar coding</p> <p>16 technology for the central stores location and</p> <p>17 the benefits include increased productivity of</p> <p>18 the storekeepers at central stores"--the</p> <p>19 second one, "improved management of small tool</p> <p>20 items such as gloves and safety glasses will</p> <p>21 reduce the inventory for these items.</p> <p>22 Enabling a storekeeper to perform other duties</p> <p>23 such as physical inventory counts during the</p> <p>24 regular working day thereby avoiding</p> <p>25 overtime." And the last one, I'll just skip</p>	<p>1 the "less dependence", the last one, "improves</p> <p>2 capturing and tracking of warranty information</p> <p>3 by equipment serial numbers. This would</p> <p>4 ensure that equipment with warranties close to</p> <p>5 expiry are used first." Those four items that</p> <p>6 I just indicated there, the increased</p> <p>7 productivity of your storekeepers, the ability</p> <p>8 to reduce the inventory of certain items and</p> <p>9 the ability to avoid overtime and then the</p> <p>10 fourth one, the more efficient use of</p> <p>11 equipment that are closer to their expiry</p> <p>12 period for warranty purposes, are they not all</p> <p>13 cost related issues, that there is a cost</p> <p>14 savings associated with each of those or that</p> <p>15 there could have been a cost savings</p> <p>16 associated with each of those items?</p> <p>17 MR. MULCAHY:</p> <p>18 A. It's hard to say but I think there could be an</p> <p>19 economic component to it, it's not the sole</p> <p>20 component or sole consideration though.</p> <p>21 Q. What would have been the other consideration,</p> <p>22 Mr. Mulcahy?</p> <p>23 MR. MULCAHY:</p> <p>24 Q. Some of it is accuracy. I think, you know, in</p> <p>25 terms of trying to address this issue,</p>

Page 89	Page 90
<p>1 MR. MULCAHY: 2 generally, of an economic analysis, was an 3 economic analysis done, in this instance, Mr. 4 Kennedy, no, an economic analysis wasn't done 5 there. As we looked at this project and 6 reviewed what we felt the benefits that we 7 would receive out of it, there was a judgment 8 that this project made sense to move forward 9 with. 10 Q. Sure. And I guess the difficulty, Mr. Mulcahy 11 is not entering into a discussion, rather than 12 an examination, is that we have no way of 13 being able to assess that judgment because 14 we're not provided with any cost benefit 15 analysis, wouldn't you agree? 16 MR. MULCAHY: 17 A. I would say that you have no way to asses it 18 solely on the basis of economics but it's 19 intuitive here that the number of the 20 productivity and initiatives here that we 21 should see in some of the improvements and the 22 increased accuracy and having our storekeepers 23 focus on filling orders and doing tool repairs 24 versus doing data entry seems to make sense. 25 (11:15 a.m.)</p>	<p>1 MR. COLLINS: 2 A. I guess if I can answer that, you know, where 3 this bar coding is going to go would be in the 4 central warehouse in St. John's. It's a vast 5 warehouse of tools that I have no idea what 6 they're used for but certainly what I notice 7 about it when I walk through there is there's 8 a lot of bar codes on these things. And what 9 has to happen is, you know, when these 10 materials are received from suppliers, these 11 materials, the quantity, the type and that 12 sort of thing, have to get manually keyed into 13 our inventory system by the storekeepers and, 14 you know, not to--I have to be very careful 15 about my words, they're not great, they're not 16 very adept at data entry, you know, that's not 17 what we hired them for. 18 What we see though, as I said, is that a 19 lot of this equipment comes in with bar codes 20 attached. We're talking about in this 21 project, buying three scanning units so that 22 when this material comes in, they can just 23 scan it, it goes into our inventory system and 24 these people certainly, you know, are freed up 25 to actually do something that they're paid for</p>
Page 91	Page 92
<p>1 and that's certainly not data entry. So we 2 didn't quantify the benefits that way, I 3 guess, Mr. Kennedy, because it just seemed 4 very obvious to us. 5 Q. Okay. If we could just go to number two 6 under--it's under "Operations and Engineering 7 Enhancements" which is section C of the same, 8 Appendix 1. And the breakdown--so in other 9 words of the one million three fifty-five 10 that's being proposed under "Application 11 Enhancements", 661,000 of it are for operation 12 and engineering enhancements, is that correct? 13 MR. COLLINS: 14 A. 661 of the--yes, of the - 15 Q. Right. And I think we've got a breakdown of 16 that 661 further provided in PUB-80, if we 17 could just go that for a moment. And we've 18 got project management improvements of 74,000; 19 the crew scheduling efficiencies at 199; 20 reporting improvements of 92; work order 21 tracking at 214; and then the SCADA 22 enhancements at 82. I'd just like to look at-- 23 if we could go back to Appendix 1, page four 24 of eight again, please. And if we could just 25 scroll down to "Crew Scheduling Efficiencies".</p>	<p>1 And there's a description there of what's 2 involved. "This involves enhancements to 3 existing applications in the outage management 4 and asset management areas. This will improve 5 process improvements in the management of 6 field crews during routine asset maintenance 7 and outage situations." And you're going to 8 upgrade your Advantis Pro asset management. 9 And I believe that's indicated in another 10 response that that's \$60,000 for the software 11 in that case, that Advantis Pro asset. 12 MR. COLLINS: 13 A. Yes, that's for--we already have Advantis Pro, 14 it's for ten more licenses. 15 Q. Right. So that was one of the questions. 16 This is under your "Enhancements" but the 17 60,000 is for additional licenses, so it's not 18 an enhancement per se to the application, it's 19 just allowing you ten more users onto the same 20 piece of software? 21 MR. COLLINS: 22 A. The crew scheduling efficiencies is allowing 23 us ten more users? 24 Q. No, the Advantis Pro, the \$60,000 that's 25 lifted is for additional licenses for Advantis</p>

Page 93	Page 94
<p>1 Pro.</p> <p>2 MR. COLLINS:</p> <p>3 A. Right, because of the crew scheduling</p> <p>4 efficiency improvements.</p> <p>5 Q. Okay. So it's tied in with the enhancements</p> <p>6 that you're making to your crew scheduling</p> <p>7 software.</p> <p>8 MR. COLLINS:</p> <p>9 A. Yes. If we weren't going to make improvements</p> <p>10 to crew scheduling efficiencies, using</p> <p>11 Advantis Pro -</p> <p>12 Q. You wouldn't need the additional licenses.</p> <p>13 MR. COLLINS:</p> <p>14 A. Exactly. Because we're going to be adding</p> <p>15 more people to the software.</p> <p>16 Q. Got you. Okay.</p> <p>17 MR. COLLINS:</p> <p>18 A. Otherwise I'd be not allowed to do that, Mr.</p> <p>19 Kennedy.</p> <p>20 Q. Right, I understand. Flipping over to page</p> <p>21 five, right at the bottom of page four it says</p> <p>22 "Benefits include" and then when we go over to</p> <p>23 page five, the first one is "Operational</p> <p>24 efficiencies to reduced overtime in outage</p> <p>25 situations by being able to identify potential</p>	<p>1 trouble spots," so on and so on. Number two,</p> <p>2 "Improve management of maintenance personnel</p> <p>3 during routine maintenance by being able to</p> <p>4 associate available personnel and appropriate</p> <p>5 skill sets with the maintenance work. The</p> <p>6 third one is "Improved information allowing</p> <p>7 customers to be better informed" and the</p> <p>8 fourth, "Increased reliability providing more</p> <p>9 accurate information and statistics to improve</p> <p>10 decision making." I guess do you agree with</p> <p>11 me that the third one, the improved</p> <p>12 information for customers to be better</p> <p>13 informed during power outages, that's a</p> <p>14 qualitative rather than quantitative benefit</p> <p>15 being achieved?</p> <p>16 MR. COLLINS:</p> <p>17 A. Yes. Yes.</p> <p>18 Q. Okay, the number four, "Increased</p> <p>19 reliability", I guess it would have a cost</p> <p>20 component to it in the sense that well if</p> <p>21 you've got improved reliability, you're</p> <p>22 selling more power because the lights are on</p> <p>23 that much longer. But, generally, it's</p> <p>24 probably more qualitative than quantitative?</p> <p>25 MR. COLLINS:</p>
Page 95	Page 96
<p>1 A. Yes.</p> <p>2 Q. In the first two then, "Operational</p> <p>3 efficiencies to reduce overtime", and the</p> <p>4 second one, "Improved management of</p> <p>5 maintenance personnel during routine</p> <p>6 maintenance", are they not both cost related</p> <p>7 benefits? Certainly the first one,</p> <p>8 "Operational efficiencies through reduced</p> <p>9 overtime", that's a cost related benefit that</p> <p>10 you're hoping to achieve by making these</p> <p>11 improvements to your crew scheduling software?</p> <p>12 MR. COLLINS:</p> <p>13 A. Yes, that's a component for sure.</p> <p>14 Q. And was there any attempt to quantify what</p> <p>15 that cost savings would be?</p> <p>16 MR. COLLINS:</p> <p>17 A. No, I mean I think if that was solely based</p> <p>18 on--if we could do that solely on a</p> <p>19 quantitative analysis of cost savings, Mr.</p> <p>20 Kennedy, we certainly would have done that.</p> <p>21 But there's also a customer service aspect to</p> <p>22 this piece of work as well that we're speaking</p> <p>23 about here. The crew scheduling efficiencies,</p> <p>24 we're talking about two components there. One</p> <p>25 of the components is, and this is the one I'll</p>	<p>1 speak to in this bullet, when our call centre</p> <p>2 or our system control centre takes calls from</p> <p>3 customers about outages, they're logging all</p> <p>4 this data, all this information about the</p> <p>5 outage what they said is wrong, into a system.</p> <p>6 We call it the outage management system or</p> <p>7 problem call logging system. And so what</p> <p>8 happens is we're putting that information in</p> <p>9 about the trouble by the customers feeder, the</p> <p>10 feeder that the customer is on. Now, we all</p> <p>11 know I guess--I've certainly learned through</p> <p>12 the course of my many years with the company</p> <p>13 that feeders can run from a couple of</p> <p>14 kilometers long to 700 kilometers long. So</p> <p>15 when a customer calls and says they have an</p> <p>16 outage on a feeder--sorry, if they have a</p> <p>17 problem with their power in their house, the</p> <p>18 more information that we can gather about the</p> <p>19 call, then the more able we are to direct a</p> <p>20 crew to the source of the problem. So, for</p> <p>21 example, if there's a tap on a line that a lot</p> <p>22 of customers are calling on, we've got</p> <p>23 information about that customer, these</p> <p>24 customers are calling and they all seem to be--</p> <p>25 these common denominators seems to be that</p>

Page 97

Page 98

1 MR. COLLINS:

2 tap and the crews all have diagrams in their
3 trucks with these things labelled, we can tell
4 the crew, the control centre can tell the crew
5 the problem appears to be originating from a
6 tap, and they can direct the crew more quickly
7 to the source of their problem. And so that's
8 kind of--there's a big customer service aspect
9 tied up into that bullet, Mr. Kennedy.

10 Q. I understand. Could we go to number 4, the
11 work order tracking.

12 MR. COLLINS:

13 A. Okay.

14 Q. And work order tracking which is \$214,000 as
15 per the breakdown in PUB-80, says, "This item
16 involves improvements to the processes
17 involved with ensuring that customer initiated
18 work is effectually captured, scheduled and
19 tracked." And then again there's some
20 benefits listed and the benefits include
21 higher through put of engineering work within
22 the technical group, crew scheduling of
23 customer driven work, proof prioritization of
24 workload. And the fourth one is being proved
25 process for establishing and meeting project

1 schedules including requirements for third
2 party work. Now, in all of those cases, I put
3 to you that they are cost related benefits
4 that are hoped to be derived from the
5 improvements made in the work tracking
6 software.

7 MR. COLLINS:

8 A. I have to say that there is certainly a cost
9 component to each one, Mr. Kennedy.

10 Q. Okay. And was there any attempt to try to
11 derive a cost benefit analysis to see if this
12 expenditure of \$214,000 was warranted in light
13 of the cost savings that were hoped to be
14 achieved?

15 MR. COLLINS:

16 A. No, we don't have a cost benefit analysis done
17 on those. Again, as a I said earlier, where
18 there's strictly not a quantitative number
19 that we can plug into a net present value
20 analysis, you know, it's very hard to
21 determine cost savings in that regard,
22 especially when there's other factors tied in
23 here like--you know, again there's a customer
24 service aspect tied in. You have customers
25 calling in and the type of technical work that

Page 99

Page 100

1 they're requiring would be a pole removal or a
2 pole relocation or a new service, a temporary
3 service in case they're putting siding on
4 their house, that sort of thing. And being
5 able to track, the company's ability to be
6 able to track the status of each of these
7 things will be improved with a work order
8 tracking project here. I mean I don't have an
9 engineering technician's background, so I may
10 be a little bit off here so I'll try to speak
11 at the 20,000 foot view of this. As an
12 example, when a customer calls and needs a new
13 service hooked up, there's all kinds of
14 approvals and that sort of thing that have to
15 be done and even though the customer has
16 called Newfoundland Power looking to have the
17 work done, Newfoundland Power and the
18 technicians have to go through a number of
19 approvals. I have to contact the city or the
20 town council and that sort of thing to make
21 sure everything is in order. So this allows
22 us the ability to be able to track the status
23 of those things so that when a customer calls
24 in--if a customer calls our call centre, our
25 call centre can give them that information.

1 Right now, the call centre would have to, you
2 know, try to forward that call on to somebody
3 else or, you know, get back to the customer
4 later. There's more up to date information
5 for the customer is certainly a huge benefit
6 there, Mr. Kennedy, that is not just cost
7 related.

8 Q. If we could go to "Customer Service System
9 Enhancements" at page seven of this document.
10 And this at a cost of \$208,000, it's comprised
11 of three different projects. I don't think we
12 actually have a breakdown of the 208 but it
13 makes no difference.

14 MR. COLLINS:

15 A. I can give you that if you need it, Mr.
16 Kennedy.

17 Q. Well, sure, why don't you just, if you could,
18 equal payment plan.

19 MR. COLLINS:

20 A. About 98,000

21 Q. Okay. And then the meter reading?

22 A. 36.

23 Q. And the scheduling improvements.

24 A. 74.

25 Q. 74, okay. And let's just look at the equal

Page 101	Page 102
<p>1 MR. MYLES: 2 payment plan. This is a change being made to 3 your customer service system? 4 MR. COLLINS: 5 A. This is--yes, this is a change being made to 6 our customer service system. 7 Q. So, should we take into account whether this 8 project should go ahead or not, when we decide 9 whether this project should go ahead or not, 10 take into account the status of the customer 11 service system as we started off the 12 examination this morning? 13 MR. COLLINS: 14 A. Yes, that was certainly a consideration for 15 each of those three sub projects under 16 "Customer Service Enhancements". 17 Q. Right. The second one, the meter reading 18 improvements, this is tied to your request for 19 the AMR demand meters, correct? 20 MR. COLLINS: 21 A. That's correct. So - 22 Q. So, if the Board were not to approve the AMR 23 demand meters, there'd be no reason to make 24 improvements to the meter reading improvements 25 prior to this budget?</p>	<p>1 MR. COLLINS: 2 A. For the demand portion, that's correct. And 3 that amount, again, was \$36,000. 4 Q. And just going back to your equal payment plan 5 benefits, one is the "improved service to 6 customers by more accurately estimating their 7 equal payment plan", and then the next, two, 8 "reduce labour required to review a customer's 9 EPP" and the third one, "efficiency gains in 10 dealing with customers whose review indicates 11 inadequate history or significant change in 12 payment" and that's because while you have to 13 manually check it now, if you went ahead with 14 this proposal, you would be able to do that 15 automatically, correct, through your terminal, 16 is that the idea? 17 MR. COLLINS: 18 A. Could you repeat that please, Mr. Kennedy? 19 Q. Okay. The second one is "efficiency gains in 20 dealing with customers whose review indicates 21 inadequate history or significant change in 22 payment and presently analysts must manually 23 check each situation in CSS, obtain the 24 suggested payment provided there and then go 25 back to the manual system and add it in."</p>
Page 103	Page 104
<p>1 MR. COLLINS: 2 A. Right. 3 Q. So I take it that the improvement will forego 4 that requirement? 5 MR. COLLINS: 6 A. Yes, we'll certainly want to get rid of that 7 manual intervention. 8 Q. And, again, would you agree with me that those 9 two benefits have a cost component to them, 10 that their suggested cost savings that will be 11 achieved by virtue of making this change in 12 your equal payment plan aspect to your 13 customer service system. 14 MR. COLLINS: 15 A. Are you talking about the second and third 16 bullets there? 17 Q. That's correct. 18 MR. COLLINS: 19 A. Yes. 20 Q. But, again, there was no attempt to try to 21 quantify what the cost benefits would be and 22 then in conjunction with some sort of cost 23 benefit analysis to see whether the 24 expenditure was warranted or not. 25 MR. COLLINS:</p>	<p>1 A. No. And, again, that's because there's a big 2 customer service aspect to this equal payment 3 plan sub project. You know, there's 4 improvements that we want to make to the equal 5 payment plan as outlined there, Mr. Kennedy, 6 that obviously will improve our customer 7 service. So, if it was a purely quantitative 8 analysis--if this was solely based on reducing 9 labour and those efficiency gains, I think we 10 would have a cost benefit analysis done there. 11 But there's other aspects that you can't put a 12 dollar on. 13 Q. Okay, let's move on to another area. Your PC 14 upgrades, now that's not in this Appendix, is 15 it? There's no further details in your 16 Appendix, Volume IV, regarding your PC upgrade 17 plan? 18 MR. COLLINS: 19 A. There was no Appendix filed for that one. 20 (11:30 a.m.) 21 Q. Okay, so if we just went to Schedule B at page 22 76, just so we've got the parameter there. 23 Okay, so your total budget is \$539,000 for 24 2004, correct?</p>

Page 105	Page 106
<p>1 MR. COLLINS:</p> <p>2 A. That's correct.</p> <p>3 Q. Okay. And that jives with some of your</p> <p>4 previous historical expenditures and it's part</p> <p>5 of your budget?</p> <p>6 MR. COLLINS:</p> <p>7 A. It may actually be a bit lower from previous</p> <p>8 years, Mr. Kennedy.</p> <p>9 Q. Yes, it's certainly lower than 2003 forecast</p> <p>10 in the year 2002 number. Now I had that out</p> <p>11 and in my shuffling of paper, I misplaced it,</p> <p>12 just bear with me for just a second. Here we</p> <p>13 go. PUB-102, please. These are--the question</p> <p>14 was what computers are being replaced by</p> <p>15 virtue of your purchasing new computers as</p> <p>16 proposed under that budget item that we were</p> <p>17 just looking at. And the list is there for</p> <p>18 all of us to see. The last one on the list</p> <p>19 there, some 500 megahertz Dell laptops, 31 in</p> <p>20 total.</p> <p>21 MR. COLLINS:</p> <p>22 A. Yes, that's correct.</p> <p>23 Q. And there was a question asked about that PUB-</p> <p>24 190. And the question asked, "Describe what</p> <p>25 software applications will no longer operate</p>	<p>1 on the quantity of 31, 500 megahertz Dell</p> <p>2 laptops slated for retirement". And the reply</p> <p>3 is, "Currently all the company software</p> <p>4 applications will operate on the 500 megahertz</p> <p>5 Dell laptop. Then you go, "However, the more</p> <p>6 processor intensive applications operated</p> <p>7 noticeably slower performance level. An</p> <p>8 example is Auto Cad Light which is used by</p> <p>9 engineering and technical staff for daily</p> <p>10 operation", and then you say, "27 of the 31</p> <p>11 laptops being replaced are assigned to staff</p> <p>12 in the engineering and technical areas." Now,</p> <p>13 am I gathering correctly, it says an example</p> <p>14 is the Auto Cad Light which is used by</p> <p>15 engineering and technical staff for daily</p> <p>16 operations and then 27 of the 31 laptops being</p> <p>17 replaced are assigned to staff in the engineering</p> <p>18 and technical areas. I guess there's an</p> <p>19 implicit assumption that's being asked to be</p> <p>20 made. Is it the case that all 27 of those 31</p> <p>21 laptops being replaced that are assigned to</p> <p>22 staff in the engineering and technical areas,</p> <p>23 use Auto Cad Light?</p> <p>24 MR. COLLINS:</p> <p>25 A. Yes, absolutely.</p>
Page 107	Page 108
<p>1 Q. Okay. But other than the slowness of that</p> <p>2 more processor intensive application, which is</p> <p>3 ironic, being it's called Auto Cad Light -</p> <p>4 MR. COLLINS:</p> <p>5 A. That's the nature of software isn't it, Mr.</p> <p>6 Kennedy.</p> <p>7 Q. Yes, it's oxymoronic. But, otherwise, these</p> <p>8 computers function fine, they run all your</p> <p>9 Microsoft applications, Microsoft Word, Excel,</p> <p>10 Access.</p> <p>11 MR. COLLINS:</p> <p>12 A. Yes, as stated certainly in the response to</p> <p>13 PUB-190, there's no software that we run</p> <p>14 today, and you know, in 2003, that this</p> <p>15 software--that this--sorry, these laptops will</p> <p>16 not run. That was the nature of that answer.</p> <p>17 Q. Thank you.</p> <p>18 MR. COLLINS:</p> <p>19 A. I should highlight as well that these PCs were</p> <p>20 purchased, in memory, I think it was maybe</p> <p>21 April of 2000. I know it was in the spring of</p> <p>22 2000, I guess the month really doesn't matter.</p> <p>23 By the time these things are replaced, they'll</p> <p>24 be into their fifth year of service and, you</p> <p>25 know, based on my experience and based on what</p>	<p>1 I've certainly read in industry and what</p> <p>2 Gartner have told us, if you're getting four</p> <p>3 years out of a laptop today, you know, you're</p> <p>4 lucky. I mean, we're seeing with these that</p> <p>5 we're getting five years out of them. I think</p> <p>6 the way we--when we buy PCs, including</p> <p>7 laptops, and we cascade older machines to</p> <p>8 people with less requirement has allowed us to</p> <p>9 get that extra life out of these things. So</p> <p>10 that was kind of what that answer was getting</p> <p>11 at, Mr. Kennedy. So it's not a--you know,</p> <p>12 unfortunately, I don't work in the field that</p> <p>13 Mr. Ludlow is in whereby stuff like this can</p> <p>14 last 45 years. But I do have, you know, the</p> <p>15 nature of PCs is that they will last from</p> <p>16 three to five years and in some cases, you</p> <p>17 know, I don't know if that PUB-109--102 has</p> <p>18 it, but there's certainly one RFI that I</p> <p>19 showed that some of these PCs, and I may be</p> <p>20 wrong about that, but some of these PCs that</p> <p>21 we're replacing next year will be seven years</p> <p>22 old. So you know, that kind of speaks to how</p> <p>23 we try to manage these things and try to get</p> <p>24 extra life out of them. I'm not certain that</p> <p>25 there is an RFI on that now actually, but I</p>

Page 109	Page 110
<p>1 can check that.</p> <p>2 Q. Okay.</p> <p>3 MR. COLLINS:</p> <p>4 A. I know at the top--sorry, it's gone off the</p> <p>5 screen. Back to PUB-102, Colleen, please.</p> <p>6 Those IBM300 PL desktop PCs, that first line,</p> <p>7 of 233 MHz machines, 25 being retired next</p> <p>8 year. Those were purchased in 1998. So you</p> <p>9 know, that's certainly the flavour of our</p> <p>10 fleet, so to speak, that we're trying to--you</p> <p>11 know, that we need to get rid of.</p> <p>12 Q. Okay. One final area, so we're on schedule,</p> <p>13 which is your shared server infrastructure.</p> <p>14 We're back into the Volume 4, Information</p> <p>15 Systems, Appendix 5. Okay, this Appendix 5.</p> <p>16 Yes, there we go. Okay, your shared server</p> <p>17 infrastructure, total budget of \$644,000.</p> <p>18 Project involves the addition, upgrade and</p> <p>19 replacement of computer hardware components,</p> <p>20 related technology associated with the</p> <p>21 Company's shared server infrastructure, and</p> <p>22 then you have a lengthy description of our</p> <p>23 operating experience to date, and then you</p> <p>24 provide justification, and the benefits as</p> <p>25 well. All right. We asked some--actually</p>	<p>1 Newfoundland and Labrador Hydro asked some</p> <p>2 details of this, and I wonder if we could go</p> <p>3 to NLH-84. Okay. So you've got a list there</p> <p>4 of the servers that are being replaced,</p> <p>5 correct?</p> <p>6 MR. COLLINS:</p> <p>7 A. Yes.</p> <p>8 Q. Okay, and you've got a Prosignia 500 and a</p> <p>9 Proliant 800.</p> <p>10 MR. COLLINS:</p> <p>11 A. That's correct.</p> <p>12 Q. Okay. And the Prosignia 500, which is</p> <p>13 quantity of one, is eight years old?</p> <p>14 MR. COLLINS:</p> <p>15 A. Yes.</p> <p>16 Q. And that's 150 MHz machine? Isn't that</p> <p>17 correct?</p> <p>18 MR. COLLINS:</p> <p>19 A. Subject to check, but that's what my memory</p> <p>20 tells me, Mr. Kennedy.</p> <p>21 Q. Okay. So are you using it at anything other</p> <p>22 than doorstep then?</p> <p>23 MR. COLLINS:</p> <p>24 A. When I saw it in the table, I wondered the</p> <p>25 same thing, Mr. Kennedy.</p>
Page 111	Page 112
<p>1 Q. Okay. You don't know what's running on that,</p> <p>2 do you, if anything, other than mice?</p> <p>3 MR. COLLINS:</p> <p>4 A. Off the top of my head, I honestly can't tell</p> <p>5 you. I may have a note on it, if you want me</p> <p>6 to just have a quick look?</p> <p>7 Q. That's a more facetious question. The</p> <p>8 Proliant 800, that's a 450, I understand?</p> <p>9 MR. COLLINS:</p> <p>10 A. I'm just going to just double check my notes</p> <p>11 here.</p> <p>12 Q. Sure.</p> <p>13 MR. COLLINS:</p> <p>14 A. These processors change several times a year,</p> <p>15 so sometimes I can look at the year and tell</p> <p>16 you what the processor was, but you know, not</p> <p>17 in this case. No, actually, Mr. Kennedy, I</p> <p>18 don't have--I don't know if that's a 450 or</p> <p>19 not.</p> <p>20 Q. Okay. I think it's a 450 and it's actually</p> <p>21 marked as retired when you pull it up on the</p> <p>22 internet. And you're replacing three of</p> <p>23 those, correct?</p> <p>24 MR. COLLINS:</p> <p>25 A. Actually, I think, Mr. Kennedy, the Proliant</p>	<p>1 800, if memory serves me, was not just</p> <p>2 dedicated to a 450 MHz. So they could be 450.</p> <p>3 They could be lower. They could be higher.</p> <p>4 So I don't want to make the assumption that</p> <p>5 Proliant 800 means 450 MHz here.</p> <p>6 Q. Fair enough. But you're replacing three of</p> <p>7 these. They're seven years old, correct?</p> <p>8 MR. COLLINS:</p> <p>9 A. Yes.</p> <p>10 Q. Okay. And then the next two are Proliant</p> <p>11 3000s, and two of which are six years old and</p> <p>12 two of which are five years old, and you're</p> <p>13 replacing them as well, correct?</p> <p>14 MR. COLLINS:</p> <p>15 A. Correct.</p> <p>16 Q. Okay. So let's just go to NLH-86, and NLH-86</p> <p>17 provides what you're replacing these with, as</p> <p>18 proposed under your budget, correct?</p> <p>19 MR. COLLINS:</p> <p>20 A. Not technically correct. What we do is when</p> <p>21 we buy--just like when we buy PCs and we</p> <p>22 cascade the PCs around to various users</p> <p>23 throughout the Company, and what I mean by</p> <p>24 that is that when we buy a brand new PC, that</p> <p>25 new PC will go to the user or the employer</p>

Page 113

1 MR. COLLINS:
 2 that needs it. So if they've got a very
 3 intensive processor, needs lots of memory
 4 application, they'll get that PC. The PC that
 5 comes off their desk, goes to another person
 6 who doesn't need as much. And you know,
 7 frankly, I think I'm at the end of the line.
 8 My PC is almost five years old that I have on
 9 my desk. But, so it's not technically true
 10 that the servers that we're buying, as listed
 11 in NLH-86, will replace the ones that are
 12 showing up in NLH-84 because we do a lot of
 13 cascading, Mr. Kennedy, so what would end up
 14 on these servers at the end of the day, that
 15 still has to be worked out.
 16 Q. Okay.
 17 MR. COLLINS:
 18 A. So there's servers falling off the end of the
 19 table, so to speak, and we got to juggle some
 20 things around.
 21 Q. Okay. The reason I ask is because you've got
 22 proposed ten blade servers and then four
 23 servers there and I took it that the ten blade
 24 servers were being used to replace the four
 25 servers, the Prosignia, the one Prosignia 500

Page 115

1 MR. COLLINS:
 2 A. I can't put a number on it, Mr. Kennedy.
 3 Four, it could be eight times. There's so
 4 much change--you got to look at more than just
 5 the processor speed. So if you have a 200 MHz
 6 processor and you compare that to an 800 MHz
 7 processor, you can't say that that's four
 8 times faster because there's so many other
 9 components in a computer like the speed of the
 10 memory or the speed of the hard drive that
 11 also factor into the improvement. So to say
 12 it's four times is really an over-
 13 simplification, Mr. Kennedy.
 14 Q. Okay. I was just trying to get a sense though
 15 that if you're losing these four old servers
 16 and you're replacing it with four new servers,
 17 unlike a PC where it's dedicated to a person,
 18 these are shared servers. So you could
 19 ostensibly have, if you hypothetically said
 20 each new server was four times better than
 21 your old server, you've got 16 times more
 22 server capacity with these four new servers
 23 than you did with the four old servers that
 24 you're replacing?
 25 MR. COLLINS:

Page 114

1 and then the three Proliant 800, and then the
 2 four servers that you got listed at 25,000
 3 each would, I guess, presumably replace the
 4 four Proliant 3000s that you're replacing. Is
 5 that correct?
 6 MR. COLLINS:
 7 A. No, that's not correct.
 8 Q. I guess the issue is that these four servers
 9 that you're purchasing for \$25,000 each, do
 10 you know how they would compare with the four
 11 Proliant 3000s that you're replacing, in the
 12 sense of -
 13 MR. COLLINS:
 14 A. Processor speed and that sort of thing?
 15 (11:45 a.m.)
 16 Q. Yes. Multiple is better, would you agree with
 17 me?
 18 MR. COLLINS:
 19 A. Every multiple is better to something from six
 20 or seven years ago.
 21 Q. Six or seven years ago. So if we took a
 22 ballpark that the ones that you're buying or
 23 proposing to buy are four times better than
 24 the ones that you're replacing or that are
 25 getting bumped off the end of the shelf?

Page 116

1 A. When you say the four I'm replacing, what
 2 reference are you -
 3 Q. Well, I'm using the Proliant 3000, the best
 4 ones that you have there that you're
 5 replacing.
 6 MR. COLLINS:
 7 A. What I said though is that those four servers
 8 will not necessarily replace those ones that
 9 are being retired.
 10 Q. No, but your overall server capacity as to
 11 your entire network infrastructure is being -
 12 MR. COLLINS:
 13 A. Server infrastructure, yes.
 14 Q. - infrastructure is being improved?
 15 MR. COLLINS:
 16 A. Yes, yes.
 17 Q. And it's being improved, I'd suggest to you,
 18 fairly dramatically by virtue of ten extra
 19 blade servers and four new servers at \$25,000
 20 a pop, as compared to what you're retiring.
 21 In other words, you're expanding your overall
 22 server, shared server infrastructure
 23 dramatically.
 24 MR. COLLINS:
 25 A. I don't think we're--I don't like the word

1 MR. COLLINS:
 2 'expand' I guess because what we're doing is
 3 that--well, the nature of technology is that.
 4 I mean, if I could buy the same capacity, as
 5 far as memory and hard disk is concerned,
 6 today as I could last year, I mean, I would be
 7 able to do that. But the nature of buying a
 8 new server, Mr. Kennedy, it just automatically
 9 comes with all this stuff.
 10 Q. Sure.
 11 MR. COLLINS:
 12 A. Right.
 13 Q. But it could be that one or two new servers
 14 would replace the server capacity that you're
 15 losing by virtue of retiring these old
 16 servers.
 17 MR. COLLINS:
 18 A. I guess hypothetically, I'd agree with you,
 19 yes. I think what I'm struggling with a bit
 20 here is that once we, you know--we have to get
 21 down to some detailed planning. If or when we
 22 get approval certainly for this expenditure,
 23 then the real detailed planning starts.
 24 There's a lot of work that has to go into
 25 bumping servers around or cascading is the

1 term that we use. So if a server is being
 2 used to provide firewall connect--to protect
 3 your internal network from the internet,
 4 firewall, then we may decide that one of those
 5 new servers is better served by being set up
 6 as a firewall or a security box because it's
 7 new, it would have all these latest
 8 enhancements and intuitively, more secure. So
 9 I can't really--I think, Mr. Kennedy, what I'm
 10 struggling with is that you're making it sound
 11 very simple, and I'm having a hard time
 12 agreeing with it. That's all.
 13 Q. Fair enough. That's all the questions I have,
 14 Chair, Commissioners. Thank you very much,
 15 Mr. Collins and Mulcahy.
 16 MR. COLLINS:
 17 A. Okay.
 18 Q. Four minutes over time, I would point out.
 19 CHAIRMAN:
 20 Q. Thank you, Mr. Kennedy. Commissioner Powell?
 21 MS. NEWMAN:
 22 Q. I don't know if Newfoundland Power has any
 23 questions for redirect before we go to put
 24 questions.
 25 MR. MYLES:

1 Q. I have one question I think I'm going to ask
 2 as a result of that last discussion on server
 3 cascading that may help clarify the point,
 4 possibly only for myself. Mr. Collins, in the
 5 cascading process, if I can set up a
 6 hypothetical food chain, the new ones would
 7 come in at the top and the ones that are being
 8 retired are at the bottom and they're the ones
 9 that fall off the table according. So the
 10 concept of replacement, it would seem that the
 11 ones that come in at the top replace the ones
 12 that are currently at the top. And so the
 13 ones that are being bumped would be--and then
 14 the other RFI, you're taking out six and seven
 15 and five-year-old servers and they'd be
 16 replaced with four-year-old servers?
 17 MR. COLLINS:
 18 A. That's correct.
 19 Q. So that's how the cascading works, is it not?
 20 MR. COLLINS:
 21 A. Yes, that's correct, and that allows us to
 22 extend the life of the asset in that regard.
 23 Q. That's my only question.
 24 CHAIRMAN:
 25 Q. Thank you, Mr. Myles. Commissioner Powell?

1 COMMISSIONER POWELL:
 2 Q. Thank you, Chair. Good morning.
 3 MR. MULCAHY:
 4 A. Good morning.
 5 MR. COLLINS:
 6 A. Good morning.
 7 Q. Legal counsel, he was just trying to make it
 8 simple for the panel. He wasn't trying to
 9 confuse you, I'm sure. I have just a couple
 10 of questions. Technology, I think there's no
 11 question that it's been a big boom for
 12 utilities, like all of us, but in your
 13 business, with all the data you collect, both
 14 from the operations system and then serving
 15 your customers. We have two utilities in the
 16 province, Hydro, and I've sat here and
 17 listened to presentations from their staff
 18 looking for approval for capital expenditures
 19 on various things. In their last rate
 20 hearing, there was a lot of discussion that
 21 they had chosen for their operating system
 22 called JD Edwards, a global name for a lot of
 23 applications, and they were implementing that.
 24 They had spent quite a few dollars
 25 investigating it and quite a few dollars

Page 121	Page 122
<p>1 COMMISSIONER POWELL:</p> <p>2 putting in all the various components,</p> <p>3 including human resource management and</p> <p>4 successions, bells and whistles for internal,</p> <p>5 as much as serving customers. What</p> <p>6 interaction does Newfoundland Power have with</p> <p>7 Hydro to see where they're going and to see if</p> <p>8 there are things that can be shared, used or</p> <p>9 experiences that may have been good or bad</p> <p>10 that would complement each other.</p> <p>11 MR. COLLINS:</p> <p>12 A. Mr. Powell, personally, I meet with my</p> <p>13 counterpart at Hydro, try to get there a</p> <p>14 couple of times a year. My staff, my</p> <p>15 directors on servers and PCs and on</p> <p>16 applications would get together as well, as</p> <p>17 many times a year, and have a discussion about</p> <p>18 their particular applications, you know, talk</p> <p>19 about what they're hoping to do. We'll talk</p> <p>20 about what we're hoping to do and our</p> <p>21 practices. And we do try to get together</p> <p>22 mainly to learn about each other's</p> <p>23 experiences, so that we don't fall into the</p> <p>24 same, you know, pitfalls kind of thing. So</p> <p>25 it's very knowledge sharing at that level, but</p>	<p>1 not at the application sharing level.</p> <p>2 Q. Have you seen any opportunities to share</p> <p>3 applications?</p> <p>4 MR. COLLINS:</p> <p>5 A. Not to share applications, and when I--if what</p> <p>6 you mean by share is that we're using the same</p> <p>7 one together, we haven't seen any opportunity</p> <p>8 for that in our discussions. One thing though</p> <p>9 that we did learn was that the way we deploy</p> <p>10 software--so with our 600 PCs scattered across</p> <p>11 the province, we implemented some software a</p> <p>12 number of years ago, four or five years ago,</p> <p>13 that allows us to send or deploy software</p> <p>14 centrally. So we don't have to send an IT</p> <p>15 person to the desk to put on a piece of</p> <p>16 software. We can do it from St. John's and</p> <p>17 that person in Corner Brook, that PC will get</p> <p>18 the software upgrade. And I know Newfoundland</p> <p>19 and Labrador Hydro talked extensively with us</p> <p>20 about what we were doing there and I think</p> <p>21 they actually ended up purchasing the same</p> <p>22 software for themselves and spoke a lot to our</p> <p>23 staff about how we're using it and that sort</p> <p>24 of thing. So that's the example that comes to</p> <p>25 mind for me.</p>
Page 123	Page 124
<p>1 Q. But one of the issues with computers, and I</p> <p>2 think you mentioned earlier talking, is the</p> <p>3 ability to speak to each other. So even</p> <p>4 though there's, at this point in time, no</p> <p>5 compatibility, wouldn't you agree that as you</p> <p>6 look forward and as things change, it would be</p> <p>7 sort of important that you both at least</p> <p>8 learning the same language so in case there's</p> <p>9 an opportunity to communicate, you'd be able</p> <p>10 to connect?</p> <p>11 MR. COLLINS:</p> <p>12 A. Certainly, and I mean, that's why we want to</p> <p>13 continue to keep our meetings going, to</p> <p>14 understand where we--you know, where they want</p> <p>15 to go with their technology investments, where</p> <p>16 we're going with our technology investments,</p> <p>17 and if there's a way that we can, you know, go</p> <p>18 like this at some point in time, whether</p> <p>19 that's to get in on a--instead of buying, in</p> <p>20 our case, 100 or 9 PCs and they need to buy</p> <p>21 some PCs, maybe we can get some bulk purchase</p> <p>22 going that gets a discount for everybody.</p> <p>23 Those are the kinds of discussions that we've</p> <p>24 had.</p> <p>25 Q. One of the areas, again just from a lay point</p>	<p>1 of view, I think it's a couple of years ago I</p> <p>2 had an opportunity to visit your customer</p> <p>3 centre and I was impressed. I thought it was</p> <p>4 fairly sophisticated and I was quite intrigued</p> <p>5 by how well it operated and I remember talking</p> <p>6 to one of the managers there and my question</p> <p>7 to him was, you know, "how did you get this?"</p> <p>8 because it seemed to be fairly sophisticated,</p> <p>9 and I was more interested, curiosity, how it</p> <p>10 got built, and he gave me the 20,000 foot</p> <p>11 view, how you arrived at that particular</p> <p>12 situation, and I think, if my memory served me</p> <p>13 correct, he actually said you eventually got</p> <p>14 it from a company in San Diego.</p> <p>15 MR. COLLINS:</p> <p>16 A. Yes, Aspect.</p> <p>17 Q. Yes. And one of the things that he had</p> <p>18 mentioned to me, if I remember the</p> <p>19 conversation right, was the reason why he'd</p> <p>20 choose that company was that gave you the</p> <p>21 ability to control your own destiny. You're</p> <p>22 able to make changes and things as you grew</p> <p>23 and as things changed along the way, you</p> <p>24 weren't locked into a situation that you woke</p> <p>25 up one morning and found out that the company</p>

Page 125

Page 126

1 COMMISSIONER POWELL:

2 had gone, whatever. So that interested me
3 because that was forward thinking. Now I
4 guess two questions. I presume you still have
5 that capacity that you can run it yourself.
6 You're not totally--if the company that you
7 originally have been dealing with does go, you
8 still have control of your own destiny, and
9 Hydro, from what I can understand, they're
10 looking down the road. They have a much
11 smaller retail customer base than Newfoundland
12 Power. Again, from a layperson, I didn't see
13 a whole lot of missing bells and whistles.
14 And so it would seem to me as something that--
15 shared is probably not the right word, but
16 some integration of the customer service. So
17 am I correct in my assumption of your ability
18 to manage that on a go-forward basis and the
19 compatibility that should be there for Hydro?

20 MR. COLLINS:

21 A. That's my understanding as well, Mr. Powell.
22 Certainly, you know, from a technology pure
23 perspective, there will be nothing that should
24 get in the way of that. It would not be a
25 technology issue.

Page 127

1 question that an accountant, they've got to go
2 up and down. Newfoundland Light and Power are
3 going that way. And he explained some of the
4 problems and they were looking into it. So
5 you got my support in that software. You're
6 going to upgrade your software in all, you
7 said 597 computers. Software upgrade, one of
8 the problems I run into when I upgrade my
9 software is that, that's great, and then the
10 next week I got to go back and complain
11 something's not working and they say, "oh yes,
12 now you got to buy more hardware because you
13 don't have the space." And so it's sort of--
14 it seems like somebody's pushing or pulling.
15 I'm not sure what's going on, but would it be
16 required to put upgraded software in all your
17 597 computers that you have or are you going
18 to run into a situation that half of them, you
19 may have to replace them? Because as we see
20 there, you have different levels.

21 MR. COLLINS:

22 A. It's certainly a balance that, you know, we
23 need to keep in perspective because you're
24 absolutely right, sometimes I wonder if these
25 hardware and software vendors are actually,

1 Q. But you don't know if there's been any
2 discussions about--because obviously
3 Newfoundland Power, they've had it for a while
4 and it's like any application, there's a
5 learning curve and we all make--we all get
6 down the wrong path every now and then, so
7 need to reinvent the wheel. You don't know if
8 there's been any discussions with Hydro, in
9 terms of being able to marry that application
10 into their system?

11 MR. COLLINS:

12 A. I certainly haven't had any discussions.

13 MR. MULCAHY:

14 A. I'm not aware of any that have occurred.

15 Q. You mentioned about bill design, and I guess I
16 don't think your CEO went off and did that
17 because I made a complaint to him, but I guess
18 it's been a couple of years since we've had
19 the Board meet on a--used to meet on a regular
20 basis with the management of the utilities and
21 probably the only one we had with Newfoundland
22 Power that I attended, I passed on a complaint
23 that my father-in-law had that he couldn't
24 read his bills from Newfoundland Power. He
25 was on the monthly payment, and there was some

Page 128

1 you know, the same people sometimes. But in
2 the case of, you know, the way we have to
3 manage those 600 PCs, they're a lot easier for
4 us to manage if they all have the same version
5 of software on them. So right away, you know,
6 it makes sense to us to have everything all
7 the same version, so that when our help desk
8 gets a call, they know what's on the machine.
9 From what we can tell at this point in time,
10 we would have to upgrade the hardware as a
11 result of these software upgrades.

12 Q. The cost, I don't have the figure here, I
13 think it was \$40 or \$50,000.00, we'll call it,
14 database development and you were talking
15 about running the software to seek--get the
16 bugs out and seek compatibility. When I was
17 listening to your answer, I was sort of
18 thinking to myself that on an ongoing basis,
19 isn't that like within your department there's
20 people always looking for the mistake that's
21 going to happen before it happens, in terms of
22 compatibility, because my understanding you
23 can run it a thousand times, but there's some
24 where there's a little niche in the system for
25 the thousand and one time and you got to get

Page 129	Page 130
<p>1 COMMISSIONER POWELL:</p> <p>2 there before he gets or she gets there. So</p> <p>3 wouldn't that be a normal operating thing of</p> <p>4 the IT department, as opposed to a capital</p> <p>5 item?</p> <p>6 MR. COLLINS:</p> <p>7 Q. We--there's an operating component to it, but</p> <p>8 specific to this \$56,000.00 expenditure, it's</p> <p>9 about when we buy--I can't remember the pieces</p> <p>10 of software that we're speaking about in the</p> <p>11 56,000, but I guess just speak in general</p> <p>12 terms about it, we look at the ability to be</p> <p>13 able to do those sorts of things, as you speak</p> <p>14 about, testing at a thousand different ways in</p> <p>15 the process of upgrading to make the asset</p> <p>16 better and make it last longer. That whole</p> <p>17 process around that, we feel, is a capital</p> <p>18 investment.</p> <p>19 Q. One final comment, listening to your</p> <p>20 discussion and I thought it was quite good and</p> <p>21 the presentation. Would it be fair for me to</p> <p>22 look upon your department as the ultimate aim</p> <p>23 would be to create, what I call the Maytag</p> <p>24 repair person type scenario, having everything</p> <p>25 working so well, you're sitting around,</p>	<p>1 nothing to do because everything works well.</p> <p>2 I mean, isn't that the ultimate aim, sort of</p> <p>3 thing, like a lot of these enhancements and</p> <p>4 things you're talking about putting in is that</p> <p>5 -</p> <p>6 MR. COLLINS:</p> <p>7 A. Sometimes I feel it's like we're, you know,</p> <p>8 we're the rabbit with the foxes behind us.</p> <p>9 Q. I realize that and you've still a way to go,</p> <p>10 but wouldn't that be the scenario?</p> <p>11 MR. COLLINS:</p> <p>12 A. That would certainly be--that would be heaven,</p> <p>13 for me as a manager, I think is the best way</p> <p>14 to describe it.</p> <p>15 Q. The reason why I say that because the legal</p> <p>16 counsel and one of the challenges for us,</p> <p>17 least cost, reliability and trying to quantify</p> <p>18 costs, but sometimes there is a certain cost</p> <p>19 because you have staff, like I say, like the</p> <p>20 Maytag repairman, he or she is sitting there</p> <p>21 and the beauty--the system does not need it</p> <p>22 because everything works well, but at the same</p> <p>23 time you've got to have them, and so some type</p> <p>24 of these enhancements are looked on that</p> <p>25 perspective being the--to keep you from not</p>
Page 131	Page 132
<p>1 having everything to do?</p> <p>2 MR. MULCAHY:</p> <p>3 A. I think maybe if I can speak to that briefly,</p> <p>4 I think really what you're getting at is a</p> <p>5 balance and yes, that would be utopia that you</p> <p>6 have an IT department that either you didn't</p> <p>7 need or wasn't doing much work. And I guess</p> <p>8 what you don't see here are things that aren't</p> <p>9 being done because we don't think that they</p> <p>10 are going to get us there, or that they are</p> <p>11 too expensive to bring forward. And so in</p> <p>12 terms of how do you make that assessment, it's</p> <p>13 a constant balancing act and I think Mr.</p> <p>14 Collins referred to it several times through</p> <p>15 his examination, and so I don't think this is</p> <p>16 getting us to the Maytag repairman situation,</p> <p>17 I think we're going out and we're fixing and</p> <p>18 we're upgrading, we're creating enhancements</p> <p>19 that will help us do our job better. But I</p> <p>20 don't see them as being the end of.</p> <p>21 Q. That's all my questions, Chair.</p> <p>22 CHAIRMAN:</p> <p>23 Q. I just have a few, gentlemen. Mr. Collins,</p> <p>24 with regards to the--I want to make sure I</p> <p>25 understand about the open BMS system and is</p>	<p>1 the CSS the only function of Newfoundland</p> <p>2 Power that's dependent on that particular</p> <p>3 system?</p> <p>4 MR. COLLINS:</p> <p>5 A. Strictly speaking, no, from a technical</p> <p>6 perspective, no. What we have certainly is a</p> <p>7 CSS system, but as of today, the meter system,</p> <p>8 so we have a database for tracking all of our</p> <p>9 meters that are installed on houses and</p> <p>10 commercial buildings and so on, but that</p> <p>11 database is on CSS but--sorry, on open BMS but</p> <p>12 because it's so linked directly to CSS, we've</p> <p>13 left it there for now, but it's just a data</p> <p>14 repository, really, as far as CSS is concerned</p> <p>15 and street lights is another example, Mr.</p> <p>16 Finn.</p> <p>17 Q. Okay, so given that, you know, there are</p> <p>18 obviously, as you say, other functions that</p> <p>19 are somewhat dependent on it, is it possible</p> <p>20 to or is it inevitable that you would be</p> <p>21 moving to another system as such? I mean, I</p> <p>22 know you're making enhancements, as you say in</p> <p>23 your pre-file, look for opportunities to make</p> <p>24 the CSS less dependant on the open BMS system,</p> <p>25 so is it possible that you would end up, you</p>

Page 133

1 COMMISSIONER POWELL:
 2 know, with a number of enhancements eventually
 3 whereby you wouldn't be dependant on one
 4 system at all or -
 5 MR. COLLINS:
 6 A. I don't foresee that happening. I think the
 7 last counter is 2.5 million lines of
 8 programming code in that system, and I don't
 9 think we could ever make enough small
 10 enhancements to move things off to completely
 11 get away from it. That's my sense of it
 12 really, Mr. Finn, from talking to the people
 13 that really know the system inside out.
 14 There's some, you know, the billing
 15 functionality that's inherent in that system
 16 is something that, you know, you're not going
 17 to be able to make a small enhancement to in
 18 order to move it off.
 19 Q. So you're always going to be dependant, to
 20 some extent, on one system or another, whether
 21 it's open BMS or some other system?
 22 MR. COLLINS:
 23 A. That's correct.
 24 Q. With regard to some of the enhancements that
 25 were discussed and you note in your pre-filed

Page 135

1 of CSS is, as we know it today, we would get
 2 payback on those.
 3 Q. But are you suggesting, therefore, that you
 4 have a certain dollar level that if it goes to
 5 exceed that, you would do a cost benefit
 6 analysis, notwithstanding that the particular
 7 program has benefits other than totally cost
 8 related benefits?
 9 MR. COLLINS:
 10 A. Right, in the case of--I guess in the case of
 11 CSS, if I was to come before the Board with an
 12 enhancement, a specific enhancement that was
 13 into the quarter of a million dollar range,
 14 you know, and knowing that the issue for open
 15 BMS hasn't gone away, I'd certainly want to
 16 put something before the Board to give it
 17 comfort that, you know, that \$250,000.00
 18 enhancement, specific enhancement, is -
 19 Q. Are you saying \$250,000.00 is that level?
 20 MR. COLLINS:
 21 A. That's--we don't have a policy on it, I guess,
 22 Commissioner Finn, but that's kind of where my
 23 thinking is on it.
 24 Q. With regard to the additional software
 25 programs that aren't covered, that you're

Page 134

1 as well that given that the BMS, open BMS, you
 2 know, might only go to 2008 or 2011, you know,
 3 you're looking at the enhancements having to
 4 have a short payback period, but you also note
 5 that in your analysis of what upgrades you
 6 were going to have, that those analyses
 7 weren't made solely on economic analysis, so
 8 given that they're not solely on economic
 9 analysis, how do you assess or judge the
 10 payback period?
 11 MR. COLLINS:
 12 Q. I guess what we do is, you know, we look at
 13 the effort it would take to actually, to make
 14 the change, to make the enhancement. If
 15 that's going to be into the 200, 300,
 16 \$400,000.00 range, I mean, that's something
 17 that I believe we really need to do an
 18 economic analysis of. The customer systems,
 19 the customer service enhancements that you see
 20 in application enhancements are actually--
 21 while it totals 215, there's three smaller
 22 totals in there for 98,000; 36, which Mr.
 23 Kennedy pointed out is related to the AMR
 24 piece, and 74. So we feel that, you know,
 25 those kinds of dollars, given where the life

Page 136

1 acquiring but aren't covered under the
 2 Microsoft Enterprise Agreement, but you are
 3 getting a discount on them because you're
 4 entering into that particular agreement or
 5 looking to enter into it, is the discount only
 6 applicable to, you know, the initial
 7 acquisition or do you get discounts on
 8 upgrades of those as well as you go along
 9 during the life of the agreement?
 10 MR. COLLINS:
 11 A. Upgrades as well.
 12 (12:11 p.m.)
 13 Q. Now I just have a final question, I guess,
 14 with regard to the--these Dell laptops that
 15 were raised by Mr. Kennedy and you were
 16 indicating that industry indicates that if you
 17 get four years out of, you know, from a
 18 computer from a laptop of this nature, you're
 19 lucky and you people have been getting, you
 20 know, five and some of them are a bit older,
 21 but given that you've indicated that the
 22 laptops are performing well, albeit a bit
 23 slow, but obviously not prohibitively slow,
 24 the fact that you've gotten five years,
 25 wouldn't you just consider, you know, yourself

1 COMMISSIONER POWELL:

2 lucky and keep using them if they're not, if
3 they're not outdated in that sense? If
4 they're doing the job and they're performing
5 the work, well notwithstanding that they're
6 five years old, why would you still want to
7 replace them?

8 MR. COLLINS:

9 A. I don't think we--I certainly didn't mean to
10 leave the impression with the Board that we
11 kind of look at a, you know, four year or five
12 year cutoff. We look at closely what the
13 machines are being used for. In this
14 particular case, you know, the technicians are
15 using these machines, they would have been
16 cascaded through the--since they were bought,
17 you know, and I would say that the technicians
18 probably weren't the first people to use those
19 machines when they came in the door, but I had
20 my staff actually run a little test on this
21 AutoCad Lt. package on the Dell laptop verses
22 a newer laptop, one that we would have
23 purchases, I guess in 2003, and for a standard
24 diagram, like a feeder single line diagram,
25 something that the technicians work with, it

1 Q. Because that's what, you know, that's what
2 your evidence appears to be saying, you know,
3 and I have some concern with that, I think.

4 MR. COLLINS:

5 A. Oh yeah, no, not that it's a bit slower, there
6 are several factors that go into it. It's
7 what software--who is using them and what
8 software are they using, how are they
9 performing, so it is slow, is it okay, the
10 age, of course, is a factor and so when we get
11 together and we decide, you know, what is it
12 about our 606 PCs that we think we may need to
13 replace next year. Those Dells were--made the
14 list. I can tell you, Mr. Finn, that 109 PCs
15 which included those Dells, was not the first
16 cut, I think there might have been around 150
17 PCs and we had Dell 733 megahertz machines in
18 there, and I actually have one on my desk and
19 I do find it a little bit slow opening up when
20 I'm searching for RFIs and that sort of thing,
21 it's a bit slow, but I said, you know, that my
22 decision before putting this before the Board
23 that Dell 733 megahertz machines, we can get
24 at least another year out of those, so those
25 came off. So, you know, there's certainly a

1 took almost 20 seconds for that to come up on
2 the screen and for a newer laptop, it was
3 about 5 seconds. So that's just to get it to
4 come up on the screen. To be able to work
5 with the diagram and make changes, manipulate
6 it, that sort of thing, you know, with a newer
7 laptop--the 500 megahertz Dell laptops don't
8 seem to be performing the function. So we did
9 more than just a, obviously just a how old is
10 it analysis, we look at things like, you know,
11 how many problems have we had with the Dell
12 laptop since we bought them four years ago?
13 Have they been performing well over its
14 lifetime? And again, we look at the nature of
15 the software that's being used on those and
16 can they be actually cascaded to somebody else
17 in the organization before we send it out the
18 door.

19 Q. All right, so you're suggesting that, you
20 know, these particular laptops aren't being
21 retired simply because they were a bit slower?

22 MR. COLLINS:

23 A. Right. Like, it's not just based on that.
24 What it's based on, it's several factors.
25 It's a bit slower -

1 lot of judgment involved.

2 (12:15 p.m.)

3 Q. All right, thank you. Anything arising
4 gentlemen?

5 MR. MYLES:

6 Q. I have no questions, thank you, Mr. Chair.

7 MR. KENNEDY:

8 Q. Nothing arising, Chair.

9 CHAIRMAN:

10 Q. Mr. Young?

11 MR. YOUNG:

12 Q. Nothing arising, thank you.

13 CHAIRMAN:

14 Q. Mr. Kennedy?

15 MR. KENNEDY:

16 Q. Nothing arising, Chair.

17 CHAIRMAN:

18 Q. Well, it's not quite 12:30, I wondering where
19 we stand now with the next panel and how long
20 that may be going to take.

21 MR. MYLES:

22 Q. Well what we had discussed at the last break
23 was we thought it might be appropriate to
24 break after this panel and go for 10 or 15 or
25 20 minutes. My direct examination of the next

Page 141	Page 142
<p>1 MR. MYLES:</p> <p>2 panel is in the sub ten minute range. I</p> <p>3 understand from Mr. Young he only has several</p> <p>4 questions. How long that will take, I don't</p> <p>5 know, and then there's Mr. Kennedy. And my</p> <p>6 sense was that if we were to break now and</p> <p>7 have a bit, then we might be able to just go</p> <p>8 straight to the finish. But we have to make a</p> <p>9 judgment call.</p> <p>10 CHAIRMAN:</p> <p>11 Q. What are you suggesting would be an</p> <p>12 appropriate length of time for the break?</p> <p>13 MR. MYLES:</p> <p>14 Q. Well for ourselves, twenty minutes or</p> <p>15 something like that, but it's purely what</p> <p>16 everyone else wants to do.</p> <p>17 CHAIRMAN:</p> <p>18 Q. Well perhaps we'll break for half an hour.</p> <p>19 MR. MYLES:</p> <p>20 Q. If you want to break for lunch, we could do</p> <p>21 that as well.</p> <p>22 CHAIRMAN:</p> <p>23 Q. We'll take a half an hour break then and then</p> <p>24 recommence. Thank you, Mr. Mulcahy and Mr.</p> <p>25 Collins.</p>	<p>1 (BREAK - 12:17 P.M.)</p> <p>2 (RESUMED - 12:54 p.m.)</p> <p>3 CHAIRMAN:</p> <p>4 Q. Perhaps just for the record you can introduce</p> <p>5 the Panel?</p> <p>6 MR. MYLES:</p> <p>7 Q. Yes, thank you, Mr. Chairman. The first</p> <p>8 person closest to you, Mr. Barry Perry, Chief</p> <p>9 Financial Officer of the Company. And beside</p> <p>10 him is Lisa Hutchens, who is Manager of</p> <p>11 Finance. And they are the third and final</p> <p>12 Panel.</p> <p>13 CHAIRMAN:</p> <p>14 Q. Okay.</p> <p>15 MR. BARRY PERRY (SWORN)</p> <p>16 MS. LISA HUTCHENS (SWORN)</p> <p>17 Q. Thank you. Mr. Myles?</p> <p>18 MR. MYLES:</p> <p>19 Q. Thank you. Ms. Hutchens, could you please</p> <p>20 state your name, position and what you are</p> <p>21 testifying on today?</p> <p>22 MS. HUTCHENS:</p> <p>23 A. Yes, I can. Good morning--good afternoon, I</p> <p>24 should say. My name is Lisa Hutchens and I am</p> <p>25 the Manager of Finance for Newfoundland Power.</p>
Page 143	Page 144
<p>1 And I'm here to testify today on the Company's</p> <p>2 2002 rate base.</p> <p>3 Q. And, Ms. Hutchens, do you adopt your pre-filed</p> <p>4 testimony?</p> <p>5 MS. HUTCHENS:</p> <p>6 A. Yes, I do.</p> <p>7 Q. Mr. Perry, can you please state your name,</p> <p>8 position and what you are testifying on today?</p> <p>9 MR. PERRY:</p> <p>10 A. My name is Barry Perry, and I'm Vice-President</p> <p>11 Finance, Chief Financial Officer of</p> <p>12 Newfoundland Power. I will be testifying on</p> <p>13 changes in the Newfoundland Power deferred</p> <p>14 charges and plans for financing its 2004</p> <p>15 capital budget.</p> <p>16 Q. Mr. Perry, do you adopt your pre-filed</p> <p>17 testimony?</p> <p>18 MR. PERRY:</p> <p>19 A. Yes, I do.</p> <p>20 Q. Ms. Hutchens, have you supervised the</p> <p>21 calculation of the 2002 average rate base</p> <p>22 shown in Schedule D of the Application, which</p> <p>23 can be found in Volume 1?</p> <p>24 MS. HUTCHENS:</p> <p>25 A. Yes, I have. And I can confirm that the</p>	<p>1 calculation is of the 2002 average rate base</p> <p>2 is in accordance with previous orders and</p> <p>3 practices of this Board. And I'll also point</p> <p>4 the Board, as well, to information item No. 1,</p> <p>5 which was the financial consultant's report</p> <p>6 filed by Grant Thornton that also indicated</p> <p>7 that the 2002 average rate base is accurate</p> <p>8 and in accordance with Board orders.</p> <p>9 Q. Thank you, Ms. Hutchens. Could you please</p> <p>10 review for the Board the Company's average</p> <p>11 rate base of \$573,337,000 for 2002?</p> <p>12 MS. HUTCHENS:</p> <p>13 A. Yes, I can. Schedule D you will see is on</p> <p>14 your screen, and that is the calculation of</p> <p>15 the Company's 2002 average rate base. At the</p> <p>16 bottom of the first column of numbers you see</p> <p>17 the Company's 2001 average rate base of</p> <p>18 \$545,162,000. This rate base was approved as</p> <p>19 part of the Company's 2003 capital budget</p> <p>20 application in order P.U. 36 (2002, 2003).</p> <p>21 This figure becomes a starting point for the</p> <p>22 Company's 2002 average rate base calculation.</p> <p>23 At the bottom of the second column you</p> <p>24 see the 2002 average rate base of \$573,337,000</p> <p>25 that we are requesting be approved. The two</p>

Page 145	Page 146
<p>1 MS. HUTCHENS:</p> <p>2 main factors that influence the Company's</p> <p>3 average rate base are depreciation and capital</p> <p>4 expenditures. The Company's capital</p> <p>5 expenditures increase rate base. The Board</p> <p>6 approves these expenditures annually through</p> <p>7 the capital budget process. Depreciation</p> <p>8 reduces the rate base. The Board approves the</p> <p>9 depreciation rates and methodologies used by</p> <p>10 the Company every five years. The last time</p> <p>11 this occurred was earlier this year as part of</p> <p>12 the Company's general rate application when</p> <p>13 the rates were approved in order P.U. 19</p> <p>14 (2003).</p> <p>15 Looking at Schedule D you can see on the</p> <p>16 top line that the plant investment of one</p> <p>17 billion, five million, 674 thousand is a</p> <p>18 starting point for the 2002 average rate base.</p> <p>19 From this total accumulated depreciation on</p> <p>20 the second line of \$420,736,000 is deducted.</p> <p>21 Other smaller factors are then considered in</p> <p>22 the average rate base calculation.</p> <p>23 Coming down the page on Schedule D,</p> <p>24 contributions in aid of construction which are</p> <p>25 funds received from customers towards the cost</p>	<p>1 of capital assets of \$19,788,000 is deducted.</p> <p>2 The weather normalization reserve of</p> <p>3 \$10,919,000 which represents funds owed by</p> <p>4 customers to the Company is added back.</p> <p>5 Contributions for country homes, the next sort</p> <p>6 of text line on the left-hand side of \$570,000</p> <p>7 is added back. This figure represents the</p> <p>8 unpaid portion of the \$19 million</p> <p>9 contributions in aid of construction figure</p> <p>10 above. Customers do pay us for those</p> <p>11 contributions over time payment plans from</p> <p>12 time-to-time.</p> <p>13 And finally, the second and third-last</p> <p>14 line, a cash working capital allowance, any</p> <p>15 materials and supplies allowance. The cash</p> <p>16 working capital allowance is \$4,712,000 and</p> <p>17 the materials and supplies allowance of</p> <p>18 \$3,512,000, which require for the--which allow</p> <p>19 for the working capital inventory required to</p> <p>20 provide service to the Company's customers is</p> <p>21 also added to rate base. All of these factors</p> <p>22 are calculated in accordance with Board</p> <p>23 orders.</p> <p>24 In the case of the weather normalization</p> <p>25 reserve I will note that the balance of</p>
Page 147	Page 148
<p>1 \$10,919,000 has already been approved by the</p> <p>2 Board, as it normally is annual, in order P.U.</p> <p>3 22 (2003). All of these components taken</p> <p>4 together combine to produce the average rate</p> <p>5 base for 2002 of \$573,337,000.</p> <p>6 Q. Thank you, Ms. Hutchens. Mr. Perry, could you</p> <p>7 please describe the report entitled "Changes</p> <p>8 in Deferred Charges, 2003 - 2004", which is</p> <p>9 contained in Volume 1 of the Application?</p> <p>10 MR. PERRY:</p> <p>11 A. Yes, I can. In order No. P.U. 19 (2003) the</p> <p>12 Board ruled that beginning in 2003 deferred</p> <p>13 charges were to be included in the Company's</p> <p>14 rate base. The Board also ordered the Company</p> <p>15 to file annually with its capital budget</p> <p>16 application evidence on changes in deferred</p> <p>17 charges. The report entitled, "Changes in</p> <p>18 Deferred Charges, 2003 - 2004" provides that</p> <p>19 evidence which is intended to enable the Board</p> <p>20 to assess the prudence of changes in deferred</p> <p>21 charges on a perspective basis.</p> <p>22 Table 1 on page 1 of the report, which is</p> <p>23 shown on the screen, shows the actual deferred</p> <p>24 charges of the Company for 2002 and the</p> <p>25 forecast deferred charges for 2003 and 2004.</p>	<p>1 With the exception of the weather</p> <p>2 normalization account, there have been no</p> <p>3 changes in the forecast deferred charges for</p> <p>4 2003 and 2004 from those presented in the</p> <p>5 Company's 2003 general rate application. The</p> <p>6 changes to the weather normalization account</p> <p>7 are a function of the normal operation of the</p> <p>8 reserve and reflect the impact of actual</p> <p>9 weather experienced from January to May of</p> <p>10 this year.</p> <p>11 Also as part of the information No. 1</p> <p>12 referred to by Ms. Hutchens and filed with the</p> <p>13 Board Grant Thornton has confirmed for the</p> <p>14 Board that forecast average rate base for 2003</p> <p>15 and 2004 which include deferred charges are</p> <p>16 calculated correctly in accordance with Board</p> <p>17 orders. Grant Thornton also confirmed that</p> <p>18 the information filed by the Company on</p> <p>19 deferred charges is consistent with that</p> <p>20 presented in the 2003 general rate</p> <p>21 application.</p> <p>22 Q. Mr. Perry, the largest deferred charge is the</p> <p>23 deferred pension costs. Could you please</p> <p>24 review how this arises?</p>

Page 149	Page 150
<p>1 MR. PERRY:</p> <p>2 A. Yes, I can. Pension funding and pension</p> <p>3 expense are determined with reference to</p> <p>4 different criteria. As a result, the amount</p> <p>5 of pension expense for accounting purposes in</p> <p>6 a given year is different from the pension</p> <p>7 funding for that same year. The cumulative</p> <p>8 differences between pension funding and</p> <p>9 pension expense have resulted in the deferred</p> <p>10 pension assets on the Company's balance sheet.</p> <p>11 This accounting approach is in accordance with</p> <p>12 Board orders and is compliant with that</p> <p>13 recommended by the Canadian Institute of</p> <p>14 Chartered Accountants.</p> <p>15 Q. Mr. Perry, Newfoundland Power is proposing a</p> <p>16 capital budget of \$53.9 million for 2004.</p> <p>17 Could you please explain to the Board how this</p> <p>18 capital expenditure will affect the Company's</p> <p>19 financing requirements?</p> <p>20 MR. PERRY:</p> <p>21 A. Yes, I can. As stated in our evidence, the</p> <p>22 funds required to finance the Company's 2004</p> <p>23 capital program will come from internally</p> <p>24 generated cash flow as well as short-term</p> <p>25 debt. When the Company's short-term borrowing</p>	<p>1 requirements approach a level where the</p> <p>2 Company considers a long-term financing to be</p> <p>3 appropriate, the short-term portion is</p> <p>4 replaced with long-term debt. Currently the</p> <p>5 Company does not contemplate doing a long-term</p> <p>6 debt issue until sometime after 2004.</p> <p>7 Q. Thank you. Mr. Perry, yesterday Commissioner</p> <p>8 Powell asked some questions of Mr. Ludlow and</p> <p>9 Delaney regarding the incremental efficiency</p> <p>10 at Holyrood in the event that the 15. 4</p> <p>11 gigawatt hours per year currently generated at</p> <p>12 New Chelsea were instead generated at</p> <p>13 Holyrood. Do you have any information that</p> <p>14 might assist the Board?</p> <p>15 MR. PERRY:</p> <p>16 A. Yes, I do. I just want to discuss for the</p> <p>17 Panel how we look at these small hydroelectric</p> <p>18 plants that we have. We evaluate capital</p> <p>19 expenditures on those plants in relation to</p> <p>20 what's called the short run marginal costs of</p> <p>21 running Holyrood. And that information is</p> <p>22 provided to us on a fairly regular basis by</p> <p>23 Newfoundland and Labrador Hydro. The current</p> <p>24 estimate of the cost of running Holyrood, the</p> <p>25 marginal cost of running Holyrood is 5. 13</p>
Page 151	Page 152
<p>1 cents per kilowatt hour. The cost of doing</p> <p>2 the New Chelsea plant, for example, is 3. 19</p> <p>3 cents. So there's a wide margin in those two</p> <p>4 numbers. So saying it another way, we're</p> <p>5 about two cents better than running that</p> <p>6 energy through Holyrood at this point-in-time.</p> <p>7 Commissioner Powell talked about, well,</p> <p>8 can Holyrood become more efficient if you're</p> <p>9 running more energy through it, I guess, you</p> <p>10 know, I think that was the essence of his</p> <p>11 question. And what we've done is we've looked</p> <p>12 at, in the last six or seven years, the most</p> <p>13 efficient point that Holyrood ran at, and that</p> <p>14 point is in 2002 they ran at--they were</p> <p>15 getting for every barrel of oil, they were</p> <p>16 getting 648 kilowatt hours. So we said, you</p> <p>17 know, what is the short run marginal cost of</p> <p>18 Holyrood at its most efficient point in the</p> <p>19 last six or seven years. And that number, in</p> <p>20 fact, is about 495, 4.95 cents. So even with</p> <p>21 that number of running at the most efficient</p> <p>22 point, our project in New Chelsea at 3. 19</p> <p>23 cents is a very good project.</p> <p>24 (1:10 p.m.)</p> <p>25 The other thing we did, actually, is look</p>	<p>1 at at what price would oil have to go to, to</p> <p>2 drive the short run marginal cost of Holyrood</p> <p>3 down to 3.19 cents, just to test the economics</p> <p>4 of our New Chelsea project and all the other</p> <p>5 small projects that we've--you know, we have</p> <p>6 in the hydro plant rehabilitation project.</p> <p>7 And that price is about \$18 a barrel for No. 6</p> <p>8 oil over the entire life of the New Chelsea</p> <p>9 project. So oil would have to average \$18 a</p> <p>10 barrel for 25 to 40 years to make New Chelsea</p> <p>11 equal to running Holyrood.</p> <p>12 So that gives the Board a sense of the</p> <p>13 economics of the New Chelsea project and</p> <p>14 generally the hydro plant that we have on the</p> <p>15 island. Any time you can get a energy on the</p> <p>16 grid at about three cents a kilowatt hour, you</p> <p>17 take that opportunity.</p> <p>18 Just recently Newfoundland Hydro</p> <p>19 completed its Granite Canal project. The</p> <p>20 levelized cost on that project was 5.5 cents a</p> <p>21 kilowatt hour. Newfoundland Hydro has entered</p> <p>22 into contracts with the industrial customers</p> <p>23 on the island recent, Abitibi Consolidated in</p> <p>24 Grand Falls at 7.7 cents and the Kruger</p> <p>25 project, I think, was around 7.8 cents.</p>

Page 153	Page 154
<p>1 MR. PERRY:</p> <p>2 So when you put all that in the mix, our</p> <p>3 proposal for New Chelsea is a bit of a slam</p> <p>4 dunk from an energy cost perspective. That</p> <p>5 doesn't take into account anything on</p> <p>6 capacity, any environmental issues associated</p> <p>7 with running Holyrood. So I just want to give</p> <p>8 the Board a perspective of how Newfoundland</p> <p>9 Power working with the information that we get</p> <p>10 from Hydro looks at these projects.</p> <p>11 Q. Thank you, Mr. Perry. Does that conclude your</p> <p>12 remarks?</p> <p>13 MR. PERRY:</p> <p>14 A. Yes, it does.</p> <p>15 Q. Thank you, Mr. Perry. Mr. Chair, I have no</p> <p>16 further questions for this Panel.</p> <p>17 CHAIRMAN:</p> <p>18 Q. Thank you, Mr. Myles. Mr. Young?</p> <p>19 MR. YOUNG:</p> <p>20 Q. Thank you, Mr. Chair. I'm not going to take</p> <p>21 too long, Mr. Perry. Although the point you</p> <p>22 just raised does bring up a few questions, and</p> <p>23 I suppose I just want to confirm. The point</p> <p>24 you just talked about at looking at Holyrood</p> <p>25 at its most efficient loading, I'm not even</p>	<p>1 sure that's required and I'm just going to</p> <p>2 bounce this off you. I assume you understand</p> <p>3 that if Holyrood--you know, that's a temporary</p> <p>4 measure for that particular period of time.</p> <p>5 But the way Hydro runs its systems essentially</p> <p>6 if it's not using Holyrood to provide energy,</p> <p>7 it's getting it from its hydraulic resources.</p> <p>8 You probably understand that?</p> <p>9 MR. PERRY:</p> <p>10 A. Yes.</p> <p>11 Q. And then if it has a limitation on the amount</p> <p>12 of water, it has to get it from Holyrood over</p> <p>13 the course of the year that it runs Holyrood?</p> <p>14 MR. PERRY:</p> <p>15 A. Yes. Obviously Holyrood is integral to our</p> <p>16 system.</p> <p>17 Q. So an average cost or an average efficiency</p> <p>18 might be, perhaps, a sensible number to use</p> <p>19 because it's energy and not capacity at a</p> <p>20 particular moment if you're doing your</p> <p>21 projects, correct. So this is a sensitivity</p> <p>22 analysis issue done, is that the point?</p> <p>23 MR. PERRY:</p> <p>24 A. Absolutely. I wanted to give the Board a</p> <p>25 sense that the, I believe the 5.13 cent number</p>
Page 155	Page 156
<p>1 is the right number to use as a bench mark, no</p> <p>2 question about that. But I wanted to deal</p> <p>3 with Commissioner Powell's issue about, you</p> <p>4 know, running Holyrood more efficiently. If</p> <p>5 that was the case, where does the marginal</p> <p>6 costs go. And, you know, just based on</p> <p>7 historical operation, if you looked at, you</p> <p>8 know, the year that Holyrood ran its most</p> <p>9 efficient because obviously it ran more that</p> <p>10 year, it--you know, we use that scenario and</p> <p>11 we still only marginally got below five cents</p> <p>12 for the marginal costs.</p> <p>13 Q. Yeah, that's our assessment, also. The other</p> <p>14 point, I suppose, you raise is that, you know,</p> <p>15 when you get anything close to three cents</p> <p>16 power, that's a good deal. And there's no</p> <p>17 argument anywhere, I hope, no argument from</p> <p>18 anywhere in the province on that one. Just a</p> <p>19 point of clarification on that, though. When</p> <p>20 you're talking about the New Chelsea project,</p> <p>21 I take it you're taking all of those--I mean,</p> <p>22 when you look through the documentation, it's</p> <p>23 broken up in several components. So you're</p> <p>24 looking at them as a group, I assume, to come</p> <p>25 up with that figure, not each individual one?</p>	<p>1 I don't know if you've gone through that</p> <p>2 process, have you?</p> <p>3 MR. PERRY:</p> <p>4 A. If I understand Mr. Young's question, when we</p> <p>5 looked at New Chelsea, we looked at the</p> <p>6 capital cost in 2004 plus any extra capital</p> <p>7 that would come down the line and all the</p> <p>8 operating costs for the plant over the period.</p> <p>9 That's all in the economic analysis and that's</p> <p>10 where we get our 3.19 cents. The other hydro</p> <p>11 plant rehabilitation projects obviously are</p> <p>12 smaller in nature with--you know, just it's</p> <p>13 very obvious that the paybacks on those</p> <p>14 expenditures are less than one year. So we</p> <p>15 haven't gone and put before the Board the</p> <p>16 detailed economic analysis that we've provided</p> <p>17 for New Chelsea, but it's very obvious that</p> <p>18 you could look at every one, look at the hydro</p> <p>19 production from that plant and, you know, the</p> <p>20 paybacks are less than a year.</p> <p>21 Q. That's an interesting point you just raised</p> <p>22 that actually wasn't my question. When I look</p> <p>23 at the New Chelsea project, and I guess if we</p> <p>24 can call it that, but there are, in a sense,</p> <p>25 six or seven sub-projects under that. I'm</p>

Page 157	Page 158
<p>1 MR. YOUNG:</p> <p>2 just wondering had you looked at any of these</p> <p>3 individually in relation to, for example, the</p> <p>4 penstock itself is roughly half, lower half.</p> <p>5 Was that evaluated separately on this basis or</p> <p>6 were they all grouped together?</p> <p>7 A. They were all grouped together. We looked at</p> <p>8 New Chelsea, the plant is about, by the time</p> <p>9 we get to it, maybe 48 years old. It was</p> <p>10 built in, you know, 48 years ago at a cost of</p> <p>11 two and a half million dollars. It's just</p> <p>12 about fully depreciated on your books. There</p> <p>13 might be a hundred thousand dollars left.</p> <p>14 When we got into that plant, we realized that</p> <p>15 the plant needed a complete overhaul and I</p> <p>16 think it is the best approach to get in there,</p> <p>17 do it up and fix it for another 40 years,</p> <p>18 that's what we've done.</p> <p>19 Q. You mentioned just now that the plant is just</p> <p>20 about fully depreciated. I thought there was</p> <p>21 one and I'm not going to be able to find this</p> <p>22 very quickly, response to an RFI where you</p> <p>23 indicated that you don't do depreciation that</p> <p>24 way, they've become part of a class and that</p> <p>25 it's difficult to determine when a particular</p>	<p>1 plant is, becomes depreciated. I don't want</p> <p>2 to get into a big long discussion on that, but</p> <p>3 your answer then just sort of threw me.</p> <p>4 MS. HUTCHENS:</p> <p>5 A. How our plant records work with regards to</p> <p>6 plant, each individual hydro plant, we</p> <p>7 actually track the cost of the plant</p> <p>8 separately, so we can tell you, you know,</p> <p>9 what's gone into New Chelsea over the years or</p> <p>10 any other plant, for that matter. On a</p> <p>11 depreciation basis, we do just calculate the</p> <p>12 depreciation expense at a hydro plant group</p> <p>13 level, so it's not sort of pushed down to the</p> <p>14 individual accounts. So we can't sort of</p> <p>15 calculate an exact number as to what that</p> <p>16 depreciation is, but you can estimate just,</p> <p>17 you know, it's two and a half million bucks,</p> <p>18 it was 48 years ago, you kind of know that</p> <p>19 most of it is -</p> <p>20 Q. Fifty-year old hydro plant is probably fully</p> <p>21 depreciated, yes, I understand.</p> <p>22 MR. PERRY:</p> <p>23 A. Our composite rate is about 2.07 percent or</p> <p>24 something for depreciation, so it's about 50</p> <p>25 years, so that leaves -</p>
Page 159	Page 160
<p>1 MS. HUTCHENS:</p> <p>2 A. Two years.</p> <p>3 MR. PERRY:</p> <p>4 A. Two years left, I think it works out to a</p> <p>5 little over a hundred grand, something like</p> <p>6 that.</p> <p>7 Q. Okay, so just to confirm that even though you</p> <p>8 can make a sound judgment based upon those</p> <p>9 numbers, you couldn't look the sys. (phonetic)</p> <p>10 numbers because of the way you do it by class?</p> <p>11 MR. PERRY:</p> <p>12 A. That's correct.</p> <p>13 Q. Okay, I just have one other question and this</p> <p>14 is one I think that Mr. Ludlow didn't want to</p> <p>15 depunt (phonetic) to you and it's this \$25.00</p> <p>16 expenditure in 2001, Cape Broyle, and it's a</p> <p>17 couple of years ago, but I just want to use</p> <p>18 this as an example. The burning question,</p> <p>19 obviously, is whether this attracted any IDCs,</p> <p>20 but I won't get into that. The more important</p> <p>21 question, I think it was a matter of policy,</p> <p>22 is just whether there is any element in</p> <p>23 materiality that goes into the question of</p> <p>24 when a particular project gets capitalized.</p> <p>25 And that's really a matter, I think, of the</p>	<p>1 policy accounting -</p> <p>2 MS. HUTCHENS:</p> <p>3 A. As a general rule, there's no specific</p> <p>4 materiality limit on capital additions;</p> <p>5 however, obviously the smaller dollar values</p> <p>6 that you get, the less likely that something</p> <p>7 is, an expenditure is going to add a</p> <p>8 substantial betterment to the plant and would</p> <p>9 therefore, not qualify as being a capital</p> <p>10 expenditure. Having said that, what you tend</p> <p>11 to see and what that table, I think probably</p> <p>12 indicated, was there's a couple of years it</p> <p>13 was twenty-five bucks and \$700.00 in another</p> <p>14 year in another plant, and what that indicates</p> <p>15 is just a little bit of carry over or a little</p> <p>16 bit of start at the end of the year from a</p> <p>17 project from the prior year. So when we</p> <p>18 closed our books at December 31st, finished</p> <p>19 the projects in the prior year, there might</p> <p>20 have been a little bit of, you know, an</p> <p>21 expense report or a couple of hours to</p> <p>22 finalize commissioning or something like that,</p> <p>23 that just crept over into the other year.</p> <p>24 Q. Okay, so that wouldn't be any sort of</p> <p>25 particular unit of property which was</p>

Page 161	Page 162
<p>1 MR. YOUNG:</p> <p>2 accounted for in that way and those other</p> <p>3 small figures would be allocations to a</p> <p>4 particular year because the project wasn't</p> <p>5 completely done within one calendar year, is</p> <p>6 that the way it would have worked?</p> <p>7 MS. HUTCHENS:</p> <p>8 A. It would be allocations in that the accounting</p> <p>9 records may not be--there might be a little</p> <p>10 bit of, you know, a thousand bucks carried</p> <p>11 over here and there.</p> <p>12 Q. Okay, so if we were to look at any one</p> <p>13 project, we'd never see numbers that small?</p> <p>14 MS. HUTCHENS:</p> <p>15 A. No, that's correct.</p> <p>16 Q. Okay, well that clarifies that. That's all</p> <p>17 the questions I have, thank you.</p> <p>18 CHAIRMAN:</p> <p>19 Q. Thank you, Mr. Young. Mr. Kennedy?</p> <p>20 MR. KENNEDY:</p> <p>21 Q. Thank you, Chair, Commissioners. Mr. Perry</p> <p>22 and Ms. Hutchens, I wonder if we can start</p> <p>23 with a discussion on your deferred charges and</p> <p>24 specifically the deferred pension assets. And</p> <p>25 that's in Volume 1, changes in deferred</p>	<p>1 charges, 2003/2004 and I think it's already up</p> <p>2 on the screen, yes. And the details of that</p> <p>3 deferred pension calculation that shows up</p> <p>4 there, the deferred pension cost in 2004,</p> <p>5 79,780,000 is over on page 4, so I wonder if</p> <p>6 we could just go to that please. Okay, so</p> <p>7 just looking through these, the 2003 forecast</p> <p>8 you were carrying a balance, as of January 1</p> <p>9 of 64,684,000, correct</p> <p>10 MR. PERRY:</p> <p>11 A. Correct.</p> <p>12 Q. And then there's a current service funding of</p> <p>13 3,350,000, so that's the amount that is</p> <p>14 required to keep the plan hopefully current on</p> <p>15 the basis of what's required in the way of</p> <p>16 pension funding during 2003?</p> <p>17 MR. PERRY:</p> <p>18 A. Yes, it's what, I guess what was incurred, the</p> <p>19 service incurred by the employee group in</p> <p>20 2003.</p> <p>21 Q. Right, and the special funding of 7,589,000 is</p> <p>22 a special contribution, if you will, to the</p> <p>23 pension fund to make it whole, based on a</p> <p>24 short fall that's been identified by an</p> <p>25 actuary?</p>
Page 163	Page 164
<p>1 MR. PERRY:</p> <p>2 A. It is that and it is also made up of a series</p> <p>3 of Board approved orders as well, but you are</p> <p>4 right in that we end up--the actuarial report</p> <p>5 is done every three years and that identifies</p> <p>6 an unfunded position. The last time it was</p> <p>7 done, it identified about 28 million of</p> <p>8 unfunded liability and--but over the past sort</p> <p>9 of couple of decades, the Company has also</p> <p>10 been in front of the Board several times for</p> <p>11 early retirement programs, the initiation of</p> <p>12 the plan itself back in 1984, I believe, the</p> <p>13 Board approved funding amounts. And what we</p> <p>14 do is we make sure that that annual funding</p> <p>15 amount approved by the Board does not exceed</p> <p>16 what the actuary provides to us every three</p> <p>17 years, so we're never overfunding the plan, so</p> <p>18 we make sure that we keep that in balance.</p> <p>19 Q. Okay. Let's go to PUB-193, if we could and</p> <p>20 PUB-193 has attached to it the full actuarial</p> <p>21 report and I'm not sure, Mr. Chair, if it was</p> <p>22 a good idea to do this after lunch, hunger has</p> <p>23 a tendency to sharpen your senses and lunch</p> <p>24 has a tendency to dull them, but I'm wondering</p> <p>25 this is the first time that we've actually,</p>	<p>1 pursuant to PU-36, gone through the process of</p> <p>2 examining the line item of your deferred</p> <p>3 pension cost being included in your ratebase,</p> <p>4 correct?</p> <p>5 MR. PERRY:</p> <p>6 A. That's correct. We have examined the issue of</p> <p>7 deferred pension cost fairly thoroughly, but</p> <p>8 not as part of ratebase.</p> <p>9 Q. Right. So I'm wondering if we could just have</p> <p>10 a look through this actuarial report so that</p> <p>11 you can provide some explanation where you can</p> <p>12 about how this operates. And probably the</p> <p>13 best bet is just to start with the summary of</p> <p>14 results first, so that we can just get that</p> <p>15 30,000 foot view what's taken place and the</p> <p>16 actuary actually looks at three scenarios,</p> <p>17 correct, the going concern scenario, the</p> <p>18 solvency scenario and the wind up scenario?</p> <p>19 MR. PERRY:</p> <p>20 A. That's correct.</p> <p>21 Q. And the one though that's relevant for our</p> <p>22 purposes or for the purposes of Newfoundland</p> <p>23 Power booking its pension cost or expense and</p> <p>24 funding requirements is the going concern</p> <p>25 scenario?</p>

Page 165

1 MR. PERRY:
 2 A. That's correct.
 3 Q. All right and as per the summary here that as
 4 of December 31, 1998, which would have been
 5 the date of your actuary report previous to
 6 this one, showed an unfunded liability in your
 7 pension plan of 19,291,000?
 8 MR. PERRY:
 9 A. That's correct.
 10 Q. And now the actuary report, the one most
 11 recently done, shows that as of December 31,
 12 2000, there was an unfunded liability of
 13 27,919,000?
 14 MR. PERRY:
 15 A. That's correct.
 16 Q. And it's that 27,919,000 that Newfoundland
 17 Power is attempting to catch up on or fund,
 18 because right now it's unfunded?
 19 MR. PERRY:
 20 A. Yes.
 21 Q. All right. And when we were looking at that
 22 table 5 and we saw the special funding of
 23 7,589,000, that's that year's allotment
 24 towards unfunded liability?
 25 MR. PERRY:

Page 167

1 itself realizes gains over and above what the
 2 actuary set for it, you'll also catch up on
 3 that unfunded liability?
 4 MR. PERRY:
 5 A. Yes, that's correct.
 6 Q. Okay, now the next paragraph says "In
 7 accordance with the Pensions Benefits Act of
 8 Newfoundland, the new net unfunded liability
 9 of 27,919,000"--so that's what came from the
 10 previous table--"created due to the change in
 11 assumptions can be amortized over a period not
 12 exceeding 15 years. In this case, we've
 13 continued with current annual special payments
 14 of 7,834,000 until February 28th, 2005, to
 15 amortize this unfunded liability." So am I
 16 gathering correctly that insofar as the law is
 17 concerned, the Pension Benefits Act of
 18 Newfoundland, the Company could take up to 15
 19 years to fund that unfunded liability that's
 20 been identified as 27,919,000?
 21 MR. PERRY:
 22 A. Yes, that is correct, assuming that the plan
 23 was solvent and if the plan was not solvent,
 24 for example, which is another measure that the
 25 actuary uses, I think the rule there is about

Page 166

1 A. Correct.
 2 Q. Okay. All right, I wonder if we could just go
 3 to page 7 first, and right up towards the
 4 bottom there, those two paragraphs and the
 5 first paragraph says, "The special payment and
 6 experience gains during 1999 and 2000 have
 7 completely eliminated the existing unfunded
 8 liability." So I gather from that, that the
 9 Company would have, based on the actuarial
 10 report that was referenced in the summary, the
 11 one dated December 31, 1998 that identified a
 12 short--an unfunded liability of 19,291,000,
 13 that the Company made special contributions in
 14 the intervening years to catch up or fund that
 15 unfunded liability?
 16 MR. PERRY:
 17 A. That's correct, plus there appears in that two
 18 years to have been some gains in the plan,
 19 that help us, you know, extinguish the
 20 approximately 20 million dollar unfunded
 21 position.
 22 Q. Right, so there's more than one way to have
 23 this unfunded liability funded, one is through
 24 actual special contributions that the Company
 25 makes and the other is that if your plan

Page 168

1 5 years, but in this case, our plan is solvent
 2 and there is flexibility under the law to
 3 extend it out 15 years.
 4 Q. Because if you go over to page 11, that would
 5 be an actuary now, not paying particularly
 6 close attention to the words they use
 7 sometimes and more attention to the numbers,
 8 than the words, if you could just look at the
 9 special payment section, it says, "The
 10 following minimum annual special payments must
 11 be made to the plan to eliminate the unfunded
 12 liability as at December 31, 2000 within the
 13 period prescribed by the Pension Benefits Act
 14 of Newfoundland." But that kind of
 15 contradicts the paragraph that we just read,
 16 doesn't it?
 17 MR. PERRY:
 18 A. I can't say that, this is an actuary--it
 19 appears to be the case, Mr. Kennedy, but it is
 20 an, you know, expert report, you know, the
 21 guy, I'm not going to question the words that
 22 are used.
 23 Q. Okay, well if we could just scroll down again
 24 to "Company Contribution" there is an unfunded
 25 liability of 27,919,000 and a solvency ratio

Page 169	Page 170
<p>1 MR. YOUNG: 2 of a hundred percent as of December 31, 2000, 3 so that's what you were referencing a moment 4 again, Mr. Perry. And then you go, "As such, 5 we recommend that Newfoundland Power Inc. make 6 annual contribution to the plan for 2001 as 7 follows"--and then we see the 7,834, 000 8 number. 9 MR. PERRY: 10 A. That's correct. 11 Q. So am I gathering correctly that insofar as 12 this special payment of 7,834,000 that it is 13 just that, a recommendation being made by your 14 actuary of what it would require to fund the 15 identified unfunded liability of 27,919, 000 16 within a period of time ending in 2005, I 17 think it is? 18 MR. PERRY: 19 A. Yes, it's, you know, I would suggest a prudent 20 recommendation of the actuary to fund at that 21 level, albeit my understanding is that the law 22 allows a funding to extend out to 15 years. 23 Q. Okay. 24 MR. PERRY: 25 A. I would add given what's happened in the last</p>	<p>1 three years since this study was done, thank 2 God that we did fund at this level because 3 we'd be in a pretty bad situation come the end 4 of this year when we do our study, given that, 5 I think our plan has suffered losses, like 6 most of the companies in the country of some 7 40 to 50 million dollars over the last three 8 years. 9 MS. HUTCHENS: 10 A. Sixty-seven, actually. 11 MR. PERRY: 12 A. So, you know, this is really how we approach 13 this entire area of funding, as a company. We 14 don't look at looking at the most aggressive 15 funding approach of looking, doing it over 15 16 years. We say, okay, you know, it makes sense 17 to fund this as quick as possible. That's 18 been our approach. 19 Q. If we could just go to page 17, okay, and 17, 20 after the table there where it shows the 21 split, 67, 33 and get to that in a moment, it 22 explains how, the actuary explains how he 23 values the assets or she values the assets and 24 then the last sentence there in that paragraph 25 before the last one, and it goes "To the</p>
Page 171	Page 172
<p>1 extent that more capital gains than losses 2 will arise over the long term, the actuarial 3 value will tend to be lower than the market 4 value." And so, would you agree with me that 5 actuaries are, by nature, a conservative group 6 and that this treatment in particular, this 7 unrealized fund returns where they split it 67 8 and 33, is in effect a method employed by 9 actuaries to make a conservative estimate of 10 what your planned value is at any given point 11 in time, as opposed to what the market value 12 would appear to be in the plan? 13 MR. PERRY: 14 A. Sorry, Mr. Kennedy, you're going to have to 15 rephrase - 16 Q. Try that one again? 17 MR. PERRY: 18 A. Yes. 19 Q. Okay, there's two different things, you have a 20 market value in your plan, if I look at--or 21 you can look at your fund report and see what 22 the invested assets are worth today, at 23 market. 24 MR. PERRY: 25 A. Yeah, we know what's in the plan.</p>	<p>1 Q. Right. The actuary's figure for what's in the 2 plan ends up being usually less than what that 3 market value is, insofar as the numbers that 4 are used here? 5 MR. PERRY: 6 A. I got to say I don't think so, I stand to be 7 corrected, Mr. Kennedy, but I think whatever 8 is in the plan is what's in the plan, you 9 know. 10 Q. Well I think he uses market related values, 11 instead of market values? 12 MR. PERRY: 13 A. I think that's more for really averaging 14 impacts of swings in the market, okay, maybe 15 that's answering your question, but I know 16 that the actuary doesn't say, for example, if 17 there's 160,000,000 in the plan, they don't 18 say well, it's not really there, we're only 19 going to say it's 130,000,000 there, they'll 20 build in a discount to what's in the plan 21 that's, you know, whatever is in the plan is 22 in the plan. 23 Q. Well let's just scroll down to the next page 24 then, I guess. The next page shows market 25 value of the assets to be 162,491,000, but</p>

1 MR. YOUNG:

2 then they do this adjustment for unrecognized
3 returns in excess of assumed returns, and end
4 up deducting 4,386,000 off of the market value
5 of the plan to arrive at an actuarial value of
6 the plan being 158,105,000. So, the market
7 related value that is used by the actuary that
8 ultimately drives what your unfunded liability
9 is, is less than what the actual market value
10 is?

11 MR. PERRY:

12 A. I'm not an actuary, Mr. Kennedy. It appears
13 that that's correct, what you're saying. But,
14 you know, the mathematics behind how they
15 calculate the unfunded liability in the plan,
16 I generally understand them, but, you know,
17 I've got to be honest with you, I haven't
18 crunched the numbers on that. I rely on the
19 actuarial report that's provided to me very
20 three years and there are recommendations that
21 come out of that. It's mandated under law and
22 we file with the Pension Act--the authorities
23 in Newfoundland, so -

24 Q. Sure. If we could look at some of the
25 actuarial assumptions, page 20, and the first

1 one, the economic assumptions, the first one
2 is the investment return. In this valuation
3 that was conducted for December 31, 2000, it
4 assumed that 6 percent investment return on
5 your actuarial fund, as opposed to apparently
6 what was being used was 7 percent in the
7 previous valuation?

8 MR. PERRY:

9 A. That's correct.

10 Q. So that's one adjustment that the actuary made
11 in the assumed return that you would achieve
12 on your investment?

13 MR. PERRY:

14 A. Yeah, it's very, I think, part of the normal
15 process that they do every three years, they
16 look at the assumptions that they base their
17 prior report on and assess whether those
18 assumptions are still valid. This is again,
19 from an accounting perspective, from
20 management it's been a very hot topic
21 recently, you probably read a lot in the
22 papers about what level of investment return
23 should be assumed for pension plans and, you
24 know, some companies have been as high as 9
25 and 10 percent, but, you know, clearly there's

1 a significant downward pressure being placed
2 on what people are assuming returns to be on
3 pension assets, you know, in North America
4 really.

5 Q. The next one is increases, well expenses, no
6 allowances, and then increases in pensionable
7 earnings. "To calculate the pension benefits
8 payable upon retirement, death or termination
9 of employment, we have taken 2001 earnings and
10 assume that such pensionable earnings will
11 increase at 4.5 percent per year." So as I
12 understand it, it says the assumption of 5
13 percent was used in previous years, so is this
14 a--in the pensionable earnings, he's assuming
15 that the revenue or income earned by your
16 employees is increasing at the rate of 4.5
17 percent per annum?

18 MR. PERRY:

19 A. That's correct, that's wage increases and
20 scale increases on average over, I guess, the
21 remaining life of the working workforce is
22 assumed to be at 4.5 percent.

23 Q. And do you know how that compares with what
24 the actual rate of increase has been for your
25 workforce?

1 MR. PERRY:

2 A. Probably a little lower, I think maybe than
3 what the actual is, I think the actual is
4 probably more around the five, five and a
5 half, you know, for the last, I would say,
6 couple, three, four years maybe. So it's--but
7 I would say four and a half is fairly middle
8 to the road for plans across the country.

9 Q. Okay, if we could just go back to page 6.
10 Okay. So reconciliation of financial
11 position, and you start with the previous
12 unfunded liability of 19,291,000 and then they
13 add to that interest on that unfunded
14 liability at 7 percent per year to December
15 31, 2000. Do you know what the basis of that
16 is, where the 7 percent interest would come
17 from, why that calculation would be made?

18 MR. PERRY:

19 A. I think it's generally where market rates were
20 at the time.

21 Q. So it's foregone interest earned on that
22 19,291,000 that should have otherwise been in
23 the fund?

24 MR. PERRY:

25 A. No, I don't think that's what it is. I don't

1 MR. PERRY:
 2 think that's what it is.
 3 Q. The impact of change in interest rates that we
 4 just saw from 7 percent to 6 percent, is \$24
 5 million?
 6 MR. PERRY:
 7 A. I think that's the change in the discount. I
 8 don't think it's the same thing, Mr. Kennedy,
 9 but again, you know, if we're going to go
 10 through the detailed actuarial report, you
 11 know, I'm not a actuary.
 12 Q. No.
 13 MR. PERRY:
 14 A. And detailed calculations and how they do
 15 that, if anything, it's probably one of the
 16 most complicated fields in business, I would
 17 say, you know. If the Board's going to need
 18 to have that kind of knowledge, then I would
 19 suggest next year when we approve this to go
 20 into rate base, we have to put our actuary
 21 here, you know. I can talk to you generally
 22 about our philosophy, about our pension fund
 23 and how it works and why we've--you know, the
 24 funding is occurring the way it is, and why we
 25 chose to fund sooner rather than spread it

1 over 15 years.
 2 Q. Okay. Well, can you -
 3 MR. PERRY:
 4 A. You know, those kind of things, those issues
 5 of global nature, you know, that I'm involved
 6 with, but in terms of the detailed assumptions
 7 that go into the plan and how the actuary
 8 comes to his final numbers, I can't offer any
 9 testimony on that.
 10 Q. Okay. Fair enough. So can we take it from
 11 that then, that you just take the number that
 12 the actuary gives you as a given? That if the
 13 actuary says that the unfunded liability in
 14 your plan, as per this actuary report, is
 15 \$27,919,000, that's what you accept it to be?
 16 You don't go behind that number to question
 17 any of the assumptions that the actuary has
 18 made in arriving at that figure to test
 19 whether that's a number that can be relied on
 20 or a number that has some wiggle room in it?
 21 MR. PERRY:
 22 A. Well, like--that's why I don't--the last part
 23 of your thing is not what I do. The wiggle
 24 room is not what--we don't do any of that. I
 25 do--you know, obviously we get an actuary

1 report. I don't just get it and say there it
 2 is, it's done. I do have a discussion with
 3 the actuary about the conclusions made and
 4 reviewing some of the decisions that he made
 5 on assumptions and, you know, it's that kind
 6 of thing. It's a discussion. You know, these
 7 officials sign an opinion which is shown on
 8 page 13, actuarial opinion, that it's an
 9 official opinion that's filed with the pension
 10 authorities stating the condition of our plan
 11 and their recommendation. You know, it's like
 12 an audit opinion, I suppose. It's very
 13 similar, you know, and I -
 14 Q. Okay. And you accept that?
 15 MR. PERRY:
 16 A. I do, yes.
 17 Q. So you referenced about that you would be
 18 comfortable in speaking to the decision to
 19 make special contributions to fund the
 20 unfunded liability in full in the span time
 21 that you have, as opposed to using a longer
 22 period of time, as would seem to be allowed
 23 under The Pension Act. I wonder if you can
 24 speak to that? Why not take a five-year term
 25 or a ten-year term in order to be able to

1 avoid this rapid increase in your building up
 2 in your deferred pension costs?
 3 MR. PERRY:
 4 A. Clearly, we start out with the unfunded
 5 position of the plan. We get the report.
 6 We'll have another report now sometime next
 7 year. That will give us the condition of the
 8 plan. So when we come back here next year,
 9 we'll have a new report that will be filed
 10 with the Board. I would hope by September of
 11 next year we'd have that. So that's the
 12 starting point, and the next thing we look at
 13 is what is the Board--what has this Board
 14 approved as funding for the Company on an
 15 annual basis? There's a list of Board orders
 16 that are in place requiring the Company to
 17 fund this pension plan by certain amounts.
 18 There's about seven or eight of those orders.
 19 They all stack up, okay, and they add up to
 20 that 7.5, 7.8 million. So essentially, what
 21 we've been doing, our practice has been, which
 22 I think it's been a very prudent practice,
 23 especially given the performance of the
 24 markets over the last two or three years, is
 25 that we've been following those Board orders,

Page 181	Page 182
<p>1 MR. PERRY:</p> <p>2 okay, and we've been saying, okay, if we</p> <p>3 follow those orders, we can fund this plan</p> <p>4 well within the 15-year period. And you know,</p> <p>5 if there was a circumstance, for example, if</p> <p>6 come the end of this year and the markets</p> <p>7 really do well to the rest of the year, which</p> <p>8 I, you know, I don't think it's going to be</p> <p>9 enough to overcome what we've done in the last</p> <p>10 couple of years, but if something happened and</p> <p>11 the actuary report came out and there was</p> <p>12 basically a zero unfunded position, we'd have</p> <p>13 to essentially apply to the Board, I would</p> <p>14 expect, and say "we cannot fund the plan any</p> <p>15 more because we're fully funded." So the</p> <p>16 orders have to, you know, be cancelled, I</p> <p>17 would suggest. You know, so that's sort of</p> <p>18 the first thing we look at.</p> <p>19 And then secondly, you know, I think it</p> <p>20 is, as CFO of the Company, I believe the</p> <p>21 quicker you can deal with that unfunded</p> <p>22 liability, the better it is, and we've been</p> <p>23 able to manage this, you know, in the last few</p> <p>24 years without impacting customers. We have--</p> <p>25 in fact, you know, we haven't had--our portion</p>	<p>1 of costs on this system have declined by about</p> <p>2 one percent in the last ten years. So our</p> <p>3 rates have gone down one percent. So we've</p> <p>4 been managing this very well, very prudently.</p> <p>5 The plan is in good shape, very good shape,</p> <p>6 compared to the horrible stories that are on</p> <p>7 the go across this country. So, you know,</p> <p>8 we're pretty proud of where we are on that,</p> <p>9 and I don't see us changing that approach.</p> <p>10 Q. You reference one percent. What was that in</p> <p>11 relation to?</p> <p>12 MR. PERRY:</p> <p>13 A. Well, really it's, you know--it's really a bit</p> <p>14 of our mantra to a certain extent. When you</p> <p>15 look at the electrical system in Newfoundland,</p> <p>16 we account for 40 percent of the cost on the</p> <p>17 system. Hydro, through purchase power, you</p> <p>18 know, they account for 60 percent of the cost.</p> <p>19 If you look at 1993 to 2004, because rates are</p> <p>20 now set for the full to 2004, our costs have</p> <p>21 gone down one percent. So we haven't had any</p> <p>22 rate increases over that period. They've gone</p> <p>23 down one percent. By the way, we've spent 500</p> <p>24 million on capital expenditures. If this</p> <p>25 budget is approved, we would have spent 500</p>
Page 183	Page 184
<p>1 million in that same period of time. That's</p> <p>2 how we manage the business.</p> <p>3 Q. But Mr. Perry, this has little to do with the</p> <p>4 pension funding per se.</p> <p>5 MR. PERRY:</p> <p>6 A. No, it's all--no, Mr. Kennedy -</p> <p>7 Q. But if your deferred charge is increasing,</p> <p>8 your rate base is growing.</p> <p>9 MR. PERRY:</p> <p>10 A. That's--now that these are going in rate base,</p> <p>11 absolutely.</p> <p>12 Q. Yes, okay, and well before they were going</p> <p>13 into rate base, it was still part of your</p> <p>14 invested plant and you were still getting a</p> <p>15 return on that, were you not?</p> <p>16 MR. PERRY:</p> <p>17 A. Absolutely.</p> <p>18 Q. So you're getting a return either way, just</p> <p>19 it's a provision that is now accounted for in</p> <p>20 rate base, correct?</p> <p>21 MR. PERRY:</p> <p>22 A. That's correct. My point, Mr. Kennedy -</p> <p>23 Q. Well, let me finish my point. If it's in your</p> <p>24 rate base -</p> <p>25 MR. MYLES:</p>	<p>1 Q. Excuse me, Mr. Chair.</p> <p>2 MR. KENNEDY:</p> <p>3 Q. - you get a rate of return on your rate base?</p> <p>4 MR. MYLES:</p> <p>5 Q. Mr. Chair, can we have -</p> <p>6 CHAIRMAN:</p> <p>7 Q. Excuse me. Mr. Kennedy. Mr. Myles?</p> <p>8 MR. MYLES:</p> <p>9 Q. Mr. Kennedy, you know, if he wants to ask a</p> <p>10 question which of course is what we're here</p> <p>11 for, I think he needs to allow the witness to</p> <p>12 finish. I don't think it's appropriate for</p> <p>13 the two of them to be sort of battling each</p> <p>14 other for supremacy. Mr. Perry is the witness</p> <p>15 and he's asked to respond and fulfil his</p> <p>16 question. I think he'd give him that</p> <p>17 opportunity.</p> <p>18 CHAIRMAN:</p> <p>19 Q. Your point is well taken. We'll give the</p> <p>20 witness more of a chance to reply, Mr.</p> <p>21 Kennedy, please.</p> <p>22 MR. KENNEDY:</p> <p>23 Q. Fine, Commissioner and Chair.</p> <p>24 MR. PERRY:</p> <p>25 A. So can I finish then, Mr. Kennedy?</p>

Page 185	Page 186
<p>1 MR. KENNEDY: 2 Q. Yes, sure. 3 MR. PERRY: 4 A. I guess, Commissioners, my point is the 5 capital budget and pension funding are not-- 6 you can't segregate those from our overall 7 operation of the business, and as CFO for this 8 business, you know, I look at what--when you 9 put all this together, how does it impact 10 customers, and when I can sit here and say 11 that for the period 1993 through 2004, 12 Newfoundland Power's contribution to cost on 13 the electrical system in Newfoundland have 14 gone down by one percent, that's 11 years. 15 Inflation is in there, everything. 11 years, 16 that's a pretty fantastic accomplishment, and 17 if we can keep that going, which is our goal, 18 then I think that's a novel achievement. So 19 that's how we think about it. So pension 20 funding is part of that. The capital budget 21 is part of it and it all fits together in 22 terms of how we manage the business. 23 Q. Okay, we'll change topics, and what I'd like 24 to do is just have a discussion with you about 25 your general budget process, and if we could</p>	<p>1 just look at NLH-1. So Mr. Perry, this 2 describes, in response to a question of what 3 Newfoundland Power's capital budget process 4 is, and it indicates that there's two elements 5 to it: an ongoing process where by capital 6 expenditure requirements are identified in the 7 normal course of operation; and an annual 8 formal budget preparation process involving 9 the prioritization and documentation of 10 capital projects for corporate and regulatory 11 approval. Then it goes on to describe what 12 happens at the departmental level, that 13 identifications are made of areas that require 14 work to be completed. And the next paragraph 15 there, beginning at line 17, it indicates 16 normal part of departmental management is 17 specific capital projects are identified and 18 engineering drawings are done, documentation 19 is put together, and this initial 20 documentation provides the basis for detailed 21 engineering. Line 28, a formal capital 22 process begins in the second quarter of each 23 year with the development of a budgeting 24 schedule, including target dates. And then 25 customer forecasts are issued, which drives</p>
Page 187	Page 188
<p>1 how much your budget's going to be for 2 extensions and new services and street 3 lighting. Then the next milestone is 4 identification of specific projects to be 5 included in the following year's capital 6 project. Third milestone, corporate level 7 review, and at that stage, proposed projects 8 are assigned justification categories. Then 9 the assigned justification categories, that's 10 over on the next page, yes, and priority codes 11 assist in ranking the project, in terms of 12 priority. The next stage of the process 13 consists of a more rigorous review and 14 challenge by the managers. And then once that 15 final review has been made, it's approved by 16 the Company's executive and then submitted to 17 the Board of Directors for approval. And then 18 it comes to the Public Utilities Board. 19 Can I ask you whether anywhere during 20 this process there is direction given by your 21 office, your department, Finance, to these 22 departmental managers or, for instance, Mr. 23 Ludlow as the vice-president of operations, of 24 how much money they have to spend? 25 MR. PERRY:</p>	<p>1 A. No. 2 Q. Is there any collar the Company has on what 3 its capital budget is in any given year? Is 4 there any limit imposed by the Company on what 5 the capital budget can be in a given year? 6 (1:50 p.m.) 7 MR. PERRY: 8 A. Commissioners, not generally. Obviously at 9 some point, the capital budget becomes 10 unmanageable for the Company. It's really a 11 process that starts with, as Mr. Kennedy went 12 through, a review of our operations from a 13 reliability standpoint, and you know, it 14 builds up over time and, you know, we get--you 15 get to a number and you look at that number 16 and, you know, Lisa and I and our group would 17 review how it impacts the customer rates and, 18 you know, we decide on what the final number 19 is. But nowhere along the way do we say, IT, 20 you have 3 million, and you know, Operations, 21 you have 10 million. That's not how we do it. 22 You know, essentially, what the electrical 23 system needs and has to be done through the 24 prioritization process comes forward to us 25 and, you know, Mr. Kennedy left out a--I don't</p>

Page 189	Page 190
<p>1 MR. PERRY:</p> <p>2 think he intentionally, but left out a key</p> <p>3 thing here when he talked about challenge by</p> <p>4 the managers, and it goes on, and the</p> <p>5 Company's executive, you know, and that, near</p> <p>6 the end of this process, we are heavily</p> <p>7 involved in challenging the projects,</p> <p>8 especially larger projects like New Chelsea.</p> <p>9 Like the CSS is a novel example. A</p> <p>10 couple of years ago, we thought we had to</p> <p>11 replace CSS. We, you know, myself, sent the</p> <p>12 challenge to the IT group and customer</p> <p>13 service, find a way that we don't have to</p> <p>14 spend \$15 million on a new system. There must</p> <p>15 be a way through this. They worked on it</p> <p>16 diligently, found a way that we could get</p> <p>17 another five years out of that system. That's</p> <p>18 one example of how we interact. Another</p> <p>19 example, AMR meters. I think Commissioner</p> <p>20 Powell was talking to Mr. Ludlow about that</p> <p>21 yesterday. We actually looked at AMR from an</p> <p>22 economic perspective. You know, had a brief</p> <p>23 look at it and said can we implement AMR in</p> <p>24 Newfoundland and reduce meter reading costs,</p> <p>25 make it economical? It didn't cut the</p>	<p>1 mustard. But we knew we could--we had some</p> <p>2 problems on safety and access and we wanted to</p> <p>3 deal with that. I can tell you there are</p> <p>4 utilities in this country that got 80 percent</p> <p>5 of their meters on AMR. There's 40 million</p> <p>6 AMR meters installed in North America. So</p> <p>7 this is not a new thing or anything, but we</p> <p>8 looked at it. We said we couldn't make it</p> <p>9 happen. Our meter reading costs are low. You</p> <p>10 know, it's just, you know, the cost per meter</p> <p>11 is very low.</p> <p>12 So those are the kind of involvement that</p> <p>13 the finance group have in sort of, you know,</p> <p>14 the larger projects that we are involved in.</p> <p>15 Plant replacement, there's not a lot I can</p> <p>16 offer when Mr. Ludlow comes and says "Barry, I</p> <p>17 got to do this amount for these various Hydro</p> <p>18 plants or transmission lines." You know, this</p> <p>19 is--it's not rocket science. You know, I can</p> <p>20 drive around and see that we need to do work</p> <p>21 on some of these systems. So the real</p> <p>22 involvement is in the sort of decision</p> <p>23 projects where you got alternatives, you got--</p> <p>24 you know, you got big dollars involved, that</p> <p>25 we can't manage in any one year. So we really</p>
Page 191	Page 192
<p>1 play a big role in that aspect.</p> <p>2 Q. So, Mr. Perry, in the case, for instance,</p> <p>3 where in the 2004 Capital Budget, you have a</p> <p>4 project B54 feeder additions and upgrades to</p> <p>5 accommodate growth, and it's addressed in PUB-</p> <p>6 62 that the budget for this item is 158</p> <p>7 percent higher than the next highest</p> <p>8 expenditure made in the previous five-year</p> <p>9 period.</p> <p>10 MR. PERRY:</p> <p>11 A. Sorry, Mr. Kennedy, I need to catch up to you.</p> <p>12 Where are you?</p> <p>13 Q. Okay. PUB-62 may be helpful. The reply is at-</p> <p>14 -there we go. The question notes that in this</p> <p>15 particular budget item, feeder additions and</p> <p>16 upgrades to accommodate growth, that there was</p> <p>17 158 percent increase in 2004 over the next</p> <p>18 highest expenditure made in the previous five-</p> <p>19 year period and some 1730 percent higher than</p> <p>20 the 1999 expenditure, and asked for an</p> <p>21 explanation. The explanation was that this</p> <p>22 isn't based on historical trends and that it's</p> <p>23 not necessary to construct new feeders every</p> <p>24 year and hence, this component of the project</p> <p>25 costs could be zero dollars in some years and</p>	<p>1 conversely, when electrical demand exceeds</p> <p>2 capacity in a number of locations, multiple</p> <p>3 feeders may be constructed, and this results</p> <p>4 in large swings in the budgeted amounts from</p> <p>5 year to year. So in a case where Mr. Ludlow</p> <p>6 is bringing forward to you a budget for feeder</p> <p>7 additions and upgrades to accommodate growth</p> <p>8 that he has for 2004, does that have any</p> <p>9 impact then on the budget in other areas of</p> <p>10 distribution, or for that matter, the overall</p> <p>11 capital expenditure level of the Company?</p> <p>12 That if this happens to be a year that instead</p> <p>13 of having a zero dollar expenditure for feeder</p> <p>14 addition, you have a large capital expenditure</p> <p>15 for feeder additions, that that would get</p> <p>16 trimmed out somewhere else or have an impact</p> <p>17 on the level of expenditure being spent in</p> <p>18 another project?</p> <p>19 (1:55 p.m.)</p> <p>20 MR. PERRY:</p> <p>21 A. It could. It could. You know, depending on</p> <p>22 the size of it obviously. If there was a</p> <p>23 feeder addition that was going to be \$10</p> <p>24 million, for example, I would--Earl and I</p> <p>25 would have had many conversations about timing</p>

Page 193	Page 194
<p>1 MR. PERRY: 2 of that and when we were going to do it, and 3 would have--you know, but the nature of what 4 we're talking about here, Mr. Kennedy, is very 5 manageable in terms of our overall budget and 6 I wouldn't see any major impacts on my 7 decision making as to what amount of the 8 budget it should be. I don't know if that 9 puts it in context for you. You know, if Earl 10 comes and says "Barry, I got to build a 11 \$300,000 feeder because we don't have enough 12 load in this area," you know, the numbers are 13 there, I can see that and we got to build the 14 feeder. We got an obligation to serve the 15 customers. There's not a lot I can offer on 16 that, Mr. Kennedy. 17 Q. Okay. On the other side of the equation, 18 there was an exhibit filed at the beginning, 19 PJD-1. I wonder if we could just pull that 20 up. Leave it at 2003 Capital Budget 21 variances. It was to update - 22 MR. MYLES: 23 Q. We know what it is. We're not able to find it 24 electronically right now. 25 MR. KENNEDY:</p>	<p>1 Q. Okay. Well - 2 MS. HUTCHENS: 3 A. We've got a copy here. 4 Q. - do you have it there? 5 MR. PERRY: 6 A. Yes. 7 Q. Okay. For the benefit of the Commissioners, 8 it's the 2003 Capital Budget Variance Report 9 that was updated to July 31st that was filed 10 by Mr. Delaney as an exhibit at the 11 commencement of his testimony. It shows a 12 total variance of a million, three seventy- 13 three. Is that correct, to date? 14 MR. PERRY: 15 A. That's correct, yes. 16 Q. And now 375,000 of that is just a provision 17 that you've made for unspent, unforeseen 18 allowance, as of half of the year, correct? 19 MR. PERRY: 20 A. Yes. 21 MS. HUTCHENS: 22 A. Yes. 23 Q. So, it's quite conceivable that, at some point 24 later on in this year you could end up 25 spending the full \$750,000.00.</p>
Page 195	Page 196
<p>1 MS. HUTCHENS: 2 A. Absolutely. 3 Q. Right. And so that 375 gets backed out again, 4 correct? 5 MS. HUTCHENS: 6 A. Yes. 7 Q. All right. 8 MR. PERRY: 9 A. If that occur. 10 MS. HUTCHENS: 11 A. Yes. 12 Q. But the distribution is 1,184,000 over budget 13 as of July 31, is that correct? 14 MR. PERRY: 15 A. That is correct. 16 Q. So, is there any limit imposed on any of the 17 divisions of the company by the Department of 18 Finance in how much they can go over budget on 19 a capital project? 20 MR. PERRY: 21 A. No, other than loss of job. No, Mr. Kennedy, 22 there's no specific limit. You know, 23 obviously, we are managing these projects 24 fairly closely. The overall budget variance 25 here for this size of budget of 57.8 million</p>	<p>1 at 1.3, very reasonable, again, is about 2 2 percent, I think. And given my almost 20 3 years now in the heavy industry, capital 4 budgets, I don't know if there's many 5 companies out there bringing their budgets in 6 at about 2 percent variance. So, overall, 7 we're pretty pleased with that kind of 8 performance. 9 Q. Okay. That's all the questions I have, Chair, 10 Commissioners. Thank you Mr. Perry and Ms. 11 Hutchens. 12 CHAIRMAN: 13 Q. Thank you, Mr. Kennedy. Mr. Myles, anything 14 on re-direct? 15 MR. MYLES: 16 Q. No, questions, thank you. 17 CHAIRMAN: 18 Q. Commissioner Powell? 19 COMMISSIONER POWELL: 20 Q. Thank you, Chair. Thank you, Mr. Perry and 21 Ms. Hutchens. I guess the first thing I'd 22 like to address is the comments I had on the 23 New Chelsea project. As far as the project 24 goes and the engineering report was submitted, 25 I think I tried to convey to both Mr. Ludlow</p>

Page 197	Page 198
<p>1 COMMISSIONER POWELL:</p> <p>2 and Mr. Delaney, I don't question their</p> <p>3 numbers or their need for it. But when I read</p> <p>4 through engineering or the energy section in</p> <p>5 the application, the thing that struck me--a</p> <p>6 number of things struck me. One, that I think</p> <p>7 you missed the compliance in Article 9 of the</p> <p>8 PUB-36, Schedule C, documentation coming</p> <p>9 forward on discussions between the Utilities</p> <p>10 about the duplication, avoiding duplication of</p> <p>11 service. The other thing that, I guess, you</p> <p>12 probably do appreciate, if not, you should</p> <p>13 appreciate, we sit here as regulators, we're</p> <p>14 driven by the mandate that we're looking for</p> <p>15 least cost reliable power. Now, as an</p> <p>16 accountant, I appreciate the word cost</p> <p>17 probably than other people in the room, but I</p> <p>18 hadn't realized until I started reading some</p> <p>19 of this how many adjectives you can put in</p> <p>20 front of the word cost. And I think--I didn't</p> <p>21 count in the New Chelsea thing, there's</p> <p>22 leveled cost, I think the word, index cost.</p> <p>23 Now, you've just threw out in your</p> <p>24 justification for it, short run marginal cost.</p> <p>25 And I said to myself, this is great. And you</p>	<p>1 even had Mr. Young, legal counsel, agreeing</p> <p>2 with one of your costs. And my comment is,</p> <p>3 that's okay, that's great, these are all</p> <p>4 lovely costs, but this is at least cost that</p> <p>5 we're supposed to be looking at and to give</p> <p>6 reliable power.</p> <p>7 And I think that when the Schedule C was</p> <p>8 put, that's one of the things we were trying</p> <p>9 to capture. Now, I don't disagree with--Mr.</p> <p>10 Young gave some indication, some of the costs</p> <p>11 you threw out were probably right. And no</p> <p>12 disrespect to Mr. Young, but as a regulator, I</p> <p>13 would feel a lot more comfortable if that came</p> <p>14 from somebody in Hydro a little closer to the</p> <p>15 action and a little bit more putting together</p> <p>16 with what drives those least costs.</p> <p>17 So, the figures you gave and obviously</p> <p>18 this worked through and some of the things I</p> <p>19 didn't get the sense that, from the</p> <p>20 engineering department, connect with the</p> <p>21 Finance Department of Newfoundland Power</p> <p>22 connect with the Energy Department with Hydro</p> <p>23 and their accounting people to having this</p> <p>24 joint, let me use the word management. That's</p> <p>25 probably not the right word, but the joint</p>
Page 199	Page 200
<p>1 look at energy projects and seeing what's in</p> <p>2 the best interest of the rate payers of the</p> <p>3 province and I think that's what we're trying</p> <p>4 to capture.</p> <p>5 MR. PERRY:</p> <p>6 A. Mr. Powell, can I just comment on what you</p> <p>7 just said? I have to admit, we don't sit in a</p> <p>8 room together and discuss Hydro and ourselves,</p> <p>9 these issues. But Newfoundland Power is just</p> <p>10 as aware of cost on the system as Newfoundland</p> <p>11 Hydro. And we're very busy with each other</p> <p>12 rate cases and this information, and I do</p> <p>13 appreciate your sitting up there in terms of</p> <p>14 trying to understand all this jargon that's</p> <p>15 discussed, but we are very much aware of what</p> <p>16 the cost of energy is on the system. And the</p> <p>17 information in terms of the five cents for</p> <p>18 the--for what it costs to get a kilowatt hour</p> <p>19 out of Holyrood is good information and we</p> <p>20 have that from Hydro, you know, direct from</p> <p>21 them. And you take some comfort in that, this</p> <p>22 is not numbers that we've created in absence</p> <p>23 of information from Newfoundland and Labrador</p> <p>24 Hydro.</p> <p>25 Q. I have no reason to disbelieve that, but I</p>	<p>1 guess what I was trying to get at is that you</p> <p>2 have a project and you're going to have</p> <p>3 significant upgrading on a source of power,</p> <p>4 have somebody taken the time in Hydro to</p> <p>5 crunch it all through and look at that "what</p> <p>6 if" scenarios and decide that that, in the</p> <p>7 long term, and the discussion between Mr.</p> <p>8 Ludlow and Mr. Young and they both agreed when</p> <p>9 they were talking least cost, there's more</p> <p>10 than one cost; there's a whole group. And</p> <p>11 whether that discussion went on at the level</p> <p>12 with those people who could really crunch</p> <p>13 those numbers, find out whether that's the</p> <p>14 least cost option. And I didn't--I'll reread</p> <p>15 all this, we'll read this again, but I just</p> <p>16 didn't capture that feeling that you were</p> <p>17 complying with Schedule C, PUB-36.</p> <p>18 MR. PERRY:</p> <p>19 A. Well, we've endeavoured to comply as much as</p> <p>20 we could, Mr. Powell.</p> <p>21 Q. I appreciate that.</p> <p>22 MR. PERRY:</p> <p>23 A. And maybe it's an area that we can improve on,</p> <p>24 you know, going forward, but I do know that,</p> <p>25 you know, you can take from the questioning of</p>

Page 201	Page 202
<p>1 MR. PERRY:</p> <p>2 Hydro to the witnesses that there has been no,</p> <p>3 I think, issue with the need to proceed with a</p> <p>4 Hydro project that is generating power at 3</p> <p>5 cents in Newfoundland, you know, at this point</p> <p>6 in time. These projects are far and few</p> <p>7 between at this point in time in our history.</p> <p>8 MS. HUTCHENS:</p> <p>9 A. Perhaps I can comment a little bit too. I</p> <p>10 know, just to give you a little bit more</p> <p>11 comfort, I guess, there's a group of</p> <p>12 individuals within Newfoundland Power that</p> <p>13 are, I guess you could call system planning</p> <p>14 group. And I know that they are in frequent</p> <p>15 constant communication with Hydro's, their</p> <p>16 counterparts at Hydro. I can't tell you for</p> <p>17 sure whether they've specifically discussed</p> <p>18 the New Chelsea project, but I do know that</p> <p>19 these individuals on both sides are quite</p> <p>20 aware of what's going on from a planning</p> <p>21 perspective throughout the Island on energy</p> <p>22 projects and redevelopments and that sort of</p> <p>23 thing.</p> <p>24 So, you know, while there may not be</p> <p>25 specific communication, I think there's an</p>	<p>1 understanding level that's developed over many</p> <p>2 years that, you know, we know what their costs</p> <p>3 are and they know what our costs are and the</p> <p>4 understanding has just been developed, so the</p> <p>5 discussions, the specific discussions really</p> <p>6 just aren't necessary. You know, perhaps we</p> <p>7 need to go get them, but, you know, it would</p> <p>8 be good to be in compliance, but that--you</p> <p>9 know, there are a lot of discussions that take</p> <p>10 place in that regard.</p> <p>11 Q. There's always been--let's see if I can phrase</p> <p>12 this right, but there's a school of thought</p> <p>13 out there that there is an element of</p> <p>14 duplication that goes on with the Utilities.</p> <p>15 And one of our challenges as regulators is not</p> <p>16 to totally believe this, but when we see</p> <p>17 certain projects coming through, it's the</p> <p>18 challenge. And I think the onus would be on</p> <p>19 the Utilities to disapprove that. I think</p> <p>20 that's where I'm coming from. I don't doubt</p> <p>21 the numbers, but again, I think that was</p> <p>22 probably one of the spirit of PU-36 was that</p> <p>23 every time you do something that would mirror</p> <p>24 what somebody else was doing, that would have</p> <p>25 to be something, I would think from a</p>
Page 203	Page 204
<p>1 regulator that we expect us to challenge and</p> <p>2 you'd be prepared to show is not. The</p> <p>3 switching off, one of the thing that was</p> <p>4 addressed, in going back to New Chelsea, that</p> <p>5 there was a comment about sunken cost. And</p> <p>6 then there was the next, as I mentioned to Mr.</p> <p>7 Delaney and Ludlow through me, that you didn't</p> <p>8 depreciate plants and therefore, you really</p> <p>9 didn't know what the balance of that plant</p> <p>10 was.</p> <p>11 So, am I correct in gathering then that</p> <p>12 this is, sort of, an arbitrary figure that you</p> <p>13 would use to throw in a calculation if you</p> <p>14 were going to look at the cost of demobilizing</p> <p>15 New Chelsea and sunken cost there? You have</p> <p>16 no real--it threw me when I read it, the first</p> <p>17 question I had no problem with, but then I</p> <p>18 went to the next one, just happened to be one</p> <p>19 after it and it sunk right in, I said, it</p> <p>20 seemed like a contradiction.</p> <p>21 MR. PERRY:</p> <p>22 A. Commissioner Powell, we could come up with a</p> <p>23 reasonable estimate of the cost that's left to</p> <p>24 be depreciated on New Chelsea. And as I</p> <p>25 estimated it, it's in that \$100,000.00 range.</p>	<p>1 The plant was, you know, built 47 years ago.</p> <p>2 I was surprised actually when I looked at the</p> <p>3 original cost, it was two and a half million</p> <p>4 dollars back 47 years ago. And we've done</p> <p>5 very little work on that plant in recent</p> <p>6 years. So, assuming--I haven't gone and</p> <p>7 looked at the period from the last ten years</p> <p>8 prior to the time it was built, but assuming</p> <p>9 there was not much spent in that period which</p> <p>10 I don't think there was, you apply our normal</p> <p>11 rate of depreciation for Hydro plants which is</p> <p>12 a little over 2 percent which indicates a 50-</p> <p>13 year life, there's very little of that plant</p> <p>14 left to depreciate.</p> <p>15 Q. You say in your depreciation that you do it</p> <p>16 system wise as opposed to asset wise with all</p> <p>17 the sophisticated software out there today,</p> <p>18 it's not that--is there any reason why you do</p> <p>19 that?</p> <p>20 MS. HUTCHENS:</p> <p>21 A. The depreciation is calculated at a count</p> <p>22 group level. So, for example, under the Hydro</p> <p>23 plants there would be penstocks and dams in</p> <p>24 one group and governors and controls in</p> <p>25 another group. It would be that type of</p>

1 MS. HUTCHENS:

2 breakdown, but we don't look at it on an
3 individual plant-by-plant basis. And I think
4 you're correct in assuming that in today's
5 software, yes, that's doable. I guess the
6 problem we've got is that until very recently
7 our fixed asset records were manual. When I
8 started with the Company in 1997, the record
9 were actually manual ledgers. And we've gone
10 through a process of getting that information
11 into the computers, but there's not enough
12 history there to do the type of analysis that
13 you're talking about.

14 Q. We had a question yesterday, vehicles, a
15 fairly significant, \$400,000.00, it was an
16 accident and there was a question about
17 insurance recovery. And the item was put in
18 the budget at the, if I'm correct, the gross
19 costs.

20 MS. HUTCHENS:

21 A. That's correct.

22 Q. How do you handle that in terms of when the
23 insurance proceeds come in? Would that go in
24 and you'd just get carry it on your books as
25 net or would you -

1 Q. I just have one. Maintenance expense and
2 capital costs, somebody else, Mr. Ludlow I
3 think called it capitalized maintenance, is
4 that a rule of thumb or what are the
5 parameters that would define one.

6 MR. PERRY:

7 A. Generally, it is a bit of a judgment call,
8 Commissioner Martin and Ms. Hutchens is
9 involved with this very much on a detailed
10 basis, but my general, sort of, rule is, you
11 know, an expenditure has to create a lasting
12 benefit, benefits that go beyond a year
13 enhancing the productivity of an asset. You
14 know, those are the general rules. These are
15 decisions we make on a daily basis really in
16 our operation. Lisa, I don't know if there's
17 something you can add.

18 MS. HUTCHENS:

19 A. Yes, it's very much a judgment call,
20 betterment or enduring benefit, certainly they
21 are the calls that we have to make on a
22 regular basis. There's obviously some rules
23 of thumb that have developed over the years,
24 but they all, sort of, fall under that major
25 rule of thumb.

1 MS. HUTCHENS:

2 A. The insurance proceeds actually get applied,
3 the rules are governed by our system of
4 accounts which is a regulated set of accounts
5 that's approved by this Board many years. And
6 what happens to the insurance proceeds is they
7 go in basically into the accumulated
8 depreciation account as a salvage value. So,
9 it does, in effect, draw down the rate base,
10 but you don't see it in the capital
11 expenditure presentation that we bring forth.

12 Q. Okay. So, the depreciation charge for one
13 year, we'd take a hit from the insurance
14 proceeds

15 MS. HUTCHENS:

16 A. No, the full insurance proceeds would go
17 against accumulated depreciation.

18 Q. Okay. Is that the same thing you do for asset
19 too?

20 MS. HUTCHENS:

21 A. Yes, it is, yes.

22 Q. That's all my questions.

23 CHAIRMAN:

24 Q. Commissioner Martin.

25 COMMISSIONER MARTIN, Q.C.:

1 Q. I don't know if that helps me or not, but as
2 long as you know what you're doing, I suppose
3 -

4 MR. PERRY:

5 A. Actually, we do apply it very rigorously and
6 we have a lady that works with Lisa in her
7 group that is constantly involved with the
8 people working on capital works and
9 challenging, you know, why is that going there
10 and, or identifying something that should be
11 capitalized that's going to operations, so
12 it's a very dynamic process.

13 MS. HUTCHENS:

14 A. Definitely. I actually had that individual
15 review the budget before we submitted it, to
16 say, is that all that capital and the response
17 was yes.

18 CHAIRMAN:

19 Q. Along those lines, I guess, specifically with
20 regards to the radiator refurbishment, I don't
21 know if refurbishment is the right word to use
22 or rehabilitation or change over, whichever it
23 is, can you think of any reasons why the
24 judgment call might be made to put that
25 towards maintenance as opposed to capital

Page 209	Page 210
<p>1 CHAIRMAN: 2 expense? 3 MR. PERRY: 4 A. I don't, Commissioner Finn, that one is pretty 5 black and white to me. You know, these 6 transformers, like I got this project right, 7 can't work without the radiators, essentially, 8 and if the radiator is corroded, has to be 9 repaired and there's a significant cost of 10 that repair, that's going to extend the life 11 of that unit for us. So, I feel that that 12 falls right in the capital expense category. 13 Q. I guess I'm trying to see an example of it, 14 you know, where you'd have to make a judgment 15 call, you know, if that's black and white, can 16 you give me an example of where you've had to 17 make judgment calls before and you've allotted 18 something to maintenance as opposed to capital 19 cost where it could have gone either way? 20 MR. PERRY: 21 A. I think something like pumps, sometimes pump 22 overalls, you know, if they're of a minor 23 nature, they're not tearing the entire unit 24 out. 25 MS. HUTCHENS:</p>	<p>1 A. I can think of one that actually didn't get in 2 here because of that reason and it was an 3 inspection process on the company's 4 telecommunications towers that would result in 5 capital work, if they found anything. We 6 said, ah, come on, inspection, not really sure 7 that that's of an enduring nature. So, we 8 said no, that that doesn't fit in that, even 9 though it may result in a capital work and 10 likely would result in a capital work. The 11 upfront piece of it, we said no, that's really 12 an operating expense. 13 Q. If capital work had come about as a result of 14 the inspection. Would the inspection then be 15 capitalized? 16 MS. HUTCHENS: 17 A. We wouldn't go back and do it, no. 18 Q. Okay, thank you. Anything arising. 19 MR. KENNEDY: 20 Q. No, nothing arising, thanks. 21 MR. MYLES: 22 Q. No, Mr. Chair. 23 MR. YOUNG: 24 Q. No, nothing arising. 25 CHAIRMAN:</p>
Page 211	Page 212
<p>1 Q. Thank you, Mr. Perry and Ms. Hutchens. I 2 think, ladies and gentlemen that concludes the 3 evidentiary portion of the hearing. It's my 4 understanding, I think, that by Wednesday of 5 next week that the parties would file written 6 argument and we'd have an opportunity for the 7 oral presentation on next Friday morning. I 8 guess we'll reconvene at 9:00. Are there any 9 other matters that need to be raised before we 10 adjourn today. 11 MS. NEWMAN: 12 Q. No, Chair and Commissioners. I would just 13 clarify that the usual filing time was 3:00 14 p.m., so I guess the closing arguments will be 15 due on 3:00 p.m. on the 17th and 9:00 a.m 16 start on Friday, the 19th. 17 CHAIRMAN: 18 Q. Well, certainly before we do adjourn, I'd like 19 to take the opportunity on behalf of the Panel 20 to thank the various witnesses for the 21 testimony that they've given during the course 22 of the hearing. And as well, certainly extend 23 our thanks to the counsel involved for their 24 conduct in and contribution to the hearing 25 process as well as the Board staff. Thank you</p>	<p>1 to Mr. Moss of Discoveries Unlimited for his 2 assistance in the preparation of the 3 recordings and the transcripts. And last, but 4 not least, Ms. Combden for her excellent 5 assistance to the Board with regard to the 6 computer presentations and visuals. Thank you 7 all and we'll stand adjourned until next 8 Friday. Thank you. 9 Adjourned at 2:20 p.m.</p>

1 CERTIFICATE

2 I, Judy Moss Lauzon, do hereby certify that the foregoing
3 is a true and correct transcript in the matter of
4 Newfoundland Light & Power Company's 2004 Capital Budget
5 hearing, heard on the 12th day of September, A.D., 2003
6 before the Board of Commissioners of Public Utilities,
7 Prince Charles Building, St. John's, Newfoundland and
8 Labrador and was transcribed by me to the best of my
9 ability by means of a sound apparatus.
10 Dated at St. John's, Newfoundland and Labrador
11 this 12th day of September, A.D., 2003
12 Judy Moss Lauzon