(9:02 a.m.)

CHAIRMAN:

Q. Good morning. Are there any preliminary matters, Ms. Newman?

MS. NEWMAN:

Q. Yes, good morning, Chair and Commissioners. I believe there's a couple of documents that Newfoundland Power has filed this morning. They may wish to just want to explain the two of them.

MR. MYLES:

Q. Mr. Chair, yesterday, I advised the Board that we would be filing a revision to that table on the Corner Brook upgrade for the Walbourne station, and that's one of the revisions. And the second one is an undertaking was given yesterday with respect to depreciation rate for meters, and that's marked U-1.

CHAIRMAN:

Q. Thank you.

COMMISSIONER MARTIN, Q.C.:

Q. I just have one question and I'm not sure if you can answer it, Mr. Myles, now the panel is gone. But in looking at the load forecast, five-year forecast from yesterday, Walbourne's

4 and 5 T2, I understood that with the new substation--or that this old chart included the new substation, and that the one filed this morning is without the new substation. Is that correct?

MR. MYLES:

Q. That's correct. The difference--well, actually the problem with yesterday's chart was that the Bayview actually was showing one of the alternatives that was being considered and not--so under the category of existing, I don't have it in front of me. Maybe help if I do that. Under the category of existing, it was showing 45 and that was premised on a 25 kVA transformer being installed there, which is not the option which is being considered. So the column was incorrect and so that's what we've done is change it. So now what you see is, as I understand it, this is the way it is now without the changes, subject to the two notes that are there. So for example, Bayview currently has 20. Walbourne's has the two transformers, one's a 20, one's a 15. The one that's in--the Walbourne's transformer at 15 is the going that's going to be transferred

into Bayview and the new 25 goes into Walbourne's.

So this is the current forecast without any of that happening, and that's why you can see, if you look at Bayview, going into the future, for example, 2003 existing is a 20. If you look at 2004, the load is 22.6. So next year, Bayview will be over capacity, as it would be in all the following years. Similarly, if you go down to Walbourne's for T2, the existing is 15, and you'll see that for this year, it's showing 16.6. So that transformer is now overloaded, and then from there on, that transformer is overloaded. So what you're seeing is this is the existing load forecast based on what is there, and this is what demonstrates to you the need for the new transformer and how by doing what's proposed, which is putting the new 25 in and then shifting the 15, you can accommodate the existing load.

COMMISSIONER MARTIN, Q.C.:

Q. What does 111 percent mean on yesterday's chart with the new capacity for Walbourne?

MR. MYLES:

Q. Just bear with me for a minute. 111 percent on that bottom line, I'd have to confer. I don't know the answer to that.

COMMISSIONER MARTIN, Q.C.:

Q. All right.

MR. MYLES:

Q. If you want, I can--the engineers are back there, if you want to break for a minute, I can go find the answer.

COMMISSIONER MARTIN, Q.C.:

Q. Okay.

CHAIRMAN:

Q. Perhaps we can just get the answer to that and provide it during the course. You can get it during the break and we can provide it a bit later.

MR. MYLES:

Q. That's fine.

CHAIRMAN:

Q. I propose to, and this has already been discussed between counsel, to take a break at 10:30 and then assess where we are with the witnesses and the panel in terms of what the rest of the schedule might be for the day, whether we'd break at 12:30 and come back at

CHAIRMAN:
1:30 or whatever. So we'll assess that, you know, at that particular point in time. So at this point, Mr. Myles, if you could just introduce the next panel.
MR. MYLES:
Q. Thank you, Mr. Chairman, Commissioners. The panel who are up now, the first person closest to me is Michael Mulcahy and to Michael's left is Peter Collins and they will -
CHAIRMAN:
Q. Good morning, gentlemen.
MR. MICHAEL MULCAHY, SWORN
MR. PETER COLLINS, SWORN
Q. Thank you.
MR. MYLES:
Q. Mr. Mulcahy, can you please state your name, your position and what you are testifying on today?
MR. MULCAHY:
A. My name is Michael Mulcahy. I'm the vice-president of Customer and Corporate Services for Newfoundland Power and as such am responsible for a number of areas within the Company, such as human resources, safety,

customer service and information technology. I'll be testifying on how information technology assists the Company to achieve its business goals and obligation of providing reliable, low-cost electrical service.
Q. Mr. Mulcahy, do you adopt your pre-filed testimony?
MR. MULCAHY:
A. Yes, I do.
Q. Mr. Collins, can you please state your name, position and what you are testifying on today?
MR. COLLINS:
A. Yes. My name is Peter Collins and I am manager of Information Services department at Newfoundland Power. I will be testifying on the proposed $3.948 million expenditure in information systems in the 2004 Capital Budget Application. As well, I will be updating the Board regarding the open BMS issue and the life expectancy of our customer service systems.
Q. And Mr. Collins, do you adopt your pre-filed testimony?
MR. COLLINS:
A. Yes, I do.

Q. Mr. Mulcahy, as part of the 2004 Capital Budget Application, the Company has filed an updated Information Technology Strategy Report for the years 2004 to 2008, and that can be found in Volume 1. Has Newfoundland Power's strategy for information technology investment changed since the first report was filed in 1999?
MR. MULCAHY:
A. Newfoundland Power's information technology strategy has basically remained the same since the first report was submitted. Our investment in technology helps us to decrease costs while delivering on a commitment of providing reliable service to customers. Additional investments in technology will be necessary to ensure we maintain the benefits gained from past expenditures as well as improve upon them. The focus for the next five years will be on the enhancement and upgrades of existing software and hardware.
Q. Mr. Mulcahy, could you please advise the Board what the Company has identified as the main drivers for information technology investment at Newfoundland Power and how it has

benefitted the Company?
(9:15 a.m.)
MR. MULCAHY:
A. The main drivers for investment are customer service, operational efficiencies, reliability, safety and environment. The main drivers for information technology investment are linked to these and support these drivers. Information technology is integral to the Company's business and its ability to operate efficiently. Technology is the key to the Company's ability to answer approximately 460,000 customer calls per year, process approximately 2.4 million meter readings, and issue approximately 2.4 million customer bills annually, and process the respective payments. Through technology, like the outage notification system, the Company can inform up to 16,000 customers at once of outages. The Company has improved customer service by providing our customers with the choice of how they interact with the Company. For example, website activity has increased 45 percent since 2002. This equates to approximately 15,000 hits per month, with the majority in

MR. MULCAHY:
the customer service area, and the Company has received and responded to more than 5,000 customer e-mails to date this year.
Also, technology gives us the opportunity to create operational efficiencies that were not available just a few short years ago. The Company has adopted a web-based application that allows employees to complete their expense reports online, thus eliminating the data entry function. This reduces costs as well as improves timeliness and reliability of data. From a reliability perspective, the system control centre monitors and controls the electrical grid through the SCADA system. This assists in providing quicker, more accurate crew response to outages. Asset management tools enable the Company to more effectively manage its substation and generation assets, thereby reducing emergency interruptions and increasing reliability and reducing costs.
The reality is that technology investment is a required expenditure in today's environment. It is one essential element in

providing least cost customer service, reliability of service and gaining operational efficiencies.
Q. Mr. Mulcahy, what other factors affect Newfoundland Power's information technology investment?
MR. MULCAHY:
A. Just as it is necessary to invest in the electrical system to maintain plant, technology requires the same ongoing investment to safeguard against the obsolescence of the technology and ensure that the benefits are sustained. Obsolescence can occur for two reasons, technical and functional. Technical obsolescence occurs when a technology becomes outdated, unreliable or is no longer supported by the vendor. Functional obsolescence occurs when a technology can no longer support the business requirements that it is required to support. Ongoing capital investment is necessary to ensure that obsolescence does not impede customer service, reliability or efficiencies.
Investment in information technology is also driven by new business requirements. For

example, as the internet becomes more readily available, customers expect Newfoundland Power to offer more services on the internet. This investment provides customer choice as to how they interact with the Company and when they interact with the Company. Our research indicates that approximately 40 percent of the customers have internet access at home. Newfoundland Power responds to these expectations in order to service customers as best it can. For example, electronic billing or e-billing, as it is known, is becoming more prevalent. Newfoundland Power implemented electronic billing earlier this year. Since then, over 500 customers have signed up for the e-billing option without the Company announcing its availability. Customers visiting our website saw its availability and signed up for the service. The e-billing process is completely automated, saving the cost of printing and mailing the bill.
Q. If I could refer you to Appendix C of the Information Technology Strategy Report, Mr. Mulcahy, Appendix C to that report explains principles that guide your information

technology investment. Can you discuss these principles for the Board?
MR. MULCAHY:
A. Newfoundland Power has adopted a conservative approach to investment in information technology. The following principles were adopted to guide technology investments and to ensure that investments are in the best interest of the customer and the Company. The principles are: purchase from leading vendors; buy versus build where it is appropriate; minimize diversity; consider the cost of a product over its lifetime.
Purchasing from leading vendors minimizing premature obsolescence and maximizes support availability. Leading vendors such as Cisco Systems and Microsoft provide support for their products for a very long time, due to significant size of their customer base. Where it makes economic sense, we prefer to buy an existing technology rather than build one. For example, Newfoundland Power purchased the Great Plains Software to support its financial, human resources and material management functions. This approach

MR. MULCAHY:
is generally less expensive and faster to implement than building an in-house application.
Minimizing diversity is also important for controlling costs. Minimizing the diversity of installed technologies allows the Company to keep a streamlined spare parts inventory, as well as minimize retraining requirements of staff.
Considering the cost of an asset over its life span is also important for minimizing costs. Costs related to the implementation, support, ongoing maintenance and licensing fees are all factors that are considered before technology is purchased.
Q. Mr. Mulcahy, what is the Company's overall philosophy for information technology investment?
MR. MULCAHY:
A. The overall philosophy for the information technology investment mirrors the investment philosophy of the Company. Newfoundland Power is focused on extending asset life of its investments and this practice reduces costs.

This philosophy underpins our focus on application enhancements and upgrades. From cascading PCs and servers to enhancing the CSS system, the Company ensures that investments are maximized.
Q. And what is the focus that you see for information systems over the next couple of years and how will this affect the Capital Budget?
MR. MULCAHY:
A. The previous capital budgets were focused on obsolescence issues and resulted in the purchase of several new applications. Once installed, these applications have presented opportunities for further improvements in customer service and productivity. Over the next several years, the information systems budget will be focused on enhancing the use of these applications in order to improve customer service, reliability and operating efficiencies. Basically, we will be focused on getting more out of what we have. Because of this focus, the information systems budget is trending low over the next several years.
Q. Thank you. Mr. Collins, could you please

briefly describe the projects for 2004 in the information systems category in the Capital Budget?
MR. COLLINS:
A. I'll ask Mrs. Combden to bring up the Volume 1, Schedule B, page 8 of 80, for me, please. The application enhancement project--there are six projects for information systems for 2004 proposed. The application enhancement project is required to obtain further improvements from existing applications, such as the customer service system, the internet website and the asset management system. This project reflects the Company's commitment to invest in its existing technology assets to achieve improvements in customer service, operating efficiencies and reliability, while at the same time extending their useful life. For example, the operations engineering enhancements are required to provide better access and quality data to assist operations and engineering staff to manage the work in the field.
The application environment project is necessary in order to sustain the gains that

have already been obtained through investment in technology through such things as software upgrades. The customer systems replacement project will allow us to not only improve customer service, but also allow the Company to reduce its reliance on the open BMS operating system, which I'll discuss later. The network infrastructure project is the second year of a two-year project to replace obsolete network components across the Company. The PC infrastructure project is required to allow the Company to keep its PCs and associated technology from becoming obsolete. In 2004, we will be replacing 109 of the Company's 606 PCs. The shared server infrastructure project provides the Company with the ability to keep its computer hardware from becoming obsolete, including the hardware for the SCADA system and the customer service system.
These projects are collectively focused on improving customer service, overall operating efficiencies and reliability by maximizing the value of the investment already made in information technology.

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MR. MYLES:
Q. Mr. Collins, back in 2001 and again in 2002, the Company informed the Board of its concerns regarding the obsolescence of the open BMS operating system and the Company's plan for dealing with this significant risk to customer service. Can you briefly describe this issue for the Board?
MR. COLLINS:
A. In 2000, we became aware that industry support for open BMS was in decline. At the time, many of the Company's business applications, including the financial, human resources, payroll, inventory, problem call logging and customer service system, all used open BMS. We felt it was necessary to inform the Board of the issue and begin taking appropriate actions since these systems were a vital component of the Company's ability to provide least cost reliable service to customers.
Q. And can you please update the Board as to the steps that have been taken to mitigate this risk?
MR. COLLINS:
A. Since 2001, through our normal course of

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upgrading and replacing applications, we have successfully replaced many of the business applications that were running on open BMS. For example, in 2001, the Board approved the business support systems project which resulted in the replacement of the finance, human resources, payroll, purchasing and inventory applications. In our 2003 Capital Budget, we included the outage management project, which will replace the Company's problem call logging and interruption systems. So we have been able to reduce the risks associated with running business applications on open BMS through our normal process of upgrading and replacing applications to address customer service requirements needed to achieve or maintain operating efficiency gains.

In 2003, we also completed a detailed study of the options available to address the open BMS issue in relation to the Company's most complex application, the customer service system. The results of this study have been filed with the Board and can be found in Volume 4, Appendix 3.

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Q. Mr. Collins, can you please describe this study to the Board and summarize the results?
MR. COLLINS:
A. This study considered two issues. In addition to the open BMS issue, we also took the opportunity to examine the functionality of the customer service system in terms of how well it is fulfilling the customer needs, service needs of the Company. The functional review confirmed that CSS will meet our customer service needs for the foreseeable future. In our technical review, we investigated three options which included an economic analysis. Number one, first option was continue to invest in the customer service system on open BMS through enhancements.

Secondly, we looked at migrating the customer service system to another platform, away from open BMS, at a cost of approximately $6 million. And number three was to purchase a completely new customer system for as much as $15 million. The highlight of our findings is that the first option, that being to keep what we have on open BMS and continue to enhance it, was the best option. We feel we

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can continue to get value from the customer service system until at least 2008, thereby extending the life of this critical system. This means we do not have to entertain the more expensive options of platform migration or the purchase of a new system at this time.

Although issues associated with running business applications on open BMS remain, the short community and term risks have diminished. Together with the steps we have already taken to reduce our own risk exposure to open BMS, this has resulted in the Company being able to extend the life of the customer service system and defer the cost of replacing this system for several years.
Q. Mr. Collins, given that there are still risks remaining by running the customer service system on open BMS, why do you believe that the risks are now manageable?
MR. COLLINS:
A. There are several things that changed over the past number of months. When Hewlett Packard purchased Compaq last year, Compaq was the vendor for open BMS at the time, a lot of uncertainty about the future of open BMS

MR. COLLINS:
existed. However, since that time, HP has renewed its commitment, Hewlett Packard has renewed its commitment to open BMS and has provided us with a road map for their future investment in open BMS. Also, because of Hewlett Packard's stated commitment, our two other primary customer service system software vendors, that being Oracle and Cognos, have provided us with written confirmation that they will continue to support their respective software products on open BMS. With the commitment of these three vendors, we felt that the risks for the customer service system has diminished and is now at a manageable level. As well, going forward, justified enhancements to the customer service system that limit the Company's exposure to open BMS will be considered. The customer assistance replacement project, on page 72 of 80, in Schedule B, and further described in Volume 4, Appendix 3, are examples of this approach to managing risk.
Q. Mr. Collins, can you advise the Board what all this means to customers?

MR. COLLINS:
A. Well, this is great news for customers, since the Company and its customers will continue to get value out of this critical system for the next several years, postponing for the foreseeable future the high cost of migrating or replacing the customer service system.
Q. Thank you. Mr. Mulcahy, do you have any closing comments?
MR. MULCAHY:
A. Yes. In closing, we believe the projects before the Board as part of this Capital Budget will enable the Company to achieve its goal and obligation to providing low cost, reliable electrical service to the customers of Newfoundland Power.
Q. Thank you, Mr. Mulcahy and Mr. Collins. Mr. Chair, I have no further questions for this panel.
CHAIRMAN:
Q. Thank you, Mr. Myles. Mr. Young?
MR. YOUNG:
Q. I have none. Thanks.
CHAIRMAN:
Q. Mr. Kennedy?

MR. KENNEDY:
Q. Thank you, Chair, Commissioners. Mr. Mulcahy and Mr. Collins, I wonder if we could start with the customer service system and the issues surrounding the open BMS. And just to set the groundwork, I guess, your customer service system itself performs several functions and I think you've provided a document in Volume 4, Tab Information Systems, Appendix A, Attachment A. Unfortunately, that's not going to get you very far because there's an awful lot of documents in that Attachment and it's kind of buried into a third of it. I note actually that of this binder, the vast majority of it deals with the open BMS issue. Would that be a fair assessment?
MR. MULCAHY:
A. Yes, it would.
MR. COLLINS:
A. Well, and the customer service system issue.
Q. Sure, okay, and if I could paraphrase, ultimately the Company decided that there was no need to worry in the short medium term about replacing the customer service system

because of issues involving open BMS?
MR. COLLINS:
A. That's correct.
Q. Okay. The remaining portion of the volume deals with the actual budget that you are seeking approval for?
MR. COLLINS:
A. That's correct.
Q. Right, okay. And there's a document, Appendix C actually in the tab I referenced earlier, the Appendix 3, Attachment A. Then there's one called Appendix C. It's after the second blue page, that might help the Commissioners.
(9:30 a.m.)
MR. COLLINS:
A. Appendix C?
Q. There's two blue page inserts and it's the document immediately after the second blue page. I think you might have an exceedingly difficult time trying to find that in electronic version, if it's not compartmentalized. Maybe that's it there. Yes, that's it. Okay, great. So I just wanted to make sure that we're all aware of exactly what the customer service system does,

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

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

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

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

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MR. COLLINS:
A. Attachment A, okay. Yes, okay.
Q. Okay. So this is, if I could, your sort of your master document that brings together all the information that's contained in all the subsequent documents?
MR. COLLINS:
A. Right. Just summarize that three or four inches down to something that we can digest.
Q. About a half an inch, yes. And God love you, you put an executive summary in so we don't even have to read the full amount of that document, I suppose, to get a sense of what your conclusions are. If, as is indicated, that your support seems to be fine, HP is committed to support open BMS, for instance, until 2011, Oracle says its going to support until at least 2009, why is it that you're going to go back and revisit this issue again in 2006, as is indicated in the executive summary?
MR. COLLINS:
A. Okay. In our discussions with HP and with HP being the vendor for open BMS, they've indicated to us that around the 2006 time

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frame is when they're going to have a big decision point for themselves. While right now they're saying that they're committed to open BMS, in 2006, they're changing out a major hardware platform that open BMS runs on and they're changing that from--not to get too technical, but they're going from an Alpha platform to an Itanium platform, and that's going to involve a lot of costs for them. They've actually started that work right now. So in 2006, we felt that that's a milestone for HP for us to check in with them to see if they're still on track, see if their commitment is still there, and certainly, if that's still there, we would hope that it's still there, and we can continue to get life out of that customer service system.
Q. Okay. So in the business, that's known as the road map, correct, the technology road map that a company is following for the development of its own technology?
MR. COLLINS:
A. Yes, that's correct.
Q. Okay. And the road map right now calls for this shift to a new architecture, the Itanium

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architecture?
MR. COLLINS:
A. Yes, that's correct.
Q. And so you want to check in, in 2006, to make sure that's all going according to plan?
MR. COLLINS:
A. Yes.
Q. All right. So that there's no surprises and you get caught short on open BMS?
MR. COLLINS:
A. Yes, because the problem with getting caught short is that where this system is so complex and so vital to providing a customer service function for us, the amount of lead time that you would need once--you know, if there is a problem in 2006, you're looking at two to three years to actually replace a system like this. So as much lead time as we can get, as much warning we can get is certainly very prudent if we have to replace something.
Q. You don't want to give your CFO a heart attack by explaining that your billing system is obsolete tomorrow?
MR. COLLINS:
A. No, absolutely not.

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Q. There's a discussion on page 3 of that document, in the executive summary, the one that we just referenced, the analysis, about what are the options? Do you see where I am? Midway through page 3?
MR. COLLINS:
A. Yes.
Q. And if I could paraphrase, there were three options that the Company looked at. One was to replace--potential replacement of the existing customer service system with an entirely new customer service software application, correct?
MR. COLLINS:
A. That's correct, yes.
Q. The second option was the potential of migrating your existing customer service system to a new operating system, one other than open BMS, correct?
MR. COLLINS:
A. Yes, that's correct.
Q. And the third option was to run the customer service system as it exists today on the open BMS, as it exists today, and then monitor the situation again in the future, in 2006, that

MR. KENNEDY:
was the third option considered?
MR. COLLINS:
A. That's right.
Q. And as we noted, that was the--the third option is the one the Company has selected at this point in time?
MR. COLLINS:
A. Yes.
Q. All right. Now, I noted at page 46 of this same document--do you have page 46 there?
MR. COLLINS:
A. Yes, I'm just looking for my pen. Okay.
Q. Okay, in the second paragraph of that page, it's a discussion concerning the option of if a package were purchased and I think that's referring to if an entirely new customer service system application was purchased to replace your existing one, if option number one was selected at some point in the future?
MR. COLLINS:
A. Yes.
Q. Okay. And it discusses that it would be in excess of ten million dollars and that the project duration would be 18 to 24 months.

And then it says, "A key benefit is that many of the outstanding functional enhancements for the existing system would be delivered as features of the package." Is it fair to say that and there's further references to the option of replacing your existing customer service system with an entirely new package, the Medigroup (phonetic) studied that one for you as well?
MR. COLLINS:
A. Yes.
Q. That in all likelihood, if the Company was to select that option in the future, it would be a package that would include many of the existing functions of your customer service system, and as well, some of the planned for enhancements of your customer system?
MR. COLLINS:
A. Yes, that would be fair to say.
Q. Okay. And is it fair to say that you take that into account by indicating that in light of that possibility, any enhancements that you make to your existing customer service system now, must have a short payback period?
MR. COLLINS:

A. Yes, we take that into account. Certainly, you know, it was--our expectation at this point in time that the customer service system will be lasting into the 2000--well certainly beyond our planning horizon of 2008, but we think certainly into 2011, we would be looking for payback within those years, certainly.
(9:45 p.m.)
Q. Right, so if we do--so when you say and I guess just to make sure, the bottom of page 52, you've got those Newfoundland Power icons on the bottom of your page that are slowing it up. Section 2.5 "Functional Enhancement Strategy, 1 to 5 Years". And it starts, "The following is the functional enhancement strategy in light of continuing to maintain CSS on the open BMS platform." Then you go, "Since the complete replacement of the CSS is not planned within the next 1 to 5 years, some components of the system will require significant upgrade or replacement within that time period. In addition, during this period the Company may pursue new programs and technologies to advance customer service and reduce ongoing costs. Such upgrades must be

justified within a short payback period, considering the potential for a CSS replacement as early as 2008, assuming that your 2006 study recommends replacement and the project begins immediately." Okay, let's just take those statements one at a time, if we could. The first one, "Since a complete replacement of the CSS is not planned within the next one to five years, some components of the system will require significant upgrade or replacement within that time period." And I guess it might be just the awkwardness of the statement, but I fail to see why if the complete replacement is not planned within the one to five years, that that will then end up requiring that some components of the system need a significant upgrade or replacement? How does one follow the other, I guess? How does the fact that if you don't plan to do a replacement in the next one to five years, then require you to do significant upgrades or replacement during that period of time on some components?
MR. COLLINS:
A. Well certainly the fact that we're not

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MR. COLLINS:
replacing the big monster customer service system within one to five years, as we say there, doesn't necessarily mean that we just stand still and not do any enhancements or any replacement of components within that system. For example, in our 2004 application, we're proposing to replace the print bill function. And the print bill function is several thousand lines of programming code in the customer service system, a core system, and while we are able to get the bills out and that sort of thing with that, we have very little ability to be able to change the format of the bill. The most we can do really is to change some message text on the bottom, so we have very limited functionality and we find, you know, certainly we've heard feedback from the Board that customers are asking about our bill format and they find it confusing.

Q. Okay, I guess it may be one of semantics, but I just want to make sure I understand. It's not the case then that since you're not replacing it, that's what's requiring you to make the enhancements, so it would be better

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termed that although you're not--since you're not replacing it, if you do make any changes, it's got to be an enhancements of the existing system?

MR. COLLINS:
A. That's correct.

Q. So it's not a case of one causing the other?

MR. COLLINS:
A. No, that's correct. Those requirements for enhancement were always there.

Q. Right, and that would be the case irrespective of whether you were replacing the system or not, in the sense that if you're not replacing the system until 2010, then you know what the payback period is, that's the next step we'll get to.

MR. COLLINS:
A. Well certainly, and, you know, a big component of why we would modify the customer service system is also to respond to what customers are asking, justified on the basis of improved customer service is certainly a big component of anything we do with the customer service system.

Q. If you were replacing the system in a year's

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time, if you knew that today, it would change the water on the beans in so far as deciding to do enhancements to your existing system or not?

MR. COLLINS:
A. Yes, absolutely.

Q. And it's a possibility that you may have to switch this out in 2008?

MR. COLLINS:
A. We're not planning for that right now.

Q. No, but in 2006, you're going to view again and there's a potential, as we just referenced in the previous quote, that a replacement could come as early as 2008?

MR. COLLINS:
A. That's only a potential. Frankly, with the way technology changes, I mean, I could get a phone call next year from a vendor that says things have changed and we may be looking at replacing it sooner, but, you know, from all of our information right now, what we can gather from these software vendors, these technology vendors, we're going to be okay until certainly beyond the 2008 time frame. And the 2006 check in is really just something

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we want to do for prudence, just to be prudent about it.

Q. Yes, you can only go by the best information you have at any given moment.

MR. COLLINS:
A. Certainly.

Q. Sure. And so in the last sentence there that in the event that you do do such upgrades, they must be justified within a short payback period, considering the potential for a CSS replacement as early as 2008. So when you look to doing enhancements, possible enhancements to the existing customer service system, is that the time frame we're dealing with then, that they would have to show a payback between when you do the work, if you do it in 2004 and 2008, that it has a four-year payback period?

MR. COLLINS:
A. I guess you're speaking of a purely financial analysis, is that what you're speaking -

Q. Well I'm just using, I guess that was the next question is justified within a short payback period, I guess what was it meant by the Company when it said "justified by a short

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MR. KENNEDY:
payback period"? I took that to mean that there would be an economic analysis conducted to ensure that the enhancement being proposed would have a payback period or payback shown in the period allotted to it, which in this case would be a four-year period, 2004 to 2008.

MR. COLLINS:
A. I mean, I think certainly a financial analysis, I mean, we haven't done a cost benefit analysis from a purely financial perspective on each of these individual enhancements. Some of these we're responding to what we have in the budget is really to improve respond to customer requirements for improvements, and certainly keeping in mind that there may be an end of life, 2008, 2010, 2011, some of the enhancements that we have in our budget for 2004 involve moving some components of what's in CSS, off of open BMS, so that if the time ever comes that we have to replace the CSS and hopefully it doesn't, but if the time ever comes, those pieces that we have moved off are salvageable because if you

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have to buy a new package, five, six, seven years out, you don't have to put those components that you know are salvageable, so hopefully in that time frame, 2008, 2010, the cost of a new package will be less as a result because we wouldn't have to buy as much.
Q. Okay, so it would be fair to say that where the enhancement is of a nature that would permit an economic analysis to be conducted upon, for instance, an operational efficiency that's going to be achieved, that that analysis should take into account that your payback period ends by 2008, potentially?

MR. MULCAHY:
A. I think if the proposal is solely based on an economic analysis, yes, that would be a fair statement. But I think as Mr. Collins referenced earlier, there are a number of other factors that go into determining whether or not an enhancement or an upgrade will take place.
Q. Sure and perhaps, Mr. Mulcahy, it might be of assistance then if we just scroll down a little bit onto page--that same page, 53, and you've got "As an aid to determine if an

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enhancement to a specific area of the CSS is required, one or more of the following characteristics should be present." And just go through them, "A particular CSS component is causing significant problems or errors, such as incorrect information or billings. Number two, "The problem affects the general population of customers as a whole". Number three, "Significant manual intervention is required to administer the program correctly or keep it on track." Number four, "The CSS component is limited in its ability to respond to specific requests on a timely basis." Number five, "The CSS component does not meet the Company's business objectives." And number six, "Expected benefits outweigh costs, assuming a relatively short payback period." So the last one there, I guess, is a repeat of the first one. So we've got five indications or, I guess the Company calls them characteristics, one or more of which should be present when you're deciding whether to do a CSS enhancement, is that correct?

MR. MULCAHY:
A. Yes.

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Q. Okay. So let's just turn now to Appendix 3 in your book, "Information Systems". And this is the project that you were referring to earlier, Mr. Collins, I believe, the proposal to change your customer bill design format and printing?

MR. COLLINS:
A. Actually a $226,000.00 project that it refers to three pieces, one of which is the customer bill design format and printing.
Q. Right, and I think PUB-99 gave us a breakdown of what each of those were. And PUB-99 shows that the breakdown for these three projects are 118,000 for changing the customer bill design; 68,000 for the customized CSS letters; and then the third one, $40,000.00 for some reporting tools that you want to add to your CSS system. Okay, so just if we could go back to the Appendix 3, please. The description of this project says, "That the project consists of several enhancements to the customer service system that reduced the dependence on the open BMS operating system. Through this project, computer programs will be retired from the open BMS system in keeping with the

MR. KENNEDY:
findings of the customer service system replacement analysis." So just on the second point, is the justification for this project twofold then, one to respond to what Newfoundland Power sees as a customer-driven request; and then two, that it also is justified in the fact that you're developing an aspect of your customer service system that operates on a new operating system, not open BMS and that therefore, that lowers your dependence on the open BMS operating system?

MR. COLLINS:
A. Yes, that's correct.
Q. So let's just go after--talk about the second one first. The justification that you're lowering your dependence on the open BMS operating system. As far as we're aware, the open BMS system, as we indicated, is good to 2009 or 2011, correct?

MR. COLLINS:
A. So far, yes.
Q. Okay, so if that's the case, why would Newfoundland Power be now trying to lower its dependent on the open BMS system?

MR. COLLINS:
A. As I indicated earlier, we're certainly going to do a check in, in 2006, to make sure that what we've been hearing as late as May, June of this year, is still holding true. And industry analysts, like Gartner, say that open BMS is still risky. We feel, we've taken care of our short to medium term risks as far as our customer service is concerned, our ability to be able to serve customers, but that doesn't mean that we should just stand still and not do anything to make sure that some of those long-term risks are taken care of. So that being reducing the reliance of open BMS through projects that we're putting forth as part of that $226,000.00.
Q. So how do you reconcile your decision here or your proposal with the fact that one of your options that are still a possibility would be to replace your entire existing customer service system with an entirely new package, that as we've indicated may include customer bill design format and printing? Let me sort of break that down. The purchase of a new replacement customer service system,

potentially that new customer service system would include customer bill design format and printing capabilities?

MR. COLLINS:
A. Yes, absolutely.
Q. And so if Newfoundland Power were to pursue that option, 2006 you put your head back up out of the fox hole and you determine it doesn't look good for open BMS again, so you make a decision, Board approved to proceed with the replacement of the customer service system by 2008 with an entirely new customer service package, that that includes customer bill design format and printing, that's what they do. Now you've got an obsolete module that you've built for $226,000.00 in 2004, correct? That's a risk?

(10:00 a.m.)

MR. COLLINS:
A. No, that's not correct at all, actually, because what we would plan to do, certainly what Mr. Kennedy is saying is true in that new customer service system packages that are out there on the market for the ten, fifteen million dollar range have everything that

you'll ever want to do, and more, with a customer service system, but you can buy modules, you don't have to buy the whole pieces. If we get certainly approval to do this project, this customer bill design format and print, that's a module come 2008 or whenever that, you know, if that ever hits us that we have to replace it, that's a module we don't have to buy. So you can take the benefits that we're getting from this particular project and bring it forward, no matter if we buy a package or not.
Q. Okay, and this new module that you're proposing, what will that be built on, what operating system will that work on?

MR. COLLINS:
A. Well it's actually, it's the same system that our e-bills use today, actually because what happened--what's happening is printers, the printers that we use to print our bills are very intelligent printers. They are able to determine when a customer bill--just before a customer bill prints if that bill is going to be sent to the printer to go in an insert or to be mailed or, of if it's going to be sent

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MR. COLLINS:
electronically. They are notices that are going to be electronically to the customers. So that printing is proprietary software from the printer manufacturer, I think, Mr. Kennedy, I stand to be corrected on that, but ICON is the printer manufacturer. The software I think is a company out of Quebec--I'm pretty sure it's a company out of Quebec, I just don't remember the software itself. But that software will be doing the--has the ability to be able to do the design and the formatting of the bill for us. So what will happen is when we actually print or send the customer's bill to print, the printer takes over and before it actually prints the bill, it will format it, it will do what it has to do with it, whether that's e-mail it, format it before it prints it.
Q. Okay, the question though I think was this new customer bill design format and print application that you're proposing, what operating system will that work on?
MR. COLLINS:
A. I believe it's--I stand to be corrected, but I

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believe it's a Microsoft Windows platform. There's, again, it's an area that I'm not completely familiar with because it is run by our Production Center, but we have a large printer over there that is able to print out, you know, in excess of 10,0000 bills a night and it's connected to another box, and that box, I believe it's a Windows 2000 box, Mr. Kennedy, if that answers your question.
Q. Okay, and isn't it a distinct possibility that if you were to exercise the option of purchasing an entirely new customer service system package that you would have technical issues and compatibility issues between this new module that you're building in 2004 and the new customer service system package that you buy, if you were to buy one in 2007?
MR. COLLINS:
A. I think you're going to have to ask me that again, Mr. Kennedy.
Q. All right, you're writing a new--the proposal is to write a new customer service bill design format and print application, that's to operate on, your best indication Microsoft Windows platform.

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MR. COLLINS:
A. Right.
Q. There's a potential that you may exercise the option to purchase a new customer service system that would operate on not open BMS, some other new system. Isn't it possible that when you go to purchase that new customer service system, that your new customer service system won't talk to your new customer bill design print and format module?
MR. COLLINS:
A. I think the answer to that is possible, but not probable. What we have really going on there, if I can think ahead 8 years, would be a new customer service system potentially that's creating, that's generating all of the bill. Before--when it goes to print it, it will just send a stream of data, ones and zeros, to a printer for processing. So whether that printer has Microsoft Windows on it or whether it has Unix on it or whether it has Lennox on it, I don't, you know, from what I know about technology, Mr. Kennedy, whether that's--that new package runs on Unix or Windows or whatever, is not going to make any

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difference. You're just passing data back and forth.
Q. All right, let's just look to the other justification for these projects that they are driven by customer requirements. I think it's been indicated in a number of replies to some information requests that you had yet to work out what that new bill design format and print would be, correct?
MR. COLLINS:
A. That's correct.
Q. And that's because you've yet to conduct any focus groups or the like on your customers to determine what it is that they would want in a new bill, correct?
MR. COLLINS:
A. Yes, that's correct. We don't want to start spending money on this sort of thing until we have certainly Board approval.
Q. Okay, so where is the driver for this project then coming from? You reference that you heard indications from the Board, I think you said. Has the Board indicated that it wants to see a new project involving customer bill design format and printing?

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MR. COLLINS:
A. When I said the Board, we've gotten--I don't get direct feedback from the Board myself, I know that our customer service people, they hear from Mr. Byrne and that sort of thing, but from the information that I am aware of, Mr. Kennedy, customers have a hard time reading their bill. Not all customers, certainly, but certainly some customers, especially when you talk about EPP payments and there's a line there that talks about, you know, your current EPP payment today, Equal Payment Plan payment to date, how much you owe, if you got operating--that sort of thing. We have very little flexibility as to how we can present that information to the customer, and we certainly feel there's an opportunity for us, in terms of improved customer service, to make that bill a lot more legible, a lot more readable to them.
Q. Okay, I wonder if we could switch to your application "Environment Proposal", it's under Appendix 2 under "Information Systems". And similar to the previous project we looked at, there was an RFI that asked for a breakdown of

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the individual cost on this project and that's under PUB-86. And PUB-86 indicated that the Microsoft Enterprise Agreement was 210,000; your database and development software is budgeted at 56,000; Environment Management Software is No. 3, is 227; and you've got application software at 247; and SCADA Development Environment of 51. Now, am I gathering correctly from some of the responses to the RFIs that this section of your budget proposal, the projects entitled "Application Environment" relate specifically to upgrades to the existing software or the purchase of new software?
MR. COLLINS:
A. It's largely upgrades, I think, Mr. Kennedy, but it's not only, it's not only upgrading software, the Application Environment is how we have it termed here, whether it's--it's environment, but not in the green sense of the word "environment". We have a production environment and the production environment has our applications, like CSS, SCADA, problem call logging, outage notification systems, those kinds of things. Those are what our

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employees and customers rely on to serve them. Before we would make any changes to that production environment, we would have a test environment that's quite similar in set up, in nature to the production environment. We have software tools in there for diagnosing any bugging things, we would put software upgrades on that test environment before putting them in production, that sort of thing, just to make sure that in the event--I think it may have been in one of your RFIs, Mr. Kennedy, you stated it nicely there, actually, in your question that when you put software in, a need to upgrade software, you could have more--you could have something break. There's nothing worse to a computer system than making a change and if you--with a test environment, which is what, you know, this application environment talks about, with a good test environment where we could put software upgrades on, that certainly limits our risk and our impact on things that are in production environment, where our customer service system and everything are used. I hope I explained that correctly to you, Mr.

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Kennedy.
Q. The record will show that. Okay, I wanted to look at just the first one, the Microsoft Enterprise Agreement which is per PUB-86, is sub-budgeted for $210,000.00. And you explain that this is an agreement that you have with Microsoft that allows you to make, if I could, a blanket payment that covers upgrades to many of the Microsoft applications that you're using in your environment?
MR. COLLINS:
A. Yes, spread out over a kind of a three-year period.
Q. And those are as indicated on that first page, Microsoft Word, Excel, Powerpoint, Access, Outlook, SQL Server Client Access, correct?
MR. COLLINS:
A. Which page are you referring to?
Q. Page 1 of 4--I'm sorry, if we could go back to Appendix 2, sorry. Correct, these are -
MR. COLLINS:
A. Sorry, ask the question again.
Q. Okay. So, what we're dealing with here are an exploration, if you will, of the option available to the Company to upgrade its

MR. KENNEDY:
existing Microsoft application. And those existing Microsoft applications are as per page one of four on that Appendix 2, Microsoft Word, Excel, Powerpoint, Access, Outlook and your SQL Service Lines.
MR. COLLINS:
A. Yes. And I guess for clarification purposes, when we say Microsoft applications, we're referring to the components that actually go on your PC that you're using, not the back-end applications, not the server based applications, Mr. Kennedy.
Q. Right. This covers your desktop portion of your Microsoft application.
MR. COLLINS:
A. Certainly, further, in PUB-90, I believe it is, that list is put in a table.
Q. Yes, we'll get to that.
MR. COLLINS:
A. Okay.
Q. Before we jump there--and you had three options. One was do nothing now and pay for next new licenses to upgrade in the future. Option two was to purchase the Microsoft

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

explain, please, for us, the reason why these numbers changed on the revision.
MR. COLLINS:
A. That table, the original table which I don't know if we have on record anymore, I'll take the Enterprise agreement, for instance. It was $288.00, it's now $864.00 and what that 288 represents, it was a one year cost, but that table was meant to represent a three year cost. So, we pick that up actually while we were answering RFIs and we thought we would make the correction to the record.
Q. So, in the case of the Enterprise agreement, you took the 288 and just grossed it up by three.
MR. COLLINS:
A. Multiplied by three.
Q. Okay. In the case of the Select agreement that was originally 361, that was just grossed up by three.
MR. COLLINS:
A. That's correct.
Q. Okay. But now the budget that you have for the Microsoft Enterprise agreement of $210,000.00, that's based on your one year

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

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MR. COLLINS:
2002, we were able to see that there was a number of software upgrades coming over that three year period. So, based on which ones we felt we were going to be upgrading over those three years, we felt that the cost over those three years was going to cost us in the order of $1,420.00 per PC.
A second option we looked at was a Select agreement from Microsoft, the second point in that table. And that cost with those same assumptions about what we were going to upgrade on the desktop PCs for those 597 PCs was going to be 1,083. The EA agreement option was $864.00 with the assumptions over that period. Now, Mr. Kennedy's question was on that 864 as of the 172, where we have 210 that we're asking for. You got to remember that the Enterprise agreement or these agreement at Microsoft only cover certain types of software as listed in PUB-90. In 2002, we also required additional software from Microsoft. An example would be Microsoft Project, another example would be a drawing tool called Visio. And because of an

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Enterprise agreement, by signing onto an Enterprise agreement, if we didn't have the agreement, sorry, and we had to purchase that software, that software would have cost of $72,000.00 at that point it time, that's outside the Enterprise agreement. Being under an Enterprise agreement, we could split that $72,000.00 over a three year period. And any time I'm faced with the option of deferring some of those costs for the years, I mean, I think that's certainly of great benefit. So, we were able to take that $72,000.00, break it down by three which was $24,000.00 a year. If we add that $24,000.00 to the 172 which was the base Enterprise agreement, you get $195,000.00. So, there's still a 210 there that we have to reconcile, I understand, Mr. Kennedy.
So, looking at 2004, there's still some software, there's two server database software from Microsoft that we need. There's ten Windows 2000 server software products that we need. That brings the total to $14,000.00, excuse me, $15,000.00. So, if you look at the three components again, the base EA agreement

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which was going to be 172, because we were under the EA agreement and we could spread that large cost of $72,000.00 over three years, impacting 24,000. That gets us to 195. And then the third year, this third amount here to get us to 210 is the additional software that we feel we need as a Company to operate in 2004. So, we package it all under the Enterprise agreement, Mr. Kennedy, because what happens is that first, it's easier to track for us and we get discounts with Microsoft if you have an Enterprise agreement and you need a software package that's going to cost you a thousand dollars, round number, you'll get a 15 to 20 percent discount on it if you have this Enterprise agreement. That's why we've included the 210.
Q. Okay. If I take that 210,000 though and I divide it by the number of personal computers you have, 597, and the I grossed it up for the three years, I get a number of 1,055. So, is it not the case then that under this number one, that's the number I need to compare to the do nothing scenario of 1420.
MR. COLLINS:

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A. No, it's not; that's not the case at all. The $864.00, what that number is and what that $1,420.00 is exactly the software products that are shown in Tab 1 in PUB-90.
Q. Okay. Let's just go to that because we've referenced it a couple of times and we should bring it up for the benefit of the Panel.
MR. COLLINS:
A. I'm sorry, your question.
Q. No, no, no, that's okay. So, in this case of PUB-90, we've got a list of the items that are what comprised the $1,413.00, it's $1,420. 00 in our table we were looking at a minute ago. But a reconciliation or a breakdown of how the $1,420.00 was arrived at, is that correct?
MR. COLLINS:
A. Right, so that table that we were looking at a minute ago which had the, I think it was 864 for the EA agreement would be the cost of those same products under the EA agreement, the total cost of those same products under the EA agreement over that three years.
Q. Okay. And so the remaining portion, excuse me, of the difference, the forty odd thousand dollars between the 172 and the 210, that's

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MR. KENNEDY:
for software, you're acquiring new licenses for under the Microsoft agreement that are not included in that table 1.
MR. COLLINS:
A. Yes, because Microsoft, as I said earlier that base or the core enterprise agreement from Microsoft only includes these products here. So, when we wanted to buy or needed to buy Microsoft Project and Visio, we could not--they're not part of the Enterprise agreement per se, but because we have an Enterprise agreement, we can get discounts, we can spread costs over the life of the agreement and that sort of thing, Mr. Kennedy.
Q. Okay. Now, in this option under your Microsoft agreement, if we just go back to that Appendix 2, please and we go to the first page, please, scroll, to the bottom. Yes. Under number three there, "renew the existing Microsoft agreement as a proposed discount". And you go, "this provides the Company with the ability to use the latest releases of the identified software for a three-year period. And these licenses are paid for at the same

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time, once a year following accounts of the personal computers". So, let's say at the end of this three-year period, you don't renew anything, do you have the ability to use the applications on the computers then at that point?
MR. COLLINS:
A. Yes, absolutely. After this agreement expires, we actually own that software, so it's a asset that we own. Microsoft is not going to come in and take anything away. It's an investment that we've made, it's our software.
Q. Okay. If you could just go to the database and development software and you've got a budget of $56,000.00 for this item, correct?
MR. COLLINS:
A. Yes.
Q. And I think as is being indicated in NLH-74, this is all for application development, this 56,000, correct?
MR. COLLINS:
A. NLH?
Q. NLH-74, it's just this is where the breakdown for these various budget items are and it's

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56,000 under application development for database and development software.
MR. COLLINS:
A. Yes.
Q. Okay. So, is this an application development that you would do in house?
MR. COLLINS:
A. No, we said in the NLH-74 that, actually we had a bit of a difficult time breaking out our costs as Newfoundland and Labrador Hydro asked us to. So, the best option, best available option that we could put that $56,000.00 into, Mr. Kennedy, was application development because we're not buying any software. What we're going to be doing in house with that $56,000.00, I guess, is the process around installing the database software upgrades, doing the testing and that sort of thing. So, there's no development as such going on. It's just that putting the software on, testing it, not only staff from my own department testing it, Mr. Kennedy, from a technical perspective, but also having Mr. Ludlow's staff come in for a day or so and test to make sure that something didn't break as a result of that

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software upgrade. So, that's essentially what we meant there by that $56,000.00. Because it's pigeon holed into that application development thing, it's more, you know, there was kind of nowhere else to put it really because there wasn't (phonetic) an application to purchase.
Q. Okay. You indicate there that these upgrades will ensure that Company's business applications continue to function in a stable and reliable manner as well as insuring an appropriate level of vendor support is sustained, correct? Do you see where I'm reading that?
MR. COLLINS:
A. No.
Q. Okay, it's database and development software. Oh, I'm sorry, I keep thinking that the screen is showing something different than it is. Appendix 2 and the second page and then the paragraph right underneath, okay, sorry about that. So, there was some follow-up RFIs to that statements and PUB-95 was one of the first ones. And PUB-95, this was, I think the reference you were making earlier about the

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MR. MYLES:
introduction of applications sometimes creating stabilities or incompatibilities. And we asked you to provide specific examples of how the proposed data base upgrade will "ensure this Company's business applications continue to function in a stable and reliable manner". And the second paragraph says, "there are no specific examples of how the proposed database upgrade will insure that the Company's business applications continue to function in a stable and reliable manner". And I'm going to get you to comment on this, I just want to go through the three RFIs first. PUB-96 was describe what aspects of the existing database which will not continue to function and or become unstable unless upgraded. And your part reply there is "no specific aspect of the existing database has been identified as being likely to become unstable or no longer function unless upgraded".

And then PUB-97, "what specific additional support will be provided by the vendor as a result of the database upgrade and

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what specific support will be lost as a result of failing to upgrade". And the answer, "in the case of the proposed upgrades there is not additional support being obtained as a result of completing the upgrade. However, one of the products to be upgraded is not compatible with databases currently in production and as such, the vendors does not provide support for the product". And I think you indicated that was an Oracle database in a subsequent RFI.

So, in light of those three RFI replies that indicated that you can't provide any specific examples of how the database upgrade will ensure that your business applications continue to function in stable manners, that there's not specific aspect of the existing database likely to become unstable and that there is no additional support being obtained as a result of the upgrade. Can you explain to me, again, why the statement was made that that was the case, as a justification for the project?

MR. COLLINS:
A. Sure, there was a number of follow-up RFIs, Mr. Kennedy. I'll take you to PUB-185 just as

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a visual aid as I answer your question. The reason for that statement in the justification is, it really comes down to list management. And one of the things that I have to do as manager of an IS department with Newfoundland Power that has in excess of 30 business applications that I have to keep functioning for the Company, is to try to ensure, the best that I can, that all my software is working well together. The reason for the way those were answered in those RFIs that you referenced, Mr. Kennedy, was you know, the peculiar thing about software is that, you know, if it's working, it's not likely to break. If it's working; it's working. But there's so many interdependencies with software.

For instance, the customer service system has several software vendors that we--we're using several products from different software vendors to build the customer service system. If one of those software vendors decides that they're going to do an upgrade, there's huge impacts for us. We got to look at all the other pieces of software that that software

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touches within the customer service system to make sure that nothing is going to break because that vendor doesn't know how we're using his software in our product.

So, the reason for the justification in the application environment project, the reason for wording it that way is that it's all about balancing the risk. The visual aid I put up on the screen, we are several versions behind on several software products. And these software products, Microsoft Sequel server, Oracle database management, Erwin application development. Those are use throughout our 30 business applications. So, for me, I guess what I have to do, when I'm looking out and planning my 2004 expenditures application environment, I want to make sure I'm not snowplowing, I guess is the best word, too many version upgrades ahead of me. So, I want to get through some of those version upgrades so that, you know, I'm not faced with upgrading 50 products in a subsequent year. So, I'm trying to just stay a little bit ahead of the game here, not trying to, you know, jump to the latest releases as soon as it

MR. COLLINS:
comes out because, I believe, that makes absolutely no sense, but certainly not get too far behind either. So, I think that's probably the best way I can answer that.
Q. Chair, you were going to break at 10:30, I believe.
CHAIRMAN:
Q. Yes.
MR. KENNEDY:
Q. We're there now.
CHAIRMAN:
Q. I'd like to break at this time if we could, somebody does have a commitment and so we'll break for 15 minutes.
(RECESS - 10:30 a.m.)
(RESUMED at 10:47 a.m.)
MR. CHAIRMAN:
Q. Mr. Kennedy.
MR. KENNEDY:
Q. Chair, I believe Mr. Myles, for Newfoundland Power is just going to speak to that Exhibit that they revised.
MR. MYLES:
Q. Thank you, Mr. Chair. Commissioner Martin,

you had a question this morning about the last table that we had in and you referred to Walbourne's T-2 which is the last line and the column on the right shows 111 percent and on the new one it would show 129 percent. And what that column is doing is identifying in the five year period, the capacity utilization, the highest capacity utilization of the transformer. So, for example, on the old one at 111 percent, the peak occurred in 2003. I can show you on the new one if that's what you have in front of you. On the new one, the percentage is 129 percent per Walbourne's T-2. And what that is showing is that in the column 2008 you can see the bold number 19.3 and that would be 29 percent over the rated capacity of that transformer of 15 MBA. So that's what that column is showing. And so any number that is over 100 percent is indicating a transformer that's working in excess of its load capacity and needs attention.
MARTIN, Q.C.:
Q. Okay, thanks.
CHAIRMAN:

Q. Thank you, Mr. Myles. Mr. Kennedy.
MR. KENNEDY:
Q. Thank you, Chair. Commissioners. I wonder if we could just start again with Appendix 2 of the Information Systems and specifically if we could go to page two of that document and this is the Environment Management software. It's number two on that page, number three on the second revision. And as it's indicated previously in PUB-86 this project is broken down again into cost of $274,000, Mr. Collins, is that correct--sorry, $227,000.
CHAIRMAN:
Q. What was the PUB reference again?
MR. KENNEDY:
Q. PUB-76, Chair.
MR. COLLINS:
A. Yes, that's correct.
Q. Okay. And this project, this refers to the technology and processes used to develop, configure, test, implement and maintain applications and hardware throughout the company. And upgrade to the company's backup recovery software and upgrades to the company's workload application. Then you go,

"Benefits include improvements to the reliability and stability of the company's back-up and recovery process." Number two, if we could just--now, "Reduction in cost associated with data corruption or application down time." Three, "Consolidation of software use for backing up information." And four, "Consolidation of back-up and recovery processes." Now, Mr. Collins, those items there, the benefits that you're expecting to derive from this project of the upgrades to your applications under your "Environment Management" software heading, let's just take them one at a time. "Improvements to the reliability and stability of the company's back-up and recovery process", would you agree with me, I guess, that that's certainly one that's more qualitative than quantitative in the tough to assess or put a dollar figure on what those improvements to the reliability and stability of your back-up and recovery processes would, how it would potentially ultimately benefit the company in a dollar sense.

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MR. COLLINS:
A. Yes. Difficult to put a number on that.
Q. Let's go to number two, "Reduction in cost associated with data corruption or application down time." A little closer to the bone would you agree in the sense that there is a dollar cost savings associated with this project projected?
(11:00 a.m.)
MR. COLLINS:
A. No, this project was--no, there's been no cost justification. I think I'd put it in the same boat as the first bullet really, Mr. Kennedy, in terms of--the reduction costs we're talking about there is when an application is down, that's--I know that's technical but an application doesn't work or there's data corruption within an application, there's going to be costs associated with that because our call centre agents or our assistant control centre personnel will not be able to use an application to be able to serve its customers. So that's the kinds of cost that we refer to there.
Q. Okay, but the number two is reduction and

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costs associated with data corruption or application down time and then you--I guess the example is "Certain back-up procedures have failed in the past requiring the company to re-run these back up jobs during peak hours causing overall system performance degradation." And I guess, am I correct in assuming that when that back-up procedure failed and it required you to run back-ups during peak hours, that there was a cost associated with that? Your back-up fails and you have to do another back-up or some manual intervention in your process, that there's a cost associated with that manual intervention?
MR. COLLINS:
A. Yes, when we do back-ups we do back-ups of our many, many megabytes of data, off hours, so we do it overnight. And I have staff actually have to work throughout the night in order to back things off the tape, take those tapes off site so that in case we do have a major problem, we do have those tapes that we can go to the restore thing. We've had occurrences in the past and I believe that it's an attachment maybe to one of the RFIs, I think

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it might be NLH-84, but I can check that later if we need to, that we've had failures of the processes of backing up our data. So what happens is that we can't just say, all right, well let's wait till the next night to back that up because during the day there's going to be many, many things that have changed again, obviously. So what we would do is for safety reasons, it's not in the Earl Ludlow safety reasons but for IT safety reasons, we would back that data up during the day and what happens there is that that's a very intensive process on our computer systems. So what happens is there's a degradation in system performance and performance of the system goes down. And our call centre agents notice that. I'll get the phone calls from the customer service managers saying they're finding it slow over here, what's going on, you know, and I proceed to explain it to them. So there's certainly been some hardware failures, you know, that have caused those kinds of events to happen, Mr. Kennedy.
Quantifying the cost associated with call centre agents not being able to access the

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screen if they need to within CSS to be able to serve a customer, that's very difficult to do, but certainly there's a cost there nonetheless.
Q. But there is--would you agree that a more identifiable would be the cost associated with if you installed--if you make these upgrades as you're proposing, you're indicating that you won't have the same back-up procedure problems and therefore, you'll be able to forego these manual interventions that are presently required from time to time when your back-up procedures fail and therefore, you'll be able to forego the cost associated with those ad hoc back-up -
MR. COLLINS:
A. I think what you may be implying is that we will never--when we do this we will never ever have a problem again. I don't think we can assume that. I think based on my staff's experience with using these back-up procedures over the last, gee, eight, nine years, they found that it has failed on them. I've gotten staff calls in the middle of the night to go in and actually fix something for our computer

MR. COLLINS:
operators who are in there 24 hours a day. So we're hoping that, you know, this will, because of the age of some of the procedures that are there, the age of the software, that there will be a reduction in the amount of call-out time certainly and the slowness that our customer service agents experience, you know, when there is a failure.
Q. You would, presumably, be able to try to ballpark at least the number of manual intervention back-ups, these secondary back-ups, if you will, or medial back-ups, that you'll be able to eliminate them, some of them by virtue of making this enhancement to the application, enhancement to this environment?
MR. COLLINS:
A. I guess all I can say is that they'll be lessened. I mean we would expect based on, again, the age of this stuff, the amount of data that we've added to the 30 applications over time, that there will be lessening of failures. I mean I certainly wouldn't want to make that investment unless I really believed that, you know this is going to help.

Q. And the third point, "Consolidation of software used for backing up information" and I guess then related to that is the fourth point, "Consolidation of the back-up and recovery processes", correct?
MR. COLLINS:
A. Um-hm.
Q. And so, the idea is that you would have a consolidated back-up process instead of having individual back-ups; one for your open BMS; one for your Windows, one for Unix and so forth, correct?
MR. COLLINS:
A. That would be the plan, yes.
Q. And would you agree with me that there would be associated cost savings with that step, that being able to consolidate your back-up software and with that, consolidating the actual back-up process, will allow you to forego certain steps that you have to do now because you don't have your back-ups consolidated?
MR. COLLINS:
A. Well, and certainly I guess intuitively, I absolutely agree with you. There's -

Q. Okay, if you agree then that there is -
MR. COLLINS:
A. Excuse me, Mr. Kennedy, I think I should explain kind of what this proposal is about, just so that we all know because I don't want to get too technical here for the Board. But what we have is an open BMS system which, as I talked about earlier, runs our customer service system. Our Unix system that I speak about there is our SCADA system. And our Windows systems, those have things like outage notification, problem call logging so that we can log calls for customers, that sort of thing. So there's three very disparate systems that are backed up in a central location. The disparity occurs because each of these systems have their own different flavours of tape drives in them, they have their own different types of tapes that go in the tape drive. They have their own different software that we use to run the back-up. So, just intuitively speaking, having all this consolidated so that, you know, all the tape drives are the same, the software that we're using across all the products is the same,

certainly allows for efficiencies in that regard. Very hard to quantify though, Mr. Kennedy.
Q. I guess that's where the point of departure is isn't it, that you're indicating that you're going to be able to--this proposal is going to allow you to consolidate all your back-up processes, that's going to allow you to forego having to go through the--that you just described it, a more complicated process of doing back-ups, and that there are cost savings to be achieved by virtue of being able to forego that more complicated back-up process. And yet there's been no attempt here to identify what those cost savings are or an attempt to conduct a cost benefit analysis to see whether spending $227,000 to do this is warranted?
MR. COLLINS:
A. No, we didn't do a cost benefit analysis in that strict sense of the word, certainly, you know, or I would have certainly put it here for us on the record. But what we have though is we have a lot of cost avoidance things going on because if you can reduce the amount

MR. COLLINS:
of times that you have to have manual intervention, if you can make all this software consistent so that our computer operator, who is backing this stuff up in the evenings, knows that no matter if it's Unix or SCADA or VMS or CSS or Windows or the 28 other applications or so we have, that they just have a consolidated view of things as far as they're concerned, rather than having to know, you know, this piece of software for that application, this piece of back-up software for that application and so on. So we didn't quantify it, Mr. Kennedy, but--because we found it very difficult to try to put a number on that.
Q. Okay, if we could go to "Application Enhancement" which is under Appendix 1. And, Mr. Collins, is it fair to say that this project title, "Application Enhancement" differs from the application environment section of your budget as we've just been discussing in that the application enhancements are actual enhancements being made to existing applications?

MR. COLLINS:
A. Yes, that's correct.
Q. As opposed to the application environment which are either a renewal of licenses or upgrades -
MR. COLLINS:
A. Upgrades to software, that's right.
Q. Or the purchase of new software.
MR. COLLINS:
A. Right. This is really making our applications that we have today, do more.
Q. Right. Would it be put also another way, taking advantage of the increased functionality that you obtained when you did an upgrade on an existing piece of software, now you need to extract that benefit that's available by that new function that's in the upgrade?
MR. COLLINS:
A. Yes, certainly those possibilities are there with the upgrade, yes, certainly they would show up here.
Q. And, again, we have a breakdown of the individual costs for these and it's in PUB-73. And this is the breakdown of the--the total

project cost is one million three fifty-five. Your cost for business support systems is $189,000 and that includes two parts, your process improvements and your bar coding and then there's the breakdown for the 189, correct? The 75,000 for your process improvements and then 114,000 for bar coding, correct?
MR. COLLINS:
A. Yes, that's correct.
Q. So, let's just look at your bar coding section. Can we go back to Appendix 1, please, the second page. All right, bar coding of $114,000, you indicate that "It involves the implementation of bar coding technology for the central stores location and the benefits include increased productivity of the storekeepers at central stores"--the second one, "improved management of small tool items such as gloves and safety glasses will reduce the inventory for these items. Enabling a storekeeper to perform other duties such as physical inventory counts during the regular working day thereby avoiding overtime." And the last one, I'll just skip

the "less dependence", the last one, "improves capturing and tracking of warranty information by equipment serial numbers. This would ensure that equipment with warranties close to expiry are used first." Those four items that I just indicated there, the increased productivity of your storekeepers, the ability to reduce the inventory of certain items and the ability to avoid overtime and then the fourth one, the more efficient use of equipment that are closer to their expiry period for warranty purposes, are they not all cost related issues, that there is a cost savings associated with each of those or that there could have been a cost savings associated with each of those items?
MR. MULCAHY:
A. It's hard to say but I think there could be an economic component to it, it's not the sole component or sole consideration though.
Q. What would have been the other consideration, Mr. Mulcahy?
MR. MULCAHY:
Q. Some of it is accuracy. I think, you know, in terms of trying to address this issue,

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MR. MULCAHY:
generally, of an economic analysis, was an economic analysis done, in this instance, Mr. Kennedy, no, an economic analysis wasn't done there. As we looked at this project and reviewed what we felt the benefits that we would receive out of it, there was a judgment that this project made sense to move forward with.
Q. Sure. And I guess the difficulty, Mr. Mulcahy is not entering into a discussion, rather than an examination, is that we have no way of being able to assess that judgment because we're not provided with any cost benefit analysis, wouldn't you agree?
MR. MULCAHY:
A. I would say that you have no way to asses it solely on the basis of economics but it's intuitive here that the number of the productivity and initiatives here that we should see in some of the improvements and the increased accuracy and having our storekeepers focus on filling orders and doing tool repairs versus doing data entry seems to make sense.
(11:15 a.m.)

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MR. COLLINS:
A. I guess if I can answer that, you know, where this bar coding is going to go would be in the central warehouse in St. John's. It's a vast warehouse of tools that I have no idea what they're used for but certainly what I notice about it when I walk through there is there's a lot of bar codes on these things. And what has to happen is, you know, when these materials are received from suppliers, these materials, the quantity, the type and that sort of thing, have to get manually keyed into our inventory system by the storekeepers and, you know, not to--I have to be very careful about my words, they're not great, they're not very adept at data entry, you know, that's not what we hired them for.
What we see though, as I said, is that a lot of this equipment comes in with bar codes attached. We're talking about in this project, buying three scanning units so that when this material comes in, they can just scan it, it goes into our inventory system and these people certainly, you know, are freed up to actually do something that they're paid for

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and that's certainly not data entry. So we didn't quantify the benefits that way, I guess, Mr. Kennedy, because it just seemed very obvious to us.
Q. Okay. If we could just go to number two under--it's under "Operations and Engineering Enhancements" which is section C of the same, Appendix 1. And the breakdown--so in other words of the one million three fifty-five that's being proposed under "Application Enhancements", 661,000 of it are for operation and engineering enhancements, is that correct?
MR. COLLINS:
A. 661 of the--yes, of the -
Q. Right. And I think we've got a breakdown of that 661 further provided in PUB-80, if we could just go that for a moment. And we've got project management improvements of 74,000; the crew scheduling efficiencies at 199; reporting improvements of 92; work order tracking at 214; and then the SCADA enhancements at 82. I'd just like to look at--if we could go back to Appendix 1, page four of eight again, please. And if we could just scroll down to "Crew Scheduling Efficiencies".

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And there's a description there of what's involved. "This involves enhancements to existing applications in the outage management and asset management areas. This will improve process improvements in the management of field crews during routine asset maintenance and outage situations." And you're going to upgrade your Advantis Pro asset management. And I believe that's indicated in another response that that's $60,000 for the software in that case, that Advantis Pro asset.
MR. COLLINS:
A. Yes, that's for--we already have Advantis Pro, it's for ten more licenses.
Q. Right. So that was one of the questions. This is under your "Enhancements" but the 60,000 is for additional licenses, so it's not an enhancement per se to the application, it's just allowing you ten more users onto the same piece of software?
MR. COLLINS:
A. The crew scheduling efficiencies is allowing us ten more users?
Q. No, the Advantis Pro, the $60,000 that's lifted is for additional licenses for Advantis

Pro.
MR. COLLINS:
A. Right, because of the crew scheduling efficiency improvements.
Q. Okay. So it's tied in with the enhancements that you're making to your crew scheduling software.
MR. COLLINS:
A. Yes. If we weren't going to make improvements to crew scheduling efficiencies, using Advantis Pro -
Q. You wouldn't need the additional licenses.
MR. COLLINS:
A. Exactly. Because we're going to be adding more people to the software.
Q. Got you. Okay.
MR. COLLINS:
A. Otherwise I'd be not allowed to do that, Mr. Kennedy.
Q. Right, I understand. Flipping over to page five, right at the bottom of page four it says "Benefits include" and then when we go over to page five, the first one is "Operational efficiencies to reduced overtime in outage situations by being able to identify potential

trouble spots," so on and so on. Number two, "Improve management of maintenance personnel during routine maintenance by being able to associate available personnel and appropriate skill sets with the maintenance work. The third one is "Improved information allowing customers to be better informed" and the fourth, "Increased reliability providing more accurate information and statistics to improve decision making." I guess do you agree with me that the third one, the improved information for customers to be better informed during power outages, that's a qualitative rather than quantitative benefit being achieved?
MR. COLLINS:
A. Yes. Yes.
Q. Okay, the number four, "Increased reliability", I guess it would have a cost component to it in the sense that well if you've got improved reliability, you're selling more power because the lights are on that much longer. But, generally, it's probably more qualitative than quantitative?
MR. COLLINS:

A. Yes.
Q. In the first two then, "Operational efficiencies to reduce overtime", and the second one, "Improved management of maintenance personnel during routine maintenance", are they not both cost related benefits? Certainly the first one, "Operational efficiencies through reduced overtime", that's a cost related benefit that you're hoping to achieve by making these improvements to your crew scheduling software?
MR. COLLINS:
A. Yes, that's a component for sure.
Q. And was there any attempt to quantify what that cost savings would be?
MR. COLLINS:
A. No, I mean I think if that was solely based on--if we could do that solely on a quantitative analysis of cost savings, Mr. Kennedy, we certainly would have done that. But there's also a customer service aspect to this piece of work as well that we're speaking about here. The crew scheduling efficiencies, we're talking about two components there. One of the components is, and this is the one I'll

speak to in this bullet, when our call centre or our system control centre takes calls from customers about outages, they're logging all this data, all this information about the outage what they said is wrong, into a system. We call it the outage management system or problem call logging system. And so what happens is we're putting that information in about the trouble by the customers feeder, the feeder that the customer is on. Now, we all know I guess--I've certainly learned through the course of my many years with the company that feeders can run from a couple of kilometers long to several hundred kilometers long. So when a customer calls and says they have an outage on a feeder--sorry, if they have a problem with their power in their house, the more information that we can gather about the call, then the more able we are to direct a crew to the source of the problem. So, for example, if there's a tap on a line that a lot of customers are calling on, we've got information about that customer, these customers are calling and they all seem to be--these common denominators seems to be that

MR. COLLINS:
tap and the crews all have diagrams in their trucks with these things labelled, we can tell the crew, the control centre can tell the crew the problem appears to be originating from a tap, and they can direct the crew more quickly to the source of their problem. And so that's kind of--there's a big customer service aspect tied up into that bullet, Mr. Kennedy.
Q. I understand. Could we go to number 4, the work order tracking.
MR. COLLINS:
A. Okay.
Q. And work order tracking which is $214,000 as per the breakdown in PUB-80, says, "This item involves improvements to the processes involved with ensuring that customer initiated work is effectually captured, scheduled and tracked." And then again there's some benefits listed and the benefits include higher through put of engineering work within the technical group, crew scheduling of customer driven work, proof prioritization of workload. And the fourth one is being proved process for establishing and meeting project

schedules including requirements for third party work. Now, in all of those cases, I put to you that they are cost related benefits that are hoped to be derived from the improvements made in the work tracking software.
MR. COLLINS:
A. I have to say that there is certainly a cost component to each one, Mr. Kennedy.
Q. Okay. And was there any attempt to try to derive a cost benefit analysis to see if this expenditure of $214,000 was warranted in light of the cost savings that were hoped to be achieved?
MR. COLLINS:
A. No, we don't have a cost benefit analysis done on those. Again, as a I said earlier, where there's strictly not a quantitative number that we can plug into a net present value analysis, you know, it's very hard to determine cost savings in that regard, especially when there's other factors tied in here like--you know, again there's a customer service aspect tied in. You have customers calling in and the type of technical work that

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

Right now, the call centre would have to, you know, try to forward that call on to somebody else or, you know, get back to the customer later. There's more up to date information for the customer is certainly a huge benefit there, Mr. Kennedy, that is not just cost related.
Q. If we could go to "Customer Service System Enhancements" at page seven of this document. And this at a cost of $208,000, it's comprised of three different projects. I don't think we actually have a breakdown of the 208 but it makes no difference.
MR. COLLINS:
A. I can give you that if you need it, Mr. Kennedy.
Q. Well, sure, why don't you just, if you could, equal payment plan.
MR. COLLINS:
A. About 98,000
Q. Okay. And then the meter reading?
A. 36.
Q. And the scheduling improvements.
A. 74.
Q. 74, okay. And let's just look at the equal

MR. MYLES:
payment plan. This is a change being made to your customer service system?
MR. COLLINS:
A. This is--yes, this is a change being made to our customer service system.
Q. So, should we take into account whether this project should go ahead or not, when we decide whether this project should go ahead or not, take into account the status of the customer service system as we started off the examination this morning?
MR. COLLINS:
A. Yes, that was certainly a consideration for each of those three sub projects under "Customer Service Enhancements".
Q. Right. The second one, the meter reading improvements, this is tied to your request for the AMR demand meters, correct?
MR. COLLINS:
A. That's correct. So -
Q. So, if the Board were not to approve the AMR demand meters, there'd be no reason to make improvements to the meter reading improvements prior to this budget?

MR. COLLINS:
A. For the demand portion, that's correct. And that amount, again, was $36,000.
Q. And just going back to your equal payment plan benefits, one is the "improved service to customers by more accurately estimating their equal payment plan", and then the next, two, "reduce labour required to review a customer's EPP" and the third one, "efficiency gains in dealing with customers whose review indicates inadequate history or significant change in payment" and that's because while you have to manually check it now, if you went ahead with this proposal, you would be able to do that automatically, correct, through your terminal, is that the idea?
MR. COLLINS:
A. Could you repeat that please, Mr. Kennedy?
Q. Okay. The second one is "efficiency gains in dealing with customers whose review indicates inadequate history or significant change in payment and presently analysts must manually check each situation in CSS, obtain the suggested payment provided there and then go back to the manual system and add it in."

MR. COLLINS:
A. Right.
Q. So I take it that the improvement will forego that requirement?
MR. COLLINS:
A. Yes, we'll certainly want to get rid of that manual intervention.
Q. And, again, would you agree with me that those two benefits have a cost component to them, that their suggested cost savings that will be achieved by virtue of making this change in your equal payment plan aspect to your customer service system.
MR. COLLINS:
A. Are you talking about the second and third bullets there?
Q. That's correct.
MR. COLLINS:
A. Yes.
Q. But, again, there was no attempt to try to quantify what the cost benefits would be and then in conjunction with some sort of cost benefit analysis to see whether the expenditure was warranted or not.
MR. COLLINS:

A. No. And, again, that's because there's a big customer service aspect to this equal payment plan sub project. You know, there's improvements that we want to make to the equal payment plan as outlined there, Mr. Kennedy, that obviously will improve our customer service. So, if it was a purely quantitative analysis--if this was solely based on reducing labour and those efficiency gains, I think we would have a cost benefit analysis done there. But there's other aspects that you can't put a dollar on.
Q. Okay, let's move on to another area. Your PC upgrades, now that's not in this Appendix, is it? There's no further details in your Appendix, Volume IV, regarding your PC upgrade plan?
MR. COLLINS:
A. There was no Appendix filed for that one.
(11:30 a.m.)
Q. Okay, so if we just went to Schedule B at page 76, just so we've got the parameter there. Okay, so your total budget is $539,000 for 2004, correct?

MR. COLLINS:
A. That's correct.
Q. Okay. And that jives with some of your previous historical expenditures and it's part of your budget?
MR. COLLINS:
A. It may actually be a bit lower from previous years, Mr. Kennedy.
Q. Yes, it's certainly lower than 2003 forecast in the year 2002 number. Now I had that out and in my shuffling of paper, I misplaced it, just bear with me for just a second. Here we go. PUB-102, please. These are--the question was what computers are being replaced by virtue of your purchasing new computers as proposed under that budget item that we were just looking at. And the list is there for all of us to see. The last one on the list there, some 500 megahertz Dell laptops, 31 in total.
MR. COLLINS:
A. Yes, that's correct.
Q. And there was a question asked about that PUB-190. And the question asked, "Describe what software applications will no longer operate

on the quantity of 31, 500 megahertz Dell laptops slated for retirement". And the reply is, "Currently all the company software applications will operate on the 500 megahertz Dell laptop. Then you go, "However, the more processor intensive applications operated noticeably slower performance level. An example is Auto Cad Light which is used by engineering and technical staff for daily operation", and then you say, "27 of the 31 laptops being replaced are assigned to staff in the engineering and technical areas." Now, am I gathering correctly, it says an example is the Auto Cad Light which is used by engineering and technical staff for daily operations and then 27 of the 31 laptops being replaced are assigned to staff in the angering and technical areas. I guess there's an implicit assumption that's being asked to be made. Is it the case that all 27 of those 31 laptops being replaced that are assigned to staff in the engineering and technical areas, use Auto Cad Light?
MR. COLLINS:
A. Yes, absolutely.

Q. Okay. But other than the slowness of that more processor intensive application, which is ironic, being it's called Auto Cad Light -
MR. COLLINS:
A. That's the nature of software isn't it, Mr. Kennedy.
Q. Yes, it's oxymoronic. But, otherwise, these computers function fine, they run all your Microsoft applications, Microsoft Word, Excel, Access.
MR. COLLINS:
A. Yes, as stated certainly in the response to PUB-190, there's no software that we run today, and you know, in 2003, that this software--that this--sorry, these laptops will not run. That was the nature of that answer.
Q. Thank you.
MR. COLLINS:
A. I should highlight as well that these PCs were purchased, in memory, I think it was maybe April of 2000. I know it was in the spring of 2000, I guess the month really doesn't matter. By the time these things are replaced, they'll be into their fifth year of service and, you know, based on my experience and based on what

I've certainly read in industry and what Gartner have told us, if you're getting four years out of a laptop today, you know, you're lucky. I mean, we're seeing with these that we're getting five years out of them. I think the way we--when we buy PCs, including laptops, and we cascade older machines to people with less requirement has allowed us to get that extra life out of these things. So that was kind of what that answer was getting at, Mr. Kennedy. So it's not a--you know, unfortunately, I don't work in the field that Mr. Ludlow is in whereby stuff like this can last 45 years. But I do have, you know, the nature of PCs is that they will last from three to five years and in some cases, you know, I don't know if that PUB-109--102 has it, but there's certainly one RFI that I showed that some of these PCs, and I may be wrong about that, but some of these PCs that we're replacing next year will be seven years old. So you know, that kind of speaks to how we try to manage these things and try to get extra life out of them. I'm not certain that there is an RFI on that now actually, but I

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can check that.
Q. Okay.
MR. COLLINS:
A. I know at the top--sorry, it's gone off the screen. Back to PUB-102, Colleen, please. Those IBM300 PL desktop PCs, that first line, of 233 MHz machines, 25 being retired next year. Those were purchased in 1998. So you know, that's certainly the flavour of our fleet, so to speak, that we're trying to--you know, that we need to get rid of.
Q. Okay. One final area, so we're on schedule, which is your shared server infrastructure. We're back into the Volume 4, Information Systems, Appendix 5. Okay, this Appendix 5. Yes, there we go. Okay, your shared server infrastructure, total budget of $644,000. Project involves the addition, upgrade and replacement of computer hardware components, related technology associated with the Company's shared server infrastructure, and then you have a lengthy description of our operating experience to date, and then you provide justification, and the benefits as well. All right. We asked some--actually

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Newfoundland and Labrador Hydro asked some details of this, and I wonder if we could go to NLH-84. Okay. So you've got a list there of the servers that are being replaced, correct?
MR. COLLINS:
A. Yes.
Q. Okay, and you've got a Prosignia 500 and a Proliant 800.
MR. COLLINS:
A. That's correct.
Q. Okay. And the Prosignia 500, which is quantity of one, is eight years old?
MR. COLLINS:
A. Yes.
Q. And that's 150 MHz machine? Isn't that correct?
MR. COLLINS:
A. Subject to check, but that's what my memory tells me, Mr. Kennedy.
Q. Okay. So are you using it at anything other than doorstop then?
MR. COLLINS:
A. When I saw it in the table, I wondered the same thing, Mr. Kennedy.

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Q. Okay. You don't know what's running on that, do you, if anything, other than mice?
MR. COLLINS:
A. Off the top of my head, I honestly can't tell you. I may have a note on it, if you want me to just have a quick look?
Q. That's a more facetious question. The Proliant 800, that's a 450, I understand?
MR. COLLINS:
A. I'm just going to just double check my notes here.
Q. Sure.
MR. COLLINS:
A. These processors change several times a year, so sometimes I can look at the year and tell you what the processor was, but you know, not in this case. No, actually, Mr. Kennedy, I don't have--I don't know if that's a 450 or not.
Q. Okay. I think it's a 450 and it's actually marked as retired when you pull it up on the internet. And you're replacing three of those, correct?
MR. COLLINS:
A. Actually, I think, Mr. Kennedy, the Proliant

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800, if memory serves me, was not just dedicated to a 450 MHz. So they could be 450. They could be lower. They could be higher. So I don't want to make the assumption that Proliant 800 means 450 MHz here.
Q. Fair enough. But you're replacing three of these. They're seven years old, correct?
MR. COLLINS:
A. Yes.
Q. Okay. And then the next two are Proliant 3000s, and two of which are six years old and two of which are five years old, and you're replacing them as well, correct?
MR. COLLINS:
A. Correct.
Q. Okay. So let's just go to NLH-86, and NLH-86 provides what you're replacing these with, as proposed under your budget, correct?
MR. COLLINS:
A. Not technically correct. What we do is when we buy--just like when we buy PCs and we cascade the PCs around to various users throughout the Company, and what I mean by that is that when we buy a brand new PC, that new PC will go to the user or the employer

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

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

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

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A. When you say the four I'm replacing, what reference are you -
Q. Well, I'm using the Proliant 3000, the best ones that you have there that you're replacing.
MR. COLLINS:
A. What I said though is that those four servers will not necessarily replace those ones that are being retired.
Q. No, but your overall server capacity as to your entire network infrastructure is being -
MR. COLLINS:
A. Server infrastructure, yes.
Q. - infrastructure is being improved?
MR. COLLINS:
A. Yes, yes.
Q. And it's being improved, I'd suggest to you, fairly dramatically by virtue of ten extra blade servers and four new servers at $25,000 a pop, as compared to what you're retiring. In other words, you're expanding your overall server, shared server infrastructure dramatically.
MR. COLLINS:
A. I don't think we're--I don't like the word

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

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

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

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

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putting in all the various components, including human resource management and successions, bells and whistles for internal, as much as serving customers. What interaction does Newfoundland Power have with Hydro to see where they're going and to see if there are things that can be shared, used or experiences that may have been good or bad that would complement each other.

MR. COLLINS:
A. Mr. Powell, personally, I meet with my counterpart at Hydro, try to get there a couple of times a year. My staff, my directors on servers and PCs and on applications would get together as well, as many times a year, and have a discussion about their particular applications, you know, talk about what they're hoping to do. We'll talk about what we're hoping to do and our practices. And we do try to get together mainly to learn about each other's experiences, so that we don't fall into the same, you know, pitfalls kind of thing. So it's very knowledge sharing at that level, but

not at the application sharing level.
Q. Have you seen any opportunities to share applications?

MR. COLLINS:
A. Not to share applications, and when I--if what you mean by share is that we're using the same one together, we haven't seen any opportunity for that in our discussions. One thing though that we did learn was that the way we deploy software--so with our 600 PCs scattered across the province, we implemented some software a number of years ago, four or five years ago, that allows us to send or deploy software centrally. So we don't have to send an IT person to the desk to put on a piece of software. We can do it from St. John's and that person in Corner Brook, that PC will get the software upgrade. And I know Newfoundland and Labrador Hydro talked extensively with us about what we were doing there and I think they actually ended up purchasing the same software for themselves and spoke a lot to our staff about how we're using it and that sort of thing. So that's the example that comes to mind for me.

Q. But one of the issues with computers, and I think you mentioned earlier talking, is the ability to speak to each other. So even though there's, at this point in time, no compatibility, wouldn't you agree that as you look forward and as things change, it would be sort of important that you both at least learning the same language so in case there's an opportunity to communicate, you'd be able to connect?

MR. COLLINS:
A. Certainly, and I mean, that's why we want to continue to keep our meetings going, to understand where we--you know, where they want to go with their technology investments, where we're going with our technology investments, and if there's a way that we can, you know, go like this at some point in time, whether that's to get in on a--instead of buying, in our case, 100 or 9 PCs and they need to buy some PCs, maybe we can get some bulk purchase going that gets a discount for everybody. Those are the kinds of discussions that we've had.
Q. One of the areas, again just from a lay point

of view, I think it's a couple of years ago I had an opportunity to visit your customer centre and I was impressed. I thought it was fairly sophisticated and I was quite intrigued by how well it operated and I remember talking to one of the managers there and my question to him was, you know, "how did you get this?" because it seemed to be fairly sophisticated, and I was more interested, curiosity, how it got built, and he gave me the 20,000 foot view, how you arrived at that particular situation, and I think, if my memory served me correct, he actually said you eventually got it from a company in San Diego.

MR. COLLINS:
A. Yes, Aspect.
Q. Yes. And one of the things that he had mentioned to me, if I remember the conversation right, was the reason why he'd choose that company was that gave you the ability to control your own destiny. You're able to make changes and things as you grew and as things changed along the way, you weren't locked into a situation that you woke up one morning and found out that the company

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

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

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

MR. COLLINS:
A. I certainly haven't had any discussions.

MR. MULCAHY:
A. I'm not aware of any that have occurred.
Q. You mentioned about bill design, and I guess I don't think your CEO went off and did that because I made a complaint to him, but I guess it's been a couple of years since we've had the Board meet on a--used to meet on a regular basis with the management of the utilities and probably the only one we had with Newfoundland Power that I attended, I passed on a complaint that my father-in-law had that he couldn't read his bills from Newfoundland Power. He was on the monthly payment, and there was some

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

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

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you know, the same people sometimes. But in the case of, you know, the way we have to manage those 600 PCs, they're a lot easier for us to manage if they all have the same version of software on them. So right away, you know, it makes sense to us to have everything all the same version, so that when our help desk gets a call, they know what's on the machine. From what we can tell at this point in time, we wouldn't have to upgrade the hardware as a result of these software upgrades.
Q. The cost, I don't have the figure here, I think it was $40 or $50,000.00, we'll call it, database development and you were talking about running the software to seek--get the bugs out and seek compatibility. When I was listening to your answer, I was sort of thinking to myself that on an ongoing basis, isn't that like within your department there's people always looking for the mistake that's going to happen before it happens, in terms of compatibility, because my understanding you can run it a thousand times, but there's some where there's a little niche in the system for the thousand and one time and you got to get

COMMISSIONER POWELL:
there before he gets or she gets there. So wouldn't that be a normal operating thing of the IT department, as opposed to a capital item?

MR. COLLINS:
Q. We--there's an operating component to it, but specific to this $56,000.00 expenditure, it's about when we buy--I can't remember the pieces of software that we're speaking about in the 56,000, but I guess just speak in general terms about it, we look at the ability to be able to do those sorts of things, as you speak about, testing at a thousand different ways in the process of upgrading to make the asset better and make it last longer. That whole process around that, we feel, is a capital investment.
Q. One final comment, listening to your discussion and I thought it was quite good and the presentation. Would it be fair for me to look upon your department as the ultimate aim would be to create, what I call the Maytag repair person type scenario, having everything working so well, you're sitting around,

nothing to do because everything works well. I mean, isn't that the ultimate aim, sort of thing, like a lot of these enhancements and things you're talking about putting in is that -

MR. COLLINS:
A. Sometimes I feel it's like we're, you know, we're the rabbit with the foxes behind us.
Q. I realize that and you've still a way to go, but wouldn't that be the scenario?

MR. COLLINS:
A. That would certainly be--that would be heaven, for me as a manager, I think is the best way to describe it.
Q. The reason why I say that because the legal counsel and one of the challenges for us, least cost, reliability and trying to quantify costs, but sometimes there is a certain cost because you have staff, like I say, like the Maytag repairman, he or she is sitting there and the beauty--the system does not need it because everything works well, but at the same time you've got to have them, and so some type of these enhancements are looked on that perspective being the--to keep you from not

having everything to do?

MR. MULCAHY:
A. I think maybe if I can speak to that briefly, I think really what you're getting at is a balance and yes, that would be utopia that you have an IT department that either you didn't need or wasn't doing much work. And I guess what you don't see here are things that aren't being done because we don't think that they are going to get us there, or that they are too expensive to bring forward. And so in terms of how do you make that assessment, it's a constant balancing act and I think Mr. Collins referred to it several times through his examination, and so I don't think this is getting us to the Maytag repairman situation, I think we're going out and we're fixing and we're upgrading, we're creating enhancements that will help us do our job better. But I don't see them as being the end of.
Q. That's all my questions, Chair.

CHAIRMAN:
Q. I just have a few, gentlemen. Mr. Collins, with regards to the--I want to make sure I understand about the open BMS system and is

the CSS the only function of Newfoundland Power that's dependent on that particular system?

MR. COLLINS:
A. Strictly speaking, no, from a technical perspective, no. What we have certainly is a CSS system, but as of today, the meter system, so we have a database for tracking all of our meters that are installed on houses and commercial buildings and so on, but that database is on CSS but--sorry, on open BMS but because it's so linked directly to CSS, we've left it there for now, but it's just a data repository, really, as far as CSS is concerned and street lights is another example, Mr. Finn.
Q. Okay, so given that, you know, there are obviously, as you say, other functions that are somewhat dependent on it, is it possible to or is it inevitable that you would be moving to another system as such? I mean, I know you're making enhancements, as you say in your pre-file, look for opportunities to make the CSS less dependant on the open BMS system, so is it possible that you would end up, you

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know, with a number of enhancements eventually whereby you wouldn't be dependant on one system at all or -
MR. COLLINS:
A. I don't foresee that happening. I think the last counter is 2.5 million lines of programming code in that system, and I don't think we could ever make enough small enhancements to move things off to completely get away from it. That's my sense of it really, Mr. Finn, from talking to the people that really know the system inside out. There's some, you know, the billing functionality that's inherent in that system is something that, you know, you're not going to be able to make a small enhancement to in order to move it off.
Q. So you're always going to be dependant, to some extent, on one system or another, whether it's open BMS or some other system?
MR. COLLINS:
A. That's correct.
Q. With regard to some of the enhancements that were discussed and you note in your pre-filed

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

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

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

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

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

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

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

MR. COLLINS:
A. Right. Like, it's not just based on that. What it's based on, it's several factors. It's a bit slower -

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

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

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lot of judgment involved.

(12:15 p.m.)

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

MR. MYLES:
Q. I have no questions, thank you, Mr. Chair.

MR. KENNEDY:
Q. Nothing arising, Chair.

CHAIRMAN:
Q. Mr. Young?

MR. YOUNG:
Q. Nothing arising, thank you.

CHAIRMAN:
Q. Mr. Kennedy?

MR. KENNEDY:
Q. Nothing arising, Chair.

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

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

MR. MYLES:
panel is in the sub ten minute range. I understand from Mr. Young he only has several questions. How long that will take, I don't know, and then there's Mr. Kennedy. And my sense was that if we were to break now and have a bit, then we might be able to just go straight to the finish. But we have to make a judgment call.

CHAIRMAN:
Q. What are you suggesting would be an appropriate length of time for the break?

MR. MYLES:
Q. Well for ourselves, twenty minutes or something like that, but it's purely what everyone else wants to do.

CHAIRMAN:
Q. Well perhaps we'll break for half an hour.

MR. MYLES:
Q. If you want to break for lunch, we could do that as well.

CHAIRMAN:
Q. We'll take a half an hour break then and then recommence. Thank you, Mr. Mulcahy and Mr. Collins.

(BREAK - 12:17 P.M.)
(RESUMED - 12:54 p.m.)

CHAIRMAN:
Q. Perhaps just for the record you can introduce the Panel?

MR. MYLES:
Q. Yes, thank you, Mr. Chairman. The first person closest to you, Mr. Barry Perry, Chief Financial Officer of the Company. And beside him is Lisa Hutchens, who is Manager of Finance. And they are the third and final Panel.

CHAIRMAN:
Q. Okay.

MR. BARRY PERRY (SWORN)
MS. LISA HUTCHENS (SWORN)

Q. Thank you. Mr. Myles?

MR. MYLES:
Q. Thank you. Ms. Hutchens, could you please state your name, position and what you are testifying on today?

MS. HUTCHENS:
A. Yes, I can. Good morning--good afternoon, I should say. My name is Lisa Hutchens and I am the Manager of Finance for Newfoundland Power.

And I'm here to testify today on the Company's 2002 rate base.

Q. And, Ms. Hutchens, do you adopt your pre-filed testimony?

MS. HUTCHENS:
A. Yes, I do.

Q. Mr. Perry, can you please state your name, position and what you are testifying on today?

MR. PERRY:
A. My name is Barry Perry, and I'm Vice-President Finance, Chief Financial Officer of Newfoundland Power. I will be testifying on changes in the Newfoundland Power deferred charges and plans for financing its 2004 capital budget.

Q. Mr. Perry, do you adopt your pre-filed testimony?

MR. PERRY:
A. Yes, I do.

Q. Ms. Hutchens, have you supervised the calculation of the 2002 average rate base shown in Schedule D of the Application, which can be found in Volume 1?

MS. HUTCHENS:
A. Yes, I have. And I can confirm that the

calculation is of the 2002 average rate base is in accordance with previous orders and practices of this Board. And I'll also point the Board, as well, to information item No. 1, which was the financial consultant's report filed by Grant Thornton that also indicated that the 2002 average rate base is accurate and in accordance with Board orders.

Q. Thank you, Ms. Hutchens. Could you please review for the Board the Company's average rate base of $573,337,000 for 2002?

MS. HUTCHENS:
A. Yes, I can. Schedule D you will see is on your screen, and that is the calculation of the Company's 2002 average rate base. At the bottom of the first column of numbers you see the Company's 2001 average rate base of $545,162,000. This rate base was approved as part of the Company's 2003 capital budget application in order P.U. 36 (2002, 2003). This figure becomes a starting point for the Company's 2002 average rate base calculation.
At the bottom of the second column you see the 2002 average rate base of $573,337,000 that we are requesting be approved. The two

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MS. HUTCHENS:
main factors that influence the Company's average rate base are depreciation and capital expenditures. The Company's capital expenditures increase rate base. The Board approves these expenditures annually through the capital budget process. Depreciation reduces the rate base. The Board approves the depreciation rates and methodologies used by the Company every five years. The last time this occurred was earlier this year as part of the Company's general rate application when the rates were approved in order P.U. 19 (2003).

Looking at Schedule D you can see on the top line that the plant investment of one billion, five million, 674 thousand is a starting point for the 2002 average rate base. From this total accumulated depreciation on the second line of $420,736,000 is deducted. Other smaller factors are then considered in the average rate base calculation.

Coming down the page on Schedule D, contributions in aid of construction which are funds received from customers towards the cost

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of capital assets of $19,788,000 is deducted. The weather normalization reserve of $10,919,000 which represents funds owed by customers to the Company is added back. Contributions for country homes, the next sort of text line on the left-hand side of $570,000 is added back. This figure represents the unpaid portion of the $19 million contributions in aid of construction figure above. Customers do pay us for those contributions over time payment plans from time-to-time.

And finally, the second and third-last line, a cash working capital allowance, any materials and supplies allowance. The cash working capital allowance is $4,712,000 and the materials and supplies allowance of $3,512,000, which require for the--which allow for the working capital inventory required to provide service to the Company's customers is also added to rate base. All of these factors are calculated in accordance with Board orders.

In the case of the weather normalization reserve, I will note that the balance of

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$10,919,000 has already been approved by the Board, as it normally is annually, in order P.U. 22 (2003). All of these components, taken together, combine to produce the average rate base for 2002 of $573,337,000.

Q. Thank you, Ms. Hutchens. Mr. Perry, could you please describe the report entitled "Changes in Deferred Charges, 2003 - 2004", which is contained in Volume 1 of the Application?

MR. PERRY:
A. Yes, I can. In order No. P.U. 19 (2003) the Board ruled that beginning in 2003 deferred charges were to be included in the Company's rate base. The Board also ordered the Company to file annually with its capital budget application evidence on changes in deferred charges. The report entitled, "Changes in Deferred Charges, 2003 - 2004" provides that evidence which is intended to enable the Board to assess the prudence of changes in deferred charges on a perspective basis.

Table 1 on page 1 of the report, which is shown on the screen, shows the actual deferred charges of the Company for 2002 and the forecast deferred charges for 2003 and 2004.

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With the exception of the weather normalization account, there have been no changes in the forecast deferred charges for 2003 and 2004 from those presented in the Company's 2003 general rate application. The changes to the weather normalization account are a function of the normal operation of the reserve and reflect the impact of actual weather experienced from January to May of this year.

Also as part of the information No. 1 referred to by Ms. Hutchens and filed with the Board Grant Thornton has confirmed for the Board that forecast average rate base for 2003 and 2004 which include deferred charges are calculated correctly in accordance with Board orders. Grant Thornton also confirmed that the information filed by the Company on deferred charges is consistent with that presented in the 2003 general rate application.

Q. Mr. Perry, the largest deferred charge is the deferred pension costs. Could you please review how this arises?

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MR. PERRY:
A. Yes, I can. Pension funding and pension expense are determined with reference to different criteria. As a result, the amount of pension expense for accounting purposes in a given year is different from the pension funding for that same year. The cumulative differences between pension funding and pension expense have resulted in the deferred pension assets on the Company's balance sheet. This accounting approach is in accordance with Board orders and is compliant with that recommended by the Canadian Institute of Chartered Accountants.
Q. Mr. Perry, Newfoundland Power is proposing a capital budget of $53.9 million for 2004. Could you please explain to the Board how this capital expenditure will affect the Company's financing requirements?
MR. PERRY:
A. Yes, I can. As stated in our evidence, the funds required to finance the Company's 2004 capital program will come from internally generated cash flow as well as short-term debt. When the Company's short-term borrowing

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requirements approach a level where the Company considers a long-term financing to be appropriate, the short-term portion is replaced with long-term debt. Currently the Company does not contemplate doing a long-term debt issue until sometime after 2004.
Q. Thank you. Mr. Perry, yesterday Commissioner Powell asked some questions of Mr. Ludlow and Delaney regarding the incremental efficiency at Holyrood in the event that the 15. 4 gigawatt hours per year currently generated at New Chelsea were instead generated at Holyrood. Do you have any information that might assist the Board?
MR. PERRY:
A. Yes, I do. I just want to discuss for the Panel how we look at these small hydroelectric plants that we have. We evaluate capital expenditures on those plants in relation to what's called the short run marginal costs of running Holyrood. And that information is provided to us on a fairly regular basis by Newfoundland and Labrador Hydro. The current estimate of the cost of running Holyrood, the marginal cost of running Holyrood is 5. 13

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cents per kilowatt hour. The cost of doing the New Chelsea plant, for example, is 3. 19 cents. So there's a wide margin in those two numbers. So saying it another way, we're about two cents better than running that energy through Holyrood at this point-in-time.
Commissioner Powell talked about, well, can Holyrood become more efficient if you're running more energy through it, I guess, you know, I think that was the essence of his question. And what we've done is we've looked at, in the last six or seven years, the most efficient point that Holyrood ran at, and that point is in 2002 they ran at--they were getting for every barrel of oil, they were getting 648 kilowatt hours. So we said, you know, what is the short run marginal cost of Holyrood at its most efficient point in the last six or seven years. And that number, in fact, is about 495, 4.95 cents. So even with that number of running at the most efficient point, our project in New Chelsea at 3. 19 cents is a very good project.
(1:10 p.m.)
The other thing we did, actually, is look

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at at what price would oil have to go to, to drive the short run marginal cost of Holyrood down to 3.19 cents, just to test the economics of our New Chelsea project and all the other small projects that we've--you know, we have in the hydro plant rehabilitation project. And that price is about $18 a barrel for No. 6 oil over the entire life of the New Chelsea project. So oil would have to average $18 a barrel for 25 to 40 years to make New Chelsea equal to running Holyrood.
So that gives the Board a sense of the economics of the New Chelsea project and generally the hydro plant that we have on the island. Any time you can get a energy on the grid at about three cents a kilowatt hour, you take that opportunity.
Just recently Newfoundland Hydro completed its Granite Canal project. The levelized cost on that project was 5.5 cents a kilowatt hour. Newfoundland Hydro has entered into contracts with the industrial customers on the island recent, Abitibi Consolidated in Grand Falls at 7.7 cents and the Kruger project, I think, was around 7.8 cents.

MR. PERRY:
So when you put all that in the mix, our proposal for New Chelsea is a bit of a slam dunk from an energy cost perspective. That doesn't take into account anything on capacity, any environmental issues associated with running Holyrood. So I just want to give the Board a perspective of how Newfoundland Power working with the information that we get from Hydro looks at these projects.
Q. Thank you, Mr. Perry. Does that conclude your remarks?
MR. PERRY:
A. Yes, it does.
Q. Thank you, Mr. Perry. Mr. Chair, I have no further questions for this Panel.
CHAIRMAN:
Q. Thank you, Mr. Myles. Mr. Young?
MR. YOUNG:
Q. Thank you, Mr. Chair. I'm not going to take too long, Mr. Perry. Although the point you just raised does bring up a few questions, and I suppose I just want to confirm. The point you just talked about at looking at Holyrood at its most efficient loading, I'm not even

sure that's required and I'm just going to bounce this off you. I assume you understand that if Holyrood--you know, that's a temporary measure for that particular period of time. But the way Hydro runs its systems essentially if it's not using Holyrood to provide energy, it's getting it from its hydraulic resources. You probably understand that?
MR. PERRY:
A. Yes.
Q. And then if it has a limitation on the amount of water, it has to get it from Holyrood over the course of the year that it runs Holyrood?
MR. PERRY:
A. Yes. Obviously Holyrood is integral to our system.
Q. So an average cost or an average efficiency might be, perhaps, a sensible number to use because it's energy and not capacity at a particular moment if you're doing your projects, correct. So this is a sensitivity analysis issue done, is that the point?
MR. PERRY:
A. Absolutely. I wanted to give the Board a sense that the, I believe the 5.13 cent number

is the right number to use as a bench mark, no question about that. But I wanted to deal with Commissioner Powell's issue about, you know, running Holyrood more efficiently. If that was the case, where does the marginal costs go. And, you know, just based on historical operation, if you looked at, you know, the year that Holyrood ran its most efficient because obviously it ran more that year, it--you know, we use that scenario and we still only marginally got below five cents for the marginal costs.
Q. Yeah, that's our assessment, also. The other point, I suppose, you raise is that, you know, when you get anything close to three cents power, that's a good deal. And there's no argument anywhere, I hope, no argument from anywhere in the province on that one. Just a point of clarification on that, though. When you're talking about the New Chelsea project, I take it you're taking all of those--I mean, when you look through the documentation, it's broken up in several components. So you're looking at them as a group, I assume, to come up with that figure, not each individual one?

I don't know if you've gone through that process, have you?
MR. PERRY:
A. If I understand Mr. Young's question, when we looked at New Chelsea, we looked at the capital cost in 2004 plus any extra capital that would come down the line and all the operating costs for the plant over the period. That's all in the economic analysis and that's where we get our 3.19 cents. The other hydro plant rehabilitation projects obviously are smaller in nature with--you know, just it's very obvious that the paybacks on those expenditures are less than one year. So we haven't gone and put before the Board the detailed economic analysis that we've provided for New Chelsea, but it's very obvious that you could look at every one, look at the hydro production from that plant and, you know, the paybacks are less than a year.
Q. That's an interesting point you just raised that actually wasn't my question. When I look at the New Chelsea project, and I guess if we can call it that, but there are, in a sense, six or seven sub-projects under that. I'm

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MR. YOUNG:
just wondering had you looked at any of these individually in relation to, for example, the penstock itself is roughly half, lower half. Was that evaluated separately on this basis or were they all grouped together?
A. They were all grouped together. We looked at New Chelsea, the plant is about, by the time we get to it, maybe 48 years old. It was built in, you know, 48 years ago at a cost of two and a half million dollars. It's just about fully depreciated on your books. There might be a hundred thousand dollars left. When we got into that plant, we realized that the plant needed a complete overhaul and I think it is the best approach to get in there, do it up and fix it for another 40 years, that's what we've done.
Q. You mentioned just now that the plant is just about fully depreciated. I thought there was one and I'm not going to be able to find this very quickly, response to an RFI where you indicated that you don't do depreciation that way, they've become part of a class and that it's difficult to determine when a particular

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plant is, becomes depreciated. I don't want to get into a big long discussion on that, but your answer then just sort of threw me.
MS. HUTCHENS:
A. How our plant records work with regards to plant, each individual hydro plant, we actually track the cost of the plant separately, so we can tell you, you know, what's gone into New Chelsea over the years or any other plant, for that matter. On a depreciation basis, we do just calculate the depreciation expense at a hydro plant group level, so it's not sort of pushed down to the individual accounts. So we can't sort of calculate an exact number as to what that depreciation is, but you can estimate just, you know, it's two and a half million bucks, it was 48 years ago, you kind of know that most of it is -
Q. Fifty-year old hydro plant is probably fully depreciated, yes, I understand.
MR. PERRY:
A. Our composite rate is about 2.07 percent or something for depreciation, so it's about 50 years, so that leaves -

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MS. HUTCHENS:
A. Two years.
MR. PERRY:
A. Two years left, I think it works out to a little over a hundred grand, something like that.
Q. Okay, so just to confirm that even though you can make a sound judgment based upon those numbers, you couldn't look the sys. (phonetic) numbers because of the way you do it by class?
MR. PERRY:
A. That's correct.
Q. Okay, I just have one other question and this is one I think that Mr. Ludlow didn't want to depunt (phonetic) to you and it's this $25.00 expenditure in 2001, Cape Broyle, and it's a couple of years ago, but I just want to use this as an example. The burning question, obviously, is whether this attracted any IDCs, but I won't get into that. The more important question, I think it was a matter of policy, is just whether there is any element in materiality that goes into the question of when a particular project gets capitalized. And that's really a matter, I think, of the

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policy accounting -
MS. HUTCHENS:
A. As a general rule, there's no specific materiality limit on capital additions; however, obviously the smaller dollar values that you get, the less likely that something is, an expenditure is going to add a substantial betterment to the plant and would therefore, not qualify as being a capital expenditure. Having said that, what you tend to see and what that table, I think probably indicated, was there's a couple of years it was twenty-five bucks and $700.00 in another year in another plant, and what that indicates is just a little bit of carry over or a little bit of start at the end of the year from a project from the prior year. So when we closed our books at December 31st, finished the projects in the prior year, there might have been a little bit of, you know, an expense report or a couple of hours to finalize commissioning or something like that, that just crept over into the other year.
Q. Okay, so that wouldn't be any sort of particular unit of property which was

MR. YOUNG:
accounted for in that way and those other small figures would be allocations to a particular year because the project wasn't completely done within one calendar year, is that the way it would have worked?
MS. HUTCHENS:
A. It would be allocations in that the accounting records may not be--there might be a little bit of, you know, a thousand bucks carried over here and there.
Q. Okay, so if we were to look at any one project, we'd never see numbers that small?
MS. HUTCHENS:
A. No, that's correct.
Q. Okay, well that clarifies that. That's all the questions I have, thank you.
CHAIRMAN:
Q. Thank you, Mr. Young. Mr. Kennedy?
MR. KENNEDY:
Q. Thank you, Chair, Commissioners. Mr. Perry and Ms. Hutchens, I wonder if we can start with a discussion on your deferred charges and specifically the deferred pension assets. And that's in Volume 1, changes in deferred

charges, 2003/2004 and I think it's already up on the screen, yes. And the details of that deferred pension calculation that shows up there, the deferred pension cost in 2004, 79,780,000 is over on page 4, so I wonder if we could just go to that please. Okay, so just looking through these, the 2003 forecast you were carrying a balance, as of January 1 of 64,684,000, correct
MR. PERRY:
A. Correct.
Q. And then there's a current service funding of 3,350,000, so that's the amount that is required to keep the plan hopefully current on the basis of what's required in the way of pension funding during 2003?
MR. PERRY:
A. Yes, it's what, I guess what was incurred, the service incurred by the employee group in 2003.
Q. Right, and the special funding of 7,589,000 is a special contribution, if you will, to the pension fund to make it whole, based on a short fall that's been identified by an actuary?

MR. PERRY:
A. It is that and it is also made up of a series of Board approved orders as well, but you are right in that we end up--the actuarial report is done every three years and that identifies an unfunded position. The last time it was done, it identified about 28 million of unfunded liability and--but over the past sort of couple of decades, the Company has also been in front of the Board several times for early retirement programs, the initiation of the plan itself back in 1984, I believe, the Board approved funding amounts. And what we do is we make sure that that annual funding amount approved by the Board does not exceed what the actuary provides to us every three years, so we're never overfunding the plan, so we make sure that we keep that in balance.
Q. Okay. Let's go to PUB-193, if we could and PUB-193 has attached to it the full actuarial report and I'm not sure, Mr. Chair, if it was a good idea to do this after lunch, hunger has a tendency to sharpen your senses and lunch has a tendency to dull them, but I'm wondering this is the first time that we've actually,

pursuant to PU-36, gone through the process of examining the line item of your deferred pension cost being included in your ratebase, correct?
MR. PERRY:
A. That's correct. We have examined the issue of deferred pension cost fairly thoroughly, but not as part of ratebase.
Q. Right. So I'm wondering if we could just have a look through this actuarial report so that you can provide some explanation where you can about how this operates. And probably the best bet is just to start with the summary of results first, so that we can just get that 30,000 foot view what's taken place and the actuary actually looks at three scenarios, correct, the going concern scenario, the solvency scenario and the wind up scenario?
MR. PERRY:
A. That's correct.
Q. And the one though that's relevant for our purposes or for the purposes of Newfoundland Power booking its pension cost or expense and funding requirements is the going concern scenario?

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MR. PERRY:
A. That's correct.
Q. All right and as per the summary here that as of December 31, 1998, which would have been the date of your actuary report previous to this one, showed an unfunded liability in your pension plan of 19,291,000?
MR. PERRY:
A. That's correct.
Q. And now the actuary report, the one most recently done, shows that as of December 31, 2000, there was an unfunded liability of 27,919,000?
MR. PERRY:
A. That's correct.
Q. And it's that 27,919,000 that Newfoundland Power is attempting to catch up on or fund, because right now it's unfunded?
MR. PERRY:
A. Yes.
Q. All right. And when we were looking at that table 5 and we saw the special funding of 7,589,000, that's that year's allotment towards unfunded liability?
MR. PERRY:

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

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

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

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MR. KENNEDY:
of a hundred percent as of December 31, 2000, so that's what you were referencing a moment again, Mr. Perry. And then you go, "As such, we recommend that Newfoundland Power Inc. make annual contribution to the plan for 2001 as follows"--and then we see the 7,834, 000 number.

MR. PERRY:
A. That's correct.
Q. So am I gathering correctly that insofar as this special payment of 7,834,000 that it is just that, a recommendation being made by your actuary of what it would require to fund the identified unfunded liability of 27,919, 000 within a period of time ending in 2005, I think it is?

MR. PERRY:
A. Yes, it's, you know, I would suggest a prudent recommendation of the actuary to fund at that level, albeit my understanding is that the law allows a funding to extend out to 15 years.
Q. Okay.

MR. PERRY:
A. I would add given what's happened in the last

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three years since this study was done, thank God that we did fund at this level because we'd be in a pretty bad situation come the end of this year when we do our study, given that, I think our plan has suffered losses, like most of the companies in the country of some 40 to 50 million dollars over the last three years.

MS. HUTCHENS:
A. Sixty-seven, actually.

MR. PERRY:
A. So, you know, this is really how we approach this entire area of funding, as a company. We don't look at looking at the most aggressive funding approach of looking, doing it over 15 years. We say, okay, you know, it makes sense to fund this as quick as possible. That's been our approach.
Q. If we could just go to page 17, okay, and 17, after the table there where it shows the split, 67, 33 and get to that in a moment, it explains how, the actuary explains how he values the assets or she values the assets and then the last sentence there in that paragraph before the last one, and it goes "To the

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extent that more capital gains than losses will arise over the long term, the actuarial value will tend to be lower than the market value." And so, would you agree with me that actuaries are, by nature, a conservative group and that this treatment in particular, this unrealized fund returns where they split it 67 and 33, is in effect a method employed by actuaries to make a conservative estimate of what your planned value is at any given point in time, as opposed to what the market value would appear to be in the plan?

MR. PERRY:
A. Sorry, Mr. Kennedy, you're going to have to rephrase -
Q. Try that one again?

MR. PERRY:
A. Yes.
Q. Okay, there's two different things, you have a market value in your plan, if I look at--or you can look at your fund report and see what the invested assets are worth today, at market.

MR. PERRY:
A. Yeah, we know what's in the plan.

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Q. Right. The actuary's figure for what's in the plan ends up being usually less than what that market value is, insofar as the numbers that are used here?

MR. PERRY:
A. I got to say I don't think so, I stand to be corrected, Mr. Kennedy, but I think whatever is in the plan is what's in the plan, you know.
Q. Well I think he uses market related values, instead of market values?

MR. PERRY:
A. I think that's more for really averaging impacts of swings in the market, okay, maybe that's answering your question, but I know that the actuary doesn't say, for example, if there's 160,000,000 in the plan, they don't say well, it's not really there, we're only going to say it's 130,000,000 there, they'll build in a discount to what's in the plan that's, you know, whatever is in the plan is in the plan.
Q. Well let's just scroll down to the next page then, I guess. The next page shows market value of the assets to be 162,491,000, but

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MR. YOUNG:
then they do this adjustment for unrecognized returns in excess of assumed returns, and end up deducting 4,386,000 off of the market value of the plan to arrive at an actuarial value of the plan being 158,105,000. So, the market related value that is used by the actuary that ultimately drives what your unfunded liability is, is less than what the actual market value is?
MR. PERRY:
A. I'm not an actuary, Mr. Kennedy. It appears that that's correct, what you're saying. But, you know, the mathematics behind how they calculate the unfunded liability in the plan, I generally understand them, but, you know, I've got to be honest with you, I haven't crunched the numbers on that. I rely on the actuarial report that's provided to me very three years and there are recommendations that come out of that. It's mandated under law and we file with the Pension Act--the authorities in Newfoundland, so -
Q. Sure. If we could look at some of the actuarial assumptions, page 20, and the first

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one, the economic assumptions, the first one is the investment return. In this valuation that was conducted for December 31, 2000, it assumed that 6 percent investment return on your actuarial fund, as opposed to apparently what was being used was 7 percent in the previous valuation?
MR. PERRY:
A. That's correct.
Q. So that's one adjustment that the actuary made in the assumed return that you would achieve on your investment?
MR. PERRY:
A. Yeah, it's very, I think, part of the normal process that they do every three years, they look at the assumptions that they base their prior report on and assess whether those assumptions are still valid. This is again, from an accounting perspective, from management it's been a very hot topic recently, you probably read a lot in the papers about what level of investment return should be assumed for pension plans and, you know, some companies have been as high as 9 and 10 percent, but, you know, clearly there's

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a significant downward pressure being placed on what people are assuming returns to be on pension assets, you know, in North America really.
Q. The next one is increases, well expenses, no allowances, and then increases in pensionable earnings. "To calculate the pension benefits payable upon retirement, death or termination of employment, we have taken 2001 earnings and assume that such pensionable earnings will increase at 4.5 percent per year." So as I understand it, it says the assumption of 5 percent was used in previous years, so is this a--in the pensionable earnings, he's assuming that the revenue or income earned by your employees is increasing at the rate of 4. 5 percent per annum?
MR. PERRY:
A. That's correct, that's wage increases and scale increases on average over, I guess, the remaining life of the working workforce is assumed to be at 4.5 percent.
Q. And do you know how that compares with what the actual rate of increase has been for your workforce?

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MR. PERRY:
A. Probably a little lower, I think maybe than what the actual is, I think the actual is probably more around the five, five and a half, you know, for the last, I would say, couple, three, four years maybe. So it's--but I would say four and a half is fairly middle to the road for plans across the country.
Q. Okay, if we could just go back to page 6. Okay. So reconciliation of financial position, and you start with the previous unfunded liability of 19,291,000 and then they add to that interest on that unfunded liability at 7 percent per year to December 31, 2000. Do you know what the basis of that is, where the 7 percent interest would come from, why that calculation would be made?
MR. PERRY:
A. I think it's generally where market rates were at the time.
Q. So it's foregone interest earned on that 19,291,000 that should have otherwise been in the fund?
MR. PERRY:
A. No, I don't think that's what it is. I don't

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

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

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

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

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MR. PERRY:
okay, and we've been saying, okay, if we follow those orders, we can fund this plan well within the 15-year period. And you know, if there was a circumstance, for example, if come the end of this year and the markets really do well to the rest of the year, which I, you know, I don't think it's going to be enough to overcome what we've done in the last couple of years, but if something happened and the actuary report came out and there was basically a zero unfunded position, we'd have to essentially apply to the Board, I would expect, and say "we cannot fund the plan any more because we're fully funded." So the orders have to, you know, be cancelled, I would suggest. You know, so that's sort of the first thing we look at.
And then secondly, you know, I think it is, as CFO of the Company, I believe the quicker you can deal with that unfunded liability, the better it is, and we've been able to manage this, you know, in the last few years without impacting customers. We have--in fact, you know, we haven't had--our portion

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of costs on this system have declined by about one percent in the last ten years. So our rates have gone down one percent. So we've been managing this very well, very prudently. The plan is in good shape, very good shape, compared to the horrible stories that are on the go across this country. So, you know, we're pretty proud of where we are on that, and I don't see us changing that approach.
Q. You reference one percent. What was that in relation to?
MR. PERRY:
A. Well, really it's, you know--it's really a bit of our mantra to a certain extent. When you look at the electrical system in Newfoundland, we account for 40 percent of the cost on the system. Hydro, through purchase power, you know, they account for 60 percent of the cost. If you look at 1993 to 2004, because rates are now set for the full to 2004, our costs have gone down one percent. So we haven't had any rate increases over that period. They've gone down one percent. By the way, we've spent 500 million on capital expenditures. If this budget is approved, we would have spent 500

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million in that same period of time. That's how we manage the business.
Q. But Mr. Perry, this has little to do with the pension funding per se.
MR. PERRY:
A. No, it's all--no, Mr. Kennedy -
Q. But if your deferred charge is increasing, your rate base is growing.
MR. PERRY:
A. That's--now that these are going in rate base, absolutely.
Q. Yes, okay, and well before they were going into rate base, it was still part of your invested plant and you were still getting a return on that, were you not?
MR. PERRY:
A. Absolutely.
Q. So you're getting a return either way, just it's a provision that is now accounted for in rate base, correct?
MR. PERRY:
A. That's correct. My point, Mr. Kennedy -
Q. Well, let me finish my point. If it's in your rate base -
MR. MYLES:

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Q. Excuse me, Mr. Chair.
MR. KENNEDY:
Q. - you get a rate of return on your rate base?
MR. MYLES:
Q. Mr. Chair, can we have -
CHAIRMAN:
Q. Excuse me. Mr. Kennedy. Mr. Myles?
MR. MYLES:
Q. Mr. Kennedy, you know, if he wants to ask a question which of course is what we're here for, I think he needs to allow the witness to finish. I don't think it's appropriate for the two of them to be sort of battling each other for supremacy. Mr. Perry is the witness and he's asked to respond and fulfil his question. I think he'd give him that opportunity.
CHAIRMAN:
Q. Your point is well taken. We'll give the witness more of a chance to reply, Mr. Kennedy, please.
MR. KENNEDY:
Q. Fine, Commissioner and Chair.
MR. PERRY:
A. So can I finish then, Mr. Kennedy?

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MR. KENNEDY:
Q. Yes, sure.
MR. PERRY:
A. I guess, Commissioners, my point is the capital budget and pension funding are not--you can't segregate those from our overall operation of the business, and as CFO for this business, you know, I look at what--when you put all this together, how does it impact customers, and when I can sit here and say that for the period 1993 through 2004, Newfoundland Power's contribution to cost on the electrical system in Newfoundland have gone down by one percent, that's 11 years. Inflation is in there, everything. 11 years, that's a pretty fantastic accomplishment, and if we can keep that going, which is our goal, then I think that's a novel achievement. So that's how we think about it. So pension funding is part of that. The capital budget is part of it and it all fits together in terms of how we manage the business.
Q. Okay, we'll change topics, and what I'd like to do is just have a discussion with you about your general budget process, and if we could

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just look at NLH-1. So Mr. Perry, this describes, in response to a question of what Newfoundland Power's capital budget process is, and it indicates that there's two elements to it: an ongoing process where by capital expenditure requirements are identified in the normal course of operation; and an annual formal budget preparation process involving the prioritization and documentation of capital projects for corporate and regulatory approval. Then it goes on to describe what happens at the departmental level, that identifications are made of areas that require work to be completed. And the next paragraph there, beginning at line 17, it indicates normal part of departmental management is specific capital projects are identified and engineering drawings are done, documentation is put together, and this initial documentation provides the basis for detailed engineering. Line 28, a formal capital process begins in the second quarter of each year with the development of a budgeting schedule, including target dates. And then customer forecasts are issued, which drives

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how much your budget's going to be for extensions and new services and street lighting. Then the next milestone is identification of specific projects to be included in the following year's capital project. Third milestone, corporate level review, and at that stage, proposed projects are assigned justification categories. Then the assigned justification categories, that's over on the next page, yes, and priority codes assist in ranking the project, in terms of priority. The next stage of the process consists of a more rigorous review and challenge by the managers. And then once that final review has been made, it's approved by the Company's executive and then submitted to the Board of Directors for approval. And then it comes to the Public Utilities Board.

Can I ask you whether anywhere during this process there is direction given by your office, your department, Finance, to these departmental managers or, for instance, Mr. Ludlow as the vice-president of operations, of how much money they have to spend?
MR. PERRY:

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A. No.
Q. Is there any collar the Company has on what its capital budget is in any given year? Is there any limit imposed by the Company on what the capital budget can be in a given year?
(1:50 p.m.)
MR. PERRY:
A. Commissioners, not generally. Obviously at some point, the capital budget becomes unmanageable for the Company. It's really a process that starts with, as Mr. Kennedy went through, a review of our operations from a reliability standpoint, and you know, it builds up over time and, you know, we get--you get to a number and you look at that number and, you know, Lisa and I and our group would review how it impacts the customer rates and, you know, we decide on what the final number is. But nowhere along the way do we say, IT, you have 3 million, and you know, Operations, you have 10 million. That's not how we do it. You know, essentially, what the electrical system needs and has to be done through the prioritization process comes forward to us and, you know, Mr. Kennedy left out a--I don't

MR. PERRY:
think he intentionally, but left out a key thing here when he talked about challenge by the managers, and it goes on, and the Company's executive, you know, and that, near the end of this process, we are heavily involved in challenging the projects, especially larger projects like New Chelsea.

Like the CSS is a novel example. A couple of years ago, we thought we had to replace CSS. We, you know, myself, sent the challenge to the IT group and customer service, find a way that we don't have to spend $15 million on a new system. There must be a way through this. They worked on it diligently, found a way that we could get another five years out of that system. That's one example of how we interact. Another example, AMR meters. I think Commissioner Powell was talking to Mr. Ludlow about that yesterday. We actually looked at AMR from an economic perspective. You know, had a brief look at it and said can we implement AMR in Newfoundland and reduce meter reading costs, make it economical? It didn't cut the

mustard. But we knew we could--we had some problems on safety and access and we wanted to deal with that. I can tell you there are utilities in this country that got 80 percent of their meters on AMR. There's 40 million AMR meters installed in North America. So this is not a new thing or anything, but we looked at it. We said we couldn't make it happen. Our meter reading costs are low. You know, it's just, you know, the cost per meter is very low.

So those are the kind of involvement that the finance group have in sort of, you know, the larger projects that we are involved in. Plant replacement, there's not a lot I can offer when Mr. Ludlow comes and says "Barry, I got to do this amount for these various Hydro plants or transmission lines." You know, this is--it's not rocket science. You know, I can drive around and see that we need to do work on some of these systems. So the real involvement is in the sort of decision projects where you got alternatives, you got--you know, you got big dollars involved, that we can't manage in any one year. So we really

play a big role in that aspect.

Q. So, Mr. Perry, in the case, for instance, where in the 2004 Capital Budget, you have a project B54 feeder additions and upgrades to accommodate growth, and it's addressed in PUB-62 that the budget for this item is 158 percent higher than the next highest expenditure made in the previous five-year period.

MR. PERRY:
A. Sorry, Mr. Kennedy, I need to catch up to you. Where are you?

Q. Okay. PUB-62 may be helpful. The reply is at--there we go. The question notes that in this particular budget item, feeder additions and upgrades to accommodate growth, that there was 158 percent increase in 2004 over the next highest expenditure made in the previous five-year period and some 1730 percent higher than the 1999 expenditure, and asked for an explanation. The explanation was that this isn't based on historical trends and that it's not necessary to construct new feeders every year and hence, this component of the project costs could be zero dollars in some years and

conversely, when electrical demand exceeds capacity in a number of locations, multiple feeders may be constructed, and this results in large swings in the budgeted amounts from year to year. So in a case where Mr. Ludlow is bringing forward to you a budget for feeder additions and upgrades to accommodate growth that he has for 2004, does that have any impact then on the budget in other areas of distribution, or for that matter, the overall capital expenditure level of the Company? That if this happens to be a year that instead of having a zero dollar expenditure for feeder addition, you have a large capital expenditure for feeder additions, that that would get trimmed out somewhere else or have an impact on the level of expenditure being spent in another project?

(1:55 p.m.)

MR. PERRY:
A. It could. It could. You know, depending on the size of it obviously. If there was a feeder addition that was going to be $10 million, for example, I would--Earl and I would have had many conversations about timing

MR. PERRY:
of that and when we were going to do it, and would have--you know, but the nature of what we're talking about here, Mr. Kennedy, is very manageable in terms of our overall budget and I wouldn't see any major impacts on my decision making as to what amount of the budget it should be. I don't know if that puts it in context for you. You know, if Earl comes and says "Barry, I got to build a $300,000 feeder because we don't have enough load in this area," you know, the numbers are there, I can see that and we got to build the feeder. We got an obligation to serve the customers. There's not a lot I can offer on that, Mr. Kennedy.
Q. Okay. On the other side of the equation, there was an exhibit filed at the beginning, PJD-1. I wonder if we could just pull that up. Leave it at 2003 Capital Budget variances. It was to update -
MR. MYLES:
Q. We know what it is. We're not able to find it electronically right now.
MR. KENNEDY:

Q. Okay. Well -
MS. HUTCHENS:
A. We've got a copy here.
Q. - do you have it there?
MR. PERRY:
A. Yes.
Q. Okay. For the benefit of the Commissioners, it's the 2003 Capital Budget Variance Report that was updated to July 31st that was filed by Mr. Delaney as an exhibit at the commencement of his testimony. It shows a total variance of a million, three seventy-three. Is that correct, to date?
MR. PERRY:
A. That's correct, yes.
Q. And now 375,000 of that is just a provision that you've made for unspent, unforeseen allowance, as of half of the year, correct?
MR. PERRY:
A. Yes.
MS. HUTCHENS:
A. Yes.
Q. So, it's quite conceivable that, at some point later on in this year you could end up spending the full $750,000.00.

MS. HUTCHENS:
A. Absolutely.
Q. Right. And so that 375 gets backed out again, correct?
MS. HUTCHENS:
A. Yes.
Q. All right.
MR. PERRY:
A. If that occur.
MS. HUTCHENS:
A. Yes.
Q. But the distribution is 1,184,000 over budget as of July 31, is that correct?
MR. PERRY:
A. That is correct.
Q. So, is there any limit imposed on any of the divisions of the company by the Department of Finance in how much they can go over budget on a capital project?
MR. PERRY:
A. No, other than loss of job. No, Mr. Kennedy, there's no specific limit. You know, obviously, we are managing these projects fairly closely. The overall budget variance here for this size of budget of 57.8 million

at 1.3, very reasonable, again, is about 2 percent, I think. And given my almost 20 years now in the heavy industry, capital budgets, I don't know if there's many companies out there bringing their budgets in at about 2 percent variance. So, overall, we're pretty pleased with that kind of performance.
Q. Okay. That's all the questions I have, Chair, Commissioners. Thank you Mr. Perry and Ms. Hutchens.
CHAIRMAN:
Q. Thank you, Mr. Kennedy. Mr. Myles, anything on re-direct?
MR. MYLES:
Q. No, questions, thank you.
CHAIRMAN:
Q. Commissioner Powell?
COMMISSIONER POWELL:
Q. Thank you, Chair. Thank you, Mr. Perry and Ms. Hutchens. I guess the first thing I'd like to address is the comments I had on the New Chelsea project. As far as the project goes and the engineering report was submitted, I think I tried to convey to both Mr. Ludlow

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COMMISSIONER POWELL:
and Mr. Delaney, I don't question their numbers or their need for it. But when I read through engineering or the energy section in the application, the thing that struck me--a number of things struck me. One, that I think you missed the compliance in Article 9 of the PUB-36, Schedule C, documentation coming forward on discussions between the Utilities about the duplication, avoiding duplication of service. The other thing that, I guess, you probably do appreciate, if not, you should appreciate, we sit here as regulators, we're driven by the mandate that we're looking for least cost reliable power. Now, as an accountant, I appreciate the word cost probably than other people in the room, but I hadn't realized until I started reading some of this how many adjectives you can put in front of the word cost. And I think--I didn't count in the New Chelsea thing, there's levelized cost, I think the word, index cost. Now, you've just threw out in your justification for it, short run marginal cost. And I said to myself, this is great. And you

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even had Mr. Young, legal counsel, agreeing with one of your costs. And my comment is, that's okay, that's great, these are all lovely costs, but this is at lease cost that we're supposed to be looking at and to give reliable power.
And I think that when the Schedule C was put, that's one of the things we were trying to capture. Now, I don't disagree with--Mr. Young gave some indication, some of the costs you threw out were probably right. And no disrespect to Mr. Young, but as a regulator, I would feel a lot more comfortable if that came from somebody in Hydro a little closer to the action and a little bit more putting together with what drives those least costs.
So, the figures you gave and obviously this worked through and some of the things I didn't get the sense that, from the engineering department, connect with the Finance Department of Newfoundland Power connect with the Energy Department with Hydro and their accounting people to having this joint, let me use the word management. That's probably not the right word, but the joint

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look at energy projects and seeing what's in the best interest of the rate payers of the province and I think that's what we're trying to capture.
MR. PERRY:
A. Mr. Powell, can I just comment on what you just said? I have to admit, we don't sit in a room together and discuss Hydro and ourselves, these issues. But Newfoundland Power is just as aware of cost on the system as Newfoundland Hydro. And we're very busy with each other rate cases and this information, and I do appreciate your sitting up there in terms of trying to understand all this jargon that's discussed, but we are very much aware of what the cost of energy is on the system. And the information in terms of the five cents for the--for what it costs to get a kilowatt hour out of Holyrood is good information and we have that from Hydro, you know, direct from them. And you take some comfort in that, this is not numbers that we've created in absence of information from Newfoundland and Labrador Hydro.
Q. I have no reason to disbelieve that, but I

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guess what I was trying to get at is that you have a project and you're going to have significant upgrading on a source of power, have somebody taken the time in Hydro to crunch it all through and look at that "what if" scenarios and decide that that, in the long term, and the discussion between Mr. Ludlow and Mr. Young and they both agreed when they were talking least cost, there's more than one cost; there's a whole group. And whether that discussion went on at the level with those people who could really crunch those numbers, find out whether that's the least cost option. And I didn't--I'll reread all this, we'll read this again, but I just didn't capture that feeling that you were complying with Schedule C, PUB-36.
MR. PERRY:
A. Well, we've endeavoured to comply as much as we could, Mr. Powell.
Q. I appreciate that.
MR. PERRY:
A. And maybe it's an area that we can improve on, you know, going forward, but I do know that, you know, you can take from the questioning of

MR. PERRY:
Hydro to the witnesses that there has been no, I think, issue with the need to proceed with a Hydro project that is generating power at 3 cents in Newfoundland, you know, at this point in time. These projects are far and few between at this point in time in our history.
MS. HUTCHENS:
A. Perhaps I can comment a little bit too. I know, just to give you a little bit more comfort, I guess, there's a group of individuals within Newfoundland Power that are, I guess you could call system planning group. And I know that they are in frequent constant communication with Hydro's, their counterparts at Hydro. I can't tell you for sure whether they've specifically discussed the New Chelsea project, but I do know that these individuals on both sides are quite aware of what's going on from a planning perspective throughout the Island on energy projects and redevelopments and that sort of thing.
So, you know, while there may not be specific communication, I think there's an

understanding level that's developed over many years that, you know, we know what their costs are and they know what our costs are and the understanding has just been developed, so the discussions, the specific discussions really just aren't necessary. You know, perhaps we need to go get them, but, you know, it would be good to be in compliance, but that--you know, there are a lot of discussions that take place in that regard.
Q. There's always been--let's see if I can phrase this right, but there's a school of thought out there that there is an element of duplication that goes on with the Utilities. And one of our challenges as regulators is not to totally believe this, but when we see certain projects coming through, it's the challenge. And I think the onus would be on the Utilities to disprove that. I think that's where I'm coming from. I don't doubt the numbers, but again, I think that was probably one of the spirit of PU-36 was that every time you do something that would mirror what somebody else was doing, that would have to be something, I would think from a

regulator that we expect us to challenge and you'd be prepared to show is not. The switching off, one of the thing that was addressed, in going back to New Chelsea, that there was a comment about sunken cost. And then there was the next, as I mentioned to Mr. Delaney and Ludlow through me, that you didn't depreciate plants and therefore, you really didn't know what the balance of that plant was.
So, am I correct in gathering then that this is, sort of, an arbitrary figure that you would use to throw in a calculation if you were going to look at the cost of demobilizing New Chelsea and sunken cost there? You have no real--it threw me when I read it, the first question I had no problem with, but then I went to the next one, just happened to be one after it and it sunk right in, I said, it seemed like a contradiction.
MR. PERRY:
A. Commissioner Powell, we could come up with a reasonable estimate of the cost that's left to be depreciated on New Chelsea. And as I estimated it, it's in that $100,000.00 range.

The plant was, you know, built 47 years ago. I was surprised actually when I looked at the original cost, it was two and a half million dollars back 47 years ago. And we've done very little work on that plant in recent years. So, assuming--I haven't gone and looked at the period from the last ten years prior to the time it was built, but assuming there was not much spent in that period which I don't think there was, you apply our normal rate of depreciation for Hydro plants which is a little over 2 percent which indicates a 50-year life, there's very little of that plant left to depreciate.
Q. You say in your depreciation that you do it system wise as opposed to asset wise with all the sophisticated software out there today, it's not that--is there any reason why you do that?
MS. HUTCHENS:
A. The depreciation is calculated at an account group level. So, for example, under the Hydro plants there would be penstocks and dams in one group and governors and controls in another group. It would be that type of

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MS. HUTCHENS:
breakdown, but we don't look at it on an individual plant-by-plant basis. And I think you're correct in assuming that in today's software, yes, that's doable. I guess the problem we've got is that until very recently our fixed asset records were manual. When I started with the Company in 1997, the records were actually manual ledgers. And we've gone through a process of getting that information into the computers, but there's not enough history there to do the type of analysis that you're talking about.
Q. We had a question yesterday, vehicles, a fairly significant, $400,000.00, it was an accident and there was a question about insurance recovery. And the item was put in the budget at the, if I'm correct, the gross costs.
MS. HUTCHENS:
A. That's correct.
Q. How do you handle that in terms of when the insurance proceeds come in? Would that go in and you'd just get carry it on your books as net or would you -

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MS. HUTCHENS:
A. The insurance proceeds actually get applied, the rules are governed by our system of accounts which is a regulated set of accounts that's approved by this Board many years. And what happens to the insurance proceeds is they go in basically into the accumulated depreciation account as a salvage value. So, it does, in effect, draw down the rate base, but you don't see it in the capital expenditure presentation that we bring forth.
Q. Okay. So, the depreciation charge for one year, we'd take a hit from the insurance proceeds
MS. HUTCHENS:
A. No, the full insurance proceeds would go against accumulated depreciation.
Q. Okay. Is that the same thing you do for asset too?
MS. HUTCHENS:
A. Yes, it is, yes.
Q. That's all my questions.
CHAIRMAN:
Q. Commissioner Martin.
COMMISSIONER MARTIN, Q.C.:

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Q. I just have one. Maintenance expense and capital costs, somebody else, Mr. Ludlow I think called it capitalized maintenance, is that a rule of thumb or what are the parameters that would define one.
MR. PERRY:
A. Generally, it is a bit of a judgment call, Commissioner Martin and Ms. Hutchens is involved with this very much on a detailed basis, but my general, sort of, rule is, you know, an expenditure has to create a lasting benefit, benefits that go beyond a year enhancing the productivity of an asset. You know, those are the general rules. These are decisions we make on a daily basis really in our operation. Lisa, I don't know if there's something you can add.
MS. HUTCHENS:
A. Yes, it's very much a judgment call, betterment or enduring benefit, certainly they are the calls that we have to make on a regular basis. There's obviously some rules of thumb that have developed over the years, but they all, sort of, fall under that major rule of thumb.

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Q. I don't know if that helps me or not, but as long as you know what you're doing, I suppose -
MR. PERRY:
A. Actually, we do apply it very rigorously and we have a lady that works with Lisa in her group that is constantly involved with the people working on capital works and challenging, you know, why is that going there and, or identifying something that should be capitalized that's going to operations, so it's a very dynamic process.
MS. HUTCHENS:
A. Definitely. I actually had that individual review the budget before we submitted it, to say, is that all that capital and the response was yes.
CHAIRMAN:
Q. Along those lines, I guess, specifically with regards to the radiator refurbishment, I don't know if refurbishment is the right word to use or rehabilitation or change over, whichever it is, can you think of any reasons why the judgment call might be made to put that towards maintenance as opposed to capital

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CHAIRMAN:
expense?
MR. PERRY:
A. I don't, Commissioner Finn, that one is pretty black and white to me. You know, these transformers, like I got this project right, can't work without the radiators, essentially, and if the radiator is corroded, has to be repaired and there's a significant cost of that repair, that's going to extend the life of that unit for us. So, I feel that that falls right in the capital expense category.
Q. I guess I'm trying to see an example of it, you know, where you'd have to make a judgment call, you know, if that's black and white, can you give me an example of where you've had to make judgment calls before and you've allotted something to maintenance as opposed to capital cost where it could have gone either way?
MR. PERRY:
A. I think something like pumps, sometimes pump overhauls, you know, if they're of a minor nature, they're not tearing the entire unit out.
MS. HUTCHENS:

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A. I can think of one that actually didn't get in here because of that reason and it was an inspection process on the company's telecommunications towers that would result in capital work, if they found anything. We said, ah, come on, inspection, not really sure that that's of an enduring nature. So, we said no, that that doesn't fit in that, even though it may result in a capital work and likely would result in a capital work. The upfront piece of it, we said no, that's really an operating expense.
Q. If capital work had come about as a result of the inspection. Would the inspection then be capitalized?
MS. HUTCHENS:
A. We wouldn't go back and do it, no.
Q. Okay, thank you. Anything arising.
MR. KENNEDY:
Q. No, nothing arising, thanks.
MR. MYLES:
Q. No, Mr. Chair.
MR. YOUNG:
Q. No, nothing arising.
CHAIRMAN:

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Q. Thank you, Mr. Perry and Ms. Hutchens. I think, ladies and gentlemen that concludes the evidentiary portion of the hearing. It's my understanding, I think, that by Wednesday of next week that the parties would file written argument and we'd have an opportunity for the oral presentation on next Friday morning. I guess we'll reconvene at 9:00. Are there any other matters that need to be raised before we adjourn today.
MS. NEWMAN:
Q. No, Chair and Commissioners. I would just clarify that the usual filing time was 3:00 p.m., so I guess the closing arguments will be due on 3:00 p.m. on the 17th and 9:00 a.m start on Friday, the 19th.
CHAIRMAN:
Q. Well, certainly before we do adjourn, I'd like to take the opportunity on behalf of the Panel to thank the various witnesses for the testimony that they've given during the course of the hearing. And as well, certainly extend our thanks to the counsel involved for their conduct in and contribution to the hearing process as well as the Board staff. Thank you

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to Mr. Moss of Discoveries Unlimited for his assistance in the preparation of the recordings and the transcripts. And last, but not least, Ms. Combden for her excellent assistance to the Board with regard to the computer presentations and visuals. Thank you all and we'll stand adjourned until next Friday. Thank you.
Adjourned at 2:20 p.m.

CERTIFICATE

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

Dated at St. John's, Newfoundland and Labrador this 12th day of September, A.D., 2003

Judy Moss Lauzon