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<p>1 (9:13 a.m.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. So before we return to Mr. Johnson, I</p> <p>4 understand there are some matters that have</p> <p>5 to be addressed?</p> <p>6 MS. GLYNN:</p> <p>7 Q. Yes, Newfoundland Power has some</p> <p>8 undertakings to file.</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Thank you, Mr. Chairman. We have completed</p> <p>11 the undertakings from yesterday, U4, 5 and 6</p> <p>12 have now been filed, and I believe, Ms.</p> <p>13 Glynn, they've been circulated to the Board?</p> <p>14 MS. GLYNN:</p> <p>15 Q. Yes.</p> <p>16 KELLY, Q.C.:</p> <p>17 Q. Mr. Chairman, U4 is the Response to the</p> <p>18 Request for Information that Ms. Greene, the</p> <p>19 Board's hearing counsel asked for to break</p> <p>20 out the various metricies over various</p> <p>21 ranges of rates of return in capital</p> <p>22 structure, and Ms. Perry will speak to—</p> <p>23 provide a bit of an explanation for that</p> <p>24 before we start back into the cross-</p> <p>25 examination this morning. So Ms. Perry—</p>	<p>1 different costs for the company, would have</p> <p>2 to be factored into the equation. And also,</p> <p>3 a point of interest to note is the capital</p> <p>4 structures that are identified here down the</p> <p>5 left-hand column are the allowed capital</p> <p>6 structures, and like for Newfoundland Power</p> <p>7 for example, currently we have a 45 percent</p> <p>8 capital structure. In reality we manage as</p> <p>9 close to that as we can, but this is not a</p> <p>10 precise science, so if I look back over the</p> <p>11 last couple years, what we actually have</p> <p>12 with respect to the average equity in the</p> <p>13 company is something slightly less than the</p> <p>14 45. So even though our allowed is 45, on</p> <p>15 average we've been about 44.5. You manage</p> <p>16 to the 45; you don't necessarily get it</p> <p>17 completely right on the dot because you're</p> <p>18 basing it on forecast earnings, and then you</p> <p>19 base your dividend policy around that. So</p> <p>20 just a couple of considerations before I</p> <p>21 explain the math on this, on these metrics.</p> <p>22 So if you go to the first table which is</p> <p>23 table 1, and it's the pre-tax interest</p> <p>24 coverage, and so you will see within the</p> <p>25 range here at the top left-hand corner, so</p>
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<p>1 Samantha, if we could bring up U4, please,</p> <p>2 on the screen? There we go. Ms. Perry,</p> <p>3 perhaps you could explain to the Board what</p> <p>4 is illustrated in U4, please?</p> <p>5 MS. PERRY:</p> <p>6 A. Certainly. So what you're seeing on the</p> <p>7 screen here, there's two pages within this</p> <p>8 U4 and it includes the pro forma credit</p> <p>9 metrics and the earnings coverage test for</p> <p>10 Newfoundland Power under the various ranges</p> <p>11 that we were requested to show, from 9.5</p> <p>12 percent return down to 8.3, and at various</p> <p>13 capital structures from 45 percent down to</p> <p>14 40. Before I just talk about the results I</p> <p>15 guess of the calculations of the coverages</p> <p>16 and the earnings test, I just want to, for</p> <p>17 the Board's consideration when they're</p> <p>18 reviewing these numbers, to understand that</p> <p>19 what we've assumed here is that we're</p> <p>20 maintaining in all of these scenarios an A</p> <p>21 credit rating. So if in fact there were any</p> <p>22 credit actions resulting from any of these</p> <p>23 scenarios, that difference in interest</p> <p>24 expense, because obviously a triple B plus</p> <p>25 rating versus an A rating would yield</p>	<p>1 at a 45 percent capital structure and a 9.5</p> <p>2 percent return, the pre-tax interest</p> <p>3 coverage is 2.5 times. And so if we just</p> <p>4 migrate over to the left to 8.3, and then</p> <p>5 down to a 40 percent capital structure which</p> <p>6 is the bottom right-hand corner, the</p> <p>7 interest, pre-tax interest coverage is 2.1</p> <p>8 times. So the range is 2.1 to 2.5. There</p> <p>9 is no specific guidance given on pre-tax</p> <p>10 interest coverage by the credit rating</p> <p>11 agencies, but it's certainly an indication</p> <p>12 for us in terms of how we're doing and how</p> <p>13 we're going to track to the earnings</p> <p>14 coverage test. And I'm going to talk about</p> <p>15 that just in a moment. Samantha, if you</p> <p>16 could just go down slightly? Thank you. So</p> <p>17 table 2, again starting with the left-hand</p> <p>18 corner at 9.5 and a 45 percent capital</p> <p>19 structure, the cash-flow interest coverage</p> <p>20 is 4 times, and if you again migrate down to</p> <p>21 the right left-hand corner—right-hand</p> <p>22 corner, sorry, with a 40 percent capital</p> <p>23 structure and an 8.3 return, it moves to 3.6</p> <p>24 times. So the range was 3.6 to 4, and you</p> <p>25 will recall that the guidance provided by</p>

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<p>1 Moody's is actually 3.6 to 4. So under all</p> <p>2 scenarios we're within the range, but</p> <p>3 clearly we're on the bottom end of one and</p> <p>4 the top end at the other. Moving on to</p> <p>5 table 3, and that's the cash-flow-to-debt</p> <p>6 coverage, and again the top left-hand corner</p> <p>7 at 9½ percent return and 45 percent capital</p> <p>8 structure, it's 18.2 percent cash-flow-to-</p> <p>9 debt coverage and that's what we propose in</p> <p>10 this application. And again at 8.3 and a 40</p> <p>11 percent return, it ranges to 15, and so the</p> <p>12 range is 15 to 18.2. In the Moody's report</p> <p>13 they actually have indicated that to</p> <p>14 maintain the credit that we have today, that</p> <p>15 they expect us to be at the high end of the</p> <p>16 range, between 15 and 17. So they've said</p> <p>17 that they expect us to be in the high end of</p> <p>18 that range.</p> <p>19 CHAIRMAN:</p> <p>20 Q. Fifteen to 17 you say?</p> <p>21 MS. PERRY:</p> <p>22 A. Fifteen to 17, yes.</p> <p>23 CHAIRMAN:</p> <p>24 Q. Okay.</p> <p>25 MS. PERRY:</p>	<p>1 obviously you know this is a pro forma</p> <p>2 forecast earning test coverage, so it is</p> <p>3 based on forecast earnings and forecast debt</p> <p>4 issuance cost. And both of those are</p> <p>5 subject to the market and just the economy</p> <p>6 and everything else in between. So the</p> <p>7 yellow zone I'm going to say is, yes, it's</p> <p>8 above 2 and it's below 2.15, and it's an</p> <p>9 area that I would say is—we might not be</p> <p>10 able to issue bonds, depending on variation,</p> <p>11 reasonable variations within our forecast.</p> <p>12 And just to give you, I guess some</p> <p>13 perspective of what it would take to move</p> <p>14 these numbers, if we just have a one percent</p> <p>15 change in our debt cost, and that's not</p> <p>16 unreasonable given even within our last</p> <p>17 three bonds issuances, they've ranged from</p> <p>18 6.6 to 4.4. So it's not unreasonable to</p> <p>19 assume that you can have variations in what</p> <p>20 we actually issue debt cost at. So with a</p> <p>21 one percent change in debt cost, and if our</p> <p>22 earnings, you know, varied from our forecast</p> <p>23 within I'm going to say the reasonable range</p> <p>24 of return that has been stated by this</p> <p>25 Board, which is about 40 basis points on</p>
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<p>1 A. Samantha, if we could go to page 2? Okay,</p> <p>2 this one is a bit more colourful. What this</p> <p>3 table 4 is, is the interest test interest</p> <p>4 coverage that we talked about yesterday and</p> <p>5 the day before, and we require a two times</p> <p>6 earnings test coverage prior to issuance of</p> <p>7 first mortgage bonds under our trust deed.</p> <p>8 So again, we've calculated what it would be</p> <p>9 under the various scenarios. And before I</p> <p>10 get into the colour coding, as you can see,</p> <p>11 in the top left-hand corner at 9.5 percent</p> <p>12 return and 45 percent equity, the number is</p> <p>13 2.33. And then if you migrate again to 8.3</p> <p>14 and a 40 percent capital structure, it moves</p> <p>15 to 1.93. So to help guess explain what all</p> <p>16 of these numbers mean with respect to the</p> <p>17 earnings test, I've colour coded it just to</p> <p>18 give you perspective of some thoughts of</p> <p>19 where the ranges fall. The red clearly is</p> <p>20 below 2. So if we were to achieve the</p> <p>21 actual forecast as we've presented here to</p> <p>22 the Board, and that we issue debt at exactly</p> <p>23 the cost that we've assumed, if we were that</p> <p>24 precise, we would actually be unable to</p> <p>25 issue bonds in this red zone here, but</p>	<p>1 equity, that could move this by .1. Again,</p> <p>2 none of this a precise science because it</p> <p>3 depends on the numbers at the time, but—so</p> <p>4 anything around 2.10 is a very, I'm going to</p> <p>5 say for me, an uncomfortable zone of not</p> <p>6 putting this utility in a place to be able</p> <p>7 to issue first mortgage bonds. So we're</p> <p>8 trying to set the utility up so in all</p> <p>9 economic conditions and under all scenarios</p> <p>10 with respect to what we actually issue debt</p> <p>11 that we can be reasonably assured that we</p> <p>12 can issue first mortgage bonds. So a</p> <p>13 sustainable position that allows us to issue</p> <p>14 bonds, and that's what I consider this green</p> <p>15 area which is actually, you know, 2.15 and</p> <p>16 above. And I'll note as I did yesterday</p> <p>17 that the average that we have had for the</p> <p>18 last five bond issuances have been 2.24.</p> <p>19 And even though I've done the cut-off here</p> <p>20 at 2.15 I mean I'll note that we've only</p> <p>21 done one bond issue below that amount in the</p> <p>22 last ten years. So the green area is more</p> <p>23 of the comfort zone; the yellow area we</p> <p>24 might not be able to issue bonds given the</p> <p>25 conditions; and certainly the red area is we</p>

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1 certainly cannot issue bonds.  
 2 KELLY, Q.C.:  
 3 Q. Thank you Ms. Perry.  
 4 CHAIRMAN:  
 5 Q. Can you just over this one percent? Did you  
 6 say a one percent change in the interest  
 7 rate?  
 8 MS. PERRY:  
 9 A. Yes.  
 10 CHAIRMAN:  
 11 Q. Is that what you said?  
 12 MS. PERRY:  
 13 A. Yes.  
 14 CHAIRMAN:  
 15 Q. Okay. And how did -  
 16 MS. PERRY:  
 17 A. So one -  
 18 CHAIRMAN:  
 19 Q. What does it result in terms of the numbers?  
 20 MS. PERRY:  
 21 A. So a one-percent change in debt cost -  
 22 CHAIRMAN:  
 23 Q. Yes.  
 24 MS. PERRY:  
 25 A. - plus a variance in our forecast as well

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1 within our reasonable range of return which  
 2 is approximately 40 basis points on equity.  
 3 CHAIRMAN:  
 4 Q. Yes.  
 5 MS. PERRY:  
 6 A. So if you had those two things happen, it  
 7 could change it by this. So you could  
 8 change the 2 or 2.1 down to 2. So with just  
 9 those two things it can change it by .1  
 10 times.  
 11 CHAIRMAN:  
 12 Q. Okay. So like it could go from 2.15 down to  
 13 2.05?  
 14 MS. PERRY:  
 15 A. Zero five, yes.  
 16 KELLY, Q.C.:  
 17 Q. Exactly.  
 18 MS. PERRY:  
 19 A. Yes.  
 20 CHAIRMAN:  
 21 Q. One percent change in your interest rate?  
 22 MS. PERRY:  
 23 A. And a variability in our forecast.  
 24 CHAIRMAN:  
 25 Q. And—yes.

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1 MS. PERRY:  
 2 A. Yeah.  
 3 CHAIRMAN:  
 4 Q. Okay.  
 5 KELLY, Q.C.:  
 6 Q. Thank you, Ms. Perry.  
 7 MS. PERRY:  
 8 A. Thank you.  
 9 CHAIRMAN:  
 10 Q. So are we back to you now, Mr. Johnson? Is  
 11 that correct?  
 12 JOHNSON, Q.C.:  
 13 Q. Yes, Mr. Chairman. Of course I'm just  
 14 seeing this this morning. So, no, I haven't  
 15 had a chance to confer with my experts or  
 16 anything regarding this document, so I  
 17 certainly have some questions about.  
 18 CHAIRMAN:  
 19 Q. Sure.  
 20 JOHNSON, Q.C.:  
 21 Q. But I wouldn't want to necessarily be  
 22 limited to not being able to ask Ms. Perry  
 23 something about it if—once I further have a  
 24 chance to absorb it.  
 25 CHAIRMAN:

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1 Q. Oh no, absolutely.  
 2 JOHNSON, Q.C.:  
 3 Q. Thank you very much.  
 4 CHAIRMAN:  
 5 Q. No, no, we're -  
 6 JOHNSON, Q.C.:  
 7 Q. I appreciate that.  
 8 CHAIRMAN:  
 9 Q. We are seeking truth, Mr. Johnson.  
 10 JOHNSON, Q.C.:  
 11 Q. Thank you. Just a couple of questions  
 12 regarding -  
 13 CHAIRMAN:  
 14 Q. And justice I was just informed by  
 15 Commissioner Oxford.  
 16 JOHNSON, Q.C.:  
 17 Q. In the American way.  
 18 CHAIRMAN:  
 19 Q. Whatever that is.  
 20 MR. GARY SMITH AND MS. JACQUELINE PERRY, CROSS-  
 21 EXAMINATION BY THOMAS JOHNSON, Q.C. CONT'D  
 22 JOHNSON, Q.C.:  
 23 Q. In terms of the 1.93 on Undertaking 4 that  
 24 you're showing at 8.3 percent at 40 common  
 25 equity ratio -

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<p>1 MS. PERRY: 2 A. Yes? 3 JOHNSON, Q.C.: 4 Q. - would you be able to provide by way of a 5 further undertaking a detailed explanation 6 of as to how that 1.93 is arrived at showing 7 all items used to calculate net earnings and 8 total interest? (request) 9 MS. PERRY: 10 A. Yes. 11 JOHNSON, Q.C.: 12 Q. Is that fine? 13 MS. PERRY: 14 A. Yeah. 15 KELLY, Q.C.: 16 Q. Can that be done? 17 MS. PERRY: 18 A. Yes, absolutely. 19 KELLY, Q.C.: 20 Q. Okay. 21 JOHNSON, Q.C.: 22 Q. Okay. 23 MS. GLYNN: 24 Q. Noted on the record. 25 JOHNSON, Q.C.:</p>	<p>1 These numbers ultimately have to reflect a 2 depiction of what we expect the future to 3 look like. And we're certifying to that, 4 and the auditors also have to certify to the 5 numbers that they're looking at. So the 6 best numbers available are your most recent 7 audited financial statements. In an 8 extraordinary circumstance, if the audit 9 wasn't complete or if there was some 10 extraordinary circumstance within the last 11 fiscal year, we have the flexibility, yes, 12 to choose another period, but for 13 Newfoundland Power it wouldn't and it 14 shouldn't give that big of a variance of the 15 earning test coverage going forward. So 16 yes, we could choose it, and I think it 17 provides the flexibility in the event there 18 was some odd event within the last fiscal 19 period. But when you're certifying to bond 20 holders that this is—you know these are the 21 correct numbers that represent your earnings 22 and represent your interest, the best 23 available information is your most recent 24 audited financial statement. So that's why 25 we've historically used that in the past.</p>
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<p>1 Q. Thank you. And in terms of—we had a 2 discussion yesterday regarding the choice 3 that the directors of Newfoundland Power had 4 as regards to the choice of earning period 5 from meeting the test under the issuance of 6 your first mortgage bonds. Is it true, Ms. 7 Perry, that quite apart from pro forma, I 8 just want to get an understanding, that the 9 choice of allowing Newfoundland Power to use 10 not only the preceding 12-month period, but 11 any 12-month period within 24 – 12 MS. PERRY: 13 A. Twenty-four. 14 JOHNSON, Q.C.: 15 Q. - gives more flexibility to Newfoundland 16 Power in terms of its ability to meet its 17 required ration, would that be correct? 18 MS. PERRY: 19 A. I'm not sure I agree that it gives us more 20 flexibility. I consulted with the legal 21 folks after yesterday and I became re- 22 familiar with, you know, the terms under the 23 trust deed with respect to that choice, and 24 I was brought back to memory as to why we 25 have history went with the prior year.</p>	<p>1 JOHNSON, Q.C.: 2 Q. You're looking to issue long first mortgage 3 bonds in late 2016. When are you 4 anticipating following that to be issuing 5 first mortgage bonds again? 6 MS. PERRY: 7 A. It depends on our capital program mainly, 8 but right now it's probably early 2019. 9 JOHNSON, Q.C.: 10 Q. And the last issuance was when? 11 MS. PERRY: 12 A. 2015. 13 (9:30 a.m.) 14 JOHNSON, Q.C.: 15 Q. 2015. So in terms of the example that you 16 were discussing with Chairman Wells, in 17 terms of their being a one-percent change in 18 debt cost, so what we'd be talking about 19 there would be the bond that you're looking 20 to issue late 2016 not being five percent, 21 but being six percent? Is that right? 22 MS. PERRY: 23 A. Yes. 24 JOHNSON, Q.C.: 25 Q. And plus, in addition to that being a 40</p>

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1 basis points variation in your return on  
2 equity?

3 MS. PERRY:

4 A. Yes, that's correct.

5 JOHNSON, Q.C.:

6 Q. Before you get into red zone, is that what  
7 your—is that what I gather?

8 MS. PERRY:

9 A. Yes, this is based on pro forma earnings.

10 JOHNSON, Q.C.:

11 Q. Right.

12 MS. PERRY:

13 A. So I'm trying to give perspective as to what  
14 it would take to move that.

15 JOHNSON, Q.C.:

16 Q. Okay.

17 MS. PERRY:

18 A. To move that needle.

19 JOHNSON, Q.C.:

20 Q. So to use the 8.30, would that mean that you  
21 would earn, not 8.30, but 7.90?

22 MS. PERRY:

23 A. No, what's displayed in table 4 here is  
24 actually earning 8.3. So even earning 8.3  
25 at a 40 percent capital structure, the

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1 number would be 1.93.

2 JOHNSON, Q.C.:

3 Q. Okay.

4 MS. PERRY:

5 A. If our—if we achieve what we're actually  
6 forecasting.

7 JOHNSON, Q.C.:

8 Q. Okay, just let me back up then and in terms  
9 of what I—what I understood was that if  
10 there was one percent change in debt cost,  
11 and that there was also variations of 40  
12 basis points in your return on equity from  
13 what you've –

14 MS. PERRY:

15 A. Right, yeah.

16 JOHNSON, Q.C.:

17 Q. - is pro forma –

18 MS. PERRY:

19 A. Yeah.

20 JOHNSON, Q.C.:

21 Q. - I think you'd move from 2.1 to 2? Is  
22 that—in terms of the earnings test, is that  
23 what you had indicated?

24 MS. PERRY:

25 A. Well, depending on where you're starting.

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1 JOHNSON, Q.C.:

2 Q. Where you're starting, okay.

3 MS. PERRY:

4 A. Right. So if you started at 1.93, which is  
5 at the 8.3 and 40, if in fact we were to—so  
6 we can't issue bonds in that scenario, but  
7 if in fact you apply the earnings test with  
8 another change in your debt costs of one  
9 percent and a variance in your forecast,  
10 that number would even be lower at something  
11 like 1.8, 1.83.

12 JOHNSON, Q.C.:

13 Q. I see, okay. Just go to table 3 for a  
14 moment in Undertaking 4. It then indicates  
15 that at 40 percent common equity and again  
16 this makes no—this assumes no prefs are  
17 deemed in the corporate structure? This is  
18 just straightforward debt and equity? Is  
19 that right?

20 MS. PERRY:

21 A. I'm not sure I understand the question.

22 JOHNSON, Q.C.:

23 Q. Yes, the—all these tables reflect no  
24 preference shares in capital structure.  
25 This just reflects pure common equity and

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1 debt, is that right?

2 MS. PERRY:

3 A. Yeah, so we've made an assumption that to  
4 get from 45 to 40 that we've roughly paid  
5 out that 55-million-dollar dividend that we  
6 talked about yesterday.

7 JOHNSON, Q.C.:

8 Q. Okay. I see, okay. Okay.

9 MS. PERRY:

10 A. And then we've just solved for 40 percent  
11 equity and then these various returns.

12 JOHNSON, Q.C.:

13 Q. Okay. Now in terms of the cash-flow-to-debt  
14 coverage at 40 percent common equity and an  
15 8.3 percent return, it shows cash-flow-to-  
16 debt coverage of 15 percent?

17 MS. PERRY:

18 A. Yes.

19 JOHNSON, Q.C.:

20 Q. Okay. As I understand it Moody's 12 to 18-  
21 month forward view as of February 2016 would  
22 have that number in the 15 to 17 range, is  
23 that right?

24 MS. PERRY:

25 A. Yes, they've indicated that as a part of

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<p>1 maintaining the current credit that they</p> <p>2 expected us to maintain in the higher end of</p> <p>3 that range from 15 to 17.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. But just—if you just turn to Exhibit 4,</p> <p>6 Moody's Report of Volume 2, the last—the</p> <p>7 second-last page of the document. Page 4</p> <p>8 actually is probably a better way to put it.</p> <p>9 Right, so we see here under the financial</p> <p>10 strength factor, four.</p> <p>11 MS. PERRY:</p> <p>12 A. Yeah.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. If we move over from item B, cash-flow pre</p> <p>15 (phonetic) working capital, the debts, three</p> <p>16 year average and over to the right-hand</p> <p>17 column, Moody's 12 to 18-month forward view</p> <p>18 would be in that range of 15 to 17 percent</p> <p>19 and that would still have a score of BAA?</p> <p>20 Is that right? Is that your understanding?</p> <p>21 MS. PERRY:</p> <p>22 A. Yes, that is the forward view, but if I—we</p> <p>23 could just turn back to page 2 of that</p> <p>24 report. Keep on going up, Samantha. Okay,</p> <p>25 right here. So if you look at the rating</p>	<p>1 right?</p> <p>2 MS. PERRY:</p> <p>3 A. Yes, that's what they said, "Of factors that</p> <p>4 could lead to a downgrade."</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. That's all I have for the moment on this</p> <p>7 document, Mr. Chairman. So I'll just move</p> <p>8 if I could to Mr. Smith. Oh, I'm sorry.</p> <p>9 I'd like to refer to your Undertaking 3 that</p> <p>10 was filed yesterday, Ms. Perry. And so this</p> <p>11 was the undertaking that we ask you to</p> <p>12 provide the information further to basically</p> <p>13 CANP 263 which showed the Newfoundland</p> <p>14 Power's weighted average return on equity as</p> <p>15 compared to that of ATCO Electric, Nova</p> <p>16 Scotia Power, FortisAlberta, FortisBC</p> <p>17 Electric and Maritime Electric. So the-now</p> <p>18 that it's corrected, the average weighted—</p> <p>19 the weighted average return on equity for</p> <p>20 those companies is 3.52 percent and I</p> <p>21 understand if we want to see what you're</p> <p>22 proposing, Newfoundland Power is proposing,</p> <p>23 we go down to table 2 and where it shows the</p> <p>24 weighted average return on equity that</p> <p>25 you're proposing is 4.28 percent, is that</p>
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<p>1 outlook paragraph –</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Yes.</p> <p>4 MS. PERRY:</p> <p>5 A. - and the last sentence there, so, "We</p> <p>6 expect the regulatory environment to remain</p> <p>7 supportive to credit quality with a suite of</p> <p>8 timely recovery mechanisms along with our</p> <p>9 expectation that relatively stable cash-flow</p> <p>10 generation and the capital structure of NPI</p> <p>11 will continue to generate sustained cash-</p> <p>12 flow-to-debt at the high end of the range of</p> <p>13 15 to 17 percent," and that's what I was</p> <p>14 referring to earlier.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. I see, but they're not certainly indicating</p> <p>17 that that—that at 15 that that would be a</p> <p>18 factor that could lead to a downgrade</p> <p>19 because there they would be talking about</p> <p>20 not only a meaningful reduction in the level</p> <p>21 of regulatory support, but then it would</p> <p>22 have to be combined with a sustained</p> <p>23 deterioration of NPI's financial metrics</p> <p>24 such as cash-flow, pre working capital to</p> <p>25 debt falling into the low teens, is that</p>	<p>1 right?</p> <p>2 MS. PERRY:</p> <p>3 A. Yes, that is correct.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. And that would be predicated I take it on</p> <p>6 Newfoundland Power being an above risk—above</p> <p>7 Canadian—above-risk Canadian utility?</p> <p>8 MS. PERRY:</p> <p>9 A. This is what we're proposing in the</p> <p>10 application, and the 9.5 and 45 percent have</p> <p>11 both been recommended by our expert, yes.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. And that 4.28, that's justified on the basis</p> <p>14 that you are an above-risk Canadian utility,</p> <p>15 is it not?</p> <p>16 MS. PERRY:</p> <p>17 A. Based on the evidence of our expert, yes.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Can we just turn up CANP 263? Just come</p> <p>20 down a little bit. I'm sorry, if you could</p> <p>21 just come up a little bit now. I'm sorry.</p> <p>22 So the second part of the question is, the</p> <p>23 second, "Please reconcile the statement by</p> <p>24 Concentric with the level of return</p> <p>25 requested by Newfoundland Power relative to</p>

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<p>1 the returns of these above Canadian</p> <p>2 utilities.” And in the second paragraph of</p> <p>3 your answer after you point out that the</p> <p>4 FortisAlberta information should have been</p> <p>5 8.3 percent, “Concentric’s ROE and capital</p> <p>6 structure recommendation is fully supported</p> <p>7 by our risk analysis showing that</p> <p>8 Newfoundland Power has above-average risk</p> <p>9 compared to other investor-owned Canadian</p> <p>10 electric utilities.” So I take it that</p> <p>11 Newfoundland Power is definitely saying to</p> <p>12 this Board that the reason that your</p> <p>13 weighted average return on equity was</p> <p>14 reasonable is because you are now an above-</p> <p>15 average Canadian—or above-average risk</p> <p>16 Canadian utility? Isn’t that the case?</p> <p>17 MS. PERRY:</p> <p>18 A. But first I would say that this is a</p> <p>19 response from Concentric. So I think you’re</p> <p>20 best to ask those questions to Mr. Coyne,</p> <p>21 but certainly we have in our evidence, as</p> <p>22 submitted by Mr. Coyne and Newfoundland</p> <p>23 Power, that the 9.5 and the 45 percent in</p> <p>24 the context of the assessment of business</p> <p>25 risk, Mr. Coyne is saying that we are above-</p>	<p>1 Plan, the incentive program that’s included</p> <p>2 in customers’ rates. Mr. Smith, is it your</p> <p>3 view that all of the incentives embedded in</p> <p>4 the Short-Term Incentive Plan should be</p> <p>5 passed through to ratepayers because</p> <p>6 ratepayers benefit from the performance</p> <p>7 results for which there is an incentive?</p> <p>8 MR. SMITH:</p> <p>9 A. The targets that we have in our corporate</p> <p>10 programs that we’ve had for a number of</p> <p>11 years, up to a hundred percent I guess of</p> <p>12 the score that is built into our rates and</p> <p>13 passed on to customers.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. Okay. I understand that, but is it your</p> <p>16 view that all of the incentives embedded in</p> <p>17 the STIP should be passed through to</p> <p>18 ratepayers because ratepayers benefit from</p> <p>19 the performance results for which there is</p> <p>20 an incentive?</p> <p>21 MR. SMITH:</p> <p>22 A. Yes, I’d agree with that.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Thank you. Are there any components of the</p> <p>25 STIP that provide an incentive to achieve</p>
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<p>1 average risk, yes.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Okay. Could you just turn up to the top of</p> <p>4 that page a bit more? Okay. And just if we</p> <p>5 could go back to Undertaking 3 for a moment,</p> <p>6 and just to confirm that if we look at the</p> <p>7 weighted average return on equity for ATCO,</p> <p>8 Nova Scotia Power and FortisAlberta, they’re</p> <p>9 all in the 3.1 to 3.32 range and your</p> <p>10 proposal is to be 3.96, right?</p> <p>11 MS. PERRY:</p> <p>12 A. No, our proposal is to be 4.28.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Oh I’m sorry. Yes, indeed it is. And the</p> <p>15 3.96 is where you are now, even without the</p> <p>16 rate increase?</p> <p>17 MS. PERRY:</p> <p>18 A. 3.96 is at 45 percent and eight eighty</p> <p>19 allowed return, yes.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. Okay, all right. With that I can turn to</p> <p>22 Mr. Smith. Mr. Smith, I’d like to take a</p> <p>23 few minutes to explore some of the</p> <p>24 performance goals that are awarded by</p> <p>25 Newfoundland Power’s Short-Term Incentive</p>	<p>1 benefits for shareholders at the expense of</p> <p>2 customers?</p> <p>3 MR. SMITH:</p> <p>4 A. No, I wouldn’t agree with that, no.</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. Okay. Okay, I’d like to explore the impact</p> <p>7 of Newfoundland Power being successful in</p> <p>8 gaining approval for the proposed increase</p> <p>9 in the ROE that it’s seeking. Would you</p> <p>10 agree, Mr. Smith, that the corresponding</p> <p>11 increase in net income if the ROE goes up</p> <p>12 will benefit shareholders?</p> <p>13 MR. SMITH:</p> <p>14 A. It will produce more earnings for</p> <p>15 shareholders, yes.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Larger dividends, increased share value,</p> <p>18 that type of thing, correct?</p> <p>19 MR. SMITH:</p> <p>20 A. More earnings, yes.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. Okay. And you’d agree that customers will</p> <p>23 pay higher rates?</p> <p>24 MR. SMITH:</p> <p>25 A. Yes, they would.</p>

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<p>1 JOHNSON, Q.C.:</p> <p>2 Q. Okay. And is it not the case that there</p> <p>3 will be nothing more spent on capital or O &amp;</p> <p>4 M, is that right?</p> <p>5 MR. SMITH:</p> <p>6 A. It would be independent of those numbers,</p> <p>7 yes.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. Okay. And does that not imply that the</p> <p>10 increase in ROE will be a financial benefit</p> <p>11 to shareholders and a financial burden for</p> <p>12 customers with no off-setting benefit?</p> <p>13 MR. SMITH:</p> <p>14 A. No, I think the way I would interpret it is</p> <p>15 that for the company to have a sound</p> <p>16 financial position and their integrity</p> <p>17 financially, we need to have a comparable</p> <p>18 return to those utilities and an equity</p> <p>19 component that's considered fair in terms of</p> <p>20 the expert advice that we've been given, and</p> <p>21 the output of those two numbers basically</p> <p>22 creates our earnings. So it's part of being</p> <p>23 a financially sound company, and that</p> <p>24 benefits our customers in terms of lower</p> <p>25 costs of debt to finance our capital</p>	<p>1 2016, right?</p> <p>2 MR. SMITH:</p> <p>3 A. Yes, if we under—if we achieve the earnings</p> <p>4 target, then yes, we would get a hundred</p> <p>5 percent payout.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. Okay, and if the actual net income exceeds</p> <p>8 the allowed amount, the amount of the STIP</p> <p>9 payable to executives is increased, right?</p> <p>10 MR. SMITH:</p> <p>11 A. That is correct.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Okay. How much does the net income have to</p> <p>14 exceed the target for the executives' STIP</p> <p>15 payout to be increased?</p> <p>16 MR. SMITH:</p> <p>17 A. If you can take me to an RFI, it might be</p> <p>18 better. I can--it's hard to do it from</p> <p>19 memory, but it's a prorated number I guess.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. Okay.</p> <p>22 MR. SMITH:</p> <p>23 A. Once you go above the target earnings, it's</p> <p>24 a prorated number then to a maximum.</p> <p>25 JOHNSON, Q.C.:</p>
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<p>1 program.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Okay. Now in the last year—and I just want</p> <p>4 to understand this and we—and if necessary,</p> <p>5 we can go to the record where Ms. Perry was</p> <p>6 testifying. That my understanding is that</p> <p>7 the earning target used for STI purposes by</p> <p>8 the company Ms. Perry indicated always</p> <p>9 reflected the regulated return on equity</p> <p>10 approved from time to time by the Board. Is</p> <p>11 that your understanding, Mr. Smith?</p> <p>12 MR. SMITH:</p> <p>13 A. Yes, that is correct.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. And Ms. Perry, you as well?</p> <p>16 MS. PERRY:</p> <p>17 A. I can confirm, yes.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Okay, thank you. And I just want to be sure</p> <p>20 I understand how that works. The amount of</p> <p>21 STIP payment related to the net income or</p> <p>22 say ROE component of the STIP that's</p> <p>23 embedded in rates, that's the amount that</p> <p>24 the executives will receive if the company</p> <p>25 earns a hundred percent of that target in</p>	<p>1 Q. Okay. So the increase in the STIP that's</p> <p>2 not covered from customers, that would be</p> <p>3 borne by the shareholders I take it?</p> <p>4 Anything over the target, is that right?</p> <p>5 MR. SMITH:</p> <p>6 A. That is correct.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. Okay. It's a bit unclear to me what the</p> <p>9 earnings target is for 2016. We're already</p> <p>10 partway through the year. Is it—will the</p> <p>11 earnings target be the proposed rate for</p> <p>12 2016, or will it be set retroactively to</p> <p>13 reflect whatever the Board decides in this</p> <p>14 proceeding?</p> <p>15 MR. SMITH:</p> <p>16 A. Yeah, I believe what's there currently is</p> <p>17 based on our proposal in this GRA and once</p> <p>18 the Board makes its decision, it would be</p> <p>19 adjusted to whatever the actual decision is.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. I see, okay. Is there a formula that</p> <p>22 determines the amount of short-term</p> <p>23 incentive pay paid to each executive based</p> <p>24 on the actual net income that Newfoundland</p> <p>25 Power realizes?</p>

<p style="text-align: right;">Page 33</p> <p>1 MR. SMITH:</p> <p>2 A. I'm not sure I follow your question, sir.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Is there a formula that determines the</p> <p>5 amount of STIP paid to each executive based</p> <p>6 on the actual net income that Newfoundland</p> <p>7 Power realizes?</p> <p>8 MR. SMITH:</p> <p>9 A. So if we move—if we don't hit exactly the</p> <p>10 target number, but goes above it or below?</p> <p>11 Is that what you mean?</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Yes, let's say that it goes above it for</p> <p>14 instance.</p> <p>15 MR. SMITH:</p> <p>16 A. Right.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. Is there a formula that indicates what an</p> <p>19 executive can expect by way of a STIP</p> <p>20 relative to how much you've exceeded the</p> <p>21 target?</p> <p>22 MR. SMITH:</p> <p>23 A. Yeah, there is a formula. It's basically</p> <p>24 just a straight proration of where the</p> <p>25 result is within the range.</p>	<p style="text-align: right;">Page 35</p> <p>1 there, because I'm looking now at the STI</p> <p>2 non-regulated column. And so you've gone</p> <p>3 over what the target that was embedded in</p> <p>4 rates, but now you're into the non-</p> <p>5 regulated. So 2013 was the best out of 2011</p> <p>6 to 2015. Is that correct?</p> <p>7 MR. SMITH:</p> <p>8 A. That is correct.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Okay. Okay, are you able to provide the</p> <p>11 amount by which the higher short-term</p> <p>12 incentive payouts were a direct result of</p> <p>13 the approved increase in the return on</p> <p>14 equity? Is that possible?</p> <p>15 MR. SMITH:</p> <p>16 A. I certainly don't know those numbers off the</p> <p>17 top of my head.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Okay. Could you determine them internally</p> <p>20 and provide it back as an undertaking?</p> <p>21 MR. SMITH:</p> <p>22 A. We could do the mathematics, I guess, sure.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Okay.</p> <p>25 MS. PERRY:</p>
<p style="text-align: right;">Page 34</p> <p>1 JOHNSON, Q.C.:</p> <p>2 Q. I see, okay. Could you turn to CANP 207?</p> <p>3 So this RFI asked to provide in a table</p> <p>4 format all compensation provided to each of</p> <p>5 the executives and senior management for the</p> <p>6 period 2012 to 2017 forecast and indicate</p> <p>7 the annual percentage of increase. So did</p> <p>8 you have a chance to see that there now, Mr.</p> <p>9 Smith?</p> <p>10 (9:45 a.m.)</p> <p>11 MR. SMITH:</p> <p>12 A. Yes, I have it.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Thank you. And the last year GRA was in</p> <p>15 2013 and I think you would agree with me</p> <p>16 that in that General Rate Application</p> <p>17 Newfoundland Power's return on equity went</p> <p>18 to 8.8 percent, an increase from what it had</p> <p>19 been prior—from the last GRA, is that right?</p> <p>20 MR. SMITH:</p> <p>21 A. My memory is not good on that, but in 2013 I</p> <p>22 believe we were given a decision of 8.8.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Right, okay. Now that year had the highest</p> <p>25 short-term incentive payout that I see</p>	<p style="text-align: right;">Page 36</p> <p>1 A. If I could clarify, Mr. Johnson. So for</p> <p>2 Newfoundland Power in 2012 we had an allowed</p> <p>3 return of 8.8, and then—so it didn't change</p> <p>4 even as a result of the GRA. The GRA, we</p> <p>5 just continued with the 8.8.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. Oh so for that—okay, I see.</p> <p>8 MS. PERRY:</p> <p>9 A. Yeah.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. I see. Just move way for a second –</p> <p>12 MS. GLYNN:</p> <p>13 Q. So do we need the undertaking, Mr. Johnson?</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. Well it—I don't know if I'll need the</p> <p>16 undertaking if there was no increase there.</p> <p>17 MS. PERRY:</p> <p>18 A. Okay.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Just move away from the incentive to obtain</p> <p>21 the higher ROE and look at the other</p> <p>22 incentives that result from having a net</p> <p>23 income component to the Short-Term Incentive</p> <p>24 Plan. Do variances in net income have any</p> <p>25 impact on O &amp; M or capital spending?</p>

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<p>1 MR. SMITH:</p> <p>2 A. Variance in net income have any impact on</p> <p>3 operating cost?</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. Yes, for example, if you're going through a</p> <p>6 year and it's becoming evident that you're</p> <p>7 falling short of your net income target,</p> <p>8 would it be reasonable to expect management</p> <p>9 to seek ways to reduce costs during the</p> <p>10 remainder of the year so you'll achieve your</p> <p>11 target by yearend?</p> <p>12 MR. SMITH:</p> <p>13 A. I think in every year that we operate the</p> <p>14 company we're always paying attention to our</p> <p>15 costs and our cost management and our</p> <p>16 efficiency. And that would be the case in</p> <p>17 each and every year, and in doing that of</p> <p>18 course we're always trying to find the right</p> <p>19 balance between what is a cost and what is</p> <p>20 the appropriate service. And when we do</p> <p>21 those types of things, we're always very</p> <p>22 conscious of the service component of what</p> <p>23 our cost is, but we are always, every single</p> <p>24 year, we're looking for ways to try to save</p> <p>25 money through efficiencies and the way we</p>	<p>1 integrity of the company.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Okay. So if—would it be fair to say that</p> <p>4 you would be rewarded in terms of your STIP</p> <p>5 if you reduced expenditures and increased</p> <p>6 net income provided it didn't impact</p> <p>7 negatively on your other STI measures?</p> <p>8 MR. SMITH:</p> <p>9 A. Well I just look at it this way, in--for</p> <p>10 example in 2015 it was a year that we</p> <p>11 started the year off with a forecast of 1.7</p> <p>12 percent sales growth, and that would have</p> <p>13 been prepared the fall of the year before.</p> <p>14 And once last year started, we knew it was</p> <p>15 going to be a tough year. We knew the</p> <p>16 economy had been starting to turn negative,</p> <p>17 and so right out of the gate early in that</p> <p>18 year we had a hard look at our costs</p> <p>19 throughout the year, and at the end of the</p> <p>20 year our sales growth ended up being 1</p> <p>21 percent and throughout the year we did</p> <p>22 everything that we could to manage our cost.</p> <p>23 Then we looked forward to customers. How do</p> <p>24 we build our 2016 and 2017 operating costs</p> <p>25 forecast? It was off that 2015 number. So</p>
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<p>1 manage our cost. So irrespective of a</p> <p>2 particular year, I guess we do it every</p> <p>3 year.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. But I guess to my question, if you saw that</p> <p>6 you were falling short of your net income</p> <p>7 target, you could take steps as regard to</p> <p>8 spending to ensure that the target was met?</p> <p>9 Is that correct?</p> <p>10 MR. SMITH:</p> <p>11 A. As I said, we would do it every year.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Okay.</p> <p>14 MR. SMITH:</p> <p>15 A. We've had years in the past, we've had</p> <p>16 Hurricane Igor and Hurricane Leslie and Dark</p> <p>17 NL's, and in those particular years when we</p> <p>18 see an unusual event before us, we always</p> <p>19 look at our cost to try to find ways—can we</p> <p>20 do something with our costs to make sure</p> <p>21 that at the end of the year we can do a good</p> <p>22 balance between cost and service and the</p> <p>23 financial integrity of the company? Because</p> <p>24 we really believe that maintaining our</p> <p>25 earnings is a part of the financial</p>	<p>1 certainly in that year we did manage to make</p> <p>2 our earnings and that's a good thing, but</p> <p>3 then looking forward, our customers also</p> <p>4 received a benefit in that we had the</p> <p>5 ability to bring our cost down.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. Okay. Just to come back to my question, Mr.</p> <p>8 Smith, you—I understand, and correct me if</p> <p>9 I'm wrong, that you would be rewarded if you</p> <p>10 reduce expenditures and increase net income</p> <p>11 provided it does not impact negatively on</p> <p>12 your other STI measures. Can we agree on</p> <p>13 that?</p> <p>14 MR. SMITH:</p> <p>15 A. What I'll agree on, sir –</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Ms. Perry, your colleague is nodding in</p> <p>18 agreement. I'm wondering if you share her</p> <p>19 view.</p> <p>20 MS. PERRY:</p> <p>21 A. Mathematically and everything else being</p> <p>22 equal, yes, what you're saying is correct.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Okay, thank you. So how can ratepayers be</p> <p>25 assured that this would not encourage cost-</p>

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<p>1 cutting provided that the impact on other</p> <p>2 STI measures are not significantly harmed?</p> <p>3 MR. SMITH:</p> <p>4 A. Could you repeat the question, Mr. Johnson?</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. How can ratepayers be assured that incentive</p> <p>7 will not encourage cost-cutting provided</p> <p>8 that the impact on other STI measures are</p> <p>9 not significantly harmed?</p> <p>10 MR. SMITH:</p> <p>11 A. (No audible response).</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. You're not following that?</p> <p>14 MR. SMITH:</p> <p>15 A. No, I'm not following your question, sir.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Okay, okay. Let's put it this way, if--</p> <p>18 you're indicating that you would be cutting</p> <p>19 where customers wouldn't feel it. Is that</p> <p>20 what you would be indicating?</p> <p>21 MR. SMITH:</p> <p>22 A. In a year that we're faced with challenges</p> <p>23 of our operating costs, we always do it in a</p> <p>24 way that we are very conscious of our</p> <p>25 service metrics to our customers.</p>	<p>1 retirement occurred, can we go three or four</p> <p>2 months without doing the backfill? Have we</p> <p>3 got to do the backfill right away? One that</p> <p>4 comes to memory, we had a lady retire who is</p> <p>5 our office manager in Grand Falls, and when</p> <p>6 she retired, we said, "Can we cover it off</p> <p>7 out of Gander for a few months to get</p> <p>8 through?" And so some of these things are</p> <p>9 short term in nature, but eventually you</p> <p>10 have to go back and fill that position to</p> <p>11 maintain your service, but short term you</p> <p>12 could find a way to get through there.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Yes. Mr. Smith, we went through yesterday</p> <p>15 showing you some examples of boards across</p> <p>16 the country that have decided to either not</p> <p>17 allow earning-type target pay in rates or to</p> <p>18 restrict it. And do you offer any—can you</p> <p>19 offer any observation as to what the concern</p> <p>20 might be about having an earning incentive</p> <p>21 in rates?</p> <p>22 MR. SMITH:</p> <p>23 A. No, sir, I cannot offer any observation on</p> <p>24 that, only the way we do it here in</p> <p>25 Newfoundland.</p>
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<p>1 JOHNSON, Q.C.:</p> <p>2 Q. Okay. So if you suffered an unanticipated</p> <p>3 cost that you can offset by reducing other</p> <p>4 expenditures without having an impact on</p> <p>5 customers, that's what you'd do?</p> <p>6 MR. SMITH:</p> <p>7 A. Yeah, we do what we can to deal with our</p> <p>8 costs.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Okay. So would that not imply that you</p> <p>11 started out with a budget that was higher</p> <p>12 than you needed if it was not going to have</p> <p>13 any impact on customers?</p> <p>14 MR. SMITH:</p> <p>15 A. No, I think it's just a matter of when</p> <p>16 you're faced with a year with challenges,</p> <p>17 what you can do to find flexibility in your</p> <p>18 operations. Some of these things can be</p> <p>19 short term; some of these things are more</p> <p>20 longer term.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. Yes.</p> <p>23 MR. SMITH:</p> <p>24 A. For example, last year when we had some</p> <p>25 people retire, we would look at when that</p>	<p>1 JOHNSON, Q.C.:</p> <p>2 Q. Okay.</p> <p>3 MS. PERRY:</p> <p>4 A. And Mr. Johnson, if could just add one thing</p> <p>5 to the limit of net income and STI. This is</p> <p>6 not new. I believe even when the STI</p> <p>7 program was brought in in the late nineties</p> <p>8 right in front of this Board, at that time</p> <p>9 it was recognized that other jurisdictions</p> <p>10 do have caps on net income. The context of</p> <p>11 why they have caps--or you know, we've not</p> <p>12 done the study, but there has been a limit—</p> <p>13 there have been limitations about having</p> <p>14 certain things in the STI program in other</p> <p>15 jurisdictions long before now.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Could we just turn to the examination</p> <p>18 regarding the components of the Short-Term</p> <p>19 Incentive Plan?</p> <p>20 MS. PIERCEY:</p> <p>21 Q. Sorry, Tom, what information was that?</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. Number—that's –</p> <p>24 MS. GLYNN:</p> <p>25 Q. Eleven, I think, Components of Short-Term</p>

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1 Incentives.  
 2 JOHNSON, Q.C.:  
 3 Q. I think that would right.  
 4 MS. GLYNN:  
 5 Q. Number 11.  
 6 JOHNSON, Q.C.:  
 7 Q. And as previously noted, this table compares  
 8 the components of Short-Term Incentive Plans  
 9 in place at the utilities that are listed  
 10 here. I take it you have not further looked  
 11 into this chart to verify what I'm saying?  
 12 MR. SMITH:  
 13 A. That is correct.  
 14 JOHNSON, Q.C.:  
 15 Q. Okay, and the—but you can confirm that the  
 16 targets and the headings for Newfoundland  
 17 Power are correct for 2016? Is that right?  
 18 (10:00 a.m.)  
 19 MR. SMITH:  
 20 A. On the one that's on the screen here?  
 21 JOHNSON, Q.C.:  
 22 Q. Yes.  
 23 MR. SMITH:  
 24 A. Yes. Yes, sir.  
 25 JOHNSON, Q.C.:

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1 Q. Okay, thank you. And we see that according  
 2 to what--my information is that there's only  
 3 Newfoundland Power and FortisBC that have  
 4 anything for what's called "regulatory  
 5 performance"? Do you see that?  
 6 MR. SMITH:  
 7 A. Yes, I see that, sir.  
 8 JOHNSON, Q.C.:  
 9 Q. So I guess, Mr. Smith, are you aware of any  
 10 other utilities that have regulatory  
 11 performance as a short-term incentive  
 12 performance measure?  
 13 MR. SMITH:  
 14 A. I'm not aware off the top of my head, sir,  
 15 no.  
 16 JOHNSON, Q.C.:  
 17 Q. Okay. And your—can you remember in Alberta  
 18 whether you had it there?  
 19 MR. SMITH:  
 20 A. When I was there?  
 21 JOHNSON, Q.C.:  
 22 Q. Yes.  
 23 MR. SMITH:  
 24 A. I just don't remember.  
 25 JOHNSON, Q.C.:

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1 Q. Okay. Were you an executive in Alberta?  
 2 MR. SMITH:  
 3 A. I was so.  
 4 JOHNSON, Q.C.:  
 5 Q. Okay. How long were you in Alberta?  
 6 MR. SMITH:  
 7 A. For four years.  
 8 JOHNSON, Q.C.:  
 9 Q. Okay. You would have received personal  
 10 incentive pay for meeting targets in Alberta  
 11 similarly?  
 12 MR. SMITH:  
 13 A. Absolutely, sir, eight years ago.  
 14 JOHNSON, Q.C.:  
 15 Q. Thank you. Okay, just—if we could just turn  
 16 up then—and that's 15 percent weighting in  
 17 Newfoundland Power and if we could just turn  
 18 up PUB NPO 81. There's a question asked by  
 19 Board staff, "Further to PUB MP 007 explain  
 20 the criteria and process used to access the  
 21 corporate performance measure regulatory  
 22 performance." Okay and I'll just give you a  
 23 second.  
 24 MR. SMITH:  
 25 A. Sure, I'm going to take a minute to read it.

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1 JOHNSON, Q.C.:  
 2 Q. Sure.  
 3 MR. SMITH:  
 4 A. Yes, sir.  
 5 JOHNSON, Q.C.:  
 6 Q. Just if you look at line 16 to 17 of that  
 7 reply, it indicates that—or references  
 8 Newfoundland Power's 2013 GRA as a  
 9 determinant of the 2014 regulatory  
 10 performance evaluation. Do you see that?  
 11 MR. SMITH:  
 12 A. Yes, I do.  
 13 JOHNSON, Q.C.:  
 14 Q. Okay. Is it safe to assume, Mr. Smith, that  
 15 performance in this General Rate Application  
 16 will be considered for this year's  
 17 evaluation of regulatory performance?  
 18 MR. SMITH:  
 19 A. Yes, it will.  
 20 JOHNSON, Q.C.:  
 21 Q. Okay and line 13 references the determinants  
 22 of the measure being the company's conduct  
 23 and the results achieved in regulatory  
 24 proceedings. And I guess one of the results  
 25 achieved might be preserving the highest

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1 common equity ratios in the country or one  
2 of them, right?  
3 MR. SMITH:  
4 A. Could you repeat your question, sir?  
5 JOHNSON, Q.C.:  
6 Q. One of the results achieved in this  
7 regulatory proceeding might be preserving  
8 Newfoundland Power's 45 percent common  
9 equity ratio, would that be fair?  
10 MR. SMITH:  
11 A. One of the results that will come out of the  
12 Board's decision is certainly what our  
13 return on equity will be and what the equity  
14 thickness of the company would be.  
15 JOHNSON, Q.C.:  
16 Q. That's right, so these might be indicia of  
17 performance in this GRA, correct?  
18 MR. SMITH:  
19 A. It might be a?  
20 JOHNSON, Q.C.:  
21 Q. Indicia of performance.  
22 MR. SMITH:  
23 A. I think the overall decision of the Board is  
24 how we will assess our performance, not just  
25 on two numbers in particular. It will be

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1 the overall decision of the Board.  
2 JOHNSON, Q.C.:  
3 Q. Yes, but certainly you would agree with me  
4 that part of the regulatory performance  
5 measure would be related to achieving a  
6 higher ROE if you were successful, would it  
7 not?  
8 MR. SMITH:  
9 A. No, I mean it will be part of what will be  
10 looked at. There will be many things in the  
11 Board's decision that will be considered  
12 when we look at our performance, and it's  
13 not just the result, it will be how we  
14 prepared the filing, have we been responsive  
15 to the needs of the Board, has it been  
16 timely, and was the decision a fair  
17 decision. So we'll look at many components  
18 when we evaluate.  
19 JOHNSON, Q.C.:  
20 Q. I see. So let us say now that you come out  
21 of this hearing at, say, 8.8, and  
22 FortisAlberta is out there, a sister  
23 company, and they're 8.3. Do you think that  
24 would be viewed favourably from a regulatory  
25 performance point of view?

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1 MR. SMITH:  
2 A. Again all I'll say, Mr. Johnson, is when we  
3 get the decision of the Board, we will look  
4 at the overall decision of the Board, and  
5 that's how we will do our evaluation at the  
6 time in terms of what our performance was.  
7 JOHNSON, Q.C.:  
8 Q. So you don't think that would be good  
9 regulatory outcome?  
10 MR. SMITH:  
11 A. If we had a higher ROE?  
12 JOHNSON, Q.C.:  
13 Q. Yeah.  
14 MR. SMITH:  
15 A. It's part of what we're here before the  
16 Board to present our case to make sure we  
17 managed the financial integrity of the  
18 business, and we just need a decision from  
19 the Board that will give us that position,  
20 and once the Board makes its ruling, we will  
21 consider what that decision is in terms of  
22 our overall performance.  
23 JOHNSON, Q.C.:  
24 Q. I see. What are the key results coming out  
25 of this GRA, Mr. Smith?

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1 MR. SMITH:  
2 A. Key results?  
3 JOHNSON, Q.C.:  
4 Q. Yeah.  
5 MR. SMITH:  
6 A. I mean, in this application we've presented  
7 many things, including our operating cost,  
8 our forecast of sales for the future, our  
9 forecast of what earnings will be, we've  
10 presented our case in terms of reliability  
11 and service, so all those things are  
12 presented in this GRA, and all those things  
13 will be considered when we look at our  
14 overall performance.  
15 JOHNSON, Q.C.:  
16 Q. Line 6 and 7 of this reply says, "This  
17 performance measure does not lend itself  
18 well to statistical or simple cost base  
19 analysis. As a result, it's evaluated on a  
20 subjective basis", and that's your  
21 understanding that it's subjective, right?  
22 MR. SMITH:  
23 A. That is correct, sir.  
24 JOHNSON, Q.C.:  
25 Q. Yeah, and do you agree that since regulatory

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<p>1 performance is subjective, determining</p> <p>2 whether an executive performed or exceeded</p> <p>3 expectations is entirely at the discretion</p> <p>4 of Newfoundland Power's Board of Directors?</p> <p>5 MR. SMITH:</p> <p>6 A. That would be correct, the Board of</p> <p>7 Directors will make the ultimate decision on</p> <p>8 the performance of the company.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. None of the other components that we see in</p> <p>11 that component of short term incentives</p> <p>12 document that we just discussed are</p> <p>13 subjective, are they?</p> <p>14 MR. SMITH:</p> <p>15 A. In terms of the corporate targets?</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Right.</p> <p>18 MR. SMITH:</p> <p>19 A. Yeah, the regulatory is the only one that is</p> <p>20 subjective with the corporate targets.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. Based upon – if we could go back to that</p> <p>23 examination aid for a moment. Assuming the</p> <p>24 veracity for the moment of that column,</p> <p>25 regulatory performance, which shows</p>	<p>1 will be if the Board approves the requested</p> <p>2 increase in ROE?</p> <p>3 MR. SMITH:</p> <p>4 A. No, sir, I cannot tell you that off the top</p> <p>5 of my head, no.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. But you would expect to be provided a bonus</p> <p>8 higher than, say, if your ROE went down,</p> <p>9 would you not, to say 8.3 or 8?</p> <p>10 MR. SMITH:</p> <p>11 A. No, I think the way it works is our earnings</p> <p>12 target basically is set once the Board makes</p> <p>13 its decision.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. No, no, I'm talking about regulatory</p> <p>16 performance here now.</p> <p>17 MR. SMITH:</p> <p>18 A. Oh, I'm sorry, go ahead with your question.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. So can you tell me how much your bonus would</p> <p>21 be if the Board were to approve 9.5 percent</p> <p>22 ROE versus, say, approving 7.5 percent?</p> <p>23 MR. SMITH:</p> <p>24 A. In the regulatory area?</p> <p>25 JOHNSON, Q.C.:</p>
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<p>1 FortisAlberta doesn't have it, ENMAX doesn't</p> <p>2 have it, ATCO doesn't have it, and EPCOR</p> <p>3 doesn't have it, NS Power, NB Power, Toronto</p> <p>4 Hydro don't have it, assuming that's</p> <p>5 correct, would you not agree that it's quite</p> <p>6 uncommon for a regulatory performance to</p> <p>7 show up as a corporate performance measure,</p> <p>8 a subjective regulatory performance measure?</p> <p>9 MR. SMITH:</p> <p>10 A. As we talked about yesterday, I guess, that</p> <p>11 would be your data, sir, and I can't agree</p> <p>12 or disagree with your data, but I would say</p> <p>13 in terms of Newfoundland Power introduced</p> <p>14 this into our incentive program a few years</p> <p>15 ago and it was a discussion at our Board</p> <p>16 table, and the Board in its discretion sort</p> <p>17 of thought that introducing a regulatory STI</p> <p>18 component was important, in that our</p> <p>19 regulatory filings with the Board we take</p> <p>20 very serious, it's the cornerstone of what</p> <p>21 we do to service our customers, and so we</p> <p>22 thought it was appropriate to include that</p> <p>23 as a metric in our overall performance.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. Can you tell me how much higher your bonus</p>	<p>1 Q. Yeah.</p> <p>2 MR. SMITH:</p> <p>3 A. I certainly can't speak to the decision that</p> <p>4 my Board will make, but they will assess the</p> <p>5 overall decision of the Board.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. And they would view that 9.5 is considerably</p> <p>8 more success, correct?</p> <p>9 MR. SMITH:</p> <p>10 A. They would view the decision of the Board to</p> <p>11 make sure we can maintain our financial</p> <p>12 integrity as a success.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. I see. Do you have to reach a minimum level</p> <p>15 to get a bonus on any of your targets?</p> <p>16 MR. SMITH:</p> <p>17 A. I believe there's plus or minus on each of</p> <p>18 the categories, yes.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. I see. What would be the minimum amount</p> <p>21 that you have to achieve on earnings?</p> <p>22 MR. SMITH:</p> <p>23 A. Perhaps you can take me to an RFI, sir.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. I don't know if I can put my hand on it.</p>

<p style="text-align: right;">Page 57</p> <p>1 You don't know, do you?</p> <p>2 MR. SMITH:</p> <p>3 A. There is a range. I just can't say off the</p> <p>4 top of my head. I think it's the allowed</p> <p>5 range on our return is plus or minus 40</p> <p>6 basis points, I believe is what it is.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. Yes, I see, and how about -</p> <p>9 MR. SMITH:</p> <p>10 A. Should we confirm that, sir, before we go</p> <p>11 on?</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Sure, yes, to ahead.</p> <p>14 MS. PERRY:</p> <p>15 A. There are ranges around the earnings target,</p> <p>16 and there is also a minimum threshold of if</p> <p>17 we don't get, and I believe it's 90 percent</p> <p>18 of our return on equity, then we don't get</p> <p>19 anything. So we'd have to earn, I think -</p> <p>20 if the allowed return was 8.8, we would have</p> <p>21 to earn at least 8 before any of the other</p> <p>22 STI parameters would actually kick in to be</p> <p>23 paid to the executives. So there is a</p> <p>24 minimum threshold that's in the STI plan.</p> <p>25 JOHNSON, Q.C.:</p>	<p style="text-align: right;">Page 59</p> <p>1 Q. Any incentive targets that are directed to</p> <p>2 achieving results in terms of conservation</p> <p>3 and demand management?</p> <p>4 MR. SMITH:</p> <p>5 A. Within our reports that we send to the Board</p> <p>6 every quarter, you will see targets for</p> <p>7 conservation - what was the other one?</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. Demand management.</p> <p>10 MR. SMITH:</p> <p>11 A. Demand management. Conservation, in</p> <p>12 particular, in know it's there, and we view</p> <p>13 those more as operational targets, and if</p> <p>14 you look at the information we provide to</p> <p>15 the Board each quarter, there are many</p> <p>16 operational targets that are in there and</p> <p>17 they would be part of - when we look at the</p> <p>18 other targets that we have for the</p> <p>19 individual component, those tend to be</p> <p>20 subjective in the areas of - Mr. Murray's</p> <p>21 performance, for example, in the area of</p> <p>22 reliability. So, anyway, the individual</p> <p>23 targets have a subjective nature to them,</p> <p>24 and when we do that evaluation, we will</p> <p>25 consider the operational targets of the</p>
<p style="text-align: right;">Page 58</p> <p>1 Q. And how about safety, is there a minimum</p> <p>2 threshold on safety that you have to meet</p> <p>3 before -</p> <p>4 MR. SMITH:</p> <p>5 Q. There is, sir.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. Do you have that available to you?</p> <p>8 MR. SMITH:</p> <p>9 A. Let me see. On safety, it's a plus or minus</p> <p>10 range. I believe for the year in front of</p> <p>11 this, I can't - we have what's called the</p> <p>12 "all injury frequency rate", but what I can</p> <p>13 do off memory is more the exact number, so I</p> <p>14 think our target for this year is to have</p> <p>15 two injuries, so if we have zero, we'll get</p> <p>16 150 percent payout, and if we have four,</p> <p>17 we'll have the minimum payout. I think</p> <p>18 that's what the range is, sir.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. And on reliability and customer</p> <p>21 satisfaction, is there a minimum that you've</p> <p>22 got to achieve?</p> <p>23 MR. SMITH:</p> <p>24 A. There is, sir.</p> <p>25 JOHNSON, Q.C.:</p>	<p style="text-align: right;">Page 60</p> <p>1 company that we do send to the Board each</p> <p>2 quarter.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. But no corporate target of the sort that</p> <p>5 we're talking about for, like, net income or</p> <p>6 safety that are actually tied to STIP, is</p> <p>7 that correct?</p> <p>8 MR. SMITH:</p> <p>9 A. Could you repeat your question?</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. I understand you have corporate targets for</p> <p>12 net income, cost control, safety, customer</p> <p>13 satisfaction, reliability, and regulatory</p> <p>14 performance.</p> <p>15 MR. SMITH:</p> <p>16 A. Yes, sir.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. None of those would encompass achieving a</p> <p>19 certain target of CDM update or results, is</p> <p>20 that correct?</p> <p>21 MR. SMITH:</p> <p>22 A. I think where we would look for that to be</p> <p>23 reflected in the corporate target is under</p> <p>24 our customer satisfaction score, and we</p> <p>25 would expect our efforts in the CDM area to</p>

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<p>1 be reflected in that score.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. And that would be, like, a satisfaction</p> <p>4 score as opposed to certain deliverables</p> <p>5 about how many people you were able to</p> <p>6 incent to do "x" or "y", would that be fair?</p> <p>7 MR. SMITH:</p> <p>8 A. Well, if you take last year as an example,</p> <p>9 we did an incentive program where customers</p> <p>10 could get a rebate at the retail store for</p> <p>11 buying appliances or insulation or whatever</p> <p>12 it might have been, and in doing that, I</p> <p>13 believe in the month of November we gave</p> <p>14 something like 200,000 rebates to customers.</p> <p>15 So it's a broad based program that many</p> <p>16 customers experience and see, and so we</p> <p>17 believe that will ultimately be reflected in</p> <p>18 our customer satisfaction score.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Okay, but to answer my question, and I</p> <p>21 appreciate your comment, but to answer my</p> <p>22 question, there's no target such that we see</p> <p>23 here for, you know, you have a certain</p> <p>24 target for safety, you have a certain target</p> <p>25 for reliability matters, so there's no</p>	<p>1 our Board of Directors looks at the program</p> <p>2 and its overall impact on the company and</p> <p>3 our service to customers, we believe it's</p> <p>4 picked up right now in the customer</p> <p>5 satisfaction score appropriately, but again</p> <p>6 when we look at the individual subjective</p> <p>7 evaluations of our executive, our efforts in</p> <p>8 CDM gets picked up there.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Once again my question was have you ever</p> <p>11 considered, formally considered making it</p> <p>12 part of the compensation – one of the short</p> <p>13 term incentive measures?</p> <p>14 MR. SMITH:</p> <p>15 A. I certainly haven't recommended to our</p> <p>16 Board. Whether or not our Board has</p> <p>17 considered it in private, I couldn't speak</p> <p>18 to, but I certainly have not recommended to</p> <p>19 the Board to make it a corporate target.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. And why is that?</p> <p>22 MR. SMITH:</p> <p>23 A. Again because I believe that the impacts of</p> <p>24 it are picked up in the overall customer</p> <p>25 satisfaction score, for the same reason</p>
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<p>1 metrics like that that the company is aiming</p> <p>2 for from a corporate financial incentive</p> <p>3 point of view, would that be fair?</p> <p>4 MR. SMITH:</p> <p>5 A. Specific to CDM?</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. Yes.</p> <p>8 MR. SMITH:</p> <p>9 A. It's not one of our corporate targets, but</p> <p>10 it is something we give consideration to</p> <p>11 when we do the individual executives</p> <p>12 subjective evaluation and compensation.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Okay. Ever consider, to your knowledge,</p> <p>15 that Newfoundland Power making it a higher</p> <p>16 echelon target, such as the ones that we're</p> <p>17 discussing in terms of short term</p> <p>18 incentives?</p> <p>19 (10:15 a.m.)</p> <p>20 MR. SMITH:</p> <p>21 A. What I would say to that, Mr. Johnson, is</p> <p>22 that our performance in the area of our CDM</p> <p>23 efforts remain strong. We're consistently</p> <p>24 beating our target, and our efforts are very</p> <p>25 well recognized within the company, and when</p>	<p>1 that, you know, answering the phone isn't a</p> <p>2 corporate target. These are things that we</p> <p>3 do to service our customers in a broad</p> <p>4 sense, and we believe it's picked up in the</p> <p>5 customer satisfaction score.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. Mr. Smith, yesterday you mentioned that</p> <p>8 there was one member of the executive team</p> <p>9 who came to Newfoundland Power in 2004.</p> <p>10 Who's that?</p> <p>11 MR. SMITH:</p> <p>12 A. That would be Mr. Gary Murray.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Okay, and would you undertake to provide a</p> <p>15 copy of his CV?</p> <p>16 MR. SMITH:</p> <p>17 A. I have no issue with that, sir.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Thank you.</p> <p>20 KELLY, Q.C.:</p> <p>21 Q. That's fine, Mr. Chair.</p> <p>22 MS. GLYNN:</p> <p>23 Q. Noted on the record.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. And when he came to Newfoundland Power in</p>

<p style="text-align: right;">Page 65</p> <p>1 2004, he didn't come as an executive, I</p> <p>2 understand?</p> <p>3 MR. SMITH:</p> <p>4 A. That is correct.</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. Okay. What did he do with Newfoundland</p> <p>7 Power when he first arrived and came to the</p> <p>8 company?</p> <p>9 MR. SMITH:</p> <p>10 A. Again I wasn't at Newfoundland Power when he</p> <p>11 first arrived. I think when he first</p> <p>12 started, he may have been in our engineering</p> <p>13 department and later moved to an operations</p> <p>14 role, but again I can't speak exactly to</p> <p>15 that because I wasn't with the company at</p> <p>16 the time.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. Does Ms. Perry know?</p> <p>19 MS. PERRY:</p> <p>20 A. No, I couldn't confirm either of his exact</p> <p>21 role at the time.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. Now underneath the leadership team level of</p> <p>24 yourself, Ms. Perry, Mr. Alteen, Mr. Murray,</p> <p>25 etc., we have a level of what's now termed</p>	<p style="text-align: right;">Page 67</p> <p>1 JOHNSON, Q.C.:</p> <p>2 Q. Would you undertake to provide whether</p> <p>3 there's any other of the current complement</p> <p>4 of directors who came from outside of</p> <p>5 Newfoundland Power directly into a director</p> <p>6 or manager role?</p> <p>7 MR. SMITH:</p> <p>8 A. I can do that. I mean, another name that</p> <p>9 comes to mind, I believe Mr. Hiscock did,</p> <p>10 our Manager of Finance, now a Director of</p> <p>11 Finance, so I believe Mr. Hiscock did.</p> <p>12 That's what I can do off the top of my head,</p> <p>13 sir.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. That's why I'm asking you for the</p> <p>16 undertaking. That's fair. Ms. McCarthy is</p> <p>17 from Newfoundland, is she not?</p> <p>18 MR. SMITH:</p> <p>19 A. I believe she is, sir.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. She was residing in Newfoundland prior to</p> <p>22 her taking a position at Newfoundland Power?</p> <p>23 MR. SMITH:</p> <p>24 A. I believe she was, sir.</p> <p>25 MS. GLYNN:</p>
<p style="text-align: right;">Page 66</p> <p>1 "Directors", correct?</p> <p>2 MR. SMITH:</p> <p>3 A. That's correct.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. They used to be called "managers"?</p> <p>6 MR. SMITH:</p> <p>7 A. That's right.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. Twelve in number?</p> <p>10 MR. SMITH:</p> <p>11 A. I believe so.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Dirty dozen.</p> <p>14 MR. SMITH:</p> <p>15 A. There you go.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Just kidding. Any of these present</p> <p>18 directors come from outside directly into</p> <p>19 the director or manager role?</p> <p>20 MR. SMITH:</p> <p>21 A. Off the top of my head, I know Ms. McCarthy</p> <p>22 would have. Ms. McCarthy right now looks</p> <p>23 after our customer service and corporate</p> <p>24 communications functions. Off the top of my</p> <p>25 head, I would give you that name.</p>	<p style="text-align: right;">Page 68</p> <p>1 Q. The undertaking is noted on the record.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. Is that of utility to the Board, Mr.</p> <p>4 Chairman?</p> <p>5 VICE-CHAIR WHALEN:</p> <p>6 Q. We'll see.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. What?</p> <p>9 VICE-CHAIR WHALEN:</p> <p>10 Q. We'll see.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. Thank you.</p> <p>13 CHAIRMAN:</p> <p>14 Q. Well, I mean, I don't know if I'd want to</p> <p>15 see anybody's CV, but, you know, anyway.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. It just brings further certainty around</p> <p>18 where the gentleman came from because he was</p> <p>19 put forward as someone who came from a</p> <p>20 broader market, and that's probably the best</p> <p>21 way for me to understand how he came about</p> <p>22 coming to Newfoundland Power, that's all.</p> <p>23 CHAIRMAN:</p> <p>24 Q. I don't know – anyway.</p> <p>25 JOHNSON, Q.C.:</p>

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<p>1 Q. Would the normal pattern for going into the</p> <p>2 manager or director echelon would be to work</p> <p>3 up through the company like Mr. Henderson</p> <p>4 and Mr. Casey did, would that be the normal</p> <p>5 route?</p> <p>6 MR. SMITH:</p> <p>7 A. Mr. Henderson and Mr. Casey, that would be</p> <p>8 Jack Casey, and Lorne Henderson?</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Yes, yeah.</p> <p>11 MR. SMITH:</p> <p>12 A. They certainly worked their way up through</p> <p>13 the company for many years, and many of our</p> <p>14 other people at the director level, that</p> <p>15 would be true also.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Yeah, okay, thank you. Those are my</p> <p>18 questions subject to anything later for Ms.</p> <p>19 Perry if need be.</p> <p>20 CHAIRMAN:</p> <p>21 Q. So I think we're over to you, Madam, are we</p> <p>22 not.</p> <p>23 MR. GARY SMITH</p> <p>24 MS. JOCELYN PERRY</p> <p>25 CROSS-EXAMINATION BY GREENE, Q.C.:</p>	<p>1 from that, while you didn't colour code</p> <p>2 Table 3 as you had Table 4, if you were to</p> <p>3 do so, there would be some yellow on that</p> <p>4 table, is that correct, based on your</p> <p>5 reference to Moody's that it would be the</p> <p>6 high end of the 15 to 17 percent range?</p> <p>7 MS. PERRY:</p> <p>8 A. Yes, I think that's correct, you know. So</p> <p>9 when they say "high end", I'm saying 16.5</p> <p>10 and above.</p> <p>11 GREENE, Q.C.:</p> <p>12 Q. So that is where you would start your colour</p> <p>13 coding?</p> <p>14 MS. PERRY:</p> <p>15 A. Yes, if I had to try to give some</p> <p>16 perspective of where Moody's has indicated</p> <p>17 they expect us to be, I guess.</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. So it's your opinion that once you start</p> <p>20 getting below 16.5 percent, that may be of</p> <p>21 some concern and would cause you, as Chief</p> <p>22 Financial Officer, to have some concern?</p> <p>23 MS. PERRY:</p> <p>24 A. Any time there's any erosion from where we</p> <p>25 are today – Moody's will give ranges for</p>
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<p>1 GREENE, Q.C.:</p> <p>2 Q. Thank you, Mr. Chair. Good morning, Mr.</p> <p>3 Smith and Ms. Perry.</p> <p>4 MR. SMITH:</p> <p>5 A. Good morning.</p> <p>6 MS. PERRY:</p> <p>7 A. Good morning.</p> <p>8 GREENE, Q.C.:</p> <p>9 Q. I will be longer, I believe, than to the</p> <p>10 break, but -</p> <p>11 CHAIRMAN:</p> <p>12 Q. Okay.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. I'm in your hands – we'll carry on. Just a</p> <p>15 few questions first for Ms. Perry with</p> <p>16 respect to Undertaking 4.</p> <p>17 MS. PERRY:</p> <p>18 A. Yes.</p> <p>19 GREENE, Q.C.:</p> <p>20 Q. I wanted to ensure that I understood your</p> <p>21 comments with respect to the cash flow to</p> <p>22 debt coverage which is in Table 3, and you</p> <p>23 did take us to the statement in Moody's in</p> <p>24 Exhibit 4, that they expect Newfoundland</p> <p>25 Power to be in the high range. I take it</p>	<p>1 guidance, for a broad parameter of where</p> <p>2 they expect us to be. You never want to go</p> <p>3 backwards, I guess, from also where you are</p> <p>4 today as well.</p> <p>5 GREENE, Q.C.:</p> <p>6 Q. But in terms of the metrics and what they</p> <p>7 have established as the bands, I will call</p> <p>8 it, for your actual credit rating what the</p> <p>9 metrics need to be, the band is 15 to 17</p> <p>10 percent?</p> <p>11 MS. PERRY:</p> <p>12 A. 15 to 17, yes, that is correct.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. So if it's the high end, your opinion would</p> <p>15 be anything below 16.5 would cause you some</p> <p>16 concern in terms of what Moody's is saying</p> <p>17 for the credit rating?</p> <p>18 MS. PERRY:</p> <p>19 A. Yeah, I look at that range as pretty simple,</p> <p>20 17 is the high end, 15 is the low end, 16 is</p> <p>21 the middle, so 16.5 to me just rounds up to</p> <p>22 17.</p> <p>23 GREENE, Q.C.:</p> <p>24 Q. And similarly for Table 1 and Table 2, I</p> <p>25 understood your evidence to be that the</p>

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<p>1 results indicated what all of the ROEs and</p> <p>2 all of the different capital structures</p> <p>3 would meet the metric requirements for</p> <p>4 Moody's for the credit rating, for an "A"</p> <p>5 rating?</p> <p>6 MS. PERRY:</p> <p>7 A. Yes, for Table 2 on the cash flow interest</p> <p>8 coverage, their range is 3.6 to 4, so all of</p> <p>9 these numbers are within those ranges at the</p> <p>10 bottom end and at the high end. They</p> <p>11 actually do not provide coverage for the</p> <p>12 pre-tax interest coverage.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. And is it fair to say that when the credit</p> <p>15 rating agencies are looking at it, and when</p> <p>16 you look at it as Chief Financial Officer,</p> <p>17 it is all of the metrics that are of</p> <p>18 interest to you, there isn't one that has</p> <p>19 more weight than the other?</p> <p>20 MS. PERRY:</p> <p>21 A. No, I think it's the two cash flow metrics</p> <p>22 that I would say we pay most attention to</p> <p>23 with the credit rating agencies.</p> <p>24 GREENE, Q.C.:</p> <p>25 Q. Okay. Thank you. Now you've had some</p>	<p>1 with the changes in energy supply coming. So</p> <p>2 a CFO, what I'm always concerned about is</p> <p>3 the service to customers, yes, but it's also</p> <p>4 balanced with being able to earn a fair</p> <p>5 return, and both the downturn in the economy</p> <p>6 and the significant cost increase that's</p> <p>7 coming with Muskrat Falls are no doubt</p> <p>8 placing this utility at risk for earning its</p> <p>9 return in the future. We've seen a bit of</p> <p>10 this. Mr. Smith has talked about this</p> <p>11 earlier with respect to our sales growth</p> <p>12 decline in 2015. We're expecting even</p> <p>13 further decline as you go forward, and so,</p> <p>14 yes, we were able to earn our return in the</p> <p>15 past when we've had certain hurricanes and</p> <p>16 Dark NLs, but we availed of a pretty decent</p> <p>17 sales growth over that period. When you're</p> <p>18 talking about a .1 percent sales growth,</p> <p>19 you're pretty close to having a declining</p> <p>20 sales growth environment. So as CFO, when I</p> <p>21 try to look forward with respect to how</p> <p>22 we're going to earn our return once we get</p> <p>23 out of here, because this is just a</p> <p>24 forecast, and how are we going to support</p> <p>25 the capital program going forward, how are</p>
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<p>1 discussion for the last couple of days with</p> <p>2 respect to Newfoundland Power's risk</p> <p>3 profile, and I did want to follow up with</p> <p>4 you some of the questions that Mr. Johnson</p> <p>5 has already taken you through. I first want</p> <p>6 to talk about your views as the Chief</p> <p>7 Executive officer and as the Chief Financial</p> <p>8 Officer for Newfoundland Power, your views</p> <p>9 as to Newfoundland Power's risk profile and</p> <p>10 how it has changed, if at all, from the last</p> <p>11 general rate case. I'd like to take you</p> <p>12 first to PUB-NP-086, and this follows on</p> <p>13 from questions of Mr. Johnson earlier this</p> <p>14 morning where the question relates to</p> <p>15 Newfoundland Power's own assessment of where</p> <p>16 you are with respect to your risk.</p> <p>17 MS. PERRY:</p> <p>18 A. Yes, so we've discussed, I guess, how the</p> <p>19 business risks have changed, and even the</p> <p>20 financial risks have changed since the last</p> <p>21 time we were before this Board, and we've</p> <p>22 highlighted two areas that we see as changes</p> <p>23 in our business, and the first is no doubt</p> <p>24 the economy, and the second is the cost –</p> <p>25 and even reliability and associated cost</p>	<p>1 we going to support any adverse condition</p> <p>2 that happened to Newfoundland Power, because</p> <p>3 I'm sure we'll have a couple along the way,</p> <p>4 that's going to be much more difficult to do</p> <p>5 in any economy that's not supportive of</p> <p>6 improving sales growth environment. So that</p> <p>7 places us in a position that earning our</p> <p>8 return in the future is riskier than it has</p> <p>9 been in the past, and then coupled with</p> <p>10 that, we have pretty significant cost</p> <p>11 increases coming for our customers, and I</p> <p>12 thin it's pretty simple with respect to if</p> <p>13 price goes up, demand will go down, and</p> <p>14 that's just the way that it works. You</p> <p>15 know, the most recent outlook is that</p> <p>16 there's going to be a 50 percent increase in</p> <p>17 the rates to our customers. Now I know</p> <p>18 that's not certain, but the fact that it's</p> <p>19 uncertain is what concerns me because if</p> <p>20 it's even around that figure, that's pretty</p> <p>21 significant for our customers, and that too</p> <p>22 will impact the future sales growth. So it's</p> <p>23 like the perfect storm; you have the</p> <p>24 economy, you have the cost, and then you</p> <p>25 have a utility that has to continue to</p>

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<p>1 operate, provide good service, continue to</p> <p>2 invest in the electrical system, but at the</p> <p>3 same time it's important that we earn a fair</p> <p>4 return. So in the context of risk, we agree</p> <p>5 with Mr. Coyne that while some of these</p> <p>6 risks always existed with respect to the</p> <p>7 Newfoundland economy and the cost coming</p> <p>8 with Muskrat, the economy is worse, we now</p> <p>9 know a little bit more about Muskrat, so the</p> <p>10 risk is just pushing upwards for us, in our</p> <p>11 opinion.</p> <p>12 GREENE, Q.C.:</p> <p>13 Q. And we're going to go through each of the</p> <p>14 risks, but I took you to this answer because</p> <p>15 I was unclear from your response to Mr.</p> <p>16 Johnson. My understanding of your response</p> <p>17 to this question is that Newfoundland</p> <p>18 Power's own assessment is your risks have</p> <p>19 increased, and we'll talk a little bit about</p> <p>20 each of those risks and your perspective as</p> <p>21 to the materiality of the increase, but your</p> <p>22 overall assessment is that you are an above</p> <p>23 average risk Canadian utility?</p> <p>24 MR. SMITH:</p> <p>25 A. That's true.</p>	<p>1 Q. That's a pretty significant position for</p> <p>2 Newfoundland Power to take, isn't it? To my</p> <p>3 knowledge, that's the first time that</p> <p>4 Newfoundland Power has come before the Board</p> <p>5 saying that it is an above average risk when</p> <p>6 you consider Canadian electric companies in</p> <p>7 Canada.</p> <p>8 MR. SMITH:</p> <p>9 A. It's again the assessment of our expert.</p> <p>10 We've looked at his information, and from</p> <p>11 our point of view it's undeniable that the</p> <p>12 economy is definitely slowing down in this</p> <p>13 province, and the price of our product is</p> <p>14 going up significantly, as Jocelyn has</p> <p>15 already said, and looking forward our</p> <p>16 customers will react to that and the ability</p> <p>17 of the customer to pay the bill, and what</p> <p>18 that will mean for revenue into the door of</p> <p>19 Newfoundland Power, and our slice of the</p> <p>20 revenue to run our business, you know, it</p> <p>21 will be at risk as customers react and do</p> <p>22 different things. I mean, we all know that</p> <p>23 the way the Muskrat Falls price is put</p> <p>24 together is that if customers decide to use</p> <p>25 less, well, the unit price has to go up to</p>
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<p>1 GREENE, Q.C.:</p> <p>2 Q. That is Newfoundland Power's assessment, not</p> <p>3 only its advisor, is that correct?</p> <p>4 MS. PERRY:</p> <p>5 A. I've been very keen never to be an expert, I</p> <p>6 guess, so we do look to our expert to make</p> <p>7 the overall assessment, but I couldn't</p> <p>8 dispute what he was saying with respect to</p> <p>9 our risks are increasing. So if we were</p> <p>10 average risk before, then if they're</p> <p>11 increasing from where we were in the past,</p> <p>12 then the logical conclusion for us would be</p> <p>13 that we are now an above average risk</p> <p>14 utility.</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. I just wanted to clarify that because it</p> <p>17 wasn't – at least when I was listening,</p> <p>18 without having the benefit of the</p> <p>19 transcript, I didn't understand that the</p> <p>20 company was agreeing in its own assessment</p> <p>21 there was above average risk.</p> <p>22 MS. PERRY:</p> <p>23 A. Right, yes.</p> <p>24 (10:30 a.m.)</p> <p>25 GREENE, Q.C.:</p>	<p>1 compensate for that because it's a fixed</p> <p>2 cost project that must be recovered.</p> <p>3 GREENE, Q.C.:</p> <p>4 Q. And as I said before, we will go through</p> <p>5 each of those risks. I just wanted to get</p> <p>6 your – maybe I'm starting backwards. Start</p> <p>7 from your overall assessment, which is your</p> <p>8 own assessment, as the CEO and Chief</p> <p>9 Financial Officer of the company, is that</p> <p>10 you now believe Newfoundland Power is an</p> <p>11 above average risk for a Canadian utility,</p> <p>12 and that is a change in Newfoundland Power's</p> <p>13 position, the first time that has been</p> <p>14 advocated before the Board?</p> <p>15 MS. PERRY:</p> <p>16 A. Yes.</p> <p>17 GREENE, Q.C.:</p> <p>18 Q. And the reason why that's important is one</p> <p>19 of the underlying factors, what your risk is</p> <p>20 in terms of what is the appropriate fair</p> <p>21 return for the return on equity and your</p> <p>22 capital structure, is that correct?</p> <p>23 MS. PERRY:</p> <p>24 A. Yes, that is correct.</p> <p>25 GREENE, Q.C.:</p>

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<p>1 Q. So now I would like to talk about some of</p> <p>2 the individual risks, and you've already</p> <p>3 addressed some of them, but I want to talk a</p> <p>4 little bit more in detail. You've</p> <p>5 highlighted that two risks have changed,</p> <p>6 which is the economic outlook and the</p> <p>7 uncertainty arising with respect to Muskrat</p> <p>8 Falls. I wanted to talk first only very</p> <p>9 briefly about the other risks and your</p> <p>10 assessment of whether there has been any</p> <p>11 change since we were here last. One of the</p> <p>12 principal risks that Newfoundland Power</p> <p>13 refers to is your weather risk, is that</p> <p>14 correct?</p> <p>15 MR. SMITH:</p> <p>16 A. Yes, that's one of our risks.</p> <p>17 GREENE, Q.C.:</p> <p>18 Q. Okay, and can you explain why that is a risk</p> <p>19 and whether in your view that has changed in</p> <p>20 a material way since the last General Rate</p> <p>21 Application by Newfoundland Power?</p> <p>22 MR. SMITH:</p> <p>23 A. I believe we've had this risk for many</p> <p>24 years, and, of course, it's hard to forecast</p> <p>25 the weather, and I can remember being here</p>	<p>1 had our series of weathers there too and</p> <p>2 storms there, but in all honesty the weather</p> <p>3 we get in Newfoundland is truly different</p> <p>4 and distinguishable, and I will say we build</p> <p>5 a strong system to sustain that, but no</p> <p>6 matter how good you build it, it is subject</p> <p>7 to the weather.</p> <p>8 GREENE, Q.C.:</p> <p>9 Q. So that risk is a risk that's been with you</p> <p>10 for a period of time, and you do not see any</p> <p>11 material change in that risk for you, is</p> <p>12 that correct?</p> <p>13 MR. SMITH:</p> <p>14 A. It's sustainability of that risk, it hasn't</p> <p>15 changed, it hasn't gone up, it hasn't gone</p> <p>16 down, it's just constant.</p> <p>17 GREENE, Q.C.:</p> <p>18 Q. And the risk really is the recovery of a</p> <p>19 cost that will be associated with responding</p> <p>20 to the weather, is that correct?</p> <p>21 MR. SMITH:</p> <p>22 A. The risk is the cost to perform to meet the</p> <p>23 need of the customer at the time, and as</p> <p>24 we've said before, if the storm happens late</p> <p>25 in the year, it's more difficult to respond</p>
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<p>1 in the past when Mr. Wells and our former</p> <p>2 CEO, Mr. Ludlow, had a discussion about the</p> <p>3 predictability of hurricanes, I believe, and</p> <p>4 there's no doubt it's difficult to project</p> <p>5 those things, but in a general sense, I</p> <p>6 mean, it's one of the risks that we have as</p> <p>7 a utility that distinguishes us from other</p> <p>8 utilities. There's no doubt we have the</p> <p>9 harshest weather in Canada, and maybe North</p> <p>10 America. We have ice storms, we have salt</p> <p>11 spray storms, we have wind storms, and these</p> <p>12 are things that we experience routine, but</p> <p>13 sometimes it's more than routine.</p> <p>14 CHAIRMAN:</p> <p>15 Q. It could be in one day.</p> <p>16 MR. SMITH:</p> <p>17 A. It can be in one day, sir, absolutely agree,</p> <p>18 and for me to sit here and say we're going</p> <p>19 to have more hurricanes or less hurricanes,</p> <p>20 I really can't do that, of course, but I can</p> <p>21 tell you that we are exposed, unlike other</p> <p>22 utilities, to the harshest weather, and</p> <p>23 maybe to tell a little story, of course, I</p> <p>24 worked in some other jurisdictions, Prince</p> <p>25 Edward Island, and Alberta, and although we</p>	<p>1 because you have less time to try to find</p> <p>2 ways to make up the difference. If it</p> <p>3 happens early in the year, then you have</p> <p>4 several months in front of you, and you're</p> <p>5 more likely to make up the difference and</p> <p>6 deal with it. So it's a function, not just</p> <p>7 the size of the storm, but when the storm</p> <p>8 occurs.</p> <p>9 GREENE, Q.C.:</p> <p>10 Q. And you're speaking with respect to</p> <p>11 operating costs, are you, Mr. Smith?</p> <p>12 MR. SMITH:</p> <p>13 A. It's operating, but it's also capital,</p> <p>14 obviously, because when we have a storm and</p> <p>15 we're spending capital money, it's not until</p> <p>16 the next time we come before the Board to</p> <p>17 reset our rate base that we actually give</p> <p>18 that capital in the rates. The years in</p> <p>19 between it's not, of course.</p> <p>20 GREENE, Q.C.:</p> <p>21 Q. And, of course, that applies not only to</p> <p>22 capital for storms, but for any capital that</p> <p>23 you've – isn't that correct?</p> <p>24 MR. SMITH:</p> <p>25 A. This is true, yes.</p>

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<p>1 GREENE, Q.C.:  2 Q. So your risk for weather is no different for  3 that capital versus -  4 MR. SMITH:  5 A. And it hasn't changed.  6 GREENE, Q.C.:  7 Q. Right. If we could go to PUB-NLH-40,  8 please.  9 KELLY, Q.C.:  10 Q. PUB-NP?  11 GREENE, Q.C.:  12 Q. What did I say?  13 MS. GLYNN:  14 Q. NLH.  15 GREENE, Q.C.:  16 Q. I can't get those four months out of my  17 head. Sorry, Newfoundland Power.  18 JOHNSON, Q.C.:  19 Q. I understand, Ms. Greene.  20 KELLY, Q.C.:  21 Q. We sympathize.  22 GREENE, Q.C.:  23 Q. This was just to give some perspective to  24 the cost that Newfoundland Power has  25 experienced with respect to weather, and if</p>	<p>1 that correct?  2 MS. PERRY:  3 A. Yes, that is correct.  4 GREENE, Q.C.:  5 Q. And, in fact, the capital cost associated  6 with the severe weather has been recovered,  7 is that correct?  8 MS. PERRY:  9 A. Yes, I believe so. I'm not sure if all of  10 the capital was done via a supplemental, or  11 whether it was through the unforeseen  12 account. I'd have to confirm for each one.  13 GREENE, Q.C.:  14 Q. That's not necessary. The point is that  15 Newfoundland Power did recover the capital  16 that was expended for those severe weather  17 events over that period of time, is that  18 correct?  19 MS. PERRY:  20 A. Yes, and if it wasn't – it's actually  21 recovered, Ms. Greene, as you mentioned  22 earlier, in the next rate case because then  23 it's built into the capital and the rate  24 base of the utility at that time. So there  25 could be a regulatory lag from when it's</p>
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<p>1 you go to Attachment "A" to this RFI.  2 JOHNSON, Q.C.:  3 Q. I'm not sure we have the right number.  4 GREENE, Q.C.:  5 Q. I must have the wrong reference written  6 down, but I'm sure Ms. Perry will recall  7 that over the period 2008 to 2015, which was  8 the period – there we go, thank you, and  9 that number is – there was an attachment.  10 It's to illustrate that the operating cost  11 over the period were 4.2 million, and the  12 capital total was 9.1 million, and you can  13 see how it varied by year with 2008, I  14 believe, being the worst year. I'm sorry,  15 2010, where you had the ice storm and  16 Hurricane Igor.  17 MR. SMITH:  18 A. I remember it well.  19 GREENE, Q.C.:  20 Q. And with respect to the capital, which was  21 the most significant cost, how does  22 Newfoundland Power recover those capital  23 costs? You have the ability through your  24 allowance for unforeseen, and also to apply  25 for supplementary capital expenditures, is</p>	<p>1 actually recovered.  2 GREENE, Q.C.:  3 Q. Right.  4 MS. PERRY:  5 A. From when the storm occurred to when it's  6 collected in rates.  7 GREENE, Q.C.:  8 Q. The operating expenses, I think, Mr. Smith,  9 you already spoke a little bit. How does  10 Newfoundland Power try to recover its  11 operating expenses, and I think you've  12 mentioned this briefly -  13 MR. SMITH:  14 A. In the year of the storm?  15 GREENE, Q.C.:  16 Q. In the year of the storm?  17 MR. SMITH:  18 A. As we were talking earlier with Mr. Johnson,  19 I guess, it's a function of when it happens  20 in the year and what you have at your  21 disposal to deal with it. I think each and  22 every year is different that way. It  23 depends on where your sales are, are your  24 sales going up or are your sales going down,  25 how is your forecast looking. So it's a</p>

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<p>1 function, I guess, of your revenue and your 2 cost, but like I said earlier, we do all we 3 can each and every year to control our 4 costs, and in a year of a large hit in terms 5 of storm or maybe sales are declining more 6 than you thought, then we will get our team 7 together and do everything we can to come up 8 with ways to deal with the cost. Again 9 sometimes those are longer term things, you 10 push harder on your efficiency things that 11 may be in front of you, and sometimes there 12 are shorter term things. You know, we have 13 an asset management system, and inside of 14 there we prioritize the work in different 15 stages; one, two, three, and four, four 16 being the less significant of the 17 categories. An example of what we call a 18 TD4 is there's a ground wire that comes down 19 the pole, and the bottom six feet of that 20 ground wire is covered up with a piece of 21 wooden moulding to protect it. So if our 22 inspector is out there and he sees that 23 piece of wooden moulding damaged, it needs 24 to be repaired, it goes on the list. If 25 it's in the year that we're trying to do</p>	<p>1 Q. Okay. Before we get to the ones that have 2 changed, which is the economic outlook and 3 the power supply risk, are there any other 4 risks that you believe that are part of your 5 risk profile that have not changed? 6 MR. SMITH: 7 A. Well, I mean, another one that we have, of 8 course, is our demographics in the province, 9 and I'm not going to say they have changed 10 dramatically from the last time we were 11 here, but obviously they continue to change. 12 We have a declining population, and some of 13 the oldest demographics of the population in 14 the country, and if you just keep projecting 15 that into the future, you have more of our 16 customers that will be on a fixed income 17 because they are pensioners, and when you're 18 on a fixed income, your ability to pay the 19 bill will become more difficult. Of course, 20 as your population declines, eventually you 21 will start seeing less customers. So I 22 won't say the demographics has changed 23 significantly, but it continues to evolve, 24 obviously become more of a concern and more 25 negative.</p>
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<p>1 everything we can to control our costs, that 2 piece of ground moulding might have to wait 3 six months as opposed to it being done right 4 now today. So it's a matter of prioritizing 5 what you can. 6 GREENE, Q.C.: 7 Q. And with respect to the recovery of 8 operating expenses in those years, you have 9 been able to do that and still earn your 10 authorized ROE, is that correct? 11 MR. SMITH: 12 A. We have been able to manage our cost in 13 those years to earn our allowed return on 14 equity, yes. 15 GREENE, Q.C.: 16 Q. Okay. The second risk that you didn't refer 17 to as having increased is your small size, 18 which takes into account the population 19 growth and your service territory, is that 20 correct, you see that as one of your risks 21 and that it hasn't changed materially since 22 the last rate case? 23 MR. SMITH: 24 A. Yeah, I would agree with that, yes. 25 GREENE, Q.C.:</p>	<p>1 CHAIRMAN: 2 Q. Well, it can't change and be demographic. 3 MR. SMITH: 4 A. Pardon me? 5 CHAIRMAN: 6 Q. Sorry, but the reproductive ratio, you can't 7 change, nobody can change that. 8 MR. SMITH: 9 A. Again, sir, to tell stories from the past, I 10 know you and Mr. Ludlow have had that 11 discussion, and I think we need to be 2.1 12 and we're currently 1.5/1.6. 13 CHAIRMAN: 14 Q. I think it's even lower than that. 15 MR. SMITH: 16 A. And it may be lower than that, sir. 17 CHAIRMAN: 18 Q. I think it's 1.3 or 1.4, I think. I could 19 be wrong. It wouldn't be the first time. 20 Anyway, I'm sorry. 21 GREENE, Q.C.: 22 Q. So we come now to the two, I believe, that 23 has already been outlined this morning in 24 response to an earlier question, one is the 25 economic outlook for the province, and what</p>

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<p>1 it will do for your forecast for sales</p> <p>2 growth. I wanted to ask you how, in your</p> <p>3 judgment, you determined that the decrease</p> <p>4 in sales growth was material enough that it</p> <p>5 caused you concern and how it contributed to</p> <p>6 your assessment you're above average risk.</p> <p>7 The average sales growth, I believe the</p> <p>8 evidence is, has been approximately 2</p> <p>9 percent a year for your energy sales growth,</p> <p>10 is that correct?</p> <p>11 MR. SMITH:</p> <p>12 A. That seems a bit high, 2 percent per year.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. Two percent – if you look over the last</p> <p>15 period of time; 1 percent for 2015, and</p> <p>16 forecast at .7 percent for 2016, and .4</p> <p>17 percent for 2017, is that -</p> <p>18 MR. SMITH:</p> <p>19 A. It seems a bit high to say our forecast has</p> <p>20 been 2 percent.</p> <p>21 GREENE, Q.C.:</p> <p>22 Q. On average when you look over the past few</p> <p>23 years, and I can take you to it on the</p> <p>24 record, if you like.</p> <p>25 MR. SMITH:</p>	<p>1 impacts. So once you've applied the price</p> <p>2 impacts, then it goes lower than that.</p> <p>3 GREENE, Q.C.:</p> <p>4 Q. Okay.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. Revised to .6 and .1 percent.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. In the revision.</p> <p>9 (10:45 a.m.)</p> <p>10 MS. PERRY:</p> <p>11 A. .6 and .1, yes.</p> <p>12 GREENE, Q.C.:</p> <p>13 Q. We'll check that at the break. I thought I</p> <p>14 had the correct numbers from the revision,</p> <p>15 but, anyway, so that's an order of</p> <p>16 magnitude, whether it's .7 or .6 for 2016?</p> <p>17 MR. SMITH:</p> <p>18 A. Yes.</p> <p>19 GREENE, Q.C.:</p> <p>20 Q. And I wanted to – again your assessment as</p> <p>21 the Chief Executive Officer and the Chief</p> <p>22 Financial Officer, how that influenced your</p> <p>23 judgment with respect to your business risk,</p> <p>24 how material that was? Could you comment on</p> <p>25 that, please?</p>
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<p>1 A. Yeah, certainly in the last few years, in</p> <p>2 particular?</p> <p>3 GREENE, Q.C.:</p> <p>4 Q. Yes, that's what I'm referring to.</p> <p>5 MR. SMITH:</p> <p>6 A. Yes, we've had – absolutely, sorry, I</p> <p>7 thought you were talking a longer term.</p> <p>8 GREENE, Q.C.:</p> <p>9 Q. I'm trying to see the change from the last</p> <p>10 GRA.</p> <p>11 MR. SMITH:</p> <p>12 A. Sure, okay.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. The change since the last GRA, and in 2015</p> <p>15 it was 1 percent?</p> <p>16 MS. PERRY:</p> <p>17 A. One percent.</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. And forecast at .7 percent for 2016?</p> <p>20 MS. PERRY:</p> <p>21 A. Uh-hm.</p> <p>22 GREENE, Q.C.:</p> <p>23 Q. And .4 percent for 2017?</p> <p>24 MS. PERRY:</p> <p>25 A. And that's before you apply the price</p>	<p>1 MR. SMITH:</p> <p>2 A. I guess, what I would say is when you have a</p> <p>3 1 percent sales growth, in terms of revenue</p> <p>4 into the company that looks like 6.5 million</p> <p>5 dollars, and, of course, Newfoundland</p> <p>6 Power's is about a third of the bill, so we</p> <p>7 would get about 2 million dollars of that</p> <p>8 extra revenue coming into the company. When</p> <p>9 you're down to .1 percent, obviously the</p> <p>10 numbers are 10 percent of that, so instead</p> <p>11 of having additional 2 million dollars</p> <p>12 coming into the company, you're down to</p> <p>13 something that looks like \$200,000.00 coming</p> <p>14 into the company as additional revenue when</p> <p>15 your sales decline. So in terms of order of</p> <p>16 magnitude of significance of revenue coming</p> <p>17 in the door to support our programs and</p> <p>18 support our work, obviously it's less</p> <p>19 revenue.</p> <p>20 GREENE, Q.C.:</p> <p>21 Q. And obviously you thought it was a material</p> <p>22 reduction, is that correct?</p> <p>23 MR. SMITH:</p> <p>24 A. Yeah, to have a ten times change in the</p> <p>25 sales grown seems pretty significant, yes.</p>

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<p>1 GREENE, Q.C.:</p> <p>2 Q. Would you want to add anything, Ms. Perry?</p> <p>3 MS. PERRY:</p> <p>4 A. For me, I think we're borderlining so close</p> <p>5 to a declining sales growth, which changes</p> <p>6 the complete dynamics of how we're going to</p> <p>7 manoeuvre our way through, you know,</p> <p>8 providing service to customers and earning a</p> <p>9 fair return at the same time. Sales growth</p> <p>10 certainly assists us to continue to do what</p> <p>11 we do once we leave here, and so our costs –</p> <p>12 a lot of our cost is with respect to labour,</p> <p>13 so there are some inflationary increases</p> <p>14 that we have to deal with, and then as Mr.</p> <p>15 Smith has highlighted, and even with respect</p> <p>16 to weather related events, I'm sure we'll</p> <p>17 have some along the way. So a sales growth</p> <p>18 helps mitigate the cost increases and the</p> <p>19 unexpected occurrences that we can expect to</p> <p>20 have in a normal year. So when you're in a</p> <p>21 declining sales environment, the opportunity</p> <p>22 to actually recover our cost as we go</p> <p>23 forward becomes riskier.</p> <p>24 GREENE, Q.C.:</p> <p>25 Q. We've already heard evidence that there was</p>	<p>1 after a few years of doing that, we saw the</p> <p>2 impacts on the reliability of our service.</p> <p>3 I think back in the late 90s, there was a</p> <p>4 request from the Board to review that, and</p> <p>5 the Board put an expert to Newfoundland</p> <p>6 Power to go through our practices, and we</p> <p>7 worked with that expert to see what we might</p> <p>8 do going forward to improve our reliability,</p> <p>9 and so that was the output of that, that we</p> <p>10 could no longer sustain our business with</p> <p>11 that small amount and not getting our work</p> <p>12 done, and so after that we had to get back</p> <p>13 into more of a normal routine of spending</p> <p>14 our capital money to improve our reliability</p> <p>15 again. So at the time, I guess, the</p> <p>16 economics that were in front of the company</p> <p>17 was one that we had to pull back on our</p> <p>18 capital program.</p> <p>19 GREENE, Q.C.:</p> <p>20 Q. Okay. You've already given evidence that</p> <p>21 there's two risks that have materially</p> <p>22 changed since the last GRA. With respect to</p> <p>23 this risk of the deteriorating economic</p> <p>24 outlook, if that had been your only risk</p> <p>25 change, would that have been material enough</p>
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<p>1 also a very negative economic outlook for</p> <p>2 Newfoundland during the cod moratorium of</p> <p>3 1990s. Do you recall the discussion earlier</p> <p>4 this week?</p> <p>5 MR. SMITH:</p> <p>6 A. I do.</p> <p>7 GREENE, Q.C.:</p> <p>8 Q. Okay. At that time, did Newfoundland Power</p> <p>9 consider that the economic outlook was such</p> <p>10 that it would make it above average risk?</p> <p>11 MR. SMITH:</p> <p>12 A. That was certainly a long time ago, and I'm</p> <p>13 not sure what the assessment would have been</p> <p>14 of the company at the time. I know what I</p> <p>15 referred to in my opening was in those times</p> <p>16 to maintain its financial integrity some of</p> <p>17 the things the company had to start doing</p> <p>18 was spending less money, and one of the</p> <p>19 things in particular we were doing at the</p> <p>20 time is we significantly rolled back our</p> <p>21 capital program. Now at the time, I was</p> <p>22 more the junior engineer in the company, but</p> <p>23 I certainly remember on the frontlines of</p> <p>24 the types of programs that we had to stop</p> <p>25 doing, and as I mentioned in my opening,</p>	<p>1 in your judgment for you to have concluded</p> <p>2 you are above average risk?</p> <p>3 MS.PERRY:</p> <p>4 A. That's a hard one to answer. I do believe</p> <p>5 that the economics of this province are much</p> <p>6 grimmer than they have been in a long time,</p> <p>7 in decades, I believe that's what is stated,</p> <p>8 but I can't help but say that the fact that</p> <p>9 I understand that the province is also going</p> <p>10 to be facing on top of its current deficits</p> <p>11 the financing and cost associated with</p> <p>12 Muskrat Falls, and the people of this</p> <p>13 province are also going to, in addition to a</p> <p>14 declining economy, be faced with pretty</p> <p>15 significant costs associated with the</p> <p>16 electricity potentially. Together, that's</p> <p>17 probably what pushed us up over the average</p> <p>18 risk utility. Now again I'm going to stop</p> <p>19 back leave that up to Mr. Coyne to make the</p> <p>20 assessment, but if you were to ask me, I</p> <p>21 think that the two together sort of do make</p> <p>22 it significant enough where I agree that,</p> <p>23 you know, we're just pushing the risk of</p> <p>24 this utility upwards with these two events.</p> <p>25 GREENE, Q.C.:</p>

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<p>1 Q. Thank you, and that's what I would have</p> <p>2 thought your response would be, and a heads</p> <p>3 up, yes, Mr. Coyne will be asked similar</p> <p>4 questions. Turning then to the last</p> <p>5 remaining risk, which you have outlined in</p> <p>6 your written pre-filed evidence and here</p> <p>7 this week, a heightened risk associated with</p> <p>8 your power supply, and I'm going to</p> <p>9 categorize it as three risks, but I want to</p> <p>10 talk to you about each independently. One is</p> <p>11 the potential cost implications of Muskrat,</p> <p>12 and you just referred to that, Ms. Perry.</p> <p>13 The other is the reliability issues, and</p> <p>14 both of those deal with once Muskrat Falls</p> <p>15 is in service, and the other third risk</p> <p>16 associated with the power supply risk is</p> <p>17 reliability risk up to the in-feed, as I</p> <p>18 believe based on your application, you have</p> <p>19 highlighted those three risks. First you've</p> <p>20 just mentioned again, Ms. Perry, the cost</p> <p>21 uncertainty with respect to Muskrat Falls.</p> <p>22 At this point in time, is there any</p> <p>23 certainty with respect to what that price</p> <p>24 will be or what the cost implications will</p> <p>25 be, or how costs will be recovered from rate</p>	<p>1 GREENE, Q.C.:</p> <p>2 Q. Sure.</p> <p>3 MR. SMITH:</p> <p>4 A. I mean, the information, I guess, continues</p> <p>5 to evolve and there will be further</p> <p>6 deliberations here at the Public Utilities</p> <p>7 Board later this year, but some of the</p> <p>8 things that we know already, I guess, that</p> <p>9 have been talked about is certainly the fact</p> <p>10 that the DC line to Labrador is exposed to</p> <p>11 what Hydro has categorized as a 14 day</p> <p>12 outage, and again that can be – that's their</p> <p>13 assessment, I guess, at this time of what</p> <p>14 the outage could be, and it can happen for a</p> <p>15 multitude of reasons, from ice and wind</p> <p>16 loading to again salt spray on insulators</p> <p>17 that can take the line down for all kinds of</p> <p>18 reasons. So that is one of the areas that</p> <p>19 we are concerned about the reliability. You</p> <p>20 also have to remember that the line comes</p> <p>21 through the Isthmus onto the Avalon, it's a</p> <p>22 narrow piece of land, and when it goes</p> <p>23 through that narrow piece of land, it's not</p> <p>24 just the new DC line that will be exposed to</p> <p>25 that weather event, it will be all the</p>
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<p>1 payers?</p> <p>2 MS. PERRY:</p> <p>3 A. No, I believe that's still very uncertain.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. Okay. Does Newfoundland Power have any</p> <p>6 indication as to the timing as to when that</p> <p>7 information will become more certain?</p> <p>8 MS. PERRY:</p> <p>9 A. I would say that's still very uncertain as</p> <p>10 well.</p> <p>11 GREENE, Q.C.:</p> <p>12 Q. And, Mr. Smith, you've mentioned the issues</p> <p>13 that will arise with respect to reliability</p> <p>14 and your issues with respect to that. Is</p> <p>15 there anything additional – and you did</p> <p>16 already say that earlier this week. Was</p> <p>17 there anything you wanted to say with</p> <p>18 respect to why Newfoundland Power believes</p> <p>19 there are reliability issues arising with</p> <p>20 respect to the interconnection of Muskrat</p> <p>21 Falls?</p> <p>22 MR. SMITH:</p> <p>23 A. I mean, I did talk about it briefly earlier</p> <p>24 the week, but if I may, I can maybe expand a</p> <p>25 little bit.</p>	<p>1 lines. So we've been trying to understand,</p> <p>2 I guess, to a greater degree the reliability</p> <p>3 of that line in terms of how it's been</p> <p>4 designed, and by understanding it better, it</p> <p>5 can give us a better comfort level in terms</p> <p>6 of where that reliability assessment is</p> <p>7 going. We continue to ask questions, we</p> <p>8 continue to try to participate in that and</p> <p>9 look forward to getting more of those</p> <p>10 answers as time goes by, and it's a pretty</p> <p>11 complicated system when you think about</p> <p>12 where we're going from today to where that</p> <p>13 will be. I mean, it's submarine cables to</p> <p>14 Labrador and submarine cables to Nova</p> <p>15 Scotia. It's DC converter stations. These</p> <p>16 are new technologies for this part of the</p> <p>17 country, that's for sure, but, I mean, I</p> <p>18 will say that Hydro and Nalcor, they have a</p> <p>19 team of people working on this and they</p> <p>20 continue to work on it, but, I guess, where</p> <p>21 we are, we're waiting to get more of those</p> <p>22 answers in terms of how this system will</p> <p>23 work and how it will operate. You know, one</p> <p>24 of the things that I mentioned the other day</p> <p>25 that concerns me a bit, I guess, is the fact</p>

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<p>1 that once Holyrood is gone off the grid,  2 right now today we have about 1500 megawatts  3 of generation, and as I said the other day,  4 that assumes every single machine we have  5 can make its maximum output at its nameplate  6 rating, and that very rarely happens, but  7 once Holyrood is gone, we will have 1500  8 megawatts on the island as we know it today.  9 When the DC line goes out then once that  10 occurs, you have to rely on the backup line  11 from Nova Scotia. Now the way I understand  12 it, the backup line from Nova Scotia doesn't  13 trigger automatically, it's typically going  14 to be set up to export energy, and when you  15 get in this backup mode, it has to import  16 energy. So there's a delay in that backup  17 occurring. So when that happens, and  18 depending how much generation is on at the  19 island, what the peak will be on the system,  20 we will experience what's called these  21 "under frequency load shedding events". Will  22 we have more, will be have less remains to  23 be seen. I really don't know. It just  24 depends on how many machines on the island  25 will be available at that time that's in</p>	<p>1 that will change. Newfoundland Power will  2 have to go through its protection and  3 control system to make sure we can sustain  4 those fault levels. Then again, as I said  5 earlier, Newfoundland Power's protection is  6 what looks after the stability of the  7 system, the synchronization of the system.  8 So those are our relays. We'll have to make  9 sure we go through our fleet of relays to  10 make sure we can continue to do under  11 frequency load shedding as required. Then  12 when you bore it down into our hydro plants,  13 our hydro plants have typically been  14 dispatched to avoid fuel at Holyrood.  15 That's one of the reasons. That will change  16 in the future when you don't have Holyrood,  17 so how will our hydro plants be dispatched  18 into the system operator, and what the  19 system operator will look like. Those are  20 all things that we see out in the future as  21 changes, and how all that rolls together to  22 affect reliability, I guess, needs to be  23 sorted out.  24 GREENE, Q.C.:  25 Q. And in those terms with respect to the</p>
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<p>1 what we call "spinning reserve mode". I  2 know maybe these things are very technical,  3 but I just want to try to put out a bit of  4 the information, I guess. So that kind of  5 concerns me, how the backup will work, and  6 then once you are at 1500 megawatts and the  7 supply comes from Nova Scotia, which makes  8 you then 1800 megawatts, and your load is  9 already 1800 megawatts, that's what it is  10 today, it just begs the question, it seems  11 to me you need more generation on the Avalon  12 to sustain that. That brings with it  13 additional cost, and those additional costs  14 are part of what gets flagged. When we go to  15 Moody's and DBRS, they flag that additional  16 cost to be one of their concerns; where is  17 the eventual cost of this project all going  18 to go, and the customers' ability to pay  19 that cost. So from a reliability point of  20 view, those are some of the issues. Once  21 you've bored it down into more Newfoundland  22 Power system, it will change what's called  23 the "fault level on the system", you know,  24 the amount of energy that goes into the  25 ground when a wire hits the ground, and so</p>	<p>1 uncertainties over cost and reliability, and  2 uncertainty on the timing as to when we will  3 get clarity on those issues, I wanted to  4 come back for you and the timing for this  5 particular rate case. Would you agree that  6 it's most unlikely we will get any clarity  7 around any of those issues in 2016 or even  8 2017?  9 MR. SMITH:  10 A. I believe this year the cost of service  11 study is waiting to go before the Board in  12 terms of Muskrat Falls, and if that happens  13 this year, we will get more clarity in terms  14 of how the prices may change. Will demand  15 costs go up, will energy costs come down,  16 what will the fixed cost be, so I think  17 we'll get some clarity in terms of how the  18 cost may – whatever it is, whatever the  19 ultimate number is at the beginning, how it  20 will go through the system to ultimately  21 affect rates to our customers. I think that  22 will give us some clarity in that area, but  23 again that remains to be seen because I  24 don't believe that application is before the  25 Board yet.</p>

<p style="text-align: right;">Page 109</p> <p>1 GREENE, Q.C.:</p> <p>2 Q. No, or as to whether there will be specific</p> <p>3 cost information in that document about the</p> <p>4 price -</p> <p>5 MS. PERRY:</p> <p>6 A. Yes, that is making the assumption that</p> <p>7 specific cost information will be included.</p> <p>8 GREENE, Q.C.:</p> <p>9 Q. And in terms of when those costs would be</p> <p>10 passed on, that will be at the time when</p> <p>11 customers in Newfoundland start to actually</p> <p>12 receive power over the in-feed?</p> <p>13 MR. SMITH:</p> <p>14 A. Yes, I mean, once you get to the final</p> <p>15 numbers, those decisions will be made, but,</p> <p>16 I mean, you know, other things that I wonder</p> <p>17 about in terms of uncertainty is once you're</p> <p>18 connected to Labrador, you know, there's</p> <p>19 generation on the island which has a cost</p> <p>20 component to it, places like Bay d'Espoir.</p> <p>21 You're then connected to Muskrat Falls,</p> <p>22 which will have a cost component to it, and</p> <p>23 then behind Muskrat Falls is the Upper</p> <p>24 Churchill Project, which is another source</p> <p>25 of generation that's interconnected, so I</p>	<p style="text-align: right;">Page 111</p> <p>1 but that uncertainty is going to, I think,</p> <p>2 fall into longer than just at</p> <p>3 interconnection. As Mr. Smith said, there's</p> <p>4 a lot of uncertainty that – and even the</p> <p>5 realization of operating this new system in</p> <p>6 this area in terms of what it means, so this</p> <p>7 application is to ensure that we maintain a</p> <p>8 strong financially sound utility that can</p> <p>9 continue to provide good service and the</p> <p>10 proper service to the customers. That's what</p> <p>11 this is about. The above average risk</p> <p>12 utility and the return is not that different</p> <p>13 than what we would consider in prior rate</p> <p>14 cases. We're just trying to set it up so we</p> <p>15 can operate on a standalone basis to be</p> <p>16 focused on the things that matter to our</p> <p>17 customers, while at the same time</p> <p>18 maintaining our financial integrity. It's</p> <p>19 important to do that in every single rate</p> <p>20 case as you come forward, and so the</p> <p>21 uncertainty with the economy probably will</p> <p>22 not be over in a couple of years, and the</p> <p>23 uncertainty with Muskrat Falls, I don't</p> <p>24 actually view that as a short term</p> <p>25 uncertainty either, I could see that – it's</p>
<p style="text-align: right;">Page 110</p> <p>1 kind of look at it, how will Newfoundland</p> <p>2 Power's customers benefit from those three</p> <p>3 sources of generation going forward, and</p> <p>4 those are things that I see as uncertain and</p> <p>5 unclear at this time.</p> <p>6 GREENE, Q.C.:</p> <p>7 Q. Okay. We can certainly all agree there's a</p> <p>8 lot of uncertainty and a lot of questions to</p> <p>9 be answered before we know what the impact</p> <p>10 on rate payers will be cost-wise, and from a</p> <p>11 reliability perspective, I wanted to ask you</p> <p>12 how does that fit into this current rate</p> <p>13 application when you're asking for a rate of</p> <p>14 return for 2016 and 2017 when those costs</p> <p>15 and the recovery of the costs and the</p> <p>16 reliability issues will not arise until – I</p> <p>17 wouldn't even speculate. It certainly will</p> <p>18 be beyond 2018 at this point in time.</p> <p>19 MS. PERRY:</p> <p>20 A. If I could just quickly answer. When</p> <p>21 considering this rate case, I mean, you're</p> <p>22 trying to set the utility up on a</p> <p>23 sustainable basis into the future. Muskrat</p> <p>24 Falls is going to be here for a lot of</p> <p>25 years, and, yes, we have uncertainty today,</p>	<p style="text-align: right;">Page 112</p> <p>1 a game changer in the industry, and it's</p> <p>2 something that we're going to be living with</p> <p>3 for a long time.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. I guess, my last question before the break,</p> <p>6 I'm trying to understand why you need a</p> <p>7 higher return now to provide for a risk that</p> <p>8 will not materialize for Newfoundland Power</p> <p>9 for at least three years. Why do you need a</p> <p>10 higher return now for a risk that will not</p> <p>11 materialize for three to four years or more</p> <p>12 out?</p> <p>13 MR. SMITH:</p> <p>14 A. Well, I mean, it seems pretty obvious that</p> <p>15 price is going up significantly, and I would</p> <p>16 agree that the ultimate number hasn't been</p> <p>17 established and there will be some time</p> <p>18 before the number is established, but we</p> <p>19 know prices are going to go up</p> <p>20 significantly, and as we've already seen, I</p> <p>21 guess, in some of the bond rating agencies,</p> <p>22 they're picking up on it. I think the last</p> <p>23 time we were before the Board, I don't even</p> <p>24 know if Muskrat Falls was mentioned in the</p> <p>25 bond rating agencies, but now as we get</p>

<p style="text-align: right;">Page 113</p> <p>1 closer to it, they're starting to flag it as</p> <p>2 a concern in terms of the future ability of</p> <p>3 the company to recover its cost and to earn</p> <p>4 its return. So, I guess, it's just a matter</p> <p>5 as you get closer to that, what does it mean</p> <p>6 to the company as the risk is getting</p> <p>7 closer.</p> <p>8 GREENE, Q.C.:</p> <p>9 Q. How would you respond to the statement that</p> <p>10 it's premature for you to be talking about</p> <p>11 it now, it's more for your next GRA?</p> <p>12 MR. SMITH:</p> <p>13 A. Well, I think you have to –</p> <p>14 GREENE, Q.C.:</p> <p>15 Q. Because that's when you have the risk</p> <p>16 materializing.</p> <p>17 MR. SMITH:</p> <p>18 A. I think you have to plan it as a company. I</p> <p>19 mean, we're a long term asset base is what</p> <p>20 we are, you know, we put poles in the ground</p> <p>21 that last 40 and 50 years, and when you're</p> <p>22 looking to go to the markets and get debt</p> <p>23 from people, they look at where's your</p> <p>24 future and where are you going, because they</p> <p>25 know they're investing that money for the</p>	<p style="text-align: right;">Page 115</p> <p>1 both of you or the executive management of</p> <p>2 the company to come to the assessment that</p> <p>3 you were above average risk and I wanted to</p> <p>4 ask you how is executive management</p> <p>5 responding to that assessment, that you are</p> <p>6 now above average risk? One obvious</p> <p>7 response is that you are seeking a higher</p> <p>8 return from where your current return is,</p> <p>9 the other actions that the company is taking</p> <p>10 to put itself in a position to be able to</p> <p>11 respond to these increase risks?</p> <p>12 MR. SMITH:</p> <p>13 A. Financially or operationally or –</p> <p>14 GREENE, Q.C.:</p> <p>15 Q. In all aspects.</p> <p>16 MR. SMITH:</p> <p>17 A. In all aspects.</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. Because you have concluded you are now above</p> <p>20 average risk, so are there any changes</p> <p>21 you're implementing in your operations,</p> <p>22 financially or otherwise in your company, to</p> <p>23 reflect that change in risk that you have</p> <p>24 determined?</p> <p>25 MR. SMITH:</p>
<p style="text-align: right;">Page 114</p> <p>1 long haul. So as we get closer to this big</p> <p>2 price increase, I guess we're just reacting</p> <p>3 and becoming more concerned to it.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. And before we break, I do want to clarify</p> <p>6 for the record that I did have the numbers</p> <p>7 wrong for the sales forecast. It is .6</p> <p>8 percent in 2016, and .1 percent in 2017.</p> <p>9 CHAIRMAN:</p> <p>10 Q. You made a mistake!</p> <p>11 GREENE, Q.C.:</p> <p>12 Q. As hard as that is to believe, Mr. Chair.</p> <p>13 MS. GLYNN:</p> <p>14 Q. I think she just misread her own writing.</p> <p>15 CHAIRMAN:</p> <p>16 Q. On that shocking revelation, we'll take a</p> <p>17 break.</p> <p>18 (RECESS - 11:04 a.m.)</p> <p>19 (11:45 a.m.)</p> <p>20 CHAIRMAN:</p> <p>21 Q. So, we are back.</p> <p>22 GREENE, Q.C.:</p> <p>23 Q. Just before we concluded before the break,</p> <p>24 we had gone through the factors that led</p> <p>25</p>	<p style="text-align: right;">Page 116</p> <p>1 A. Maybe I'll speak operationally and Jocelyn</p> <p>2 can speak from a financial point of view.</p> <p>3 You know, operationally, like I said before,</p> <p>4 we will be focussed certainly on what we can</p> <p>5 do to find efficiencies in our companies and</p> <p>6 to control our costs, and at the same time,</p> <p>7 balance our service and those are things</p> <p>8 that we've traditionally done, but as we</p> <p>9 look forward and we see more pressure on our</p> <p>10 costs, then we're going to have to be even</p> <p>11 more diligent than ever to do everything we</p> <p>12 can to keep our costs down and that means we</p> <p>13 will, you know, like I said before, do what</p> <p>14 we can, but going forward we will be looking</p> <p>15 at things, even our capital budget that we</p> <p>16 would bring before the Board, our next</p> <p>17 capital budget. We will look at that from</p> <p>18 the point of view of everything we can do to</p> <p>19 bring forward a reasonable budget to make</p> <p>20 sure we are doing the capital work that's</p> <p>21 necessary, but for example, now that things</p> <p>22 are slowing down a little bit and our load</p> <p>23 growth is slowing down a little bit, are</p> <p>24 there some power transformers that we can</p> <p>25 push off a little bit? So are there things</p>

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<p>1 that we can do in our business to slow down</p> <p>2 our part of the cost to respond to the other</p> <p>3 increases that will occur. So I would say</p> <p>4 that from an operational point of view what</p> <p>5 the company is trying to do looking forward.</p> <p>6 MS. PERRY:</p> <p>7 A. Yeah, and I would say that ties into just</p> <p>8 cost management and also as a part of this</p> <p>9 particular rate case, we are setting the</p> <p>10 company up so that we can focus on running</p> <p>11 Newfoundland Power's side of the business</p> <p>12 and Mr. Smith did talk about this earlier,</p> <p>13 in terms of the risk, I'm going to say of</p> <p>14 interconnection, there's a lot that the</p> <p>15 company has to do to get ready for that,</p> <p>16 whether it be with respect to our relays or</p> <p>17 other parts of our business. This is</p> <p>18 setting us up so that we have the resources,</p> <p>19 both operational and financial to actually</p> <p>20 focus on the things that matter, so we can</p> <p>21 have our side ready as well. So we need to</p> <p>22 maintain our strength, both operationally</p> <p>23 and financially so that we can do what we</p> <p>24 need to do to service customers with all of</p> <p>25 these changes. A part of that is still cost</p>	<p>1 average risk, we're not asking for an</p> <p>2 increase in our capital structure, we are</p> <p>3 asking to maintain the 45 percent capital</p> <p>4 structure and the 9.5 percent is reflective</p> <p>5 of an above-average risk utility, yes.</p> <p>6 GREENE, Q.C.:</p> <p>7 Q. And in response to a question earlier, I</p> <p>8 don't think we need to go to the transcript,</p> <p>9 but in response to a question from Mr.</p> <p>10 Johnson, you had indicated that there had</p> <p>11 been no discussion with Mr. Coyne as to what</p> <p>12 the appropriate ROE would be if it was</p> <p>13 determined that Newfoundland Power was an</p> <p>14 average risk utility, is that correct?</p> <p>15 MS. PERRY:</p> <p>16 A. Yes, that is correct.</p> <p>17 GREENE, Q.C.:</p> <p>18 Q. In terms of your own assessment as the chief</p> <p>19 financial officer and having been involved</p> <p>20 in a number of these determinations over the</p> <p>21 years, and we will ask Mr. Coyne the same</p> <p>22 question, obviously if the Board does not</p> <p>23 agree, if the Board does not find that you</p> <p>24 are above average risk, have you considered</p> <p>25 what you believe the appropriate fair return</p>
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<p>1 management. We've always been focussed on</p> <p>2 cost management; we will even be more</p> <p>3 focussed on cost management, if there's such</p> <p>4 a thing because when you're facing low sales</p> <p>5 growth and increasing costs, we have to be</p> <p>6 very, very diligent in the changes that we</p> <p>7 make as a business because we have to look</p> <p>8 at it on a very forward-thinking basis that</p> <p>9 the future is not going to be like the past,</p> <p>10 so we can't just operate a steady state. So</p> <p>11 each decision that we have to make now, we</p> <p>12 have to consider it in the context of what's</p> <p>13 coming before us.</p> <p>14 GREENE, Q.C.:</p> <p>15 Q. The request of Newfoundland Power in the</p> <p>16 application for the 9.5 percent return on</p> <p>17 equity and the 45 percent common equity in</p> <p>18 your structure is supported by Mr. Coyne, of</p> <p>19 course, and his overall analysis and also I</p> <p>20 assume it must be supported by the overall</p> <p>21 assessment that you earn above average risk,</p> <p>22 is that correct?</p> <p>23 MS. PERRY:</p> <p>24 A. Yes, that is correct, so as a part of this</p> <p>25 proceeding, the assessment of the above-</p>	<p>1 would be for an average risk Canadian—if</p> <p>2 Newfoundland Power is an average risk like</p> <p>3 other Canadian utilities? Have you?</p> <p>4 MS. PERRY:</p> <p>5 A. The answer is no and the fact that I'm,</p> <p>6 again, not an expert in cost of capital.</p> <p>7 What I would do is look across the country</p> <p>8 and I had showed this RFI in my opening with</p> <p>9 respect to the allowed ROEs in the country</p> <p>10 in terms of how we compare to others and</p> <p>11 where we are today is we're second lowest to</p> <p>12 Alberta today and so, whether it's average</p> <p>13 risk or above average risk, my analysis is</p> <p>14 really limited to how we compare to others</p> <p>15 and so 9.5, you know, seemed reasonable to</p> <p>16 me for an above-average risk utility, given</p> <p>17 that the median today is 9.15.</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. Would you agree that if the Board does find</p> <p>20 that you're an average risk utility and that</p> <p>21 if the 9.5 percent is based on being above</p> <p>22 average, the ROE should be lower than 9.5 if</p> <p>23 it is determined you're average?</p> <p>24 MS. PERRY:</p> <p>25 A. It's probably a question better directed at</p>

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<p>1 Mr. Coyne, but in theory, I think I support</p> <p>2 the theory, yes.</p> <p>3 GREENE, Q.C.:</p> <p>4 Q. So the theory would require it to be lower,</p> <p>5 wouldn't it?</p> <p>6 MS. PERRY:</p> <p>7 A. Again, I would confirm that with Mr. Coyne</p> <p>8 because I'm not quite sure how it's factored</p> <p>9 into his overall opinion or recommendation</p> <p>10 of the 9.5.</p> <p>11 GREENE, Q.C.:</p> <p>12 Q. I wanted to turn now to Newfoundland Power's</p> <p>13 financial performance. I believe in your</p> <p>14 opening comments, Ms. Perry, you said that</p> <p>15 Newfoundland Power's performance—and you may</p> <p>16 not have used this adjective, this is my</p> <p>17 adjective, has been a solid financial</p> <p>18 performance since the last GRA, is that</p> <p>19 correct?</p> <p>20 MS. PERRY:</p> <p>21 A. Yes, I said it was satisfactory, yes.</p> <p>22 GREENE, Q.C.:</p> <p>23 Q. And the credit metrics you were able to</p> <p>24 achieve with the allowed return of 8.8</p> <p>25 percent did not cause any concern for you or</p>	<p>1 I wanted to give you the opportunity to</p> <p>2 explain from your perspective why it's</p> <p>3 absolutely necessary that there be some</p> <p>4 adjustment at this time?</p> <p>5 MS. PERRY:</p> <p>6 A. What Table 4-12 is showing is the</p> <p>7 calculation of the company's credit metrics</p> <p>8 based on existing rates today, so that's why</p> <p>9 we had shown the prior table that reflects</p> <p>10 the return on equity of 8.03 and 7.3. So</p> <p>11 the credit metrics are within the ranges</p> <p>12 that I would say have been determined to be</p> <p>13 acceptable for Moody's for our credit</p> <p>14 rating. And that's a component of credit</p> <p>15 worthiness of Newfoundland Power. The</p> <p>16 return on equity is about a fair return, so</p> <p>17 there are two different components. Inside</p> <p>18 of a fair return standard, we need to</p> <p>19 maintain our financial integrity which we</p> <p>20 will consider such things as the credit</p> <p>21 metrics and the capital structure of</p> <p>22 Newfoundland Power, but it also has to be</p> <p>23 sufficient to ensure we have access to</p> <p>24 capital and also it needs to be comparable</p> <p>25 to other liked risk investments, so credit</p>
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<p>1 for the credit rating agencies, is that</p> <p>2 correct?</p> <p>3 MS. PERRY:</p> <p>4 A. I would say that is correct, yes, the credit</p> <p>5 metrics are within the ranges indicated by</p> <p>6 Moody's for sure.</p> <p>7 GREENE, Q.C.:</p> <p>8 Q. And I wonder if we could go, please, to</p> <p>9 Table 4-11 in the application at page 4-14.</p> <p>10 So this table illustrates that for 2016 with</p> <p>11 the current rates what the return on equity</p> <p>12 would be, is that correct?</p> <p>13 MS. PERRY:</p> <p>14 A. Yes, for 2016 it would be 8.03.</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. And similarly for 2017 it would be lower</p> <p>17 again, is that correct?</p> <p>18 MS. PERRY:</p> <p>19 A. Yes, 7.3 percent.</p> <p>20 GREENE, Q.C.:</p> <p>21 Q. Okay, now I just wanted to go to the next</p> <p>22 table, Table 4-12 and again this table</p> <p>23 demonstrates what that ROE, if you carry</p> <p>24 down without an increase with your current</p> <p>25 rate, what your credit metrics would be, and</p>	<p>1 metrics are just a display of where you are</p> <p>2 from a credit worthiness perspective only</p> <p>3 and not from a fair return perspective.</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. And so if we looked at those metrics, they</p> <p>6 would still fall within the ranges for</p> <p>7 Moody's for the A credit rating, is that</p> <p>8 correct?</p> <p>9 MS. PERRY:</p> <p>10 A. Yes, that is correct.</p> <p>11 GREENE, Q.C.:</p> <p>12 Q. Okay, so now I just wanted to go to Table 4-</p> <p>13 16, page 4-43. So this illustrates the</p> <p>14 impact on the credit metrics of your current</p> <p>15 proposal.</p> <p>16 MS. PERRY:</p> <p>17 A. Yes, that is correct.</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. So, again, if you looked at those, they are</p> <p>20 again within, in fact, your cash flow debt</p> <p>21 coverage would be above the, for 2017, would</p> <p>22 be above—they're all within the, again, the</p> <p>23 range for your credit metrics. So when we</p> <p>24 look at these, the credit metrics and I</p> <p>25 guess you've already explained the point</p>

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<p>1 that it's not only the current metrics you</p> <p>2 look at, it's the authorized return that is</p> <p>3 approved, and I now wanted to look at then</p> <p>4 the ROE at different levels, so if we ask</p> <p>5 you to produce Exhibit JP-1. And would you</p> <p>6 agree that this illustrates that with</p> <p>7 maintaining the current capital structure,</p> <p>8 so maintaining it at a 45 percent equity,</p> <p>9 the metrics that would result for the</p> <p>10 various ROEs down to 8.3 percent ROE are</p> <p>11 still within the ranges that Moody's has</p> <p>12 published for an A credit rating?</p> <p>13 MS. PERRY:</p> <p>14 A. Yes, I can confirm that.</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. You did indicate that at 8.3 and we talked</p> <p>17 about the earnings' test coverage, you had</p> <p>18 some concern with respect to the earnings'</p> <p>19 test coverage and I believe the concern was</p> <p>20 with respect to the ROE at 8.3, is that</p> <p>21 correct?</p> <p>22 MS. PERRY:</p> <p>23 A. Yes, that is correct and again, that goes</p> <p>24 back to my discussion from the undertaking</p> <p>25 No. 4 that we have provided, that we're just</p>	<p>1 forecast, particularly as it relates to the</p> <p>2 market conditions on bond costs. So</p> <p>3 historically we've been at 2.24; on average</p> <p>4 we have been as high as 2.36. So the higher</p> <p>5 you get away from the two, yes, the more</p> <p>6 comfort I would have that we're creating a</p> <p>7 sustainable position where Newfoundland</p> <p>8 Power, in all economic conditions, can issue</p> <p>9 bonds.</p> <p>10 GREENE, Q.C.:</p> <p>11 Q. In terms of, is it only a level of comfort</p> <p>12 that 2.1 is a little too close? It is above</p> <p>13 2, 2.1 is higher than 2.</p> <p>14 MS. PERRY:</p> <p>15 A. Absolutely.</p> <p>16 GREENE, Q.C.:</p> <p>17 Q. So why is there a concern?</p> <p>18 MS. PERRY:</p> <p>19 A. The concern is simply, I think it's</p> <p>20 reasonable to think that we're not going to</p> <p>21 be exactly as we forecasted, so by way of</p> <p>22 example, I had provided that a 1 percent</p> <p>23 change in debt cost, which is not an</p> <p>24 unreasonable assumption, and a variation in</p> <p>25 our forecast of 40 basis points, which the</p>
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<p>1 getting simply close to the minimum</p> <p>2 requirement, so a variation in market</p> <p>3 conditions and a variation in forecast could</p> <p>4 just drive us below that too, and then that</p> <p>5 would limit us from issuing First Mortgage</p> <p>6 Bonds.</p> <p>7 GREENE, Q.C.:</p> <p>8 Q. And the test in the First Mortgage Bonds,</p> <p>9 we've already heard, is two times interest</p> <p>10 coverage and I think you did try to explain</p> <p>11 why you're concerned at 2.1, but you're not</p> <p>12 concerned at 2.2.</p> <p>13 MS. PERRY:</p> <p>14 A. I would never say I'm not concerned at 2.2,</p> <p>15 I mean, I look back over the debt issuances</p> <p>16 that we have done in the last ten years,</p> <p>17 there were a number of them that we've done</p> <p>18 at 2.3. It's a comfort zone because we</p> <p>19 really don't know what's going to happen</p> <p>20 with respect to market conditions and we</p> <p>21 don't know what's going to happen with</p> <p>22 respect to even Newfoundland Power's ability</p> <p>23 to earn its return and stay on forecast. So</p> <p>24 any time we are dealing with forecast,</p> <p>25 there's a risk that you're going to be off</p>	<p>1 Board has stated in a reasonable range of</p> <p>2 return around Newfoundland Power's return on</p> <p>3 equity, so with just those two changes, 2.10</p> <p>4 would knock us out of the bond market, out</p> <p>5 of the first mortgage bond market. So I</p> <p>6 just want to put it in perspective, that's</p> <p>7 why I would get uncomfortable because that's</p> <p>8 not unreasonable changes to the forecast.</p> <p>9 And I guess, as I was just trying to provide</p> <p>10 some context with respect to why I would be</p> <p>11 uncomfortable in that zone.</p> <p>12 GREENE, Q.C.:</p> <p>13 Q. I wanted to go to Exhibit 4, please, in</p> <p>14 Volume 2, DBRS Report. And I wanted to</p> <p>15 point out and get your comments, Ms. Perry,</p> <p>16 on the observation by DBRS in this report on</p> <p>17 the top of the second column, end of the</p> <p>18 paragraph where DBRS points out, "DBRS does</p> <p>19 not expect any material change from the DRA,</p> <p>20 but notes that"—they're talking about the</p> <p>21 current one we're now in the middle of, "but</p> <p>22 notes that a lower approved ROE is a</p> <p>23 possibility due to the current low interest</p> <p>24 rate environment and a modest decrease in</p> <p>25 the allowed ROE is not excepted to have any</p>

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<p>1 material impact on the company's</p> <p>2 operations." So presumably they were</p> <p>3 talking about that in the context of where</p> <p>4 we are right now talking about with</p> <p>5 maintaining the capital structure. So the</p> <p>6 credit rating agencies appear to be</p> <p>7 contemplating that Newfoundland Power will</p> <p>8 decrease from 8.8, would you agree that</p> <p>9 that's how we should read that statement?</p> <p>10 (12:00 p.m.)</p> <p>11 MS. PERRY:</p> <p>12 A. I struggle with that statement and the fact</p> <p>13 that, I believe their statement is around</p> <p>14 that they've seen other utilities decline</p> <p>15 and they've made the assumption or the</p> <p>16 connection that it was due to the lower</p> <p>17 interest rate environment. I mean, I</p> <p>18 questioned this when they stated this in</p> <p>19 their report. We don't get to –</p> <p>20 GREENE, Q.C.:</p> <p>21 Q. Yes, I guess you didn't like to see that,</p> <p>22 did you?</p> <p>23 MS. PERRY:</p> <p>24 A. Well we don't get to change their report,</p> <p>25 but I wanted to, you know, dig in further as</p>	<p>1 overall ratings' assessment. So they will</p> <p>2 consider decisions made with respect to</p> <p>3 capital structure. They will look at, as I</p> <p>4 said, you know, the timeliness of the Board</p> <p>5 order or any other variations in our</p> <p>6 regulatory mechanisms or anything within the</p> <p>7 context of the order that would give them</p> <p>8 any reason to suggest there's a change with</p> <p>9 respect to the regulatory support in this</p> <p>10 area. So credit metrics are just one</p> <p>11 component and so it's not a precise science</p> <p>12 with respect to how the rating is applied,</p> <p>13 there's a lot of qualitative factors that</p> <p>14 they will consider and certainly I expect</p> <p>15 that a part of the next ratings' assessment</p> <p>16 or even before then, we will be providing</p> <p>17 updates with respect to the latest updates</p> <p>18 on Muskrat Falls, the latest on the economy</p> <p>19 and certainly any supply issues that we face</p> <p>20 between now and even the interconnection.</p> <p>21 So there's a number of qualitative things</p> <p>22 that will go into the rating beyond just the</p> <p>23 credit metrics.</p> <p>24 GREENE, Q.C.:</p> <p>25 Q. And turning now to another topic,</p>
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<p>1 to the premise by which they were making</p> <p>2 these statements and they had seen other</p> <p>3 utilities decline and interest rates were</p> <p>4 declining, so their overall comment for a</p> <p>5 lot of utilities was that they expected</p> <p>6 there could be some modest decrease due to</p> <p>7 declining interest rates, not necessarily</p> <p>8 specifically for Newfoundland Power and the</p> <p>9 continuation of their sentence "is not</p> <p>10 expected to have a material impact on the</p> <p>11 company's operations", they're referring to</p> <p>12 that they do not believe that it will impact</p> <p>13 the, basically the cash flows materially of</p> <p>14 this company.</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. And we've already reviewed your undertaking</p> <p>17 No. 4 which illustrates that at different</p> <p>18 capital structures and different ROEs what</p> <p>19 the impact would be on Newfoundland Power,</p> <p>20 is there anything additional you would like</p> <p>21 to say in conclusion on that undertaking?</p> <p>22 MS. PERRY:</p> <p>23 A. The only other additional comment that I</p> <p>24 would make is credit metrics, as I referred</p> <p>25 in my opening, is one component of the</p>	<p>1 compensation. Mr. Smith, I wonder if you</p> <p>2 could describe for the Board the process</p> <p>3 that's followed at Newfoundland Power with</p> <p>4 respect to how executive compensation is</p> <p>5 determined?</p> <p>6 MR. SMITH:</p> <p>7 A. Well from the point of view of the vice-</p> <p>8 presidents, I would do an assessment of</p> <p>9 their performance and I would present that</p> <p>10 to our board of directors who makes the</p> <p>11 ultimate decision on executive compensation</p> <p>12 and in addition to that, I guess at each of</p> <p>13 our quarterly board meetings the board of</p> <p>14 directors would do their own assessment also</p> <p>15 of the performance of the executive, so it's</p> <p>16 a matter of the quarterly board meetings and</p> <p>17 my assessment and passing that on to the</p> <p>18 board of directors.</p> <p>19 GREENE, Q.C.:</p> <p>20 Q. If we step back further, first, the actual</p> <p>21 compensation policies that are established</p> <p>22 for Newfoundland Power, how are the</p> <p>23 determined?</p> <p>24 MR. SMITH:</p> <p>25 A. Again we use a consultant by the name of Hay</p>

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<p>1 and Hay would recommend to the company a</p> <p>2 compensation policy and then our board of</p> <p>3 directors would decide to accept that or not</p> <p>4 to accept that.</p> <p>5 GREENE, Q.C.:</p> <p>6 Q. Is there a member of the executive or a</p> <p>7 director who is responsible for a</p> <p>8 compensation policy that would work with</p> <p>9 Hay?</p> <p>10 MR. SMITH:</p> <p>11 A. The ultimate responsibility would be with</p> <p>12 the governance and HR committee, which is a</p> <p>13 subcommittee of the complete board, so they</p> <p>14 would have the responsibility for that.</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. And my question is, is there an intermediary</p> <p>17 step, does the committee of the board deal</p> <p>18 directly with Hay or is there somebody who</p> <p>19 would be an executive management person, or</p> <p>20 yourself, who would be responsible for the</p> <p>21 liaison between the board committee and Hay?</p> <p>22 MR. SMITH:</p> <p>23 A. Typically Hay would write their</p> <p>24 correspondence to me and then it's a</p> <p>25 combination of myself and Ms. Perry who</p>	<p>1 Q. So in your role as president and CEO, first</p> <p>2 you would be satisfied with respect to the</p> <p>3 selection of the peer group for the</p> <p>4 positions below the executive, is that</p> <p>5 correct?</p> <p>6 MR. SMITH:</p> <p>7 A. Again that would be the recommendation of</p> <p>8 Hay to the company, yes.</p> <p>9 GREENE, Q.C.:</p> <p>10 Q. So when external consultants make</p> <p>11 recommendations, what would be your role as</p> <p>12 the CEO in assessing a recommendation on a</p> <p>13 policy?</p> <p>14 MR. SMITH:</p> <p>15 A. I guess I would look for a recommendation</p> <p>16 from our consultants, Hay, in terms of, you</p> <p>17 know, the retention and attraction of the</p> <p>18 employees that we have and that we have a</p> <p>19 compensation policy that's fair and</p> <p>20 reasonable in terms of what the market would</p> <p>21 be.</p> <p>22 GREENE, Q.C.:</p> <p>23 Q. And I assume that you would want to satisfy</p> <p>24 yourself that the recommendation is indeed</p> <p>25 the appropriate one that would reflect the</p>
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<p>1 looks after HR at the company that would be</p> <p>2 the liaison with our board of directors.</p> <p>3 GREENE, Q.C.:</p> <p>4 Q. Okay. So in bringing recommendations, is it</p> <p>5 fair to say that it is yourself and possibly</p> <p>6 Ms. Perry who would bring recommendations to</p> <p>7 the HR committee of the board with respect</p> <p>8 to the appropriate compensation policies for</p> <p>9 all levels at Newfoundland Power?</p> <p>10 MR. SMITH:</p> <p>11 A. In particular the executive and I think the</p> <p>12 layers below the executive into the</p> <p>13 management layers, that really doesn't go</p> <p>14 before our board for approval.</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. So it's only the executive management</p> <p>17 policy, is that correct?</p> <p>18 MR. SMITH:</p> <p>19 A. Yes, that's true.</p> <p>20 GREENE, Q.C.:</p> <p>21 Q. So for below the executive, who is</p> <p>22 responsible for the compensation policies?</p> <p>23 MR. SMITH:</p> <p>24 A. That would be myself.</p> <p>25 GREENE, Q.C.:</p>	<p>1 pressures that you are under with respect to</p> <p>2 attraction of employees and appropriate</p> <p>3 compensation to ensure you attract and</p> <p>4 retain employees, is that correct?</p> <p>5 MR. SMITH:</p> <p>6 A. That is correct.</p> <p>7 GREENE, Q.C.:</p> <p>8 Q. Similarly with respect to the executive</p> <p>9 management, would you be involved in</p> <p>10 bringing a recommendation to the board of</p> <p>11 directors with respect to the appropriate</p> <p>12 peer group for the executive?</p> <p>13 MR. SMITH:</p> <p>14 A. You said the executive management?</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. Yes, the vice-presidents.</p> <p>17 MR. SMITH:</p> <p>18 A. Yeah, I would bring that recommendation to</p> <p>19 the governance committee, yes.</p> <p>20 GREENE, Q.C.:</p> <p>21 Q. And again you would satisfy yourself that</p> <p>22 the peer group that Hay has recommended is</p> <p>23 indeed the appropriate peer group for</p> <p>24 comparison purposes and is the right one for</p> <p>25 you to bring to the board of directors?</p>

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<p>1 MR. SMITH:</p> <p>2 A. I would rely on Hay to do that work and look</p> <p>3 at the companies that are in the group and</p> <p>4 then bring forward that to the company.</p> <p>5 GREENE, Q.C.:</p> <p>6 Q. And with respect to your comparative group</p> <p>7 and since you've assumed your role as the</p> <p>8 president and CEO, did you have occasion to</p> <p>9 look at the compensation policies for the</p> <p>10 executive management to determine if, from</p> <p>11 your perspective, they continue to be</p> <p>12 appropriate?</p> <p>13 MR. SMITH:</p> <p>14 A. In terms of what Hay has sent us, since I've</p> <p>15 been president, yes, I reviewed the</p> <p>16 information and was satisfied with it and</p> <p>17 passed it along to our board of directors.</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. And you're satisfied that the appropriate</p> <p>20 peer group is the commercial, the median of</p> <p>21 the commercial industrial executive group</p> <p>22 for the executive?</p> <p>23 MR. SMITH:</p> <p>24 A. Yes, I am.</p> <p>25 GREENE, Q.C.:</p>	<p>1 A. Yes, I'm satisfied with Hay's work, yes.</p> <p>2 GREENE, Q.C.:</p> <p>3 Q. And you're satisfied that is your right peer</p> <p>4 group—not that you're satisfied with Hay,</p> <p>5 but you're satisfied that that is the right</p> <p>6 peer group for you to look at for salaries?</p> <p>7 MR. SMITH:</p> <p>8 A. Yes, I am.</p> <p>9 GREENE, Q.C.:</p> <p>10 Q. Similarly I want to talk about the short-</p> <p>11 term incentive plans for the executive and</p> <p>12 what your role is with respect to those.</p> <p>13 Could you explain that briefly?</p> <p>14 MR. SMITH:</p> <p>15 A. The short-term plan?</p> <p>16 GREENE, Q.C.:</p> <p>17 Q. The short-term plan and the individual</p> <p>18 measures, not the corporate measures at this</p> <p>19 point.</p> <p>20 MR. SMITH:</p> <p>21 A. Sure.</p> <p>22 GREENE, Q.C.:</p> <p>23 Q. Your role and how they're established.</p> <p>24 MR. SMITH:</p> <p>25 A. A number of the individual ones are based on</p>
Page 138	Page 140
<p>1 Q. And you're satisfied that in looking at the</p> <p>2 salary compensation, you do not look at</p> <p>3 compensation for other utilities in Canada?</p> <p>4 MR. SMITH:</p> <p>5 A. I'm satisfied with the information that Hay</p> <p>6 brings before us and again, Hay will have to</p> <p>7 speak to exactly the companies that are in</p> <p>8 that group and why they're there and why</p> <p>9 other ones may not be there. But as I said</p> <p>10 yesterday, we certainly know that they don't</p> <p>11 include Crown corporations and they don't</p> <p>12 include other Fortis companies.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. And we will be asking Hay those questions as</p> <p>15 well, but in terms of your role as the</p> <p>16 president and chief executive officer who</p> <p>17 brings these recommendations to your board</p> <p>18 of directors, I'm asking whether you're</p> <p>19 satisfied and my question was your level of</p> <p>20 comfort in the fact that there are no, other</p> <p>21 than Bruce Power, which is a nuclear utility</p> <p>22 and a telcom (phonetic), that there are no</p> <p>23 utility companies in the peer group for</p> <p>24 Newfoundland Power?</p> <p>25 MR. SMITH:</p>	<p>1 a subjective evaluation and in setting up</p> <p>2 those particular targets and objectives,</p> <p>3 again it's a conversation that I would have</p> <p>4 with the board of directors of the company</p> <p>5 and in that conversation, we look to make</p> <p>6 sure that the individual ones are aligned</p> <p>7 with the corporate priorities of the</p> <p>8 company, and so we look for an alignment.</p> <p>9 Some of the things that you look at when we</p> <p>10 do the individual evaluation tend to run</p> <p>11 over multiple years, they're not necessarily</p> <p>12 specific to a year, so it would be my job to</p> <p>13 monitor the performance of the executive</p> <p>14 team in terms of initiatives that we take on</p> <p>15 to support our corporate goals, year in and</p> <p>16 year out, and I would do that assessment</p> <p>17 based on the abilities of the individuals to</p> <p>18 assess issues and problems and look at data</p> <p>19 and then come up with plans, and action</p> <p>20 plans to deal with it. I would assess their</p> <p>21 overall commitment to lead the team at</p> <p>22 Newfoundland Power and I would also look at</p> <p>23 their ability to drive and achieve results.</p> <p>24 So I would assess their performance in those</p> <p>25 areas.</p>

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<p>1 GREENE, Q.C.:</p> <p>2 Q. If we could go to CA-NP-343, please,</p> <p>3 attachment A. Just scroll down please. So</p> <p>4 I assume you're familiar with all of these</p> <p>5 plans, Mr. Smith.</p> <p>6 MR. SMITH:</p> <p>7 A. Yeah, there's a lot of paper here.</p> <p>8 GREENE, Q.C.:</p> <p>9 Q. Yes, and I didn't know if you needed a</p> <p>10 moment to review them, but these would be</p> <p>11 the individual objectives for 2014 for your</p> <p>12 members of your executive, is that correct?</p> <p>13 MR. SMITH:</p> <p>14 A. This would be for 2014, yes.</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. Yes, and in fact, I think if you keep</p> <p>17 scrolling down, I didn't know if you wanted</p> <p>18 to look at them or in looking at them, one</p> <p>19 observation I wanted you to comment on is</p> <p>20 that other than financial results, if you</p> <p>21 look at all of the other measures and except</p> <p>22 for a limited one for reliability, the</p> <p>23 methods of evaluation are subjective,</p> <p>24 there's no target established and I wanted</p> <p>25 you to explain why that would be.</p>	<p>1 MR. SMITH:</p> <p>2 A. So if I could, to use one as an example</p> <p>3 which would be PUB-NPO-79?</p> <p>4 GREENE, Q.C.:</p> <p>5 Q. And that is the one that does have one</p> <p>6 objective measure, liability for the VP.</p> <p>7 (12:15 p.m.)</p> <p>8 MR. SMITH:</p> <p>9 A. Right, so on page 3-4, so this would be Gary</p> <p>10 Murray, who is a vice-president of</p> <p>11 engineering and operations and as you can</p> <p>12 see for reliability and safety, safety in</p> <p>13 particular it's all subjective and for</p> <p>14 reliability it's a combination of subjective</p> <p>15 with some emphasis put on SAIDI and SAIFI,</p> <p>16 and so as you can see in one result</p> <p>17 reliability, I've given Mr. Murray a hundred</p> <p>18 percent; and the other one, safety, I've</p> <p>19 given him one hundred and fifty percent. So</p> <p>20 what I would do in these areas of the</p> <p>21 subjective evaluation, again, I would look</p> <p>22 at Mr. Murray's performance overall and then</p> <p>23 I would make a recommendation to our board</p> <p>24 of directors. To give it a bit of context,</p> <p>25 I guess, our reliability performance is</p>
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<p>1 MR. SMITH:</p> <p>2 A. Right.</p> <p>3 GREENE, Q.C.:</p> <p>4 Q. It's really unusual to see no objective</p> <p>5 measures, even on the corporate ones from my</p> <p>6 experience.</p> <p>7 MR. SMITH:</p> <p>8 A. Would you give me the leeway of do an</p> <p>9 example, maybe?</p> <p>10 GREENE, Q.C.:</p> <p>11 Q. Sure.</p> <p>12 MR. SMITH:</p> <p>13 A. And there was another RFI that you've</p> <p>14 provided that was a bit more specific than a</p> <p>15 lot of this table, which was PUB-NPO-79, so</p> <p>16 it was specific to one of the executives for</p> <p>17 one particular year.</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. Yes, it was. This one, I just wanted to</p> <p>20 illustrate that for all of them -</p> <p>21 MR. SMITH:</p> <p>22 A. For all of them, it's the same way,</p> <p>23 subjective, yes.</p> <p>24 GREENE, Q.C.:</p> <p>25 Q. Subjective, yes.</p>	<p>1 about half the Canadian average and there's</p> <p>2 tables in our evidence that show that and</p> <p>3 I'm sure you folks have seen it before and</p> <p>4 in the year—this is specific to 2015, yes,</p> <p>5 in that year I guess we had a SAIDI result,</p> <p>6 I believe, of 2.36 which wouldn't meet this</p> <p>7 target here of 2.3, what you see here, and</p> <p>8 in fact, 2.36 for SAIDI was the second best</p> <p>9 record we had in the history of the company</p> <p>10 and so although we didn't hit our target</p> <p>11 with SAIDI, it was a strong result and being</p> <p>12 the second best year in the history of the</p> <p>13 company at 2.36. So I would go behind that</p> <p>14 number in terms of what has Mr. Murray done</p> <p>15 to support reliability in the company</p> <p>16 besides just the ultimate SAIDI number and</p> <p>17 if we could go to some of the information in</p> <p>18 Mr. Murray's section, which would be section</p> <p>19 3 and maybe first we'll just go to page 3-8</p> <p>20 and so this shows the company's overall</p> <p>21 reliability over the last number of years,</p> <p>22 with again the comparison to the CEA to show</p> <p>23 that we are about half the Canadian average,</p> <p>24 and then perhaps to page 3-14, Sam, so in</p> <p>25 terms of some of the things that Mr. Murray</p>

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<p>1 would do to look at reliability in the</p> <p>2 company, he would do his assessment of where</p> <p>3 we are today, what is the data, where is our</p> <p>4 problems, and one of the things that we've</p> <p>5 been focussing on for a while is equipment</p> <p>6 failures and as you can see from this graph,</p> <p>7 we've got a trend line to control our</p> <p>8 equipment failures and in '15, our result</p> <p>9 is, you know modestly in the same direction.</p> <p>10 We continue to have less outages because of</p> <p>11 equipment failures. And then if you could</p> <p>12 go to the next page, which is page 3-15,</p> <p>13 there's a table here which shows the amount</p> <p>14 of plant upgrades that we do with energized</p> <p>15 equipment and as you can see, we're doing</p> <p>16 more and more work with energized equipment,</p> <p>17 albeit from '14 to '15 we dropped a</p> <p>18 percent. Now in the background of this, you</p> <p>19 have to remember that the workforce that we</p> <p>20 have at Newfoundland Power right now, about</p> <p>21 fifty percent of them have been with us less</p> <p>22 than 10 years and a lot of those people are</p> <p>23 in the linemen trade, or the line person</p> <p>24 trade, I should say, and so in the</p> <p>25 background of that, Mr. Murray has to be</p>	<p>1 company, I did feel it appropriate to give</p> <p>2 him a hundred percent score based on a</p> <p>3 subjective evaluation of the information</p> <p>4 that's in the background behind the 2.3. So</p> <p>5 these are the types of things that I would</p> <p>6 use to give Mr. Murray a score of a hundred</p> <p>7 percent in this particular category.</p> <p>8 GREENE, Q.C.:</p> <p>9 Q. For transparency, you've just taken us</p> <p>10 through these slides of how you supported</p> <p>11 your assessment and for this particular one</p> <p>12 for reliability was based on certain</p> <p>13 statistics or certain performance that you</p> <p>14 track through metrics. For the sake of</p> <p>15 transparency, why wouldn't you have that</p> <p>16 actually identified as some of the targets</p> <p>17 you are to meet in order to achieve the</p> <p>18 reliability, rather than leaving it to</p> <p>19 subjective?</p> <p>20 MR. SMITH:</p> <p>21 A. Right, it's a matter of in a run of a year,</p> <p>22 we'll have other ones besides these, okay,</p> <p>23 and these are just some examples that we've</p> <p>24 provided here, but in the background of Mr.</p> <p>25 Murray, there's many of these, what I'll</p>
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<p>1 conscious of the abilities and the</p> <p>2 capabilities of those people to do energized</p> <p>3 work and that's a big function of their</p> <p>4 training and their capability. So in this</p> <p>5 area in particular, Mr. Murray has done a</p> <p>6 good job in maintaining our ability to</p> <p>7 continue to do hotline work, which is the</p> <p>8 point I'm trying to make in this slide. And</p> <p>9 if we could go to one more, which would be</p> <p>10 page 3-16, this would show the outages as a</p> <p>11 result of scheduled outages, okay, so these</p> <p>12 would be planned outages and as you can see,</p> <p>13 we continue to bring our trend line down, so</p> <p>14 the hotline work would be behind this, but</p> <p>15 also doing things such as the engineering</p> <p>16 work to make sure we have alternate feeds.</p> <p>17 So in the background of my overall</p> <p>18 assessment of Mr. Murray would be this type</p> <p>19 of data and I call this more operational</p> <p>20 data than corporate targets because they</p> <p>21 build a support to corporate target. So my</p> <p>22 assessment of Mr. Murray in this particular</p> <p>23 year, although we didn't hit the 2.3 target,</p> <p>24 our result was 2.36, which again was the</p> <p>25 second best year in the history of the</p>	<p>1 call operational targets that we pay</p> <p>2 attention to. They all go into my</p> <p>3 assessment of his overall capability and his</p> <p>4 performance for the year, but to focus on</p> <p>5 any particular one to say we're going to</p> <p>6 ride that one in particular, I would just</p> <p>7 caution that we may be chasing the wrong</p> <p>8 thing. Another one in the background of Mr.</p> <p>9 Murray that isn't here, for example, is our</p> <p>10 response to trouble calls, and so we have a</p> <p>11 target of 85 percent of the time within two</p> <p>12 hours, and so that would be another one in</p> <p>13 the background that drives reliability, but</p> <p>14 when Mr. Murray performs against that target</p> <p>15 and we're always very close to that 85</p> <p>16 percent, but in any given year, I'm very</p> <p>17 cautious that there's a balance in that</p> <p>18 number between cost and service. And so,</p> <p>19 for example, if there's a crew working right</p> <p>20 now today and they're hooking up a new house</p> <p>21 and that would be one of our metrics that we</p> <p>22 also have now, to have a certain amount of</p> <p>23 time to hook up a new house and we'll have a</p> <p>24 scheduled appointment, so the crew is there</p> <p>25 working on that job. In the meantime, a</p>

<p style="text-align: right;">Page 149</p> <p>1 trouble call comes in, so I'm going to go—</p> <p>2 Mr. Murray is going to go through that with</p> <p>3 his staff of what point do you leave that</p> <p>4 scheduled job, the job that you're already</p> <p>5 on and leave it to go do that trouble call,</p> <p>6 because when you leave it, there's a mob and</p> <p>7 demob cost which will ultimately drive up</p> <p>8 the price. So Mr. Murray has to be</p> <p>9 conscious of those decisions. Where is my</p> <p>10 metric on response to two-hour trouble</p> <p>11 calls? How close am I to the 85 percent?</p> <p>12 Am I willing to leave that scheduled job to</p> <p>13 do a demob and mob cost to go do that</p> <p>14 trouble call right away? If I talk to the</p> <p>15 customer and the customer is willing to</p> <p>16 wait, in terms of waiting the extra hour to</p> <p>17 get service, then that's the right decision</p> <p>18 to make, but if I'm just focussed on that</p> <p>19 metric only, I can hit the metric but it</p> <p>20 ultimately may not be least cost.</p> <p>21 GREENE, Q.C.:</p> <p>22 Q. Now I don't want to go through the others</p> <p>23 because there are a number of them where</p> <p>24 there are subjective evaluations, my</p> <p>25 question, another question would be how does</p>	<p style="text-align: right;">Page 151</p> <p>1 down to 1.4 hours. We really believe that</p> <p>2 the incremental cost to get there is really</p> <p>3 not worth the service to our customers, but</p> <p>4 if we can get it from 2.4 to 2.36 to 2.32</p> <p>5 without increasing a whole lot of additional</p> <p>6 cost, then that's where we want to be. So</p> <p>7 Mr. Murray understands that in communication</p> <p>8 with me.</p> <p>9 GREENE, Q.C.:</p> <p>10 Q. A question arising from your answer, you</p> <p>11 said that the target hadn't been met for the</p> <p>12 year, even though it had been your second</p> <p>13 best year of performance.</p> <p>14 MR. SMITH:</p> <p>15 A. Yes.</p> <p>16 GREENE, Q.C.:</p> <p>17 Q. How do you establish your targets if they're</p> <p>18 not related to your past performance?</p> <p>19 MR. SMITH:</p> <p>20 A. The corporate target that was calculated</p> <p>21 that year, which as the corporate targets</p> <p>22 based off a historical average and so when</p> <p>23 we do the corporate targets, they run off a</p> <p>24 historical average calculation of what our</p> <p>25 performance has been. Those would be the</p>
<p style="text-align: right;">Page 150</p> <p>1 the individual know what they have to do in</p> <p>2 order to achieve the target, if it's</p> <p>3 subjective evaluation?</p> <p>4 MR. SMITH:</p> <p>5 A. Yeah, as I said earlier, a lot of these</p> <p>6 individual ones, they'd line up to support</p> <p>7 the corporate target and when you do that,</p> <p>8 these individual ones are about a long-term</p> <p>9 plan to get there and as you can see by the</p> <p>10 slide that's still in front of you on the</p> <p>11 computer screen, this is a longer-term</p> <p>12 objective to reduce scheduled outages. So</p> <p>13 Mr. Murray would have communication with me</p> <p>14 in terms of his performance during the year.</p> <p>15 What are we doing in terms of the training</p> <p>16 of the linemen to be able to do hotline</p> <p>17 work? I would also interact with the layer</p> <p>18 below Mr. Murray to get an assessment of his</p> <p>19 capability and Mr. Murray, in terms of</p> <p>20 understanding where he's supposed to go, in</p> <p>21 terms of reliability the message to Mr.</p> <p>22 Murray is we're trying to sustain where we</p> <p>23 are, get a little better if we can, but</p> <p>24 we're currently run at about 2.4 hours per</p> <p>25 hour as a SAIDI. We're not trying to get it</p>	<p style="text-align: right;">Page 152</p> <p>1 corporate targets.</p> <p>2 GREENE, Q.C.:</p> <p>3 Q. I want to now turn to the corporate targets,</p> <p>4 go to PUB-NP-095 please?</p> <p>5 MS. GLYNN:</p> <p>6 Q. Sorry, Ms. Greene, what was that number?</p> <p>7 GREENE, Q.C.:</p> <p>8 Q. PUB-095. And I just wanted to bring this</p> <p>9 up, these are your corporate performance</p> <p>10 measures, but they're not the same as what</p> <p>11 you have for your corporate—STI for your</p> <p>12 corporate objectives.</p> <p>13 MR. SMITH:</p> <p>14 A. Right.</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. And I wanted to know what use do you make of</p> <p>17 this information and how is it used to</p> <p>18 develop your corporate objective and your</p> <p>19 STI plans?</p> <p>20 MR. SMITH:</p> <p>21 A. Right, in this presentation of information,</p> <p>22 you do see some of the corporate targets,</p> <p>23 such as the very first one which is the</p> <p>24 SAIDI, so that one would be a corporate</p> <p>25 target. You come down a few and you see</p>

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<p>1 “customer satisfaction”. This one would be  2 a corporate target. You see the one called  3 “All Injury Frequency Rate”, that would be a  4 corporate target. Then there’s the  5 “Earnings” one. The one below that is  6 called “Gross Operating Cost Per Customer”,  7 that is not a corporate target. We use  8 controllable operating cost per customer, so  9 there’s a difference between the two. If  10 you go, if you’re able to follow, I can go  11 back a few, back up a couple of more now,  12 the one that’s there that’s called “Trouble  13 Call Response Within 2 Hours” is the one I  14 just spoke to, there’s another one up a  15 couple called “Plant Availability”, usually  16 runs about 95 percent of it, again, that’s  17 another one that is not a corporate target,  18 it’s more of an operational target, and  19 again, for example, if we have a hydro plant  20 that goes down on a Saturday, we’re not  21 going to try to fight to meet this 95  22 percent if the plant does not need it to  23 support system capacity. We’ll wait until  24 Monday and not spend the overtime on a  25 weekend to fix the plant. We will dispatch</p>	<p>1 GREENE, Q.C.:  2 Q. Yes. So the judgment that’s used in  3 selecting what goes into the corporate  4 objectives, how are they determined?  5 MR. SMITH:  6 A. Sure. If you take, for example –  7 GREENE, Q.C.:  8 Q. And if we could go, please, to have it  9 before us, CA-NP-342.  10 SMITH:  11 A. So again these would be the corporate ones,  12 and your question is why are they different  13 than the last ones?  14 GREENE, Q.C.:  15 Q. And how do you use judgment from what you  16 provide to the Board as performance  17 measures, and report to the Board on it, how  18 you’re doing with respect to what you put in  19 and you use for the basis of short term  20 incentives?  21 MR. SMITH:  22 A. Right. Well, again there is six of these  23 here, and these same six will appear on the  24 last RFI that we were just looking at. The  25 one that’s different in the way it’s</p>
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<p>1 someone to the plant to make sure it’s safe  2 and environmentally responsible, but we  3 won’t fix the plant on overtime over the  4 weekend if it’s not needed for system  5 capacity. So again, that’s another example  6 of how you have to be careful with the  7 operational targets that you don’t push to  8 hit a target, but at the same time cost you  9 more money when you don’t need to. So some  10 of these, I guess what I’m saying are the  11 corporate targets that we use for STIs and  12 some of these are more operational targets  13 that have those types of limitations to it.  14 GREENE, Q.C.:  15 Q. And I want to understand how they are  16 connected or related because when I looked  17 at 2014, for example, for these corporate  18 performance measures, you achieve three of  19 what you had targeted and only three out of  20 nine, but when we go back over now to your  21 corporate measures in CA-NP-342 for 2014,  22 where we don’t have the same metrics, you  23 did receive the incentive payments.  24 MR. SMITH:  25 A. And so again this is 2014?</p>	<p>1 presented here is the operating cost. What  2 you see here is controllable operating cost.  3 What you saw on the last one was gross  4 operating cost.  5 GREENE, Q.C.:  6 Q. We don’t have some of the other measures for  7 what you call the operation metrics.  8 MR. SMITH:  9 A. Right.  10 GREENE, Q.C.:  11 Q. They’re not here in your corporate plan?  12 MR. SMITH:  13 A. That’s right, and your question is again?  14 GREENE, Q.C.:  15 Q. How did you make the judgment as to what you  16 would put in as your corporate objectives  17 and why are they different from the  18 corporate performance measures you report to  19 the Board?  20 MR. SMITH:  21 A. Okay. So again the ones that you see for  22 the corporate performance that we use  23 against our STI, these are the high level  24 overall performance measures that we use to  25 gauge the performance of the company. So</p>

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<p>1 these are the high end ones. Other ones</p> <p>2 feed into these in terms of the operational</p> <p>3 targets that I will use as part of my</p> <p>4 subjective evaluation of individual</p> <p>5 performance, but these are the six corporate</p> <p>6 ones. Most of them are back here on the</p> <p>7 last one. There's two or three that are</p> <p>8 different again, the hydro plant one, the</p> <p>9 trouble code one. Those are operational</p> <p>10 targets, and again I don't drive those the</p> <p>11 same as the corporate ones again because</p> <p>12 they are more operational in nature.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. And you don't believe it's appropriate to</p> <p>15 include them in the corporate, is that the</p> <p>16 conclusion I'm drawing?</p> <p>17 MR. SMITH:</p> <p>18 A. Absolutely. Hydro plant availability should</p> <p>19 not be in our corporate target.</p> <p>20 GREENE, Q.C.:</p> <p>21 Q. And that's because?</p> <p>22 (12:30 p.m.)</p> <p>23 MR. SMITH:</p> <p>24 A. Of the example I just gave you. I can hit</p> <p>25 the target, I can fix the plant, but I may</p>	<p>1 GREENE, Q.C.:</p> <p>2 Q. So the threshold is pretty easy to meet, at</p> <p>3 least based on past experience?</p> <p>4 MR. SMITH:</p> <p>5 A. I wouldn't agree.</p> <p>6 GREENE, Q.C.:</p> <p>7 Q. The evidence would look like you've always</p> <p>8 approved – 90 percent of it isn't bad.</p> <p>9 MS. PERRY:</p> <p>10 A. We won't say it's easy.</p> <p>11 MR. SMITH:</p> <p>12 A. The end results show hard work on the part</p> <p>13 of our company and our employees to get</p> <p>14 there. That's what I would say.</p> <p>15 GREENE, Q.C.:</p> <p>16 Q. And my next question with respect to that,</p> <p>17 have you considered putting in minimum</p> <p>18 thresholds before any incentive payment is</p> <p>19 made with respect to other measures, such as</p> <p>20 reliability and customer satisfaction, which</p> <p>21 are two obvious areas of interest for the</p> <p>22 customer?</p> <p>23 MR. SMITH:</p> <p>24 A. On the customer satisfaction one, some of</p> <p>25 the data that we have in front of us, if</p>
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<p>1 be spending unnecessary money on overtime to</p> <p>2 do it.</p> <p>3 GREENE, Q.C.:</p> <p>4 Q. I believe it was Ms. Perry in evidence so</p> <p>5 far that said there was a minimum threshold</p> <p>6 for any incentive payment, so that no</p> <p>7 incentive payment was made unless the</p> <p>8 financial target was met. Is that correct,</p> <p>9 did I understand that correctly?</p> <p>10 MS. PERRY:</p> <p>11 A. Yes, that is correct.</p> <p>12 MR. SMITH:</p> <p>13 A. Yes.</p> <p>14 GREENE, Q.C.:</p> <p>15 Q. And that is set at 90 percent of the</p> <p>16 authorized ROE, is that correct?</p> <p>17 MS. PERRY:</p> <p>18 A. I believe it's 90 percent, yes.</p> <p>19 GREENE, Q.C.:</p> <p>20 Q. And we've seen that you've always earned</p> <p>21 your authorized ROE for a significant number</p> <p>22 of years.</p> <p>23 MS. PERRY:</p> <p>24 A. We have earned our return for a number of</p> <p>25 years, yes.</p>	<p>1 you'll go back to PUB-NP-095, and if you</p> <p>2 look at the customer satisfaction line, you</p> <p>3 can see in '13, we were not able to hit our</p> <p>4 target; in '14, we're not able to hit our</p> <p>5 target; in '15 -</p> <p>6 GREENE, Q.C.:</p> <p>7 Q. You weren't either.</p> <p>8 MR. SMITH:</p> <p>9 A. We're starting to come back towards our</p> <p>10 target and when we do our customer</p> <p>11 satisfaction survey, we do it independently</p> <p>12 every quarter. An outside agency does it.</p> <p>13 We give them our database, they go into our</p> <p>14 database and randomly call up customers, and</p> <p>15 there's no doubt in '13, '14, and '15, we</p> <p>16 continued to see the effect of the major</p> <p>17 system outages, Dark NL, in terms of the</p> <p>18 overall impression of our customers in terms</p> <p>19 of our performance. The numbers are what</p> <p>20 they are. We can't normalize for this</p> <p>21 because it's not within the database to do</p> <p>22 that, but we certainly believe a combination</p> <p>23 of the major system outages, and some of the</p> <p>24 industry things that you hear about Muskrat</p> <p>25 Falls are affecting the impression of our</p>

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<p>1 customers towards the company, and they show 2 up in this satisfaction score that you see. 3 So for three years in a row, we have not 4 been able to hit that number, but again I 5 would argue that the performance of the 6 company has been very strong to try to turn 7 this around. If you go to some of the years 8 like 2014 and since, we've been very 9 aggressive with our customer service staff 10 to get out and talk to municipalities talk 11 to Rotary Clubs, visit school boards, visit 12 fire emergency services, visit the hospital 13 boards, to talk to them about when the power 14 goes out, this is what you can do to work 15 with Newfoundland Power. So we've been 16 working really hard to try to turn that 17 number around, but I would tell you our 18 belief, because I can't prove it in the 19 data, is that our customers are giving a 20 score reflective of Dark NL, and possibly 21 even Muskrat Falls. 22 GREENE, Q.C.: 23 Q. And in terms of reliability, what would your 24 response be, why there shouldn't be a 25 minimum target for reliability achievement?</p>	<p>1 minimum on reliability before any incentive 2 was paid out, not just on the - 3 MS. PERRY: 4 A. Just not on reliability? 5 GREENE, Q.C.: 6 Q. Not just on the category of reliability? 7 MR. SMITH: 8 A. Again we do it with the earnings. I do 9 believe, and I'm doing this from memory, 10 that we also have one on safety. 11 MS. PERRY: 12 A. If we have a fatality. 13 MR. SMITH: 14 A. Yes, if we have a fatality, we won't have a 15 payout in safety. 16 GREENE, Q.C.: 17 Q. You mean any payout at all? 18 MR. SMITH: 19 A. Yes. 20 GREENE, Q.C.: 21 Q. Okay, no incentive payment? 22 MR. SMITH: 23 A. On the safety one, in particular, I don't 24 know if it's the whole gamut or not. 25 GREENE, Q.C.:</p>
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<p>1 MR. SMITH: 2 A. I would suggest to the Board that our 3 reliability performance is very good, and 4 the methods that we currently have to score 5 our performance and do our work, and the 6 fact that we continue to be half the 7 Canadian average and our costs are stable, 8 and our reliability is stable, I would 9 suggest to the Board that those are the 10 places that we need to be. 11 GREENE, Q.C.: 12 Q. And you don't think it's necessary to have a 13 minimum threshold of performance on 14 reliability before any incentives are paid? 15 MR. SMITH: 16 A. Well, we do on reliability. There's a plus 17 or minus factor on the target number. Again 18 you don't see it in this table, but in each 19 of our scores there's a plus or minus factor 20 on earnings, controllable operating costs, 21 the safety, the reliability, customer – on 22 each of the corporate scores there's a plus 23 or minus factor on every one of them. 24 GREENE, Q.C.: 25 Q. But I'm suggesting that there would be a</p>	<p>1 Q. And that's what I'm asking you about is – 2 MR. SMITH: 3 A. I can't do that from memory. 4 GREENE, Q.C.: 5 Q. Would there be a minimum threshold before 6 any payments? You have one for finance. 7 MS. PERRY: 8 A. It's just for finance. 9 GREENE, Q.C.: 10 Q. And the question is, is it appropriate? 11 MS. PERRY: 12 A. Yes, it's for finance. So even if we met 13 our safety target somehow, but there was a 14 fatality, there would be zero payout on 15 safety. 16 MR. SMITH: 17 A. That's right. 18 GREENE, Q.C.: 19 Q. Okay, when you were responding to my 20 question about initiatives the company was 21 going to take to respond to the increased 22 risk that they are now facing, you mentioned 23 an emphasis on increased cost containment 24 and cost management, is that correct? 25 MR. SMITH:</p>

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<p>1 A. That's correct.</p> <p>2 GREENE, Q.C.:</p> <p>3 Q. Have you considered whether that would</p> <p>4 include any additional action with respect</p> <p>5 to compensation, particularly executive</p> <p>6 compensation?</p> <p>7 MR. SMITH:</p> <p>8 A. The targets that we have and the way that</p> <p>9 they're calculated and the plus or minus, at</p> <p>10 this stage I don't envision that they would</p> <p>11 change, but again that could be a</p> <p>12 conversation we could have with our Board.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. Thank you very much. That concludes all of</p> <p>15 my questions. Thank you.</p> <p>16 CHAIRMAN:</p> <p>17 Q. All right, so where am I now? Do you have</p> <p>18 any –</p> <p>19 MS. GLYNN:</p> <p>20 Q. I don't know whether there's any redirect</p> <p>21 from the -</p> <p>22 CHAIRMAN:</p> <p>23 Q. I'm sorry.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. I have no further questions, Mr. Chairman,</p>	<p>1 market is, it's hard to just keep up with</p> <p>2 the volatility that's happening. Even</p> <p>3 within our last issuance that we had done,</p> <p>4 the whole turmoil in Greece just seemed to</p> <p>5 have such a big impact even on a</p> <p>6 Newfoundland Power bond issue, and to make</p> <p>7 those connections just seems to be so</p> <p>8 distant, but they're real. So the way that</p> <p>9 the world market is going is absolutely</p> <p>10 impacting companies like Newfoundland Power,</p> <p>11 but where it's going and what it means</p> <p>12 ultimately, I'm not sure.</p> <p>13 CHAIRMAN:</p> <p>14 Q. I guess if you knew, we could all make a</p> <p>15 pile of money.</p> <p>16 MS. PERRY:</p> <p>17 A. We could, yeah, we could.</p> <p>18 CHAIRMAN:</p> <p>19 Q. Okay, well, I guess we're finished this</p> <p>20 session and we're back at it next Tuesday,</p> <p>21 is it?</p> <p>22 MS. GLYNN:</p> <p>23 Q. No, we're here tomorrow.</p> <p>24 CHAIRMAN:</p> <p>25 Q. We're here tomorrow, are we?</p>
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<p>1 no redirect.</p> <p>2 CHAIRMAN:</p> <p>3 Q. Okay, do you have –</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. No.</p> <p>6 CHAIRMAN:</p> <p>7 Q. I've just got one quick question and it's</p> <p>8 probably better for next week, but we're</p> <p>9 moving into – they're talking now – we have</p> <p>10 zero interest rate policy with all of the</p> <p>11 central banks, Ms. Perry, and now they're</p> <p>12 talking about a negative interest rate</p> <p>13 policy. Like, I just read something the</p> <p>14 other day, Japan sold 10 year government</p> <p>15 bonds at -0.024 percent. That's the way the</p> <p>16 world is heading. What does that mean for,</p> <p>17 you know, your bonds?</p> <p>18 MS. PERRY:</p> <p>19 A. Yes, it probably is a better question for</p> <p>20 the experts, but I said recently in the last</p> <p>21 couple of days that my time on estimating</p> <p>22 where interest rates are going to go,</p> <p>23 because I've been saying they've been going</p> <p>24 to rise for the last ten years, and between</p> <p>25 that and where interest rates in the bond</p>	<p>1 MS. GLYNN:</p> <p>2 Q. Yes, Mr. Aboud from Hay.</p> <p>3 CHAIRMAN:</p> <p>4 Q. Oh, my, we're starting tomorrow. Okay we'll</p> <p>5 see you tomorrow.</p> <p>6 Upon Conclusion at 12:38 a.m.</p> <p>7</p> <p>8</p> <p>9</p> <p>10</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>

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## CERTIFICATE

I, Judy Moss, do hereby certify that the foregoing is a true and correct transcript of a hearing in the matter of a General Rate Application by Newfoundland Power Inc. to establish customer electricity rates for 2016 and 2017 heard on the 31st day of March, 2016 at the Public Utilities Commission office, St. John's, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.

Dated at St. John's, NL this  
31st day of March, 2016

Judy Moss  
Discoveries Unlimited Inc.

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