(9:33 a.m.)

CHAIRMAN:

Q. Good morning, ladies and gentlemen.

MR. ALTEEN:

Q. Good morning, Mr. Chairman.

CHAIRMAN:

Q. So, Mr. Alteen, are you ready to call your next witness?

MR. ALTEEN:

Q. Next witness in the box right now, Mr. Chairman, is Ms. Lisa Hutchens and she's ready to be sworn, first order of business.

MS. LISA HUTCHENS (SWORN)

CHAIRMAN:

Q. Okay, Mr. Alteen.

MR. ALTEEN:

Q. Ms. Hutchens, could you please state your name, position and the matters upon which you'll be testifying today?

A. My name is Lisa Hutchens. I am the vice-president of finance and chief financial officer of Newfoundland Power Incorporated. I will be testifying on three areas: deferred pension costs, Newfoundland Power's 2003 rate base, and the Automatic Adjustment Formula to

be used in setting customer rates for 2005.

Q. Ms. Hutchens, in this proceeding, in the principal submission, there is evidence relating to Newfoundland Power's rate base, Newfoundland Power's forecast rate base and values for invested capital in the Automatic Adjustment Formula. There are reports on deferred charges and reports on pension amortization. In addition, there are RFIs which have been submitted by Board staff and have been responded to by the Company. Have you supervised the preparation of these materials?

A. Yes, I have.

Q. And do you today adopt them as your pre-filed evidence in this proceeding?

A. Yes, I do.

Q. Ms. Hutchens we'll start with the deferred pension costs and I guess we'll start with the actual plan that we're dealing with and I'll ask you to describe or define benefit pension plan at Newfoundland Power?

A. At Newfoundland Power we provide the majority of our employees with pension benefits through a defined benefit pension plan. The cost

associated with pensions are included in our regulated cost of service. A fund of assets is held in trust for the purpose of paying the pension benefits in the future. Both Newfoundland Power and their employees contribute to this fund; however, the responsibility for and risk associated with ensuring the pension fund is large enough to pay the pension benefits promised, rests with Newfoundland Power. The funds of assets built over the employees' working life until the time that they retire, at which time it begins to decline. The obligations to the employees does not cease until they, and sometimes their spouse, pass away.

Q. Now, Ms. Hutchens, in Order No. P.U. 19 2003, and that, Mr. Chairman, is Newfoundland Power's 2003 General Rate Order, the Board ordered Newfoundland Power to incorporate deferred charges in rate base commencing in 2003. Can you please describe for the Board deferred pension costs which are part of deferred charges that are incorporated in rate base?

A. Deferred charges represent monies that have

been invested in the pension fund, but not yet recovered from customers. They are recorded as an asset on the Company's financial statements. The monies we invest in the fund are referred to as pension funding. The cost of providing benefits to employees is recovered from customers through pension expense. Pension funding is not the same as pension expense. The difference between the two is what results in the deferred charges, and perhaps to demonstrate this if I can take you to the report on deferred charges on rate base, page 4 of 5, table 5, which I believe Colleen has ready to put up on the screen. In the middle of this page, you'll see table 5 and I'll just take you down through to show you the dynamics here. And I'll take you down to the 2004 column. At the beginning of 2004, we had the deferred pension costs or deferred pension asset of $72,787,000.00. In 2004, we will be funding on account of current service, $3,367,000.00, as well as special funding of $6,384,000.00, for a total funding of $9,751,000.00.

Pension plan expense for the year is

MS. HUTCHENS:
$3,320,000.00 for an increase in deferred pension costs being the difference between the 9 million dollars of funding and the 3 million dollars of expense of $6,431,000.00. Thus at the end of the year, our deferred pension costs are expected to be $79,218,000.00.

Pension expense is determined based on the recommendations of the Canadian Institute of Chartered Accountants. The accountants' prime interest, in determining pension expense, is to ensure that the company's pension obligations are reported appropriately. Pension funding is determined based on actuarial determinations and is governed by pension legislation. The main interest in pension funding is to ensure that there is adequate assets available in the pension fund to pay the benefits promised. So, for two good reasons, the two different approaches are different and they result in pension expense and pension funding not being the same.

I'll just briefly comment here on the two types of pension funding. Current service

funding refers to the funding required to be paid into the pension fund related to service rendered by employees in the current year. Special funding is intended to bring the plan to a fully funded status and often arises as a result of events coming from the past and can be caused by such things as the initiation of the pension plan, amendments to the plan over time, or market returns on assets on the funds being less than those expected. We're addressing special funding in this evidence here today.

Q. Could you comment on Newfoundland Power's approach to pension accounting compared to other Canadian utilities, Ms. Hutchens?

A. Certainly. Board staff actually asked in a Request for Information here about what other utilities do and for reference, it's PUB-37.4 NP, which now is up on your screen. The first point I'd like to make here is that Newfoundland Power's pension accounting is in accordance with generally accepted accounting principles. On the table in this response, you can see that many other utilities, besides Newfoundland Power, have deferred pension

assets associated with defined benefit plans that were recorded in their December 31st, 2003 published financial statements. The conclusion we draw from a review of these statements is that differences between annual pension expense and pension funding appear to be commonly accounted for as a deferred asset by Canadian utilities.

Q. You've talked about the accounting, can you briefly describe the role that the actuary plays in determining the annual funding amounts?

A. Certainly. The actuaries' role is to provide advice on the funding policies of the plan. They must be satisfied that the funding policy meets pension regulatory requirements and that the plan sponsor understand the long-term implications of that funding. The actuary also passes judgment on funding streams and they, in our case, they have indicated that our funding stream meets all applicable regulations.

Q. Ms. Hutchens, as part of Newfoundland Power's application, we filed a report on the amortization of unfunded pension liability.

Appendix A of the report is a summary of the most recent actuarial valuation for Newfoundland Power's pension plan. Would you please take the time to take the Board through this?

A. Yes, I would be pleased to. Actuarial valuations assess the financial help of a pension plan and must be conducted at least every three years. Our most recent valuation was conducted at December 31st, 2003, by Mercer Human Resource Consulting. In a valuation, the actuary essentially compares the assets in the fund to the liabilities of the plan to determine the financial health of the plan. And this assessment was performed on two difference bases and they are shown in Appendix A of the report on the amortization of pension funding and I'll start with page one of the letter, which is on your screen. The first basis upon which the actuary reviews the plan is the going concern basis. This evaluates the health of the plan as if the plan continued to operate as intended. What you can see from the summary report here, from Mercer's, is that the actuarial value of

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MS. HUTCHENS:
assets in the first column, entitled 12-31-2003, so December 31st, 2003, our assets were valued at $176,473,000.00. The actuary then also determines the liability of the plan, and in our case, for 2003, they had determined that the liability of some $200,592,000.00. So the liabilities are greater than the assets. So the actuary's conclusion here is that on December 31st, 2003, there was a going concern, unfunded liability of 24.1 million dollars. A going concern unfunded liability must be funded through special payment within a fifteen year period. A note here too, the comparison to the 2000 valuation which was the prior valuation, and that's found in the right-hand column of that same table. The unfunded liability at the end of 2000 was $27,919,000.00, that's reduced to $24,119,000.00 at the end of 2003. During this period, we made special payments totalling 22.8 million dollars. So without the special funding pattern that we have adopted, the current unfunded liability would be significantly worse than the 24.1 million

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dollars that we see here today.

Now the second basis of pension valuation is the solvency basis and we see that on page 2 of the letter, at the bottom there. A solvency valuation determines the plan's ability to meet obligations to employees today, as if the plan were wound up and terminated today or at the valuation date, sorry. Mercer's has determined, for the same comparison of assets and liabilities, that on a solvency basis our assets of $178,760,000 are greater than our total liabilities of $161,569,000.00 for a solvency excess of $17,191,000.00. If a plan moves into a solvency deficiency position, the solvency deficiency must be liquidated against your special payment within five years. This can result in significant payment requirements. It can also result in variability in pension costs. It's actually quite conceivable that Newfoundland Power's pension plan could be in a solvency deficiency position today, had we not adopted the special funding pattern that we have in the past.

Q. Could you provide us with a review of how

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Newfoundland Power determines its pension requirements or pension funding requirements today?

A. Certainly. Newfoundland Power funds their defined benefit pension plan in accordance with the approval of this Board and actuarial determinations. The current service component of pension funding is provided by our actuary each year. The Company's special funding we can see on page 4 of the Mercer letter. Our annual special funding you see on the top table, the second column, entitled "Annual Special Payment", total $6,384,000.00. This is comprised of a number of components which are shown in the rows on that particular table. The various components of the special funding were created as a result of the initiation of the plan and a variety of planning amendments over the years. Working across the column in the table, we see in the first column the effective date, which is when the approved payment stream, in each particular case, was created. The second column, is the annual special payment amount under each of these funding streams. The end

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of the amortization period is the period at which it was envisioned when the funding was initially established that the funding would be completed. And the last column entitled "Present Value of Remaining Payments as at December 31, 2003" is the net present value of the funding stream. For each component, both the amount of the annual payment and the time period over which the amortization would take place, were authorized by this Board. The largest portion of the annual special payment you can see is in the top row. This payment stream relates to the creation of the pension plan in 1984. The Board approved funding of the initial unfunded liability using payments of $4,188,000.00 per year for the 25 year period from 1984 to 2009. The most recent annual special payment is the bottom row of $521,000.00 per year. This was approved to liquidate the effects of the 1999 Early Retirement Program over the ten-year period from December '99 to January 2010.

Now you'll note here that the present value of the remaining payment streams in the last column totals 26.8 million dollars. This

MS. HUTCHENS:
is greater than the 24.1 million dollars of our unfunded going concern liability. The special funding payments approved for the latter part of the payment schedule in 2009 and 2010 are not currently anticipated to be required. The second schedule on this page or the second table, shows the adjusted payment schedule. So you'll notice that for the first payment stream on the top table, it was expected to run to an end of amortization period of March 31st, 2009, but instead that four million dollar a year funding amount is now expected to be discontinued January 31st, 2008, approximately eight months early.
Similarly the last payment of $521,000.00 per year was planned to originally go until January 2010. It's now planned to be discontinued at July 31st--you can see in the bottom table--2008, about eighteen months early. So essentially what's happened here is the time period for the special funding stream has been reduced. So the net present value of the payment, which is the last column in the second table, equals 24.1 million dollars,

which is equal to the going concern unfunded liability. It reflects Newfoundland Power's continuing with the payment stream already authorized by the Board, until the unfunded liability is extinguished. I guess Board members, paying down the unfunded liability is about--it's quite similar to paying off a loan. You can pay it off faster with larger payments. You can pay it off slower with smaller payments, but at the end of the day, the net present value of the payments you make has to come back and roughly approximately the net present value of the original loan.
Q. Does Newfoundland Power believe that the current funding patter which is authorized continues to be appropriate?
A. Yes, we do. Based on the funding pattern that has been ongoing for about twenty years, the plan is currently projected to be funded in about four years time. Over the long term, a fully funded pension plan will tend to be more stable. A fully funded pension plan tends to reduce the risk of variability in pension costs and funding requirements due to poor market performance of assets. Accordingly, it

is beneficial for both customers and employees that Newfoundland Power take steps to minimize these risks.
Q. Ms. Hutchens, Board staff submitted some Requests for Information on the impacts of customers of choosing a longer funding pattern. Have you supervised the analysis that was conducted to review this issue and respond to the Board's staff RFIs?
A. Yes, I have. We had a good look at this issue and we presented our analysis in Attachment A to the response to PUB-37.5 NP. A detailed revenue requirement analysis has been presented here, which shows the difference between the current funding strategy of the Company and a second funding strategy which amortizes the 24.1 million unfunded liability over a longer time frame.
Q. Now to assist the Commissioners, could you please summarize the results of your analysis?
A. Gladly. From a customer rate perspective, there's no material benefit, on a net present value basis, in liquidating the unfunded pension liability over a longer period than currently planned. In performing our

assessment, we considered the cumulative effect of the impacts that results in pension funding: the income tax impact, pension expense impact, and financing cost impacts. The first element is the impact of pension funding on income tax expense. Pension funding, rather than pension expense, is tax deductible. Pension funding, therefore, reduces the revenue requirements in the year that it is made. Because Newfoundland Power recognizes past taxes paid as the Company's income tax expense, pension funding has the impact of decreasing income taxes and customer rates. In the 2004 test year, the $6,384,000.00 of special funding decreased the income tax expense by approximately 2.2 million dollars. This in turn reduced the revenue requirement which is a before tax number by approximately 3.4 million dollars.
The second cost element we looked at is annual pension expense. Annual pension expense explicitly recognizes an expected return on the actual assets invested in the pension fund. By funding a plan, pension expense is reduced.

MS. HUTCHENS:

The third cost element is the cost of financing the deferred assets that arises from pension funding. The results of the analysis shown in the Request for Information PUB-37.5, shows that customers will be marginally better off on a net present value basis using our current funding pattern. And I guess when you think about it, it makes sense and we think back about that loan. The Company's approach pays off the loan sooner; a longer funding period would pay off the loan over a longer period of time, but the net present value of the payments will tend to be fairly similar.

Q. What will happen to this deferred pension asset in the long run, Ms. Hutchens, can you give the Board an indication of that?

A. I guess the first thing to remember about the deferred pension asset is that it is intended to be a very long-term asset. There are a lot of things that can impact a deferred pension asset in the future; however, sitting here today, I would expect that the asset will tend to stabilize once the plan becomes fully funded. It should then draw down, albeit

slowly, as the employees who are members of the plan retire and collect their pension benefits. We recently closed entry to the plan so that should restrict the risk of future changes in the asset to the employees and retirees who are currently members of the plan. I guess what exactly will happen is impossible to predict today; however, I do expect that the deferred pension asset will slowly amortize over time.

Q. Would you please summarize Newfoundland Power's position on deferred pension costs?

A. Newfoundland Power has an obligation to adequately fund our defined benefit pension plan. Our schedule of special funding payments is principally the result of amortizations that have been approved by this Board. We have an obligation to customers to ensure that pension costs are managed in a prudent and responsible manner, so as to minimize rate impacts. The current funding pattern is better for customers than a longer funding time frame. In the short term, extending the funding period will increase the revenue requirements for customers. In the

longer term, there's no benefit on a net present value basis to liquidating the unfunded pension liability over a longer time frame. In the longer term, extending the funding period will tend to increase the risk of pension cost instability that can be associated with solvency deficiencies.

Commissioners, I guess as I see it, extending the funding pattern will not bring a material benefit to customers and it may actually increase the risk of rate variability in the future. Newfoundland Power strives to make prudent and responsible decisions that fill our obligations to both our customers and our employees. The current authorized funding of the pension plan provides stability against variations in future pension plan funding, pension expense and customer rates. Our current funding pattern provides benefits to both customers and employees and is the least cost, prudent way, to handle the unfunded pension liability.

Q. Ms. Hutchens, perhaps we can move on now to the rate base issues or the 2003 rate base, and the calculation of the 2003 rate base and

the forecast rate bases for 2004 and 2005 are shown in Schedule D to the application and perhaps, Colleen, we could go there. Have you supervised these calculations?

A. Yes, I have. Rate base is the assets used to provide utility service to our customers. I can confirm that the calculations of average rate base shown in Schedule D are consistent with and in accordance with previous orders and practices of this Board. Yesterday there was a report from Mr. Bill Brushett of Grant Thornton, the Board's financial advisor, filed, that confirmed that the 2003 rate base calculation is accurate and is in accordance with the Company's last general rate order. He also confirmed that 2004 and 2005 forecasts of rate base are calculated correctly and in accordance with Board orders.

Q. Ms. Hutchens, as I look at Schedule D, I notice that there's a deduction for contributions in aid of construction in the rate base calculation. This question was put to Mr. Delaney yesterday, can you confirm for the record that contributions in aid of construction are deducted from rate base?

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MS. HUTCHENS:
A. Yes, I can. You can see there in the third line in the 2003 column, "Contributions in Aid of Construction" which over the years have accumulated to $20,300,000.00 are removed in the calculation of rate base.
Q. Thank you very much. Ms. Hutchens, the calculation of the 2004 and 2005 forecast of average invested capital are shown in Schedule E to the application and I would ask Ms. Combden to go there now. Have you supervised these calculations also?
A. Yes, I have. Invested capital is the amount of debt preferred and common equity invested in the Company. These amounts show how the rate base and the other assets required to run the Company are financed. I can confirm that the calculation of the forecast average invested capital for 2004 and 2005 shown, are consistent with and in accordance with previous orders and practices of this Board.
Q. Thank you. Ms. Hutchens, the calculation of the 2005 forecast of rate of return and average rate base are set out in Schedule F to the application and Ms. Combden has that on

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the screen there now. And this is the rate of return on rate base according to the formula approved by the Board at the last general rate order which was initially created for Newfoundland Power in 1998. Have you supervised the calculations that are in Schedule F?
(10:00 a.m.)
A. Yes, I have. This schedule is the Automatic Adjustment Formula that was implemented in 1998. The formula provides the ability to adjust customer rates without the time and expense of a full rate hearing. The formula, which you can see in the top section of the page, produces the Company's allowed rate of return on rate base for the succeeding year. Each year a new rate of return on rate base is calculated using the formula. If the calculated amount falls outside of the Company's current range of rate of return on rate base, an adjustment to customers' rates is made in the succeeding year. The forecast of average rate base and average invested capital for 2005 are requested to be approved in this hearing for input into the Automatic

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Adjustment Formula. The 2005 forecast, rate of return on rate base, is 8.90 percent and is shown in the last half of this schedule. Mr. Brushett of Grant Thornton has also indicated in his report filed in this proceeding that the forecast rate of return on average rate base for 2005 is calculated correctly. One last variable for setting the rates for 2005 remains, however. The observed yields on the three most recent series of 30 years Government of Canada Bonds for the last five business days in October and the first five business days in November of this year. This value will be submitted to the Board in mid November once the actual yields are known.
Q. Ms. Hutchens, does that conclude your testimony?
A. Yes, it does.
Q. Mr. Chairman, Ms. Hutchens is available for cross-examination.
CHAIRMAN:
Q. Thank you, Mr. Alteen. Mr. Kennedy?
MR. KENNEDY:
Q. Thank you, Chair. Ms. Hutchens, thank you very much, that was quite helpful actually, as

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was the responses to many of the RFIs on this topic. I have a couple sort of specific questions about some of the information that appears in some of these, and I think the first place I'd just like to start, if I could, is with the letter from Mercer, which is the one attached to your actual report as originally filed on the pension valuation. And just to confirm, I think you've stated it there in direct, Newfoundland Power uses the going concern basis in determining what position the pension funding is at a given moment in time, and in this case, it's the time the valuation is conducted which is December 31 of 2003?
A. We use the going concern basis; however the solvency basis is also required. Both calculations are required under the pension legislation.
Q. Right, so Mercer does both, the going concern basis and the solvency basis -
A. That's right.
Q. But for the determination of whether there is an unfunded liability position in your pension plan, you rely on the going concern basis

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MR. KENNEDY:
test, as opposed to the solvency basis test?
A. We're relying on the going concern basis here. Had the solvency been a deficiency, there would have been some funding requirement resulting from that deficiency as well.
Q. I think you indicated in one of the RFIs that I think pursuant to the Pension Act itself, if you go offside; in other words, if there's a unfunded liability position determined from the solvency basis that it requires a quicker funding period to catch up that unfunded liability, is that right?
A. Yes, that is correct. The solvency deficiency must be funding within five years under the pension legislation; whereas a going concern unfunded liability must be funded within fifteen years, so there is a difference in time frames.
Q. Okay. Now just on that topic about the amortization periods, if you will, for catching up on the unfunded liability. If we go to the Mercer letter again, page 4, and this is the table you were bringing the panel through just a few moments ago. And when I

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look at the affective dates and then the end of the amortization period for each of those line items, I think if I'm looking at it correctly, it seems like the first one, the $18,896,000 had approximately a 25 year amortization period?
A. Yes, that is correct.
Q. And then it goes for the next three, the 264,000 for 15 years originally, the annual special payment of 140,000, the next line, January 1, 1991 to December 31, 2005, so about a 15 year period?
A. Yes.
Q. And then the next two are both 15 year periods?
A. Yes.
Q. And then it went to 10 years, starting with the effective date of July 1, 1997?
A. Yes, that's correct.
Q. And then it stays 10 years, 10 years, 10 years and then finally the last one of December 31, 1999 to be completed in 2010 is the 10 year period again?
A. Yes, that's correct.
Q. Okay. So I guess there may be some confusion

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on the record and I just wanted to see if we could just get that clarified because there were some questions put to Mr. Perry, your predecessor in the position of chief financial officer for Newfoundland Power, in Newfoundland Power's most recent capital budget application prior to this one, in a discussion about what the appropriate amortization period would be for catching up on unfunded liability positions? And I'd suggest that there seems to be a suggestion and it may have been my suggestion to Mr. Perry during the cross-examination, which may have given rise to the confusion, that there was a five-year amortization period being used to catch up on unfunded liabilities under your pension plan. And I'm wondering if you could clarify whether in fact, is there--we know that under the present funding scheme it looks like you're going to be fully funded in about four and a half years, I think you indicate in your evidence, is that right?
A. Yes.
Q. But that's a different issue than what the unfunded liability at any given moment is to

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be amortized over, and I'm just wondering what the company's position is on what the appropriate amortization period is for catching up on unfunded liability under your pension plan? In other words, let's say we-- if I could just start you with a hypothetical. Let's just say that we're even to the Board on your pension funding and then the next valuation comes in and it shows that you're in an unfunded position. What would be an appropriate span of time for you to determine how long it was going to take to put that back whole again?
A. I think what you have to do, and I think you're assuming that the plan becomes fully funded and slips then into an unfunded position, which is different circumstance than what we have here today. Since I've been with the company, we've had an unfunded liability with the plan. So we are still trying to catch up from essentially the initial inception of the plan back in 1984. The situation where you become fully funded and then for various reasons, an example might be a loss in the market value of your assets,

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MS. HUTCHENS:
where you fall into a deficiency position, we'd obviously, I think, have to look at the situation at the time. Customer impacts would obviously have to be considered. You'd have to consider the pension legislation. Whether you're in a solvency deficiency position or whether you're in a going concern deficiency position, I think, would instruct you what your maximum time frame would be. If you actually slipped into a solvency position, you'd have a maximum of five years over which to make up that difference. If you were in a going concern deficiency position, you could do it within 15 years. I think we'd really have to look at the circumstances at the time.
Q. Okay. So there's no -
A. - and consider the customer implications.
Q. - there's no, if you will, hard and fast rule as to what the appropriate span of time would be to catch up on an unfunded liability under your pension plan? It would be something that you would need to exercise judgment over at the time?
A. Yes.

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Q. You mentioned a moment ago that you closed membership to the plan, I think?
A. That's correct.
Q. So just begs the question, new employees, when they're hired, are they afforded any pension plan benefits?
A. Yes, they are. New employees now, instead of joining a defined benefit pension plan, participate in a defined contribution plan, which is essentially an RRSP type arrangement.
Q. And is my understanding correct that the difference between a defined contribution plan and defined benefits plan is that the defined contribution plan shouldn't have an unfunded liability position? It is what it is at any given moment?
A. Yes, that's correct.
Q. So if Newfoundland Power continues to maintain its present position of only offering defined contribution plans to new employees that get added, we're not looking at any additional liabilities created in the plan by virtue of new employees driving up the cost of it?
A. Yes, that is correct. The risk associated with the plan is really restricted to the

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employees that are members of it today.
CHAIRMAN:
Q. Mr. Kennedy.
MR. KENNEDY:
Q. Yes, Chair.
CHAIRMAN:
Q. Sorry to interrupt you, but -
MR. KENNEDY:
Q. No problem.
CHAIRMAN:
Q. - something has come to my attention from the Clerk that requires us to take a five-minute adjournment, and so we'll continue in about five minutes.
MR. KENNEDY:
Q. Not a problem, Chair.
CHAIRMAN:
Q. Thank you.
(BREAK - 10:12 a.m.)
CHAIRMAN:
Q. Okay, Mr. Kennedy.
MR. KENNEDY:
Q. Thank you, Chair. Ms. Hutchens, I was just asking you some questions about the difference between a defined contribution plan and a

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defined benefits plan and sort of related to that, I just wanted again to turn to page three of the Mercer letter, which we have up on the screen. And that table below, the current service cost, this is where Mercer calculates the estimated company's current service costs of $3,365,000 for 2004, and that's what you actually used in your calculations, which ultimately lead to your deferred pension costs and your pension expense and so on. It's a number that you use in your determinations, correct?
A. Yes, that's right.
Q. And I notice that Mercer shows that from 2001 to 2004, the company's current service costs increase, but more notably, the company's current service costs expressed as a percentage of members' pensionable earnings increase from 9.65 to 9.96, which doesn't sound a lot, but we're dealing with large sums of money. And so I'm just wondering, is there a reason why that is trending upwards, if we could say that those two points are forming a straight line?
A. Yes, I actually did ask the actuary that

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MS. HUTCHENS:
question myself, and the reason that we're seeing that trending upwards is because we've got an aging workforce. The employees that are members of the plan are getting closer to retirement. Therefore the pension costs associated with their current service is getting larger.
Q. Okay. Thank you. Now there was an RFI you referred to, 37.4, and this is where you drew attention for the panel to this RFI in particular. It's response to an RFI that asked whether Newfoundland Power conducted an industry review to determine how other Canadian utilities account for unfunded pension liability. And you indicate here "deferred pension assets as December 31, 2003, for the utilities as listed." Are they just taken directly from the financial year ends for the various utilities that you've got listed there?
A. Yes, they are.
Q. Okay. Do you know what the regulatory treatment is for those utilities as listed in that table, insofar as trying to catch up on

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unfunded pension liabilities, what accounting treatment they exercise?
A. From an accounting perspective, our review indicated--and you can usually tell these things from the notes to the audited financial statements--that they were following generally accepted accounting principles, similar to us. And there was no indication, from a regulatory perspective, that they were dealing with it any differently. I will indicate that in our 2003 General Rate Application, Newfoundland Power had a witness, Mr. John Browne, who testified on the area of pensions, and his review at that time did indicate that what we were doing from a regulatory perspective was consistent with generally accepted regulatory principles.
Q. So consistent with general regulatory accounting principles, but we don't have any direct evidence then, do we, for instance, of whether Nova Scotia Power or Hydro Quebec or Canadian utilities are employing the same regulatory accounting treatment of their unfunded pension liabilities as Newfoundland Power? Like do we have any direct evidence

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from any of these utilities about what regulatory accounting treatment they're exercising on their unfunded pension liability?
A. No. There's no direct evidence per se, but I guess the fact that we're following generally accepted accounting principles and they're following generally accepted accounting principles would tend to lead you to the conclusion that they would be the same. In financial statements these days, as well, companies are required to disclose deviations from generally accepted accounting principles, and you'll notice in our notes to the financial statements that there are some deviations listed there. There was nothing in our review of these companies that indicated anything to the contrary.
Q. And sometimes they're not one and the same, correct? GAAP and regulatory accounting principles are different and that may arise for a host of issues. Intergenerational issues, for instance, may--that have to be taken account under regulatory accounting principles may end up trumping, if you will,

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the GAAP accounting principle, correct?
A. Yes.
Q. And so again, we don't know though whether if these utilities are following GAAP or following some other regulatory accounting principle in accounting for their unfunded pension liability?
A. On the accounting side, they are following GAAP.
Q. GAAP, okay. For recording purposes to their respective utility board, we don't know whether they treat it differently?
A. No, that's not here.
Q. In turn, could you tell from looking at the respective utilities as listed in PUB 37.4 of whether they're using the solvency or going concern test for determining what their unfunded pension liability is?
A. I think under pension legislation, and I'm assuming here that the pension legislation across Canada is the same as that in Newfoundland because it does vary from province to province, they would really have to consider both. I can comment that Ontario Power Generation, $464 million figure there,

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MS. HUTCHENS:
it appears that they are actually funding a solvency deficiency as well as their regular ongoing funding for 2003 and 2004 to the tune of about $141 million.
Q. Which utility was that, sorry?
A. Ontario Power Generation. And Nova Scotia Power too, I did get the opportunity to look at their latest actuary evaluation, which is filed in their current proceeding, and in their particular case, they do have a deficiency on both a going concern and a solvency basis. There was nothing in it about specifically how they would fund it, but certainly they had a deficiency on both basis as well.
Q. You indicated in 37.5, if we could go to that RFI, please, sorry, Colleen. And just as background, this was providing--this was the full question, I guess, in the RFI, series of RFIs on this, of providing full details, including financial rationales of the various funding scenarios which support the company's position that liquidating the unfunded pension liability over a long period and five years

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would have, I guess, marginally better to amortize it over five years as opposed to a longer period. That's what your financial calculations show, correct?
A. Yes, that's correct.
(10:33 a.m.)
Q. Okay. And I was interested in--down in line 32 on that page, the paragraph that starts with "fully funded pension plan" and it goes "A fully funded pension plan should tend to be self-sustaining over the long term, insofar as it relates to benefits already accrued by employees." So if you will, that's in effect saying that over the long term, the market rate of return, if you will, achieved on your pension assets should tend to approach the expected rate of return as per the actuary's figures, and therefore the pension should be generally fully funded over that long period of time. Some periods, the market rate achieved will be less than what was hoped. Other periods, the market rate achieved will be higher than what was hoped. But overall, it should tend towards zero. Your plan should adhere to that overall market rate, that

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expected market rate?
A. Yes. What that is intended to say is that when you have a fully funded plan, there's less risk of volatility that's going to push you outside and into a solvency deficiency circumstance, and generally, that volatility will be driven by the market return on assets being more or less than or less in particular than what is expected.
Q. Right. And so if you start off with a position of having a fully funded pension plan and then just moving forward from that point, there'll be periods of time when the plan will look unfunded or have an unfunded liability, and then there will be other times when the plan will look over funded?
A. Yes, generally. Yes, you'd be correct.
Q. But throughout the entire period, the plan should be funded as much as it needs to be funded?
A. Correct.
Q. Okay. And so you would also take that into account, I assume, going forward in looking at if there was another period where it was unfunded, there was an unfunded liability, you

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would take into account that well, yes, it's unfunded now, but it's likely to be funded again in the future?
A. Certainly, yes, you'd have to take that into account. But within the constraints of the pension legislation that would still require you to fund an unfunded liability. You may still have to take action on an unfunded liability, but it should be significantly less with a fully funded plan than with an unfunded plan or under-funded plan.
Q. And in keeping with that, you may pick a longer period of time in which to catch up on that unfunded liability?
A. Certainly, yes. Yes, it's a possibility.
Q. And so if we just go to your Attachment A, Appendix A and Appendix B, we just look at Appendix A first, just under the same RFI, 37.5, yes. And then there's an appendix, Appendix A. There we go. And so this first Appendix A is your, if you will, net present value calculation of the current funding scheme that the company is using to catch up on its unfunded liability for its pension plan, correct?

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MS. HUTCHENS:
A. Yes, it is.
Q. Okay. And then Appendix B is the scenario of looking at it over a longer period of time?
A. Yes, that's correct. You'll notice in Column A that the pension funding amount there is stretched out over a longer period of time. And Schedule -
Q. To 2015.
A. Right, in B versus A.
Q. Okay. And just so I'm clear, the assumption being made in this second scenario, where you have the longer pension funding catch up, is that your plan is keeping current from 2004 to 2015. There's no new unfunded liability being created?
A. No, that's correct. The funding pattern that you see in Schedule B, you'll notice that the funding total there is 32 million. That $32 million on the net present value basis equals the $24.1 million unfunded liability, as it would in Schedule A. So we're not reflecting through there any expected ups or downs.
Q. Right.
A. Away from a fully funded position over the

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time period being involved here. It's impossible to predict, so you have to assume that things operate as you expect.
Q. Right, okay. So I guess that was the other side of the coin, that you neither take in-- you neither build in any scenario, if you will, for the pension funding getting better than the effected market rate of return or under performing. Neither one of those scenarios are taken into account here. It's assumed that the pension plan from 2004 onward behaves as expected.
A. Yes, that's right.
Q. Okay. Mercifully, that's all the questions I have on rate base and pension plans. I just have one question that actually relates to your policy in regards to a capital expenditure you have in your IT budget.
A. Yes.
Q. It's just a dangler, and I just wanted to see if we could get your opinion on the record. It relates to an expense. 43.1 is what I'm looking for in the RFIs. Yes. And I just want to see generally. Each year now, we're seeing in Newfoundland Power's Capital Budget

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for its information technology an amount related to your Microsoft Enterprise agreement.
A. Yes.
Q. And I understand that that's an annual agreement, so that 210 is an annual allotment. Is that right?
A. I can't say whether it's an annual agreement or not, but it is an annual allotment, yes.
Q. So would you, in turn, depreciate that down in one year?
A. No, we would follow our general software accounting policy, which indicates that software is amortized over a ten-year period.
Q. So you use a ten-year period for your depreciation rate on software?
A. Yes.
Q. Okay. But your net present value calculations that were put forward show a capital cost allowance for your software of two years.
A. Yes. Capital cost allowance, I guess, is different than depreciation expense. Capital cost allowance is what Revenue Canada allows you to deduct, and the net present value analysis done in support of that particular--

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or these types of items that we file is a net present value of cash flows. The depreciation expense would not necessarily have a cash flow impact. The CCA rate with Revenue Canada allows you to write software off essentially over a two-year period.
Q. But if you use a ten-year depreciation rate, then that asset's in your rate base for that ten-year period on a depreciated basis?
A. Yes.
Q. So this Microsoft Enterprise agreement for $210,000, although it may be an annual amount, and although Revenue Canada may allow a cost allowance of 50 percent year over year, so that it's fully depreciated out in two years, you may end up keeping it in your rate base for a full ten-year period?
A. Yes. It would be kept in the rate base, but I think the other thing to note there is that the customers get the benefit of a reduced depreciation expense during that time, compared to if you did it over two years, and they also get the benefit of the reduced taxes that you would pay as a result of amortizing over a shorter period for tax purposes.

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MR. KENNEDY:
Q. Okay. That's all the questions I have, Chair. Thank you, Ms. Hutchens.
CHAIRMAN:
Q. Do you have any -
MR. ALTEEN:
Q. No, Mr. Chairman, there's nothing arising.
CHAIRMAN:
Q. Nothing arising. Commissioner Vincent?
COMMISSIONER VINCENT:
Q. I had two questions but they got answered through our legal counsel. That's fine for me. Thank you.
CHAIRMAN:
Q. Commissioner Martin?
COMMISSIONER MARTIN, Q.C.:
Q. None.
CHAIRMAN:
Q. I have no questions. Thank you very much, Ms. Hutchens.
MR. ALTEEN:
Q. Mr. Chairman, that's the direct evidence for the company in support of the application. It might be appropriate to take a brief break, and maybe at 11:00 myself and Mr. Kennedy

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could come back and make a final submission. It won't be elegant and it will be succinct.
CHAIRMAN:
Q. So you think that it'll take you only about 20 minutes to do that?
MR. ALTEEN:
Q. I think we can get it done in that time.
CHAIRMAN:
Q. All right. Well, why don't we do it this way. Seeing we're not in a terrible rush and rather than put any undue pressure on yourself and Mr. Kennedy, we'll adjourn now until you're ready and you let the Clerk know and we'll come back.
MR. KENNEDY:
Q. Yes, Chair. I have one pressing matter which was what interrupted us a few minutes ago, and I have a phone call I have to make at 11:30, and I wouldn't want to risk the wrath of the person on the other side of that one. So if we could either--I don't want to awkwardly have to break again at 11:30.
CHAIRMAN:
Q. I understand.
MR. KENNEDY:

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Q. So I think we'll both maybe be up to bat at 11 and -
MR. ALTEEN:
Q. I am mindful there's no undue pressure on ourselves and I would -
CHAIRMAN:
Q. That gives you 15 minutes each. Is that going to be sufficient? Yes? No?
MR. ALTEEN:
Q. I will be succinct, but not elegant, Mr. Chairman.
CHAIRMAN:
Q. Okay.
MR. KENNEDY:
Q. I'll be very brief, Chair.
CHAIRMAN:
Q. Okay. So then we'll come back at 11 unless we hear different from you.
MR. KENNEDY:
Q. Thank you, Chair.
MR. ALTEEN:
Q. Thank you, Mr. Chairman.
(BREAK - 10:43 A.M.)
(RESUME - 11:00 A.M.)
CHAIRMAN:

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Q. Okay. Mr. Alteen, are you ready to proceed?
MR. ALTEEN:
Q. Yes, I am, Mr. Chairman. Mr. Chairman, at the start of this hearing I had indicated that at the conclusion, I would likely be submitting to the panel that the record before you justifies the Board's approval of Newfoundland Power's capital budget in the amount of $48,141,000. The Board's approval of Newfoundland Power's 2003 rate base is filed and the Board's approval of revised values were used in the Automatic Adjustment Formula, all of which and in the form of which have been requested in the application.
I'd like to start with the last two prayers of relief first, or the last two aspects of the order. Mr. Chairman, the evidence was filed with the application. You've heard the evidence of Ms. Hutchens who spoke to both the matters of the 2003 rate base and the values for the Automatic Adjustment Formula. You have the benefit of the review conducted by Grant Thornton which has been filed in this proceeding, and all of that indicates that the orders requested on

MR. ALTEEN:
these two grounds are justified, and the Board should have a great deal of comfort and a great deal of confidence in granting those two aspects of the order. They are, in a sense, routine and part of the Board's mandate in terms of the continued supervision of the utility and they provide a measure of continuity to the Board's regulatory oversight.

With respect to Ms. Hutchens' evidence today regarding the pension funding, Mr. Chairman, that really was a matter that was required to be addressed by the terms of our last capital budget order and I would submit to you that on the record that you've heard here today and the filed record, which has been partly filed by the company and partly elicited in response to information requests by Board staff, that the record is persuasive and complete and indicates that the current funding and pension cost management by Newfoundland Power is entirely appropriate, is least cost and benefits consumers. The Board need not make a specific order on that because

no one is proposing to change anything. That item was a matter in which the company was put to the proof of justifying that what it's doing is in the best interest of consumers.

Which brings us back to the capital budget which is the main focus of the proceeding, Mr. Chairman, and under Section 41, we brought that forward and you have the benefit of the company's filed application which is two volumes, the benefit of the interrogation, your RFIs by staff, and you have the evidence principally of Mr. Delaney and Mr. Collins to sort of base your decision upon.

Mr. Chairman, the budget, I can make an observation for 2005, is low by recent historical standards. That's not the end of your inquiry, but that should give you some comfort as a starting point in your inquiry. It is dominated by plant replacement. 59 percent of the total expenditures relate to plant replacement. 26 percent of the expenditures relate to customer service or the hooking up of new customers, in regulatory terms, the fulfilment of the utility's

obligation to serve its customers. That's a total of 85 percent of this budget is directed to those two aspects and the Board should take a great deal of comfort that it is so directed, Mr. Chairman.

As is indicated, the evidence filed or the record before you is comprehensive. I'd submit to you the evidence of Mr. Delaney is highly persuasive. He presented as a rational, organized, efficient engineer. His evidence is uncontroverted. I think the focus of his testimony of how he manages the capital at Newfoundland Power, aimed at getting the most out of assets but not running things to failure, is imminently rational as well as being intuitively sensible for a utility that has an obligation to service customers 8760 a year. His evidence clearly indicated that, one, the budget was least cost to provide the service and fulfil the obligations of the utility, and second, it would be executed on a least cost basis. Competitive tendering you heard a number of different times. Engineering things in a rational manner. The Rattling Brook project where all the T's and

all the I's should be crossed.

The evidence of Mr. Collins, Mr. Chairman, is equally persuasive. The IS budget presented to you today in the amount of $3.234 million is 20 percent under the 2004 forecast. So clearly, Newfoundland Power intends to spend one-fifth less next year than it will spend this year. It's the lowest IS budget since 1997. That should indicate to you some ballpark big picture or indication of the reasonableness of it. To a large degree, the thrust of his budget echoed the evidence of the witness, Mr. Delaney, increasing the useful life of IS assets and in a number of different places in the record in this proceeding, you'll see specific examples of that. Seven and eight-year-old servers being replaced and circumstances where servers have an average life of five years. That should give you comfort that we're getting a couple of extra years out of it. The PC infrastructure which is continually a matter of scrutiny by the Board, and rightfully so, we're extending the life of those assets. It's now beyond five years. Those types of

MR. ALTEEN:
management techniques are utterly consistent with least cost.

Mr. Chairman, Section 37.1 of the Public Utilities Act requires the public utility to provide service and facilities that are reasonably safe and adequate and just and reasonable, and that ball of wax requires you to consider many things. I think all of them have been addressed in the evidence and record before you. The Electrical Power Control Act, and particularly Section 3B, requires that all of these facilities be constructed, maintained and managed in a least cost way, and as Mr. Delaney was taking you through the rational way in which a plant is inspected, priorities are set and the plans are executed should give you a lot of comfort that that mandate is being fulfilled by Newfoundland Power, generally, and will be fulfilled in the 2005 Capital Budget.

In terms of the cross-examination, Mr. Chairman, Mr. Kennedy did take Mr. Delaney through unit cost in some detail. While that exploratory cross-examination may have been

useful and provided some indicators, I should caution the Board that it's really not evidence and, as a lot of--as Mr. Delaney's evidence, a lot of it you really can't compare some of the years. However, Mr. Delaney did describe some of the influences that are affecting unit costing, looked at on any basis, and yes, they're going up slightly on a pro forma basis over the last four years. Part of that is timing differences. Part of that is putting in services right the first time or spending more attention to it. Part of that is with new transformers. Those types of expenditures, Mr. Chairman, have all been before the Board over the last five years and indeed are consistent with a service that is safe and adequate and just and reasonable.

Mr. Chairman, the issue of Wesleyville was canvassed in cross-examination and canvassed on two aspects. One, the overrun on the re-siting of the gas turbine to Wesleyville. Mr. Delaney's evidence on this is essentially twofold. Yes, it is over budget and he explained why. He's also indicated that it remained the least cost

alternative for supplying the northern Bonavista Bay area, and it was lowest by a margin of $1.9 million. So it was higher than budgeted, but still least cost. His evidence should also give you a great deal of comfort that it was well executed as a project. When the transmission line did go down and for 21 hours, Wesleyville had to be served by that gas turbine.

Mr. Chairman, the second aspect of the Wesleyville project was the decision to defer the overhaul of the gas generator. Mr. Chairman, in cross-examination, Mr. Kennedy alluded to the fact that the justification didn't indicate that it might be overhauled or it might be replaced by a refurbished unit on a least cost basis. I think Mr. Kennedy, due to his oversight, is perhaps a little in error in that and I'd direct the Board's attention to B-12 which clearly indicates that that was the plan of the company from the get-go. And that too is a least cost project necessary to be done.

In terms of the issue of the deferral for a year, Mr. Delaney clearly relied on

engineering judgment after speaking to the people who had indicated that the repairs would be done and the additional cost of doing the repairs a year later is well outstripped by the additional benefits. 85 to 90,000 in benefit minus something in the order of $5,000 in costs. So the deferral is not costing more.

Mr. Collins, in cross-examination, was examined on the net present values used to justify operational or justify application enhancement, ie. are you going to get efficiency out of this. Mr. Kennedy put to him the sum of efficiencies and I think that Mr. Collins' response to that was imminently persuasive that we will get the costs out and he explained exactly how they will come out.

So Mr. Chairman, that's the record before you, and I submit on that record that you really must base your order on the record, the orders requested should be granted in their totality. That is what we're here requesting. That is the essence of our submission. I thank you for your attention and I think given the compacted time frame for this proceeding,

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MR. ALTEEN:
it's appropriate that I thank staff for their cooperation. Thank you.
(11:15 a.m.)
CHAIRMAN:
Q. Thank you, Mr. Alteen. Mr. Kennedy.
MR. KENNEDY:
Q. Thank you, Chair. Members of the panel, your legislative direction is obtained through the Public Utilities Act in assessing this Capital Budget, and specifically Section 41 and Section 78 of that Act. I won't read the provisions out. I know that you're already more than aware of the wording of them and the requirements that they impose, both on the utility and then the legislated duty of the panel itself in approving or reviewing the capital budgets of the utilities.
I think I would also like to draw attention to the Board's most recent decision on Newfoundland Power's capital budget, which is P.U. 35 (2003). There's some passages in that decision in which the Board reviews its current assessments of its legislated duty under the Public Utilities Act and what it's

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required to do when reviewing these capital budgets, and it's succinctly stated, which is actually in turn a passage taken from Newfoundland and Labrador Hydro's decision in its capital budget, and it shows up at page six of P.U. 35 and the Board quotes from itself saying "the fundamental issue becomes one of justification and whether or not appropriate quantitative and qualitative data is available to the Board to determine the necessity and reasonableness of capital expenditures requested by the utility in meeting its legislative imperative."
So the issue becomes does the Board have before it the quantitative and qualitative data that it needs to assess that necessity and reasonableness of individual capital projects, as proposed by the utility.
Now the Board then went on to discuss an issue involving the guidelines that the Board had drafted that the utility should follow, and specifically, the requirement under one of those guidelines for the utility to provide an analysis, cost benefit analysis of all alternatives that were considered by the

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utility, including any DSM measures that may have been evaluated, and implicit in the DSM measures to be evaluated would be the ability to defer the project by implementing demand side management techniques.
As a result of positions taken by Newfoundland Power in its most recent capital budget, the Board agreed with an amendment to that particular provision in the schedule and reset the Schedule A, which is attached to P.U. 35 (2003) and specifically, it's paragraph Roman numeral eight, and the reference was to add a qualifier to the obligation on the utility to do a cost benefit analysis and that it would be for projects of a material amount, and that was a significant difference that was instituted in that most recent decision. And otherwise the language remains the same. So it reads in full, "for projects of a material amount, a cost benefit analysis of all alternatives, both internal and external, that have been considered, including any DSM measures that have been evaluated." So that's part of the filing requirements of the utility, and the full

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filing requirements are as pursuant to Schedule A, and so the Board needs to ask itself whether it feels that the utility has met those filing requirements, as was directed by the Board that the utility had to follow.
And I think as I indicated in previous capital budgets, I would suggest that it would be unfair to the utility to impose additional obligations on it in reviewing this capital budget, because that's not what the expectation of the utility was. The expectation would have been pursuant to this Schedule A as approved in P.U. 35 (2003).
So unfortunately, there's no direct question about what constitutes a material amount and that was something that the Board suggested could be reviewed at the technical conference, and I think as most panel members are aware, and as the stakeholders themselves are aware, that process of reviewing the capital budget process is ongoing and would hopefully be concluded within the next month or so.
And so there are a number of issues related to these capital budget reviews that

MR. KENNEDY:

are being dealt with as part of that generic review. That's not to say that it--or suggest in any way that it removes this Board's mandate to be able to comment on those, and in actual fact, I think that that would be something that I would encourage because it provides direction to all the parties about how the Board assesses some of these outstanding issues. Specifically, for instance, what's been left to the technical conference, and which I think has again raised some issues in this hearing, is what the accepted or acceptable definition is for a project. That continues to, I would suggest, cause some problem, in that the utilities, and in this case, Newfoundland Power specifically, have one approach to defining projects and the way they categorize their projects. Hydro, Newfoundland and Labrador Hydro, has a slightly different methodology that it employs, and you have to be cognizant of the fact that the two utilities use those different project definitions, and until there's an accepted project definition or a

methodology to be employed in doing that, I think that we have to sort of, you know, play the hand that we're dealt with, so to speak, in the sense that the project definitions are as is provided by Newfoundland Power in its application.

Now that being all said, I did want to speak to just four--well actually, five specific projects, just to use those as illustrative examples. One is as referenced by Mr. Alteen. I've provided and questioned Mr. Delaney on an analysis of the unit cost for growth-driven projects under the distribution category of Newfoundland Power's budget,and as rightfully pointed out by Mr. Alteen, Information No. 1, which was the compilation spreadsheet that takes information from the RFIs, is not evidence. The RFIs are however. The information contained in them is evidence. But clearly, what that was intended to do, hopefully, clearly, was to provide another analytical tool, if you will, or approach to assessing the capital budget of this utility, and that I would suggest that there is--Mr. Delaney, as indicated by Mr.

Alteen, did provide some explanations for why the unit cost has increased from 2000 to 2005, and specifically he drew attention to the fact that the Aliant Pole Purchase Agreement and the ensuing agreement can explain the difference between 2000 and 2001, and I think the Board would be right to accept that in its entirety.

Nonetheless, it's still--there's still 2001 to 2005 and I think the Board can use those different types of analytical approaches in determining the reasonableness of the capital budget, both the necessity and reasonableness. Obviously hooking up new customers is a necessary thing. It's part of the utility's legislated duty under the Act to provide safe and reliable service to any customer who needs it. The second part of the test though is whether it's a reasonable expense that the utility has encountered, and while individual expenses may be, as always the case, difficult to pinpoint, trends within categories of expenses, I think, are a relevant factor in determining the level of reasonableness of the expense itself.

The second project I wanted to comment specifically on was under the transmission section of the Utility's budget, and it's project B-29, which is the transmission rebuild. And just specifically 43L, the project for the rebuilding of that particular transmission line, and I draw the Board's attention again to RFI PUB-9.3 and that's the one that provides the SAIFI and SAIDI data for 43L, and in turn then, that together with the budget application of the utility itself is the supplied documentation pursuant to the filing requirements to support that particular project. I'd suggest that the project being 43L has a budget of $707,000 and while I noted that there's no agreement or specific direction per se from the Board on what constitutes a material amount, a $707,000 project would probably be over that line. And therefore would trigger off the requirement, under paragraph eight, Roman numeral eight, under the conditions for future filings as pursuant to Schedule A on P.U. 35, and so the Board again needs to ask itself whether it has the quantitative and qualitative data to

MR. KENNEDY:
assess the necessity and reasonableness of that project, and I would suggest in this case, it would be the necessity rather than the reasonableness of the project.

The third project was the Wesleyville project. There was a fair amount of RFIs provided on this project and explanations afforded. There's really two issues. One issue was the cost overruns in moving the gas turbine from Burin to Wesleyville and that shows up in the variance report. That's really not something that's within the process at the present moment, in the sense that the cost overruns show up in a variance report, but there's nothing specifically in our processes at this point to be able to address projects that go over budget per se, at least there's not one that--it's not a process that I'm familiar with. But it is something that should be, I would suggest, of concern to the Board and the Board may want to provide some direction on that.

The second issue though is just relating to the Rolls-Royce report, and I think Mr.

Delaney indicated that that was--that the fact that the unit, after being installed in Wesleyville would need to be removed again and sent away for refurbishment was that the duplicated costs, if we can call them that, are diminutive, and I would accept that from Mr. Delaney's testimony. However, related to that, as just indicated by Mr. Alteen, the project description B-12 for the Wesleyville overhaul did, and I was unfair to Mr. Delaney in that it does specifically indicate there that it would either be a refurbishment or a replacement with a used unit, and Mr. Delaney confirmed that and Mr. Alteen just did as well. It's one of those projects then that, while a dollar cost figure is being provided, the end cost figure may change, depending on what, as Newfoundland Power indicates, in its judgment, is the best route to go in 2005, when they finally assess whether they should refurbish the unit or whether they should replace the unit with a used unit. And that may increase the amount of the capital budget considerably. For instance, if a used unit was going to be purchased, but the net present

value may show that it makes more sense to go that route than to refurbish their existing unit, that's accepted practice before the Board, but I'd suggest that there is a scope issue there, similar to the move of the unit itself from Burin to Wesleyville, in that you may want to give direction to the utility that if the scope of the project is materially different than the one that they presented to the Board as part of its capital budget, that they may want to--you may want them to come back and provide additional evidence before going ahead with the project, in the event that the scope has changed.

Finally, the last project I wanted to specifically speak to was under the information technology section, and that's the new computer purchases under B-69 for a total of $455,000, which I again would suggest would be of a material amount, and therefore trigger off Roman numeral eight under Schedule A. And the Board needs to ask itself whether, in light of the evidence that's been provided, both in written form and Mr. Collins' testimony, whether the other alternatives,

both internal and external, have been considered. And again, that would be in the Panel's assessment of the necessity of the project itself.

I'd like to commend though Newfoundland Power for, I would suggest, one of the first instances of identifying the true net present value that it expects to achieve through the gains and operational efficiencies from some of its IT budget, and that hopefully we will see those operational gains as indicated in those net present values showing up on the operating side of their business, which is the left hand, if this is, the capital budget being the right hand of the process.

So again, it's fairly clear, pursuant to P.U. 35, what the Panel's obligations are in reviewing the capital budgets to look at the quantitative and qualitative data, to assess the necessity and reasonableness of those projects, and in doing so, takes its guidance from the Schedule A filing requirements, just as the utility does itself. That concludes my comments. Thank you, Chair. Thank you, members of the panel.

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CHAIRMAN:
Q. Thank you, Mr. Kennedy. Anything by way of -
MR. ALTEEN:
Q. I'll be two minutes, Mr. Chair.
CHAIRMAN:
Q. Okay, Mr. Alteen.
(11:30 a.m.)
MR. ALTEEN:
Q. Mr. Kennedy has appropriately raised a bunch of process related issues. Obviously we're not quite through the filing requirements exercise that we're trying to run in parallel to this, and obviously everyone will be happier, I think, or at least more satisfied with the framework once we get there.
In terms of the cost benefit analysis, Mr. Chairman, the application before you, I will submit, quite clearly meets the standards of this Board in respect of those things, as established over the last number of hearings, and in fact, with the net present value analysis, presented mostly in relation to the IT projects, we've taken it another step. So we're always sort of moving up the bar in terms of cost benefits.

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Project definition, that will always be a difficult issue until we get some reasonable agreement between the various utilities and participants.
On the unit cost issue, Mr. Chairman, it may hold promise for assessment, but I caution you using the numbers that are in the Information. It's just they are raw and if the Board is interested in pursuing unit cost, they can direct us in our next filing to make a presentation on it, and that will provide you with a reasonable, evidentiary basis upon which to evaluate how they might be useful, Mr. Chairman.
In terms of transmission line 43L, Mr. Chairman, yes, the SAIDI and SAIFI issue is out there, but the evidence of Delaney, in terms of how the state of that transmission line and the risks it presents, the climbing risks, other risks, its age, is something we should consider in considering 43L, that transmission line.
The Wesleyville project and variance processes, that's a longer term issue that we have to deal with in terms of how we do that.

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But as a policy, Newfoundland Power comes before this Board and stands up and justifies its variances in every proceeding, Mr. Chairman. We're not afraid of justifying what we do spend.
And in terms of the scope, obviously if there is a change of scope in the Wesleyville generator overhaul, a direction from the Board to bring it back to the Board, for Newfoundland Power to do that is not something Newfoundland Power has an extremely violent opposition to. Obviously if we do materially change the scope of the project, then we probably should be back here.
That's all, Mr. Chairman. Thank you very much. That concludes our oral presentation.
CHAIRMAN:
Q. Thank you, Mr. Alteen. Very well. Thank you, gentlemen. This concludes the matter of the application for approval of Newfoundland Power's capital budget for 2005, in terms of the application and the evidence relating to it. The Board will reach a decision as quickly as we can and issue an Order, without committing to any particular time period. I

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can say that we'll do it with all due haste, giving regard to the company's concern in terms of trying to plan the expenditures that are contemplated in the application. I'd like to thank you, Mr. Alteen and Mr. Kennedy, for your attention to the details of the application and the thoroughness in which you both attack the various aspects of it. I'd like to thank the witnesses that appeared on behalf of the company and thank Ms. Combden for her assistance throughout this process.
There'll be a transcript made available of today's proceeding, I guess, by tomorrow morning, which will be available to all of the parties, and having said that, we'll close the matter and allow Mr. Kennedy to make his appointment. Thank you.
MR. KENNEDY:
Q. Thank you, Chair.
MR. ALTEEN:
Q. Thank you, Mr. Chairman.
(CONCLUSION AT 11:33 A.M.)

CERTIFICATE

I, Judy Moss Lauzon, hereby certify that the foregoing is a true and correct transcript in the matter of Newfoundland Power's 2005 Capital Budget Application, heard before the Board of Commissioners of Public Utilities, Prince Charles Building, St. John's, Newfoundland and Labrador on the 21st day of September, A.D., 2004 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 21st day of September, A.D., 2004

Judy Moss Lauzon