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<p>1 (9:10 a.m.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. Good morning everyone. This is the</p> <p>4 continuation of the hearing into the matter of</p> <p>5 the 2004 Capital Budget of Newfoundland Power</p> <p>6 and the average rate base for the year 2002</p> <p>7 for Newfoundland Power. We're set for final</p> <p>8 summations this morning. Are there any</p> <p>9 preliminary matters before we start, Ms.</p> <p>10 Newman?</p> <p>11 MS. NEWMAN:</p> <p>12 Q. Good morning, Chair and Commissioners. Just</p> <p>13 to briefly mention that I haven't formally</p> <p>14 spoken to the parties about the time that they</p> <p>15 expect to take with their closing submissions.</p> <p>16 It seems that we should easily finish within</p> <p>17 the time that would normally be allotted,</p> <p>18 before the first scheduled break. However,</p> <p>19 Newfoundland Power may wish to have a short</p> <p>20 break before reply, and I guess we can address</p> <p>21 that at that time.</p> <p>22 CHAIRMAN:</p> <p>23 Q. Fine, thank you. With that then, Mr. Myles,</p> <p>24 the floor is yours.</p> <p>25 MR. MYLES:</p>	<p>1 Q. Thank you. Good morning, Chairman Finn,</p> <p>2 Commissioner Powell, Commissioner Martin.</p> <p>3 This is the conclusion of Newfoundland Power's</p> <p>4 2004 Capital Budget application pursuant to</p> <p>5 Section 41 of The Public Utilities Act,</p> <p>6 seeking approval of the 2004 Capital Budget,</p> <p>7 in the amount of \$53.9 million. As well,</p> <p>8 there is an application under Section 78 of</p> <p>9 The Public Utilities Act requesting that the</p> <p>10 Board fix and determine the Company's average</p> <p>11 rate base for 2002 in the amount of</p> <p>12 \$573,337,000.</p> <p>13 My oral presentation this morning will</p> <p>14 address four areas. The first is the fixing</p> <p>15 and determining of the 2002 average rate base.</p> <p>16 The second is the 2004 Capital Budget and the</p> <p>17 capital projects which are contained in the</p> <p>18 budget. The third is the issue of the filing</p> <p>19 requirements applicable to this Capital Budget</p> <p>20 application and the upcoming technical</p> <p>21 conference on this topic. And the fourth area</p> <p>22 will address specific topics raised by</p> <p>23 Newfoundland Hydro and Board hearing counsel</p> <p>24 in their written briefs.</p> <p>25 With respect to the 2002 average rate</p>
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<p>1 base, Schedule D of the application sets out</p> <p>2 the calculation of the 2002 average rate base.</p> <p>3 Schedule D also sets out the same calculation</p> <p>4 for the 2001 average rate base, which was</p> <p>5 approved by the Board in Order No. P.U. 36</p> <p>6 (2002/2003) and from here on, I will be</p> <p>7 referring to that Order as P.U. 36.</p> <p>8 Ms. Hutchens confirmed that the</p> <p>9 calculation of the 2002 average rate base is</p> <p>10 in conformance with the applicable Board</p> <p>11 orders and policies. As well, in Information</p> <p>12 No. 1, the Board's financial consultant, Grant</p> <p>13 Thornton, has also confirmed that the 2002</p> <p>14 average rate base calculation has been made in</p> <p>15 accordance with the applicable Board orders</p> <p>16 and policies. There has been no issue taken</p> <p>17 with the accuracy of the calculation by either</p> <p>18 of Newfoundland Hydro, nor Board hearing</p> <p>19 counsel. Based upon all of the above,</p> <p>20 Newfoundland Power requests that the 2002</p> <p>21 average rate base be fixed and determined by</p> <p>22 the Board in the amount of \$573,337,000.</p> <p>23 With respect to the 2004 Capital Budget</p> <p>24 and the capital projects that make up the</p> <p>25 Budget, I would first like to provide some</p>	<p>1 background to place the Budget and the</p> <p>2 projects in context. As stated by Mr. Ludlow,</p> <p>3 capital investments are driven by the</p> <p>4 Company's commitment to meet customers'</p> <p>5 expectations for safe, reliable, low-cost</p> <p>6 electrical service. The main drivers for the</p> <p>7 2004 Capital Budget are reliability, safety,</p> <p>8 customer service, productivity and the</p> <p>9 environment. This is consistent with previous</p> <p>10 capital budgets that have been presented to</p> <p>11 and approved by this Board.</p> <p>12 The utility business is very capital</p> <p>13 intensive and reliable service requires</p> <p>14 significant investment in electrical plant.</p> <p>15 To date, Newfoundland Power has invested</p> <p>16 approximately one billion dollars to build its</p> <p>17 electrical system. This system is comprised</p> <p>18 of over 10,000 kilometres of transmission and</p> <p>19 distribution lines, approximately 250, 000</p> <p>20 poles, 137 substations, 23 hydro plants.</p> <p>21 Ongoing capital expenditure is essential to</p> <p>22 the safe and reliable operation of this</p> <p>23 system. Newfoundland Power serves</p> <p>24 approximately 220,000 customers in over 600</p> <p>25 communities on the island of Newfoundland.</p>

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<p>1 MR. MYLES:</p> <p>2 As noted by Mr. Mulcahy in his testimony,</p> <p>3 as a part of the process of providing reliable</p> <p>4 service to its customers, the Company responds</p> <p>5 to approximately 460,000 customer calls each</p> <p>6 year and processes approximately 2.4 million</p> <p>7 meter readings, and with that, issues and</p> <p>8 processes approximately the same number of</p> <p>9 customer bills annually. Hopefully it is the</p> <p>10 same. Capital expenditures on information</p> <p>11 technology are integral to these processes.</p> <p>12 The capital budget plan submitted with</p> <p>13 this application provides a review of the</p> <p>14 capital expenditures over the last ten years</p> <p>15 and will assist the Board in understanding the</p> <p>16 nature of and the changing trends in capital</p> <p>17 expenditures over that period, as well as</p> <p>18 providing the Board with a view of where the</p> <p>19 Company sees capital expenditures being made</p> <p>20 over the next five years.</p> <p>21 As noted by Mr. Perry in his testimony,</p> <p>22 Newfoundland Power will have invested some</p> <p>23 \$500 million in its electrical system between</p> <p>24 1992 and the completion of the 2004 Capital</p> <p>25 Budget. However, as a result of the Company's</p>	<p>1 ability to manage its capital investments and</p> <p>2 reduce its operating costs, its contribution</p> <p>3 to the rates that are paid by Newfoundland</p> <p>4 Power's customers over this twelve-year period</p> <p>5 has actually dropped, in absolute terms, by</p> <p>6 one percent. These results demonstrate that</p> <p>7 Newfoundland Power has managed its capital</p> <p>8 expenditures, its operating costs and its</p> <p>9 financial affairs very prudently, for the</p> <p>10 benefit of its customers.</p> <p>11 In the area of engineering projects, the</p> <p>12 capital projects which have been presented are</p> <p>13 the result of various inspections, the</p> <p>14 experience in the field, the analysis of</p> <p>15 performance statistics, and ultimately sound</p> <p>16 engineering judgment. In the area of</p> <p>17 information systems, the projects represent a</p> <p>18 concerted effort to maintain and expand the</p> <p>19 operational efficiencies that have been</p> <p>20 achieved to date in the Company. These</p> <p>21 projects represent a change in the strategy of</p> <p>22 installing new technologies to one of getting</p> <p>23 the most out of the existing technology, as</p> <p>24 was noted in the testimony of Mr. Mulcahy and</p> <p>25 Mr. Collins.</p>
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<p>1 It is important to recognize that none of</p> <p>2 the capital projects have been challenged on</p> <p>3 the basis of the merit or the justification of</p> <p>4 those projects. As well, it is also important</p> <p>5 to recognize that no evidence has been</p> <p>6 presented to the Board to show that there are</p> <p>7 reasonable alternatives to any of the projects</p> <p>8 that have not already been considered by</p> <p>9 Newfoundland Power as a part of the capital</p> <p>10 budget process. Finally, no evidence has been</p> <p>11 presented to the Board that would suggest that</p> <p>12 deferring any of the capital projects in the</p> <p>13 2004 Capital Budget would represent a</p> <p>14 preferable alternative to proceeding with</p> <p>15 these projects.</p> <p>16 Now, I would refer the Board to Section</p> <p>17 3.5 of our brief of argument, which provides a</p> <p>18 review of the capital projects proposed as a</p> <p>19 part of the 2004 Capital Budget, as well as a</p> <p>20 review of the merits and justifications for</p> <p>21 those projects. There we have detailed--</p> <p>22 excuse me--included detailed references to the</p> <p>23 testimony and the filed record to assist the</p> <p>24 Board in its deliberations, and I'm sure</p> <p>25 you'll be pleased to hear that I won't</p>	<p>1 actually be going through each of those.</p> <p>2 In Section 2.2 of our brief of argument,</p> <p>3 under the heading "the Legislative Framework,"</p> <p>4 we have referred to the obligations of</p> <p>5 Newfoundland Power under Section 37.1 of The</p> <p>6 Public Utilities Act, to provide service and</p> <p>7 facilities that are reasonably safe and</p> <p>8 adequate and just and reasonable. Section 3B</p> <p>9 of The Electrical Power Control Act requires</p> <p>10 that all sources and facilities for the</p> <p>11 production and transmission and distribution</p> <p>12 of power in the province shall be managed and</p> <p>13 operated in a manner that results in: first,</p> <p>14 the most efficient production, transmission</p> <p>15 and distribution of power; second, consumers</p> <p>16 having equitable access to an adequate supply</p> <p>17 to power; and third, power being delivered to</p> <p>18 consumers at the lowest possible cost,</p> <p>19 consistent with reliable service.</p> <p>20 Newfoundland Power submits 2004 Capital</p> <p>21 Budget and the capital projects contained in</p> <p>22 that budget represents the capital</p> <p>23 expenditures necessary to manage and maintain</p> <p>24 Newfoundland Power's electrical system and to</p> <p>25 continue to meet Newfoundland Power's</p>

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<p>1 MR. MYLES:</p> <p>2 statutory obligations under The Public</p> <p>3 Utilities Act and The Electrical Power Control</p> <p>4 Act. Based upon all of the above,</p> <p>5 Newfoundland Power submits that the 2004</p> <p>6 Capital Budget, in its entirety, should be</p> <p>7 approved by the Board.</p> <p>8 With respect to filing requirements, Mr.</p> <p>9 Chair, it is Newfoundland Power's submission</p> <p>10 that the 2004 Capital Budget application has</p> <p>11 been presented to the Board in compliance with</p> <p>12 the filing requirements that are set out in</p> <p>13 Schedule C of P.U. 36. In Newfoundland</p> <p>14 Power's brief of argument, in Section 2.3. 1</p> <p>15 and .2, we have spoken to the issues of</p> <p>16 capital budget filing requirements in general</p> <p>17 and in particular, the requirement for a</p> <p>18 formal cost benefit analysis.</p> <p>19 The Board's Order in Hydro's General Rate</p> <p>20 Application, Order No. P.U. 7 (2002/2003),</p> <p>21 which I will refer to here on as P.U. 7, was</p> <p>22 one of the first steps taken by the Board</p> <p>23 towards the formalization of specific</p> <p>24 guidelines and conditions for filing a capital</p> <p>25 budget application. At page 95 of P.U. 7, the</p>	<p>1 Board summarized Newfoundland Power's position</p> <p>2 with respect to filing requirements. In</p> <p>3 particular, the Board later accepted</p> <p>4 Newfoundland Power's recommendation that all</p> <p>5 material capital expenditures should be</p> <p>6 subjected to cost benefit analysis, except</p> <p>7 where there are no reasonable alternatives to</p> <p>8 the proposed expenditures.</p> <p>9 Mr. Chair, the position of Newfoundland</p> <p>10 Power that was put forward at that time, is</p> <p>11 the same position as that which Newfoundland</p> <p>12 Power holds today. The issue with respect to</p> <p>13 cost benefit analysis remains twofold: first,</p> <p>14 that the amount in issue must be material; and</p> <p>15 second, there must be reasonable alternatives</p> <p>16 with which to compare the proposed project.</p> <p>17 If the amounts are not material or there are</p> <p>18 no reasonable alternatives, then the cost</p> <p>19 benefit analysis is neither warranted or more</p> <p>20 important, meaningful.</p> <p>21 Now the discussions and the decision of</p> <p>22 the Board with respect to the requirements for</p> <p>23 materiality and reasonable alternatives</p> <p>24 contained in P.U. 7 were not carried forward</p> <p>25 in P.U. 36, and in particular Schedule C.</p>
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<p>1 However, Newfoundland Power submits that in</p> <p>2 order to understand the length and the breadth</p> <p>3 of the filing requirement applicable to a</p> <p>4 Newfoundland Power capital budget application</p> <p>5 such as this, it is necessary to read Schedule</p> <p>6 C in light of the Board's discussion and</p> <p>7 decision in P.U. 7. Otherwise, Newfoundland</p> <p>8 Power would be faced with the unexpected</p> <p>9 result that different standards would apply to</p> <p>10 the filing requirements for Newfoundland Power</p> <p>11 as compared to Newfoundland Hydro.</p> <p>12 Newfoundland Power strongly believes that it</p> <p>13 was the intention of the Board, in P.U. 36, to</p> <p>14 set the same filing requirement as had been</p> <p>15 set for Newfoundland Hydro in P.U. 7.</p> <p>16 As noted in our brief of argument, a</p> <p>17 number of material capital budgets which did</p> <p>18 have reasonable alternatives were subjected to</p> <p>19 cost benefit analysis and the results were</p> <p>20 presented to the Board as a part of the Budget</p> <p>21 application. In keeping with Newfoundland</p> <p>22 Power's reasonable interpretation of the</p> <p>23 filing requirements, other capital projects</p> <p>24 were not subjected to cost benefit analysis,</p> <p>25 and those reasons are stated in Section 2.3.1</p>	<p>1 of our brief of argument.</p> <p>2 Now the same point must be made with</p> <p>3 respect to the issue of reasonable</p> <p>4 alternatives. In many of the capital</p> <p>5 projects, there are no reasonable</p> <p>6 alternatives. For example, providing</p> <p>7 transformers or meters to service new</p> <p>8 customers. Similarly, projects that entail</p> <p>9 the replacement of deteriorated or defected</p> <p>10 plant generally do not have reasonable</p> <p>11 alternatives.</p> <p>12 Another filing requirement raised during</p> <p>13 the hearing was the avoidance of duplication</p> <p>14 with Hydro, and this is found in Schedule C,</p> <p>15 and its Item 9. This discussion arose in the</p> <p>16 context of the New Chelsea Hydro Plant</p> <p>17 refurbishment project. New Chelsea Hydro</p> <p>18 Plant has been in existence and generating</p> <p>19 power for approximately forty-six years.</p> <p>20 Newfoundland Power does not see the</p> <p>21 refurbishment of this valuable plant as</p> <p>22 constituting a duplication of Hydro's</p> <p>23 generating capacity. Rather, the</p> <p>24 refurbishment represents maintenance of the</p> <p>25 status quo, and the cost benefit analysis</p>

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<p>1 MR. MYLES:</p> <p>2 demonstrates the value of proceeding with the</p> <p>3 particular project.</p> <p>4 Based upon the Request for Information,</p> <p>5 the cross-examination of witnesses, and the</p> <p>6 written argument of Hydro and the Board</p> <p>7 hearing counsel, it is apparent to</p> <p>8 Newfoundland Power that there are differences</p> <p>9 of opinion with respect to the appropriate</p> <p>10 interpretation of the filing requirement, and</p> <p>11 in particular, with respect to the requirement</p> <p>12 of a cost benefit analysis in support of</p> <p>13 capital projects.</p> <p>14 In P.U. 36, the Board identified certain</p> <p>15 significant issues, including the adequacy of</p> <p>16 existing tests and measures to justify capital</p> <p>17 expenditures to the Board as topics to be</p> <p>18 referred to a technical conference, which is</p> <p>19 now scheduled to be held in early 2004. In</p> <p>20 keeping with what we understand to be the</p> <p>21 position as put forward by Newfoundland Hydro</p> <p>22 and by Board hearing counsel, Newfoundland</p> <p>23 Power respectfully submits that all issues</p> <p>24 surrounding the interpretation of the</p> <p>25 requirements applicable to a capital budget</p>	<p>1 application should be referred to this</p> <p>2 technical conference, and not form part of the</p> <p>3 Board's consideration of Newfoundland Power's</p> <p>4 2004 Capital Budget application.</p> <p>5 (9:25 a.m.)</p> <p>6 However, unlike the position taken by</p> <p>7 Board hearing counsel, Newfoundland Power</p> <p>8 considers that, having complied in good faith</p> <p>9 with the filing requirements of Schedule C, it</p> <p>10 would be inappropriate for the Board to not</p> <p>11 approve a particular capital project solely on</p> <p>12 the basis of a different interpretation of the</p> <p>13 filing requirements with respect to that</p> <p>14 project. Now, if the Board is not satisfied</p> <p>15 with the merits or justification of any</p> <p>16 particular capital project, then clearly that</p> <p>17 is a different matter.</p> <p>18 With respect to the points that were</p> <p>19 raised on behalf of the intervenor,</p> <p>20 Newfoundland and Labrador Hydro, as I've just</p> <p>21 noted, Newfoundland Power agrees with the</p> <p>22 submission of Hydro that the Board should</p> <p>23 refrain from making decisions with respect to</p> <p>24 the interpretation of the capital budget</p> <p>25 filing requirements in this application. We</p>
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<p>1 also agree with Hydro's observation that there</p> <p>2 are differences in the interpretation of the</p> <p>3 filing requirements, which should be dealt</p> <p>4 with at the technical conference.</p> <p>5 Furthermore, Newfoundland Power also agrees</p> <p>6 that the several topics identified by Hydro</p> <p>7 should also be referred to the technical</p> <p>8 conference for examination, discussion and</p> <p>9 hopefully resolution.</p> <p>10 Mr. Chairman, with respect to the</p> <p>11 position taken by Board hearing counsel, there</p> <p>12 is a fundamental disagreement between the</p> <p>13 interpretation put forward in paragraphs four</p> <p>14 and five of Board hearing counsel's written</p> <p>15 brief of argument, and the position taken by</p> <p>16 Newfoundland Power with respect to the</p> <p>17 interpretation of Schedule C. Furthermore,</p> <p>18 this disagreement permeates virtually the</p> <p>19 entirety of the position taken by Board</p> <p>20 hearing counsel in his written brief of</p> <p>21 argument. Board hearing counsel states, in</p> <p>22 paragraph four and five, that net present</p> <p>23 value calculations or cost benefit analysis</p> <p>24 against other acceptable alternatives must be</p> <p>25 presented by Newfoundland Power as a part of</p>	<p>1 the justification of the capital projects</p> <p>2 contained in the 2004 Capital Budget.</p> <p>3 It is Newfoundland Power's submission</p> <p>4 that Board hearing counsel's position on this</p> <p>5 point entirely ignores the element of</p> <p>6 materiality required by the Board as a</p> <p>7 condition precedent to the requirement for a</p> <p>8 net present value calculation or cost benefit</p> <p>9 analysis, discussed and decided by the Board</p> <p>10 in P.U. 7.</p> <p>11 Secondly, Newfoundland Power submits that</p> <p>12 it has performed cost benefit analysis with</p> <p>13 respect to those projects for which the</p> <p>14 amounts are material and reasonable</p> <p>15 alternatives have been identified.</p> <p>16 Newfoundland Power submits that in the absence</p> <p>17 of any evidence, it is not sufficient for</p> <p>18 Board hearing counsel to simply allege or</p> <p>19 imply, as he has in paragraphs 5, 50 and 51,</p> <p>20 that there are acceptable alternatives that</p> <p>21 should have been considered or that the</p> <p>22 justification of the capital projects</p> <p>23 presented to the Board by Newfoundland Power</p> <p>24 is somehow deficient and warranting further</p> <p>25 justification because Newfoundland Power has</p>

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<p>1 MR. MYLES:</p> <p>2 not considered these unidentified</p> <p>3 alternatives, and consequently not provided</p> <p>4 cost benefit analysis.</p> <p>5 To accept the position of Board hearing</p> <p>6 counsel would be to require Newfoundland</p> <p>7 Power, or for that matter, Newfoundland Hydro,</p> <p>8 to have to bear the burden of proving that</p> <p>9 there are no other reasonable alternatives,</p> <p>10 essentially proving the negative.</p> <p>11 Newfoundland Power submits that this type of</p> <p>12 burden is also inconsistent with the</p> <p>13 presumption of managerial good faith referred</p> <p>14 to by Mr. Justice Green at page 51, paragraph</p> <p>15 120 of the Stated Case in the Court of Appeal.</p> <p>16 Accordingly, Newfoundland Power submits that</p> <p>17 the position put forward by Board hearing</p> <p>18 counsel was not what the Board intended when</p> <p>19 it made its decisions in P.U. 7 and P.U. 36.</p> <p>20 With respect to Board hearing counsel's</p> <p>21 comments on financial parameters, and in</p> <p>22 particular, the size of the capital budget, in</p> <p>23 paragraphs 17 and 18, as shown in the Capital</p> <p>24 Budget plan on page three, the highest capital</p> <p>25 expenditure since 1988, some \$67 million,</p>	<p>1 occurred in 1990, and this amount is</p> <p>2 unadjusted for inflation. The period 1993</p> <p>3 through 2000, referred to by Board hearing</p> <p>4 counsel, at paragraph 18 of his written</p> <p>5 argument, includes the first five years</p> <p>6 following the cod moratorium. As shown in the</p> <p>7 Capital Budget Plan, Appendix A, page one,</p> <p>8 from 1993 to 1997, Newfoundland Power actually</p> <p>9 underspent its approved capital budget in each</p> <p>10 of those five years, by as much as \$7. 2</p> <p>11 million in 1995. Clearly, when assessing the</p> <p>12 size of the current level of capital</p> <p>13 expenditures, the economic distortion which</p> <p>14 occurred during the five-year period</p> <p>15 immediately following the cod moratorium must</p> <p>16 be taken into account.</p> <p>17 Board hearing counsel states, in</p> <p>18 paragraph 19, that there is a lack of</p> <p>19 direction from the Finance Department to the</p> <p>20 department managers on the amount of capital</p> <p>21 expenditures that may be budgeted in a given</p> <p>22 year. First, the rigour of the capital budget</p> <p>23 process, including the role played by Mr.</p> <p>24 Perry and the Finance Department, has been</p> <p>25 testified to by all of the witnesses who</p>
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<p>1 appeared before the Board in this hearing.</p> <p>2 Secondly, Newfoundland Power submits that in a</p> <p>3 business that is principally comprised of</p> <p>4 engineered assets, such as Newfoundland Power,</p> <p>5 the Board would or should be shocked to learn</p> <p>6 that the level of capital expenditures would</p> <p>7 be influenced more by the Finance Department</p> <p>8 than by the Engineering Department.</p> <p>9 The implication of the position taken by</p> <p>10 Board hearing counsel in paragraph 19 is that</p> <p>11 the Finance Department should set a quota at</p> <p>12 the department level and that each department</p> <p>13 should produce capital projects until their</p> <p>14 quota is filled. Such an approach would be</p> <p>15 entirely inconsistent with the statutory</p> <p>16 obligations of the Company to deliver reliable</p> <p>17 electrical services to its customers at the</p> <p>18 lowest possible cost, consistent with reliable</p> <p>19 service. Board hearing counsel states,</p> <p>20 commencing at paragraph 24, "There is a need</p> <p>21 to set reliability targets as a part of the</p> <p>22 capital budget process. While possibly</p> <p>23 attractive and superficial level, it is</p> <p>24 difficult to actually set meaningful targets."</p> <p>25 As noted by the witnesses, the resulting</p>	<p>1 reliability, following the implementation of a</p> <p>2 project, will be entirely dependent upon the</p> <p>3 condition of the remaining components, for</p> <p>4 example, a distribution feeder. For example,</p> <p>5 replacing defective porcelain insulators</p> <p>6 should have the effect of entirely eliminating</p> <p>7 subsequent outages, as a result of those</p> <p>8 defective insulators. However, as noted by</p> <p>9 Mr. Delaney, in a slightly different context,</p> <p>10 in his testimony on September 11 at page 102,</p> <p>11 line 15, going over to page 103, line 5, the</p> <p>12 resulting reliability of a distribution feeder</p> <p>13 will be dependent upon various factors,</p> <p>14 including the length of the feeder, the number</p> <p>15 of automatic sleeves, cut-outs, transformers,</p> <p>16 with or without lightning arrestors, the size</p> <p>17 of the conductor, and still other factors.</p> <p>18 With respect to the larger project, the</p> <p>19 Wesleyville O2 feeder reconstruction project,</p> <p>20 as noted by Mr. Delaney on September 10, at</p> <p>21 page 69, line 9, so far this feeder--excuse</p> <p>22 me--so far this year, this feeder is</p> <p>23 performing eight times worse than the Company</p> <p>24 average. Mr. Delaney states, on the same</p> <p>25 page, that if the project does not proceed,</p>

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<p>1 MR. MYLES:</p> <p>2 then there's a risk that storms will continue</p> <p>3 to cause damage that must be repaired in</p> <p>4 rushed and emergency conditions, just to get</p> <p>5 the power back on. This crisis management</p> <p>6 approach results in no significant improvement</p> <p>7 in the long-running performance of the feeder.</p> <p>8 Within the context of a reconstruction</p> <p>9 project, such as Wesleyville O2, the</p> <p>10 reliability of those sections being replaced</p> <p>11 will improve significantly. This result is</p> <p>12 demonstrated in PUB-61 where the before and</p> <p>13 after performance indicators for those feeders</p> <p>14 which had received a similar refurbishment are</p> <p>15 shown. It is not clear in these circumstances</p> <p>16 to Newfoundland Power how setting reliability</p> <p>17 targets would assist the capital budget</p> <p>18 process.</p> <p>19 Board hearing counsel's allegation, in</p> <p>20 paragraph 32, that Newfoundland Power's</p> <p>21 approach to determining the level of</p> <p>22 expenditures for feeder or substation</p> <p>23 refurbishment is carte blanche is not</p> <p>24 supported by the evidence and, in fact, is</p> <p>25 inappropriate in the context of the rigorous</p>	<p>1 capital budget process that the witnesses have</p> <p>2 attested to.</p> <p>3 With respect to Board hearing counsel's</p> <p>4 comments on information technology,</p> <p>5 Newfoundland Power submits that he has ignored</p> <p>6 the key element of the requirement with</p> <p>7 respect to cost benefit analysis. That is,</p> <p>8 that there be a level of materiality and that</p> <p>9 there be reasonable alternatives. Now Board</p> <p>10 hearing counsel has chosen to reconfigure and</p> <p>11 present the Information Systems Budget in such</p> <p>12 a way that the results amount to approximately</p> <p>13 2.4 million and 1.6 million dollars. However,</p> <p>14 this reconfiguration does not in any way alter</p> <p>15 the fact that the individual projects that</p> <p>16 make up the information systems category</p> <p>17 budget are relatively small. More</p> <p>18 importantly, as stated by Mr. Collins during</p> <p>19 his cross-examination on a number of</p> <p>20 occasions, many of the benefits to be derived</p> <p>21 from the individual projects in the</p> <p>22 information systems category are of a</p> <p>23 qualitative nature and do not lend themselves</p> <p>24 to a meaningful cost benefit analysis.</p> <p>25 Newfoundland Power submits that the</p>
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<p>1 purpose of conducting a cost benefit analysis</p> <p>2 or any other analysis for the purpose of</p> <p>3 justifying a project to this Board should</p> <p>4 result in meaningful information being</p> <p>5 provided to the Board to assist it in</p> <p>6 rendering its decision. To highlight this</p> <p>7 point, I would refer the Board to a question</p> <p>8 posed to Mr. Collins by Board hearing counsel</p> <p>9 on September 12 at page 81, commencing at line</p> <p>10 10, where Mr. Collins is asked if he could at</p> <p>11 least ballpark the number of manual</p> <p>12 intervention backups for the purpose of</p> <p>13 arriving at a cost estimate. Now Mr.</p> <p>14 Chairman, to me, ballparking is another word</p> <p>15 for guessing. Newfoundland Power submits that</p> <p>16 guessing at numbers in order to conduct a cost</p> <p>17 benefit analysis of a small portion of the</p> <p>18 overall, largely qualitative benefits to be</p> <p>19 derived from a project will in no way assist</p> <p>20 the Board in arriving at its determination as</p> <p>21 to whether the project has been justified.</p> <p>22 It is Newfoundland Power's submission</p> <p>23 that the filing requirements are to be</p> <p>24 interpreted in a manner that will provide</p> <p>25 meaningful information to the Board to assist</p>	<p>1 it in its assessment of the capital budget</p> <p>2 applications.</p> <p>3 Furthermore, it is Newfoundland Power's</p> <p>4 submission that a purely mechanistic approach,</p> <p>5 requiring cost benefit analysis for every</p> <p>6 project presented to the Board, is neither</p> <p>7 consistent with the Board's Order in either of</p> <p>8 P.U. 7 or P.U. 36, nor in any way a meaningful</p> <p>9 exercise or prudent use of the resources of</p> <p>10 the utilities.</p> <p>11 In conclusion, Newfoundland Power submits</p> <p>12 that it has complied with the applicable</p> <p>13 filing requirements, that the capital projects</p> <p>14 comprising the 2004 Capital Budget have been</p> <p>15 justified and are necessary to enable the</p> <p>16 Company to continue to meet the statutory</p> <p>17 obligations to provide consumers with</p> <p>18 equitable access to an adequate supply of</p> <p>19 electrical service, as the lowest possible</p> <p>20 cost, consistent with reliable service, The</p> <p>21 Electrical Power Control Act, Section 3B.</p> <p>22 Accordingly, Mr. Chair, Newfoundland</p> <p>23 Power submits that its 2004 Capital Budget</p> <p>24 should be approved, in its entirety, by the</p> <p>25 Board. That is the conclusion of my remarks.</p>

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<p>1 MR. MYLES:</p> <p>2 Thank you, Chairman Finn, Commissioner Powell,</p> <p>3 Commissioner Martin.</p> <p>4 CHAIRMAN:</p> <p>5 Q. Thank you, Mr. Myles. Mr. Young?</p> <p>6 MR. YOUNG:</p> <p>7 Q. Thank you, Chair. Good morning Commissioners.</p> <p>8 As stated in Hydro's written brief that was</p> <p>9 filed, Hydro's purpose in this intervention</p> <p>10 was policy and process related, and was not</p> <p>11 intended to provide a detailed critique of any</p> <p>12 particular capital project of Newfoundland</p> <p>13 Power, and consistent with that purpose, Hydro</p> <p>14 indeed is not proposing any particular capital</p> <p>15 project be rejected, and Mr. Myles is quite</p> <p>16 correct in that observation.</p> <p>17 Having reviewed the Capital Budget</p> <p>18 documents submitted in support of Newfoundland</p> <p>19 Power's application, Hydro did have some</p> <p>20 questions and observations and Hydro pursued</p> <p>21 these through Request for Information and</p> <p>22 cross-examination. While these questions were</p> <p>23 specific, in a diverse area of subject</p> <p>24 matters, the ultimate purpose was to gain a</p> <p>25 sense and a knowledge of Newfoundland Power's</p>	<p>1 process and approach to the Capital Budget</p> <p>2 approval. Two of these are issues relating to</p> <p>3 the way that certain of the project filings</p> <p>4 for approach and it's been dealt with in our</p> <p>5 written submission, I'll deal with them just</p> <p>6 briefly here.</p> <p>7 The first of these is the way that the</p> <p>8 utility and I'm speaking at this point, I</p> <p>9 suppose, in a generic way, but the utility, in</p> <p>10 this case Newfoundland Power, defines a</p> <p>11 project and I think that there can be</p> <p>12 important implications from the way that the</p> <p>13 project is defined as to how the project is</p> <p>14 ultimately assessed by the Board.</p> <p>15 Newfoundland Power's practice has been to lump</p> <p>16 or cluster some of its energy supply projects,</p> <p>17 for example, together. This can make certain</p> <p>18 sense at certain level and materiality is</p> <p>19 obviously an issue that can arise. Functional</p> <p>20 interdependence is another one that can arise,</p> <p>21 but it can be difficult to make judgments</p> <p>22 between different projects, or as to whether a</p> <p>23 particular project is justifiable on its own</p> <p>24 basis when it's grouped together with other</p> <p>25 similar projects. By way of example, Hydro</p>
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<p>1 had referred to the Hydro Plant Refurbishment</p> <p>2 Project and the New Chelsea Project, and in my</p> <p>3 written brief I've described those in a little</p> <p>4 bit more detail.</p> <p>5 While it may be true that overall these</p> <p>6 projects and I when say "projects" in this</p> <p>7 sense, I should clarify. In Newfoundland</p> <p>8 Power's submission, the Hydro Plant</p> <p>9 Refurbishment Project, even though it was a</p> <p>10 number of different undertakings, it's</p> <p>11 referred to as a single project and that's the</p> <p>12 sense in which I use the word here. While it</p> <p>13 may be true that overall these projects are</p> <p>14 prudent and justifiable, whether or not any</p> <p>15 particular capital improvement is, on its own</p> <p>16 merits, justifiable, can be very difficult to</p> <p>17 assess, as I mentioned a moment ago. And</p> <p>18 there's a related issue that arises in the way</p> <p>19 these projects are justified when the overall</p> <p>20 annual energy production from any of these</p> <p>21 sites, any of these plants, is used.</p> <p>22 CHAIRMAN:</p> <p>23 Q. If I can--I hesitate to interrupt, but you</p> <p>24 mention Hydro Plant Refurbishment. Did you</p> <p>25 mean rehabilitation or -</p>	<p>1 MR. YOUNG:</p> <p>2 Q. Yes, perhaps I mis-spoke myself, yes. That's</p> <p>3 the name of the project, I think you're right,</p> <p>4 rehabilitation. The inference that could be</p> <p>5 incorrectly drawn when you cluster plants</p> <p>6 together, like we've heard, or that we've</p> <p>7 seen, or when in fact you use gross annual</p> <p>8 production numbers, is it's difficult to</p> <p>9 understand exactly what the economic benefit</p> <p>10 is of the specific project that's being</p> <p>11 undertaken. Is it the full capability, the</p> <p>12 full annual energy capability of each of these</p> <p>13 plants is being protected, and in some events,</p> <p>14 this would be correct, and when a penstock or</p> <p>15 a head gate or that sort of a project is being</p> <p>16 done, obviously that will be the case. When</p> <p>17 it's one that relates to the energy production</p> <p>18 or the efficiency of the plant, it's not quite</p> <p>19 so clear. And some care has to be taken in</p> <p>20 this area, in our opinion. Rattling Brook is</p> <p>21 a good example and I'll just deal with that</p> <p>22 just very briefly. When it comes to items</p> <p>23 which are not critical for customer</p> <p>24 reliability or the safety or environmental</p> <p>25 responsibility, projects sometimes can be</p>

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<p>1 MR. YOUNG:</p> <p>2 deferred and in such cases, the do nothing</p> <p>3 approach can be properly considered.</p> <p>4 Now, we're not saying that that's the</p> <p>5 appropriate thing to do in any of these</p> <p>6 particular projects in this application, and</p> <p>7 engineering judgment has to come into play in</p> <p>8 all of these events. But with Rattling Brook,</p> <p>9 we'll notice that the filed information</p> <p>10 referred to the total annual capability of the</p> <p>11 plant and that was supplemented a little bit</p> <p>12 further in a response to Request for</p> <p>13 Information, NLH-7, that looked at the</p> <p>14 responsibility, I think was the term, that was</p> <p>15 attributed to one of the two turbines of the</p> <p>16 plant and it's essentially the total annual</p> <p>17 capability and it's divided in half because</p> <p>18 there's two equal size turbines. But we learn</p> <p>19 in cross-examination and through further</p> <p>20 analysis, that in fact when one of the other</p> <p>21 generators was taken out of service, it was a</p> <p>22 forced outage--I shouldn't say it was taken</p> <p>23 out of service, it was a forced outage, no</p> <p>24 water was spilt. Now, as we learned,</p> <p>25 Newfoundland Power got lucky in that instance,</p>	<p>1 the outage occurred just prior to the spring</p> <p>2 freshet. If it had occurred at another time,</p> <p>3 they certainly would have spilt water because</p> <p>4 it's clear from the evidence that they need</p> <p>5 both turbines and both generators running in</p> <p>6 order to get the full capability of the plant</p> <p>7 at times of high water.</p> <p>8 We also learned that doing a project of</p> <p>9 this sort, under duress so to speak, with a</p> <p>10 forced outage circumstance, is approximately a</p> <p>11 quarter of a million dollars more expensive</p> <p>12 than to rewind the turbine in an orderly and</p> <p>13 planned capital project regime. And those, of</p> <p>14 course, are relevant points. The amount of</p> <p>15 water that can be spilled, if a project is not</p> <p>16 undertaken in a timely way, the sense in which</p> <p>17 the failure of the turbine is eminent, due to</p> <p>18 the engineering studies, the extra costs that</p> <p>19 apply when you have to do the project at a</p> <p>20 time when it's not opportune and when you have</p> <p>21 delays of ordering and crew mobilizations and</p> <p>22 those sorts of things, which we all know add</p> <p>23 costs to the project, they're all relevant</p> <p>24 points.</p> <p>25 The point here is, though, those points</p>
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<p>1 weren't considered in the application and</p> <p>2 those kinds of issues, and I'm just using this</p> <p>3 by way of example, are ones that perhaps ought</p> <p>4 to be considered and not specifically for</p> <p>5 every project that--I'm using these points by</p> <p>6 way of example of the sorts of things and the</p> <p>7 kinds of things that arose in this application</p> <p>8 that can be looked at. I guess I may be</p> <p>9 pushing it to one extreme, but from the other</p> <p>10 end of the spectrum, just to say that the</p> <p>11 annual production of a particular plant is a</p> <p>12 certain amount, doesn't really give the Board</p> <p>13 any sense as to what the economic</p> <p>14 justification of doing a particular project is</p> <p>15 at any particular time. And I'm using that</p> <p>16 just by way of a representative example, as</p> <p>17 that's not a redundant point, to show that</p> <p>18 sometimes further analysis of particular</p> <p>19 projects is required to get a sense of what</p> <p>20 the true economic advantage is.</p> <p>21 Just in response to a point that Mr.</p> <p>22 Myles made and I think it's by and large</p> <p>23 correct in almost every case, but not every</p> <p>24 case, when a project is being undertaken for a</p> <p>25 number of reasons, only one of which is</p>	<p>1 economic, it doesn't always make sense to do</p> <p>2 the economic justification. Just because</p> <p>3 there may be economic benefits to a project</p> <p>4 that has to be done for very good sound</p> <p>5 engineering reasons, doesn't push every</p> <p>6 project into a situation where a net present</p> <p>7 value adds much meaning. It either has to be</p> <p>8 done or it doesn't in some cases. And I would</p> <p>9 also agree with the point that Mr. Myles</p> <p>10 raised about materiality. Doing a net present</p> <p>11 value analysis for a great number of projects</p> <p>12 of small value, you might find at the end of</p> <p>13 the analysis, if someone looked back at it,</p> <p>14 that the economic analysis work was a</p> <p>15 significant portion of the total amount of</p> <p>16 money that was being spent, it might have</p> <p>17 merit, that level of analysis in every case.</p> <p>18 We certainly understand that and we would</p> <p>19 agree with that.</p> <p>20 I'd conclude by just making a general</p> <p>21 observation. There appears to be a</p> <p>22 considerable amount of commonality as to the</p> <p>23 level of engineering that each utility,</p> <p>24 Newfoundland and Labrador Hydro and</p> <p>25 Newfoundland Power, takes to the General</p>

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<p>1 MR. YOUNG:</p> <p>2 Capital Budget process, to the amount of</p> <p>3 rigour that each utility applied, and we have</p> <p>4 treated our intervention here largely as a</p> <p>5 preparatory role and a preparatory function to</p> <p>6 the technical conference that we're looking</p> <p>7 forward to in 2004. We hope in that</p> <p>8 opportunity that arises at that time, we'll be</p> <p>9 able to look at some of these issues in</p> <p>10 greater detail, at which time issues such as</p> <p>11 definition of a project and the particular</p> <p>12 analysis that should be brought in each case</p> <p>13 to fully understand the meaningfulness, as Mr.</p> <p>14 Myles was referring to, of a particular</p> <p>15 analysis could be brought to bear. Thank you.</p> <p>16 CHAIRMAN:</p> <p>17 Q. Thank you, Mr. Young. Mr. Kennedy?</p> <p>18 MR. KENNEDY:</p> <p>19 Q. Chair, Commissioners, my remarks would be</p> <p>20 quite brief in the sense that I don't think</p> <p>21 there's anything said in the Newfoundland</p> <p>22 Power brief or in Newfoundland Hydro's brief</p> <p>23 that is startlingly new or hasn't been said</p> <p>24 already in recent Capital Budget applications.</p> <p>25 And in that sense, I think the policy based</p>	<p>1 issues have been solidly before the Board and</p> <p>2 the Board's been dealing with those, as is</p> <p>3 evident through P.U. 7 and P.U. 36. Counsel</p> <p>4 for Newfoundland Power took issue with a</p> <p>5 number of the statements that were made by</p> <p>6 myself in my brief, I was trying to circle the</p> <p>7 paragraph numbers while I was going through</p> <p>8 and I couldn't quite keep up, but the attempt</p> <p>9 was clearly not to extend the language of this</p> <p>10 Board, as used in P.U. 7 and P.U. 36, and as</p> <p>11 indicated in the brief, my brief, and as it's</p> <p>12 been referenced by the other counsel, we're</p> <p>13 all aware that there's a generic hearing</p> <p>14 approaching in 2004 to look at this capital</p> <p>15 budget process in its entirety, hopefully</p> <p>16 rationalize it further and presumably an</p> <p>17 opportunity for the Board to provide even</p> <p>18 further and better directions to the utilities</p> <p>19 in a process that they would participate in</p> <p>20 about the level of documentation that would be</p> <p>21 required when filing their capital budget, and</p> <p>22 the nature of that documentation, what is it</p> <p>23 exactly that they're being expected to provide</p> <p>24 in order to justify the projects. However,</p> <p>25 the case at hand, this particular application,</p>
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<p>1 you can only go by what the Board stated in</p> <p>2 P.U. 36 in particular, because that's the</p> <p>3 decision of this Board in Newfoundland Power's</p> <p>4 most recent application. And insofar as my</p> <p>5 brief appeared to extend the language of P.U.</p> <p>6 36, well then I would apologize for that and</p> <p>7 indicate that that wasn't my intention. The</p> <p>8 intention is to keep solidly within the</p> <p>9 framework of P.U. 36, but recognizing that</p> <p>10 there are some greater issues that will be</p> <p>11 dealt with in the future. The truisms of,</p> <p>12 that a Cost Benefit Analysis should be</p> <p>13 meaningful to the Boards, is clearly something</p> <p>14 I don't think anybody in their right mind is</p> <p>15 going to argue against. True too, that where</p> <p>16 projects are of such a small amount in the</p> <p>17 overall sense of things, that a net present</p> <p>18 value calculation or economic analysis of any</p> <p>19 sort may be meaningless, or may be so</p> <p>20 burdensome that as alluded to by counsel for</p> <p>21 Hydro, costs would outweigh the benefit of</p> <p>22 just providing the economic analysis.</p> <p>23 My friend for Newfoundland Power seems to</p> <p>24 hinge a lot of their position, if I could</p> <p>25 state it correctly, on what's material. I</p>	<p>1 never heard it suggested what Newfoundland</p> <p>2 Power considers to be material; in other</p> <p>3 words, do they have a number in mind right now</p> <p>4 of what they feel to be material and</p> <p>5 therefore, above which would trigger this, as</p> <p>6 they seem to indicate, a more onerous duty to</p> <p>7 provide the cost benefit analysis.</p> <p>8 Insofar though as projects that are</p> <p>9 material have other alternatives, that there</p> <p>10 were other alternatives that could have been</p> <p>11 considered by Newfoundland Power and may in</p> <p>12 fact have been considered by Newfoundland</p> <p>13 Power, but which there's no evidence to</p> <p>14 indicate that they considered those</p> <p>15 alternatives or that there is a lack of</p> <p>16 evidence showing a comparison in economic</p> <p>17 terms between the cost of the alternatives.</p> <p>18 And I would question whether on the language</p> <p>19 as used in P.U. 36, and the straightforward</p> <p>20 language in the schedule that was attached to</p> <p>21 P.U. 36 that constitutes the filing</p> <p>22 requirement, whether Newfoundland Power has</p> <p>23 met the filing requirement, because the filing</p> <p>24 requirement, as per the schedule, clearly</p> <p>25 asked for net present value calculations or an</p>

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<p>1 MR. KENNEDY:</p> <p>2 economic analysis of those projects and the</p> <p>3 alternatives. It's Roman numeral VIII under</p> <p>4 Schedule C of P.U. 36, the cost benefit</p> <p>5 analysis of all alternatives, both internal</p> <p>6 and external, that have been considered,</p> <p>7 including any DSM measures that have been</p> <p>8 evaluated. So I agree in many respects with</p> <p>9 the submissions of counsel for Newfoundland</p> <p>10 Power, that materiality is an issue, it's</p> <p>11 language that appears in P.U. 7, it's as</p> <p>12 referenced in my own brief. Then it begs the</p> <p>13 question of what's material and what's not</p> <p>14 material. And I guess insofar as the Board</p> <p>15 may consider a project material, then it needs</p> <p>16 to ask itself whether the Company has then</p> <p>17 complied with the Schedule C requirement of</p> <p>18 providing an economic analysis. As far as</p> <p>19 alternatives are concerned, I would suggest as</p> <p>20 well that the status quo, the "do nothing" is</p> <p>21 always an alternative and it is in that sense</p> <p>22 the deferral option, always the alternative</p> <p>23 that should be compared against the "do</p> <p>24 something" proposal, except where safety is of</p> <p>25 a concern, safety to the workers of</p>	<p>1 Newfoundland Power, that would clearly</p> <p>2 override that consideration, or where there is</p> <p>3 eminent or I believe the phrase used by</p> <p>4 witnesses for Newfoundland Power,</p> <p>5 "catastrophic failure" is a possibility, that</p> <p>6 too would, I would suggest, remove the "do</p> <p>7 nothing" alternative in effect, override the</p> <p>8 "do nothing" alternative. But otherwise,</p> <p>9 every project should be measured against the</p> <p>10 "do nothing" alternative, the deferral</p> <p>11 alternative.</p> <p>12 Ultimately, hopefully in the generic</p> <p>13 hearing process, the review will include what</p> <p>14 direction the Board wants to pursue the review</p> <p>15 and analysis of the capital budget</p> <p>16 applications. As is indicated in P.U. 36, the</p> <p>17 Board stated at page 7, "The fundamental issue</p> <p>18 becomes one of justification with whether or</p> <p>19 not appropriate quantitative and qualitative</p> <p>20 data is available to the Board to determine</p> <p>21 the necessity and reasonableness of capital</p> <p>22 expenditures requested by the utility in</p> <p>23 meeting its legislative imperatives." So what</p> <p>24 information does this Board need in order to</p> <p>25 be able to make that determination of the</p>
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<p>1 necessity and reasonableness?</p> <p>2 One direction may be to head in</p> <p>3 conducting an even more detailed review of the</p> <p>4 engineering-based judgment being exercised by</p> <p>5 Newfoundland Power, obtaining independent</p> <p>6 engineering reports to determine the</p> <p>7 legitimacy of the decision making that</p> <p>8 Newfoundland Power has made, but recognizing</p> <p>9 that increasing the evidentiary burden is</p> <p>10 going to increase the cost of the process,</p> <p>11 which is the process ultimately that customers</p> <p>12 will have to pay for. It may not be the</p> <p>13 direction that the Board considers to be the</p> <p>14 most appropriate under the circumstances, but</p> <p>15 while project by project reviews may still</p> <p>16 need to be conducted, it may make more sense</p> <p>17 to set some general parameters, some general</p> <p>18 financial parameters. For instance, tying the</p> <p>19 capital budgets year over year to the existing</p> <p>20 depreciation rate of the Company, plus some</p> <p>21 certain amount, to take into account growth</p> <p>22 and take into account inflationary pressures.</p> <p>23 But those issues aren't particularly helpful</p> <p>24 or delving into those issues aren't</p> <p>25 particularly helpful in this application,</p>	<p>1 simply because the Board is still faced with</p> <p>2 the decision of the review of the proposals</p> <p>3 put forward in determining whether it has the</p> <p>4 quantitative and qualitative data that it</p> <p>5 needs in order to determine the necessity and</p> <p>6 reasonableness of the proposals being put</p> <p>7 forward by Newfoundland Power.</p> <p>8 As is indicated in my brief, much of the</p> <p>9 projects put forward by Newfoundland Power are</p> <p>10 based on improving reliability in the system.</p> <p>11 And Newfoundland Power, in its brief, at page</p> <p>12 20, has provided the reasons of why--some of</p> <p>13 the reasons of why they're pursuing this</p> <p>14 improvement and reliability and it deals with</p> <p>15 the issue of equitable access to service,</p> <p>16 which is mandated by Section 3(b)(2) of the</p> <p>17 Electrical Power Control Act. And in response</p> <p>18 to a question by NLH, or Newfoundland and</p> <p>19 Labrador Hydro, sorry, NLH-57, Newfoundland</p> <p>20 Power indicated how it balances reliability</p> <p>21 and costs since it's always been an issue</p> <p>22 that's been put forward, and in actual fact</p> <p>23 the answer to NLH-57 is an answer that the</p> <p>24 Company had provided previously to the</p> <p>25 Consumer Advocate when he asked the same</p>

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<p>1 MR. KENNEDY:</p> <p>2 question on a previous capital budget</p> <p>3 application. And the Company again pointed to</p> <p>4 a decision or, sorry, a report of Mr. Dan</p> <p>5 Brown, who was commissioned by the Board to do</p> <p>6 an engineering study on the reliability of</p> <p>7 Newfoundland Power's system, but if you look</p> <p>8 at the report, you'll note that it mostly</p> <p>9 focuses on issues involving Old Perlican.</p> <p>10 There was an issue of bad reliability in Old</p> <p>11 Perlican's system and Newfoundland Power was</p> <p>12 asked to respond to that, and they were, I</p> <p>13 guess, being burned on the carpet on the</p> <p>14 respective councils in the area about the poor</p> <p>15 performance of the electrical system. And the</p> <p>16 Company responded and the Board responded to</p> <p>17 those issues, in the case of the Board by</p> <p>18 commissioning a report, independent review.</p> <p>19 But I'm not sure if that independent review</p> <p>20 is, as seems to be suggested by the Company,</p> <p>21 could then be used as a, I'd use the word</p> <p>22 "launching pad" but I don't mean it in an</p> <p>23 untoward way, but a base on which it could</p> <p>24 then make general decisions about moving ahead</p> <p>25 overall with improvements in the reliability</p>	<p>1 of the entire system or take comments that</p> <p>2 were made in the context of that specific</p> <p>3 report and then apply them over their entire</p> <p>4 operations. I don't think that was the</p> <p>5 intention.</p> <p>6 (10:00 a.m.)</p> <p>7 The Company also pointed to customer</p> <p>8 service surveys as the support for the</p> <p>9 reliability and the problem with the customer</p> <p>10 service surveys, as was indicated in the</p> <p>11 evidence, was that it's not indicative of the-</p> <p>12 it can mask, there's lies, damn lies and then</p> <p>13 there's statistics and the problem with saying</p> <p>14 well there's thirteen percent of the people</p> <p>15 are not happy with it, and when you look</p> <p>16 further though, that's thirteen percent of</p> <p>17 that are a little bit unhappy with it or a lot</p> <p>18 unhappy with it, but it's on a sort of</p> <p>19 geographical area by area basis that the</p> <p>20 company seems to approach its reliabilities,</p> <p>21 as indicated in the evidence. And that makes</p> <p>22 perfect sense in the sense of well, you know,</p> <p>23 while overall the reliability, everyone is</p> <p>24 happy with it, there's some pockets perhaps in</p> <p>25 the province that have poor system reliability</p>
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<p>1 and they're entitled, by virtue of the</p> <p>2 Electrical Power Control Act to equitable</p> <p>3 access to the service like the rest of us.</p> <p>4 There's reference to the rural councils</p> <p>5 were complaining and this was another</p> <p>6 indication that reliability was a serious</p> <p>7 issue. So the Company has indicated why it</p> <p>8 feels that it needs to improve reliability and</p> <p>9 I guess the Board needs to determine whether</p> <p>10 in fact they've made out their case in that</p> <p>11 since, and then measure these projects based</p> <p>12 on that objective.</p> <p>13 I think just in closing, my friend for</p> <p>14 Newfoundland Power indicated that where I had</p> <p>15 pointed out the fact that this year's budget</p> <p>16 is in keeping with the previous few year's</p> <p>17 budgets, but significantly higher than the</p> <p>18 budgets, if you go back to 1993, 1992 level,</p> <p>19 from the next six or seven years after that,</p> <p>20 the budgets are in a dollar amount terms, a</p> <p>21 much lower range than the one currently before</p> <p>22 the Board and the ones that have been brought</p> <p>23 before the Board in the last couple of years.</p> <p>24 He indicated, well a lot of reason for that</p> <p>25 was the cod moratorium caused lower capital</p>	<p>1 budget spending, and the Board noted that in</p> <p>2 its decision, I just wanted to get the</p> <p>3 reference for you because, yes, at page 25 of</p> <p>4 P.U. 36. And it's after a discussion there,</p> <p>5 exactly that, that the MP explains, at page</p> <p>6 25, "Newfoundland Power explained the increase</p> <p>7 in its 1998 capital budget resulted from an</p> <p>8 under investment during the period 1993 to</p> <p>9 1997, due to the economic downturn associated</p> <p>10 with the cod moratorium." And then there's an</p> <p>11 analysis that's conducted, a discussion of the</p> <p>12 Aliant Joint Pole Purchase Agreement, and then</p> <p>13 it concludes at page 25, "While acknowledging</p> <p>14 annual budgetary versus actual variances are</p> <p>15 reported to the Board with explanations, the</p> <p>16 Board believes more stable and predictable</p> <p>17 year-over-year capital budgets for</p> <p>18 Newfoundland Power is a desirable objective</p> <p>19 which will assist in fostering stable and</p> <p>20 predictable rates for consumers in the future.</p> <p>21 The Board understands the uncertainties</p> <p>22 associated with inflation rates and other</p> <p>23 exigencies faced by the utility, but maintains</p> <p>24 improvements should be pursued in stabilizing</p> <p>25 expenditure patterns."</p>

<p style="text-align: right;">Page 45</p> <p>1 MR. KENNEDY:</p> <p>2 So it's recognized that there was a</p> <p>3 period of time in which the Company made lower</p> <p>4 investments in its capital projects. It's now</p> <p>5 making higher investments in its capital</p> <p>6 projects. The Board was concerned with the</p> <p>7 instability in rates that that may cause, but</p> <p>8 also, just wanted to rationalize the process</p> <p>9 generally, and therefore provided the specific</p> <p>10 directions in P.U. 36, the specific directions</p> <p>11 of the Schedule C filing requirements, and I</p> <p>12 do think that the utility should be held to</p> <p>13 those and that they should have expected to</p> <p>14 meet those. And insofar as there is a</p> <p>15 difference in opinion between the parties, I</p> <p>16 think it would probably mostly come down to</p> <p>17 the materiality issue about where was the</p> <p>18 Board indicating in the language in P.U. 7,</p> <p>19 which doesn't appear in P.U. 36, that there's</p> <p>20 a dollar amount below which it would not be</p> <p>21 expected of Newfoundland Power to provide an</p> <p>22 economic analysis, and I think that further</p> <p>23 direction would be helpful as well.</p> <p>24 Subject to any questions that the Chair</p> <p>25 or Commissioners have, that's my only</p>	<p style="text-align: right;">Page 46</p> <p>1 comments. Thank you.</p> <p>2 CHAIRMAN:</p> <p>3 Q. Thank you, Mr. Kennedy. Commissioner Powell,</p> <p>4 do you have any questions?</p> <p>5 COMMISSIONER POWELL:</p> <p>6 Q. No.</p> <p>7 CHAIRMAN:</p> <p>8 Q. Commissioner Martin, do you have any</p> <p>9 questions?</p> <p>10 COMMISSIONER MARTIN:</p> <p>11 Q. No.</p> <p>12 CHAIRMAN:</p> <p>13 Q. I have no questions, myself</p> <p>14 MR. KENNEDY:</p> <p>15 Q. One more--sorry, there was a reference to an</p> <p>16 RFI in my brief, which was omitted, the</p> <p>17 number. It's in paragraph 32 and -</p> <p>18 CHAIRMAN:</p> <p>19 Q. Oh yes, yes.</p> <p>20 MR. KENNEDY:</p> <p>21 Q. Yes, and actually it's the PUB-61.</p> <p>22 CHAIRMAN:</p> <p>23 Q. Thank you, Mr. Kennedy.</p> <p>24 MR. KENNEDY:</p> <p>25 Q. Thank you, Chair.</p>
<p style="text-align: right;">Page 47</p> <p>1 CHAIRMAN:</p> <p>2 Q. I think at this time Newfoundland Power has</p> <p>3 requested that we would take a break before</p> <p>4 you would, perhaps, have any reply or rebuttal</p> <p>5 or would you want to continue on now at this</p> <p>6 time?</p> <p>7 MR. MYLES:</p> <p>8 Q. If I could have about 30 seconds, I may be</p> <p>9 able to answer your question. Let me just</p> <p>10 request the possibility of having a - Mr.</p> <p>11 Chairman, I think the short answer is that I</p> <p>12 don't have any reply, other than to observe</p> <p>13 that there are very clearly significant</p> <p>14 differences of opinion with respect to the</p> <p>15 filing requirements, and I wish to reiterate</p> <p>16 that Newfoundland Power has, in good faith,</p> <p>17 filed this budget in what it believes is in</p> <p>18 compliance with those requirements. Those are</p> <p>19 my submissions. Thank you very much.</p> <p>20 CHAIRMAN:</p> <p>21 Q. Fine, thank you, Mr. Myles. Well given that</p> <p>22 comment of Mr. Myles, it appears that we have</p> <p>23 come to the end of the road with regard to</p> <p>24 this particular hearing, but for the decision</p> <p>25 making process. So again I would like to take</p>	<p style="text-align: right;">Page 48</p> <p>1 the opportunity to thank the various counsel</p> <p>2 for their conduct and input to the process, as</p> <p>3 well as the Board staff. And with that, we</p> <p>4 stand adjourned.</p> <p>5 Upon concluding at 10:07 a.m.</p>

1 CERTIFICATE

2 I, Judy Moss Lauzon, do hereby certify that the foregoing
3 is a true and correct transcript in the matter of
4 Newfoundland Power's 2004 Capital Budget Application
5 heard on the 19th day of September, A.D., 2003 before the
6 Board of Commissioners of Public Utilities, Prince
7 Charles Building, St. John's, Newfoundland and Labrador
8 and was transcribed by me to the best of my ability by
9 means of a sound apparatus.
10 Dated at St. John's, Newfoundland and Labrador
11 this 19th day of September, A.D., 2003
12 Judy Moss Lauzon