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<p>1 CHAIRMAN:</p> <p>2 Q. Good morning, everybody. I'll call this</p> <p>3 hearing to order, and for the record, of</p> <p>4 course, I'm Andy Wells, Chairman, and I have</p> <p>5 Vice-Chairman Whalen, and Commissioners</p> <p>6 Oxford and Newman. Jacquie Glynn is our</p> <p>7 Board counsel; Maureen Greene, hearing</p> <p>8 counsel. In the back are Mike McNiven and</p> <p>9 Ryan Oake, who are regulatory analysts, and,</p> <p>10 of course, I think Sam is there, our</p> <p>11 engineering consultant. Bruce Little is</p> <p>12 there from Discoveries Unlimited, and we</p> <p>13 have Samantha Piercey from Newfoundland</p> <p>14 Power assisting us with document retrieval.</p> <p>15 I will ask the parties to this application</p> <p>16 to introduce themselves, starting first, of</p> <p>17 course, with Newfoundland Power. We only</p> <p>18 got two parties. We only got two</p> <p>19 battalions. We've been reduced by</p> <p>20 attrition, I guess. Anyway, sir.</p> <p>21 KELLY, Q.C.:</p> <p>22 Q. Good morning, Mr. Chairman, Ian Kelly, and</p> <p>23 with me, Gerard Hayes, for Newfoundland</p> <p>24 Power.</p> <p>25 CHAIRMAN:</p>	<p>1 December 1, 2015, they advised the Board and</p> <p>2 the parties that they would be participating</p> <p>3 as a limited intervener and they will not be</p> <p>4 attending this hearing. Following the pre-</p> <p>5 hearing conference, time was allowed for</p> <p>6 requests for information and for responses</p> <p>7 to be filed. Time was also allowed for the</p> <p>8 parties to retain experts as required. The</p> <p>9 parties participated in a Board facilitated</p> <p>10 settlement process to discuss the issues</p> <p>11 contained in the application. This</p> <p>12 negotiation process was held earlier this</p> <p>13 month, and a resulting settlement agreement</p> <p>14 was filed with the Board on March 21, 2016.</p> <p>15 The parties already have a copy of this</p> <p>16 agreement and we will now enter it onto the</p> <p>17 record as Consent Exhibit 1. I'd like to</p> <p>18 take a moment to review some of the issues</p> <p>19 which have been agreed upon by the parties.</p> <p>20 The parties have agreed that the Board may</p> <p>21 rely on the 2016 and 2017 customer energy</p> <p>22 and demand forecast which is dated February,</p> <p>23 2016. The test year revenue requirement for</p> <p>24 employee future benefits expense, income tax</p> <p>25 expense, finance charges, and power supply</p>
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<p>1 JOHNSON, Q.C.:</p> <p>2 Q. Good morning, Chairman, Commissioners, Tom</p> <p>3 Johnson, Consumer Advocate, and my colleague</p> <p>4 is with me, Greg Kirby.</p> <p>5 CHAIRMAN:</p> <p>6 Q. So I will ask our counsel, Glynn, now to</p> <p>7 assume control of the events.</p> <p>8 MS. GLYNN:</p> <p>9 Q. Good morning, everybody. On October 16th,</p> <p>10 2015, the Board received a General Rate</p> <p>11 Application from Newfoundland Power to</p> <p>12 establish new rates for its customers. The</p> <p>13 Application was amended on March 8th, 2016.</p> <p>14 Newfoundland Power is requesting that the</p> <p>15 Board approve, among other things, an</p> <p>16 overall average increase in current</p> <p>17 electricity rates of 2.5 percent as of July</p> <p>18 1, 2016. This is a reduction from the 3.1</p> <p>19 percent average increase which was proposed</p> <p>20 in the October filing. A pre-hearing</p> <p>21 conference was held on November 19, 2015, to</p> <p>22 identify the registered interveners and to</p> <p>23 set the procedures and schedule for the</p> <p>24 public hearing. Newfoundland and Labrador</p> <p>25 Hydro did file as an intervener, however, on</p>	<p>1 costs have been agreed to. Calculation of</p> <p>2 the depreciation expense has been agreed to.</p> <p>3 Evaluation of the customer conservation</p> <p>4 programs using the rate impact measure test</p> <p>5 has been agreed to. Cost recovery of the</p> <p>6 hearing cost over a three year period. The</p> <p>7 uncollectable bills expense amount for 2016</p> <p>8 and 2017 have been agreed as reasonable for</p> <p>9 rate setting purposes. Recovery of the</p> <p>10 revenue shortfall for the 2016 revenue</p> <p>11 requirement has been agreed to. The</p> <p>12 forecast average rate base for 2016 and 2017</p> <p>13 will be used for rate making purposes</p> <p>14 subject to adjustments from the Board's</p> <p>15 determinations on issues that have not been</p> <p>16 settled. There have been proposed changes</p> <p>17 to the rate design and rate structure which</p> <p>18 have been agreed to, and the continued</p> <p>19 suspension of the automatic adjustment</p> <p>20 formula has also been agreed to. All</p> <p>21 remaining issues in the Application will be</p> <p>22 examined throughout this hearing. Notice of</p> <p>23 the start date of the hearing was published</p> <p>24 in papers throughout the province starting</p> <p>25 on March 5, 2016. Thursday, March 16, 2016,</p>

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<p>1 was the deadline for public participation 2 and the Board has received one request to 3 make a public presentation. The Board's 4 financial consultants, Grant Thornton, 5 submitted a report on January 28, 2016. The 6 parties have agreed to accept this report 7 without the necessity of a representative 8 from Grant Thornton appearing to adopt it, 9 and neither party wishes to cross-examine on 10 this report. Again all parties already have 11 a copy of this and we will now enter that as 12 Consent Exhibit 2. Evidence starts today 13 with the company witnesses. Cost of capital 14 evidence is scheduled for next week. The 15 normal sitting schedule will be from 9 to 16 1:30 with a half hour break at 11. Mr. 17 Chair, I confirm that the Application has 18 been properly filed, appropriate notices 19 have been published. We have one 20 preliminary matter and that is to enter some 21 documents that the company witnesses will be 22 speaking to. Again they have already been 23 distributed and they are marked as GS 1 and 24 JP 1. With all that said, you may ask the 25 parties for their opening statements.</p>	<p>1 Application which is before you seeks an 2 average increase in base rates of 3 approximately 2.5 percent. The proposed 4 increase has essentially three components to 5 it. The first component, 0.9 percent, 6 reflects the rebalancing of the 2016/2017 7 energy supply costs, and those changes would 8 have flowed through in the normal course to 9 customers, in any event. The proposed 10 change in the rate of return from 8.8 11 percent to 9.5 percent accounts for 0.7 12 percent of the rate increase. The remaining 13 0.9 percent represents the change in all of 14 the other costs of providing service since 15 the last General Rate Application, and 16 notably only 0.3 percent, that's 3/10ths of 17 1 percent of the proposed increase relates 18 to changes in operating costs, and that is a 19 remarkable record of productivity of 20 efficiency with respect to Newfoundland 21 Power's controllable operating expenses. 22 Grant Thornton, as Ms. Glynn has indicated, 23 has conducted a detailed review of 24 Newfoundland Power's operating costs and 25 items such as amortizations and deferred</p>
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<p>1 CHAIRMAN: 2 Q. I think, Mr. Kelly, you're leading off for 3 Newfoundland Power. 4 KELLY, Q.C.: 5 Q. Thank you, Mr. Chairman. Mr. Chairman, 6 Commissioners, I thought the first thing I'd 7 do is provide you with a brief introduction 8 to give you a bit of a road map of where 9 we're going and key issues which remain 10 outstanding. As Ms. Glynn has already 11 mentioned, a settlement agreement has been 12 entered with respect to many of the matters 13 in the company's application, and she 14 reviewed some of those key elements for you. 15 The company witnesses will not specifically 16 address the settled issues, however, they 17 are available and will answer any questions 18 that you may have. Subsequent to the 19 settlement agreement, the consumer advocate 20 and the Board's hearing counsel, also 21 advised that they would not wish to examine 22 Mr. Gary Murray, who is Newfoundland Power's 23 Vice-President of Operations and Engineering 24 with respect to Section 3 of the evidence 25 which deals with operations. The</p>	<p>1 recoveries, the demand forecast, rate base, 2 and other matters. Grant Thornton has filed 3 a comprehensive report in which it found no 4 basis to conclude that there was anything 5 unreasonable with any of those items. So 6 the Board can take comfort from Grant 7 Thornton's analysis and conclusions with 8 respect to the overall reasonableness of the 9 company's operating expenses and the other 10 items. Mr. Chairman, Commissioners, what 11 this hearing really boils down to is 12 essentially a cost of capital hearing for 13 Newfoundland Power. The key issues are the 14 company's return on equity and its capital 15 structure. We do understand from the 16 consumer advocate and the Board's hearing 17 counsel that they may have some questions 18 with respect to issues of executive 19 compensation, and the conservation program, 20 in particular. Next, Mr. Chairman, I'd like 21 to put this hearing in a bit of a broader 22 context for the Board. You may recall my 23 closing remarks at Newfoundland Power's last 24 General Rate Application in 2013. That 25 hearing came at an important time in terms</p>

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<p>1 of the future development of the Province's 2 electrical system. The decision had been 3 made at that time to proceed with Muskrat 4 Falls and the Labrador In-Feed. In my 5 closing remarks in 2013, I reviewed for the 6 Board the financial challenges that 7 Newfoundland Power had faced during 2011 and 8 2012 as a result of the inordinately low 9 returns that had been produced by the 10 automatic adjustment formula. You will 11 recall that the formula had produced a 12 return of 8.38 percent for 2011 and would 13 have generated a return of 7.85 percent for 14 2012, and those returns, of course, were far 15 below the returns of other Canadian investor 16 owned utilities. That led to a cost of 17 capital hearing in 2012, and then that in 18 turn was followed by the General Rate 19 Application in 2013, and as I said at the 20 time, there were important lessons to be 21 learned from that experience. For most of 22 the three years from 2011 to 2013, 23 Newfoundland Power's small management team 24 spent an inordinate amount of time and 25 effort managing the company's financial</p>	<p>1 Island's electrical system over the next few 2 years. The need to deal with the existing 3 problems and to get ready for the future is 4 even more pressing today than it was in 5 2013. Newfoundland Power's management has a 6 lot of work ahead of it over the next three 7 years. At the same time, the Newfoundland 8 economy has deteriorated significantly. 9 Government has gone from surplus to deficit, 10 unemployment is rising, the flow of dollars 11 back home from places like Fort McMurray has 12 declined. This is a time when the Board 13 needs to continue the approach that it 14 adopted in PU-13-2013. The Board should 15 maintain the company's existing capital 16 structure and it should set a fair and 17 reasonable return that will enable 18 Newfoundland Power to actually earn a return 19 comparable to the returns earned by other 20 Canadian investor owned utilities, and in 21 addition that return should permit the 22 company to maintain its credit ratings in 23 the financial markets. Mr. Chairman and 24 Commissioners, as we go forward, 25 Newfoundland Power intends to call five</p>
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<p>1 affairs and its return. Management has an 2 obligation both to its investors and to its 3 customers to actually earn a reasonable 4 return because earning the return that is 5 comparable to other Canadian utilities is 6 what satisfies investors and satisfies the 7 credit rating agencies. That in turn 8 enables the company to deliver least cost 9 reliable power to customers. So unless the 10 company actually earns a reasonable return, 11 everyone loses, both the shareholders and 12 the customers. That was where we were in 13 2013. The Board Order, PU-13-2013, which 14 came out of the last rate hearing was 15 important because it restored stability to 16 Newfoundland Power's financial situation, 17 and the order came at a critical time. In 18 2013, we had the first of the generation 19 supply problems at Holyrood. That was 20 followed in 2014 with the power disruptions, 21 rotating outages, and customer distress of 22 Dark NL, and the supply problems continued 23 in 2015. It's clear from the Liberty Report 24 that we're not entirely out of the woods 25 yet. There is a lot to be done on the</p>	<p>1 witnesses. Mr. Gary Smith, Newfoundland 2 Power's President and Chief Executive 3 Officer, and Ms. Jocelyn Perry, Newfoundland 4 Power's Chief Financial Officer, will 5 testify first as a panel. Later in the 6 hearing, I understand now not until perhaps 7 the 12th of April, you'll hear from Mr. Lorne 8 Henderson, the company's Director of Revenue 9 and Supply. Mr. Henderson will respond to 10 questions with respect to the Conservation 11 Program. Mr. Karl Aboud of the HAY Group 12 will be available to answer questions with 13 respect to Newfoundland Power's Executive 14 Compensation Program, and I understand he'll 15 be here on Friday this week. During the 16 cost of capital phase next week, you will 17 hear expert testimony from Mr. James Coyne 18 of Concentric Energy Advisors, with respect 19 to the appropriate capital structure and the 20 reasonable rate of return for Newfoundland 21 Power. Mr. Chairman, those are my opening 22 comments, unless you have any questions. 23 CHAIRMAN: 24 Q. Mr. Johnson. 25 JOHNSON, Q.C.:</p>

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<p>1 Q. Good morning again, Chairman and 2 Commissioners. I want to make something 3 clear from the outset, Newfoundland Power in 4 no way, shape, or form expects for its 5 return on equity to increase as a result of 6 this hearing. Newfoundland Power and its 7 executives fully expect its return on equity 8 to decrease after this hearing, and that's 9 the reason why Newfoundland Power fought to 10 keep the Board from reviewing its cost of 11 capital in 2016, as we all remember. They 12 wanted to keep the 8.8 percent they were 13 awarded a few years ago at the last GRA and 14 keep that in place for 2016. So are we 15 supposed to believe that Newfoundland Power 16 did not want to have its cost of capital 17 reviewed by the Board in 2016 because its 18 executives thought that its cost of capital 19 was going to increase in 2016? We just 20 didn't fall off the turnip truck. What 21 Newfoundland Power fought that the cost of 22 capital was going to go up, and they wanted 23 to stand pat at 8.8 percent, that's not how 24 Newfoundland Power operates. The reason 25 they fought to stand pat at 8.8 was because</p>	<p>1 utilities get awarded higher returns on 2 equity than in Canada, reflecting the risk 3 in the United States as compared to Canada. 4 Newfoundland Power knows that its return on 5 equity is coming down in this hearing and 6 they also know that they are not free from 7 these trends. In fact, Newfoundland Power 8 is acutely aware of these trends. They like 9 to come in for rate cases when they believe 10 that the cost of capital is perceived to be 11 going up, not when it's going down. So they 12 had no problem coming in and filing their 13 rate case in May of 2009, a case they had 14 been assembling in the height of the 15 financial market prices, they couldn't wait, 16 and make no wonder, I would submit to you, 17 that they are careful as to when they come 18 in before the Board and are so intent on 19 protecting for their owner, Fortis, the 20 highest common equity component in the 21 country at 45 percent. Newfoundland Power's 22 executives get financial incentives for what 23 they call regulatory performance, which 24 boils down to how they do in regulatory 25 proceedings. They're alone in this regard</p>
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<p>1 they knew 8.8 percent was coming down if it 2 came before the Board in 2016. They knew 3 how good their 8.8 percent was and didn't 4 want to lose it; 8.8 percent on the thickest 5 allowed common equity component in the 6 country, 45 percent common equity. Well, 7 how good was Newfoundland Power's situation. 8 Well, in March of 2015, the Alberta 9 Utilities Commission reduced the return on 10 equity for Alberta utilities for 2013 and 11 the years beyond into 2016 from 8.75 to 8.3 12 percent. The Alberta Board also reduced the 13 allowed equity component from 41 percent to 14 40 percent. In BC in 2015, two Fortis 15 utilities had their ROEs reduced and their 16 equity component reduced to 38.5 percent, a 17 far cry from 45 percent which is embedded in 18 customer's rates in this jurisdiction. 19 Newfoundland Power has also seen Maritime 20 Electric just had its return on equity 21 reduced by 40 basis points. South of the 22 border in New York State, Fortis's Central 23 Hudson Gas and Electric, in July of 2015 had 24 its return on equity reduced by 1 percent to 25 9 percent, and it's well known that US</p>	<p>1 in Canada, with the exception of their 2 sister utility, FortisBC. In the absence of 3 market competition, the regulated utility 4 competes within the regulatory regime for 5 the best regulatory results possible. Now 6 that's normal. However, in Newfoundland 7 Power's case the customers rates actually 8 bear the cost of Newfoundland Power being 9 successful in regulatory outcomes, such as 10 obtaining a higher ROE award or preserving a 11 very high common equity ratio. Their 12 executives are actually incited in these 13 regards. This is just one example where 14 Newfoundland Power's executive compensation 15 scheme is just not right. It also helps, by 16 the way, explain why Newfoundland Power's 17 approach to both cost of capital and capital 18 structure is completing lack in balance. It 19 is tilted toward the utilities and not the 20 customer's interest. An example, when the 21 local economy was doing better and booming, 22 and Newfoundland Power was adding customers 23 and having very robust sales growth, you did 24 not hear Newfoundland Power say that the 25 robust economy had decreased its business</p>

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<p>1 risk when it came before the Board for rate 2 cases, but in 2016 and 2017, when things 3 have admittedly cooled, they are the first 4 to cry that the business risks have gone up 5 as part of a pitch for a higher return and 6 to make sure at all costs you preserve for 7 them their generous capital structure. They 8 say times are tough, but big increases to 9 short term incentives paid to Newfoundland 10 Power's executives come anyway. 11 Newfoundland Power, in my respectful 12 judgement, has gotten completely carried 13 away. For years, Newfoundland Power has 14 been at most an average risk Canadian 15 utility. They've now come before the Board 16 asserting that they are no longer an average 17 risk Canadian utility. They say that they 18 are now an above average risk Canadian 19 utility. In part, they blame Muskrat Falls, 20 but this argument does not hold validity, as 21 my experts, Dr. Laurence Booth, and Dr. Sean 22 Cleary, explain clearly in their evidence. 23 Newfoundland Power's position that it is now 24 an above average risk Canadian utility is 25 based on the opinion of their new US based</p>	<p>1 the highest equity ratios in the country, 2 while Fortis and its affiliates operate on 3 much less equity in their capital 4 structures. In fact, the boards that 5 regulate Fortis affiliates have recently 6 made downward adjustments to already much 7 lower equity ratios. On Newfoundland 8 Power's side you'll hear yet more US based 9 cost of capital evidence, which tries to 10 convince the Board that poles and wires, low 11 risk Newfoundland Power can be compared to 12 Duke Energy, Great Plains Energy, and West 13 Star Energy, and other vertically integrated 14 US utilities, many with nuclear generation, 15 for ROE purposes without making any 16 adjustments whatsoever. The Board has never 17 bought that in the past, and I submit you 18 shouldn't now. I look forward to the 19 hearing, and I would also like to thank Ms. 20 Greene and Newfoundland Power for their role 21 in the settlement process that led us here. 22 This hearing will be telescoped into a 23 number of discreet areas, and I look forward 24 to an efficient hearing. Thank you. 25 CHAIRMAN:</p>
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<p>1 cost of capital expert, Mr. Coyne. Of 2 course, Newfoundland Power and their new 3 witness agree wholeheartedly with each 4 other, but it's just nonsense. I'll be 5 calling two Canadian Professors of Finance, 6 Dr. Laurence Booth from the University of 7 Toronto, and Dr. Sean Cleary of Queen's 8 University, who confirm that Newfoundland 9 Power's return on equity must be reduced and 10 so must its equity component. Having the 11 most generous equity component in the 12 country is not necessary and it is not fair 13 to customers. I'm very grateful, in fact, 14 that the Board called for the capital 15 structure to be comprehensively reviewed in 16 this General Rate Application. That review 17 is very important. Newfoundland Power 18 consistently takes the position that this 19 Board will cause some sort of calamity if 20 you so much as look at their equity ratio. 21 They say that this will cause an evaluation 22 or a re-evaluation of this Board's 23 regulatory support. What an overreaction. 24 This is an approach that seeks to hidebound 25 the Board into perpetually approving one of</p>	<p>1 Q. Mr. Kelly, I think you have two witnesses 2 you're going to start off with. 3 KELLY, Q.C.: 4 Q. Thank you, Mr. Chairman. The witnesses can 5 take the stand. 6 CHAIRMAN: 7 Q. I presume, Mr. Smith, are you starting first 8 as the President? 9 MR. SMITH: 10 A. That will be correct. 11 CHAIRMAN: 12 Q. Are you going to swear on the Bible, sir, or 13 are you going to be – just swear. 14 MR. SMITH: 15 A. I can swear on the Bible. 16 (10:00 a.m.) 17 CHAIRMAN: 18 Q. I guess you can do both, can you? Do you 19 swear on the Bible that the evidence to be 20 given by you shall be the truth, the whole 21 truth, and nothing but the truth, so help 22 you God? 23 MR. SMITH: 24 A. Yes, I do. 25 CHAIRMAN:</p>

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<p>1 Q. And I guess, Madam Perry, I should probably</p> <p>2 swear you in as well while we're in the</p> <p>3 grove. Are you going to use the Bible too?</p> <p>4 MS. PERRY:</p> <p>5 A. Yes, I will.</p> <p>6 CHAIRMAN:</p> <p>7 Q. Do you swear on the Bible that the evidence</p> <p>8 to be given by you shall be the truth, the</p> <p>9 whole truth, and nothing but the truth, so</p> <p>10 help you God?</p> <p>11 MS. PERRY:</p> <p>12 A. Yes, I will.</p> <p>13 CHAIRMAN:</p> <p>14 Q. Mr. Kelly.</p> <p>15 MR. GARY SMITH (SWORN)</p> <p>16 MS. JOCELYN PERRY (SWORN)</p> <p>17 EXAMINATION-IN-CHIEF BY KELLY, Q.C.:</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. Thank you, Mr. Chairman. Mr. Smith, you are</p> <p>20 the President and Chief Executive Officer of</p> <p>21 Newfoundland Power?</p> <p>22 MR. SMITH:</p> <p>23 A. Yes, that is correct.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. Now you'll introduce this General Rate</p>	<p>1 President of Engineering and Operations of</p> <p>2 FortisAlberta, and before that I was the</p> <p>3 Manager of Operations at Maritime Electric,</p> <p>4 Prince Edward Island.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. And, Ms. Perry, you are the Vice-President</p> <p>7 Finance and Chief Financial Officer of</p> <p>8 Newfoundland Power?</p> <p>9 MS. PERRY:</p> <p>10 A. Yes, that's correct. I've held this</p> <p>11 position since 2005.</p> <p>12 KELLY, Q.C.:</p> <p>13 Q. And do you adopt Section 2, The Customers,</p> <p>14 and Section 4, Finance, and the Finance</p> <p>15 rebuttal evidence as your testimony?</p> <p>16 MS. PERRY:</p> <p>17 A. Yes.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. And are there any changes that you wish to</p> <p>20 make to the pre-filed testimony and exhibits</p> <p>21 at this time?</p> <p>22 MS. PERRY:</p> <p>23 A. No, not at this time.</p> <p>24 KELLY, Q.C.:</p> <p>25 Q. Mr. Smith, perhaps we can start, would you</p>
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<p>1 Application on behalf of the company. Do you</p> <p>2 adopt Section 1, the Introduction, as your</p> <p>3 testimony?</p> <p>4 MR. SMITH:</p> <p>5 A. Yes, I do.</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. Are there any changes that you wish to make</p> <p>8 to the pre-filed testimony and exhibits at</p> <p>9 this time?</p> <p>10 MR. SMITH:</p> <p>11 A. None at this time.</p> <p>12 KELLY, Q.C.:</p> <p>13 Q. How long have you been the President and CEO</p> <p>14 of Newfoundland Power?</p> <p>15 MR. SMITH:</p> <p>16 A. I've been the President and CEO of</p> <p>17 Newfoundland Power since August of 2014, so</p> <p>18 about a year and a half. Before that, I was</p> <p>19 the Vice-President of Customer Operations</p> <p>20 and Engineering, and, in fact, my career</p> <p>21 started with Newfoundland Power in 1984.</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. Have you worked with other utilities?</p> <p>24 MR. SMITH:</p> <p>25 A. Yes, from 2004 to 2008, I was the Vice-</p>	<p>1 please give us an overview of what this</p> <p>2 Application is about?</p> <p>3 MR. SMITH:</p> <p>4 A. Newfoundland Power's base rates were last</p> <p>5 set in 2013. In the Application, we have</p> <p>6 applied to the Board for an average increase</p> <p>7 of 2.5 percent. We have prepared an exhibit</p> <p>8 that summarizes the three components of the</p> <p>9 2.5 percent increase. The first is an</p> <p>10 increase of approximately 0.9 percent which</p> <p>11 simply results from rebalancing Newfoundland</p> <p>12 and Labrador Hydro's supply cost. This cost</p> <p>13 would flow through to our customers via the</p> <p>14 energy supply cost variance mechanism if</p> <p>15 there had not been a GRA. The second</p> <p>16 component is the increase relates to the</p> <p>17 return on equity. The Application requests</p> <p>18 a return on equity of 9.5 percent based on</p> <p>19 the expert advice of Mr. Coyne of Concentric</p> <p>20 Energy Advisors. Current electricity rates</p> <p>21 reflect a return on equity of 8.8 percent.</p> <p>22 The change in the return on equity accounts</p> <p>23 for approximately 0.7 percent of the</p> <p>24 increase. The final component, the 0.9</p> <p>25 percent, this represents all other costs of</p>

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<p>1 providing service to our customers. You can 2 see the components of the 0.9 percent in 3 Table 1 of PUB-NP-015, the first revision. 4 The largest factor is rate base growth at 5 1.3 percent. This reflects the capital 6 necessary to serve our customers. Only 0.3 7 percent of the increase reflects our 8 operating cost. This demonstrates good 9 control of our operating cost and continued 10 improvement in the operating efficiency. 11 This is something I'm particularly proud of. 12 I would like to point out that there are 13 other differences in the rate impacts across 14 customer classes. Those differences ensure 15 each class bears its equitable share of the 16 cost of service. This results in 17 residential customers having a slightly 18 larger rate increase.</p>	<p>1 the provincial economy continues to slow 2 down. This has been caused by the low price 3 of oil. Provincial budget deficits are 4 projected to continue for some years. Major 5 construction projects, such as the Vale 6 Project and the Hebron Project, are winding 7 down. Newfoundland Power started to see the 8 effects of the economic downturn in 2015 as 9 sales growth declined from more than 2 10 percent per year to about 1 percent. In 11 2017, our sales growth is expected to 12 further decline to 0.1 percent. A second 13 challenge is continuing to respond to the 14 supply problems which have existed over the 15 past three years. Progress has been made, 16 but the risk is still there. We will 17 continue to manage this issue to mitigate 18 the impact on our customers. The third 19 issue is Muskrat Falls. This was discussed 20 to some degree at our last GRA. It is much 21 more important now as we get closer to 22 integration. This is a big challenge with 23 many unknowns. The new supply and the 24 inter-connections to Labrador and Nova 25 Scotia must work seamlessly for our</p>
<p>19 KELLY, Q.C.: 20 Q. Next can you briefly describe the state of 21 Newfoundland Power's operations? 22 MR. SMITH: 23 A. I'm pleased with how Newfoundland Power has 24 performed since the last time we were before 25 the Board. The last three years have been</p>	
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<p>1 challenging, particularly with respect to 2 supply problems experienced since 2013. 3 However, I believe Newfoundland Power has 4 responded well to these challenges. Our 5 plant and equipment is well maintained, the 6 reliability of Newfoundland Power's 7 electrical system is stable, with outages at 8 approximately one half the Canadian average. 9 Meanwhile, we have successfully addressed 10 the workforce demographic issue, while 11 continuing to control our costs and meet our 12 customer service expectations. I believe 13 our operations are efficient and well 14 managed, and we are focused on the right 15 things. I'm also pleased to say our 16 operations have produced satisfactory 17 results in terms of our customer's 18 expectations of the company.</p>	<p>1 customers. There's also uncertainty 2 surrounding the price of electricity post 3 Muskrat Falls. Muskrat Falls is a 9 billion 4 dollar project, and to put that number in 5 perspective for the Board, it's basically 6 three times the current investment of 7 Newfoundland Power and Newfoundland and 8 Labrador Hydro in the electrical system. We 9 also remain concerned about reliability of 10 the system once Holyrood is decommissioned. 11 Muskrat Falls is over 1,000 kilometres from 12 the major load centre on the Avalon, and all 13 the transmission lines must pass through the 14 Isthmus of Avalon. The uncertainty 15 associated with these matters is a 16 significant concern for Newfoundland Power 17 going forward.</p>
<p>19 KELLY, Q.C.: 20 Q. Mr. Smith, what are the challenges that face 21 Newfoundland Power out over the next three 22 years? 23 MR. SMITH: 24 A. I see a number of challenges related to the 25 economy and changes in the industry. First,</p>	<p>18 KELLY, Q.C.: 19 Q. How has Newfoundland Power's risk changed 20 since the last General Rate Application? 21 MR. SMITH: 22 A. Generally speaking, Newfoundland Power 23 remains exposed to the same risk. It is a 24 small utility operating in harsh weather 25 environment with unfavourable demographics.</p>

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<p>1 However, I believe the uncertainties, as I</p> <p>2 mentioned earlier, combined increase our</p> <p>3 level of risk somewhat.</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. Do you have any comments on the fair return</p> <p>6 issue?</p> <p>7 MR. SMITH:</p> <p>8 A. The cost of capital is a central issue in</p> <p>9 this GRA. A fair return for Newfoundland</p> <p>10 Power is critical to the company's continued</p> <p>11 financial integrity. The financial strength</p> <p>12 of Newfoundland Power enables us to invest</p> <p>13 in the electrical system, which is the key</p> <p>14 aspect of the provision of least cost</p> <p>15 reliable service to our customers. So a</p> <p>16 fair return is important to our customers</p> <p>17 and to the company. It is important that</p> <p>18 Newfoundland Power earn a return that is</p> <p>19 comparable to other utilities. In our last</p> <p>20 GRA, my predecessor, Mr. Ludlow, explained</p> <p>21 to the Board how the need to earn a</p> <p>22 comparable return can sometimes put</p> <p>23 management in a difficult position. You</p> <p>24 will recall his recollection of what</p> <p>25 happened in the 1990s following the cod</p>	<p>1 faced by the company are greater now than in</p> <p>2 recent past. This makes maintaining our</p> <p>3 capital structure more important than ever.</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. Mr. Smith, before we conclude, do you have</p> <p>6 anything else you wish to add?</p> <p>7 MR. SMITH:</p> <p>8 A. The coming years will be transformative ones</p> <p>9 for the electricity system in the province.</p> <p>10 The completion of the Muskrat Falls</p> <p>11 Interconnection to the North American grid</p> <p>12 will change the way electricity is supplied</p> <p>13 to our customers. The integration of the</p> <p>14 new supply into the Island's electrical</p> <p>15 system will require considerable focus on</p> <p>16 the part of Newfoundland Power's management</p> <p>17 team. The electricity sector in this</p> <p>18 province has big challenges facing it in the</p> <p>19 next three years. It's those challenges</p> <p>20 that Newfoundland Power must be focused on.</p> <p>21 This is a time when our team needs to be</p> <p>22 fully engaged in the work required to ensure</p> <p>23 reliable service to our customers both</p> <p>24 before and after integration with Muskrat</p> <p>25 Falls. The Board's regulatory support of</p>
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<p>1 moratorium. Newfoundland Power reduced its</p> <p>2 cost to maintain its financial integrity,</p> <p>3 and within a few years we had a negative</p> <p>4 effect on the reliability of the system.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. Do you have any comments on the capital</p> <p>7 structure issue?</p> <p>8 MR. SMITH:</p> <p>9 A. Newfoundland Power's capital structure has</p> <p>10 been stable for decades, and the Board has</p> <p>11 recognized in the past the strong equity</p> <p>12 component of a capital structure mitigates</p> <p>13 the impact of the company's relatively small</p> <p>14 size and its low growth potential. We've</p> <p>15 provided a report on our capital structure</p> <p>16 in this GRA as directed by the Board. Our</p> <p>17 cost of capital expert recommends</p> <p>18 maintaining the current capital structure.</p> <p>19 The Board's recognition of the value of</p> <p>20 Newfoundland Power's existing capital</p> <p>21 structure has been consistent for many</p> <p>22 years. In our view, there has been no</p> <p>23 change to Newfoundland Power's risk profile</p> <p>24 that would justify a reduction in the equity</p> <p>25 component. If anything, the near term risks</p>	<p>1 Newfoundland Power is well recognized. I</p> <p>2 believe it is particularly important given</p> <p>3 the challenges ahead that the Board maintain</p> <p>4 our existing capital structure and allow a</p> <p>5 fair return that is comparable to other</p> <p>6 Canadian utilities.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. Does that conclude your testimony?</p> <p>9 MR. SMITH:</p> <p>10 A. Yes, it does.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. Thank you. Now, Ms. Perry, what matters do</p> <p>13 you intend to address this morning?</p> <p>14 MS. PERRY:</p> <p>15 A. As outlined in the Application, the</p> <p>16 financial performance for Newfoundland Power</p> <p>17 for 2013 to 2015 has been satisfactory. So</p> <p>18 I don't intend to address past financial</p> <p>19 performance here this morning. I would like</p> <p>20 to provide the Board with a practical</p> <p>21 perspective of the central issue in this</p> <p>22 rate case, which is Newfoundland Power's</p> <p>23 cost of capital, and that has two key</p> <p>24 components which is our capital structure</p> <p>25 and our cost of equity. This morning, I</p>

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<p>1 would also like to address the impact of</p> <p>2 both Dr. Booth's and Dr. Cleary's</p> <p>3 recommendations on Newfoundland Power's</p> <p>4 financial integrity as well.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. What does Newfoundland Power propose as the</p> <p>7 capital structure for 2016 and 2017?</p> <p>8 MS. PERRY:</p> <p>9 A. In this rate case, Newfoundland Power is</p> <p>10 proposing the continuation of its</p> <p>11 longstanding capital structure, which</p> <p>12 includes a common equity ratio of 45</p> <p>13 percent. This ratio has been consistently</p> <p>14 accepted by this Board as appropriate to</p> <p>15 respond to the unique risk faced by the</p> <p>16 company, and is also a cornerstone of the</p> <p>17 company's financial integrity.</p> <p>18 KELLY, Q.C.:</p> <p>19 Q. How did you conclude that the 45 percent</p> <p>20 common equity ratio is a cornerstone of the</p> <p>21 company's financial integrity?</p> <p>22 MS. PERRY:</p> <p>23 A. As Chief Financial Officer, I am the key</p> <p>24 contact person with the credit rating</p> <p>25 agencies that will assess the company's</p>	<p>1 reasons the Board's decisions play a</p> <p>2 critical role in the credit rating agency's</p> <p>3 assessment of the company's credit</p> <p>4 worthiness.</p> <p>5 KELLY, Q.C.:</p> <p>6 Q. Next would you elaborate on the various</p> <p>7 factors that are considered by rating</p> <p>8 agencies in assessing the credit worthiness</p> <p>9 of Newfoundland Power?</p> <p>10 MS. SMITH:</p> <p>11 A. Yes. Each credit rating agency will apply</p> <p>12 their own unique methodology in assessing</p> <p>13 the credit rating of Newfoundland Power.</p> <p>14 Generally, both include both a qualitative</p> <p>15 assessment and quantitative considerations</p> <p>16 in the ratings assessment. Qualitative</p> <p>17 considerations will include things as</p> <p>18 predictability of Board orders, the allowed</p> <p>19 returns, the ability of the company to</p> <p>20 actually earn its allowed returns,</p> <p>21 timeliness of cost recovery, and the overall</p> <p>22 degree of regulatory support in this</p> <p>23 jurisdiction. The quantitative</p> <p>24 considerations are simply the mathematical</p> <p>25 calculation of the credit metrics, the pre</p>
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<p>1 credit worthiness, and typically I will met</p> <p>2 with both DBRS and Moody's each year, and</p> <p>3 certainly any material developments</p> <p>4 throughout the year will usually result in a</p> <p>5 discussion or a meeting with them, and I</p> <p>6 fully expect that post the Board's Order on</p> <p>7 this Application, I will meet with both</p> <p>8 Moody's and DBRS to give them an overview of</p> <p>9 the results of that Order. Both credit</p> <p>10 rating agencies have made it quite clear</p> <p>11 that Newfoundland Power's 45 percent common</p> <p>12 equity ratio is a key financial strength of</p> <p>13 this company. The 45 percent common equity</p> <p>14 ratio affects the cash flows available to</p> <p>15 pay interest to debt holders, and is also</p> <p>16 viewed as a primary indicator of overall</p> <p>17 regulatory support for the company's credit</p> <p>18 worthiness. In their assessment of the</p> <p>19 company's credit worthiness, credit rating</p> <p>20 agencies are primarily concerned with the</p> <p>21 adequacy and predictability of cash flows</p> <p>22 available to pay interest to debt holders.</p> <p>23 The credit rating agencies do understand the</p> <p>24 mathematical and regulatory relationships</p> <p>25 that affect those cash flows. So for these</p>	<p>1 tax interest coverage, the cash flow to</p> <p>2 interest coverage, and the cash flow to debt</p> <p>3 ratio.</p> <p>4 KELLY, Q.C.:</p> <p>5 Q. Would you please provide us next with an</p> <p>6 overview of Moody's credit assessment?</p> <p>7 (10:15 a.m.)</p> <p>8 MS. PERRY:</p> <p>9 A. Yes. Moody's methodology, in particular,</p> <p>10 clearly defines the weighting applied to the</p> <p>11 qualitative and quantitative considerations</p> <p>12 I just discussed. If we could go to Exhibit</p> <p>13 4, first revision, and this is the Moody's</p> <p>14 Report that was dated February 5, 2016, and</p> <p>15 what you see here on the screen is a chart</p> <p>16 of the key ratings factors considered by</p> <p>17 Moody's and the scoring actually assigned to</p> <p>18 Newfoundland Power as a part of their</p> <p>19 assessment. So down the left side of the</p> <p>20 chart here there are four ratings factors,</p> <p>21 and again to the right you will see the</p> <p>22 assigned scores for Newfoundland Power.</p> <p>23 First I'm going to walk through the key</p> <p>24 weightings factors on this chart, and I'll</p> <p>25 start with the biggest one here which is</p>

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<p>1 about midway down the chart. On factor 4, 2 you will see that 40 percent of the rating 3 is related to financial strength, and this 4 includes both the credit metrics which are 5 items A through C here on this chart, and 6 the capital structure, which is item D, and 7 all of that is under financial strength. If 8 you go back up to the top of the chart here 9 to factors 1 and 2, this is more about the 10 qualitative factors, and they include 25 11 percent for the regulatory framework, which 12 includes things as predictability of Board's 13 decision making, and then also another 25 14 percent relating to Newfoundland Power's 15 opportunity to recover cost in a timely 16 manner and earn its return. So about 50 17 percent of the rating is clearly based on 18 general regulatory support, the general 19 regulatory construct, and the level of 20 regulatory support provided to Newfoundland 21 Power to earn its return and recover its 22 cost. In line with their qualitative 23 assessment of Newfoundland Power, Moody's 24 have stated that they consider this Board to 25 be supportive. They have pointed to the</p>	<p>1 Power's overall financial profile and the 2 operating environment as key ratings 3 considerations, and overall DBRS views 4 Newfoundland Power's regulatory regime as 5 reasonable and considers its current credit 6 metrics as a credit strength, and as stated 7 in their report, DBRS expects the company to 8 maintain its approved capital structure, and 9 this all serves to mitigate some credit 10 challenges indicated by DBRS in its latest 11 report, which centre mainly around limited 12 population growth in this province and the 13 reliance on one major supplier. 14 KELLY, Q.C.: 15 Q. Now let's look again at capital structure. 16 Can you comment on any of the changes since 17 the last rate order that would impact the 18 company's capital structure? 19 MS. PERRY: 20 A. As Mr. Smith said earlier, many of the 21 business risks for Newfoundland Power have 22 stayed consistent since our last rate order, 23 for example, our small size, our 24 demographics and our operating environment, 25 but the risk around the deteriorating</p>
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<p>1 timely and balanced decisions of this Board, 2 the 45 percent capital structure, and our 3 regulatory deferral mechanisms as support 4 for our credit rating. So what you see 5 highlighted on the screen now is commentary 6 included in the latest Moody's Report. It 7 focuses on the more recent credit challenge 8 around the expected upward pressure on rates 9 due to Muskrat Falls and the increased risk 10 around the timely recovery of cost upon 11 completion of this project. Moody's latest 12 report also indicates that the company's 13 credit rating could be downgraded if they 14 perceived a meaningful reduction in the 15 level of regulatory support, combined with a 16 sustained deterioration of the company's 17 financial metrics. 18 KELLY, Q.C.: 19 Q. What about the rating considerations of 20 DBRS? 21 MS. PERRY: 22 A. The ratings methodology for DBRS is less 23 structured than that of Moody's. However, 24 they also consider qualitative factors, such 25 as regulatory support in Newfoundland</p>	<p>1 economy and energy supply have no doubt 2 increased since then. The uncertainty of 3 the economy and the uncertainty over future 4 cost increases inspected with Muskrat Falls 5 just simply decreases the predictability of 6 our sales forecast. It could also impact 7 recovery on the—or timeliness of recovery of 8 our cost. In either case it increases the 9 financial risk around our ability to 10 actually earn a reasonable return each year 11 and to recover our own prudently incurred 12 costs. Overall the risks faced by the 13 company are increasing; they're not 14 decreasing. Newfoundland Power's 45 percent 15 common equity ratio is appropriate given the 16 business risk that we face today. 17 KELLY, Q.C.: 18 Q. Can I get you to comment on the consistency 19 of capital structures for investor-owned 20 utilities in Canada over an extended period 21 of time? Over the last 20 years? 22 MS. PERRY: 23 A. Yes, the Board asked a question concerning 24 changes in utility capital structures over 25 the past 20 years. So if we could pull up</p>

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<p>1 Response to Request for Information, PUB MPO</p> <p>2 32, Samantha, please? Thank you. So as you</p> <p>3 can see on Table 1 it summaries the capital</p> <p>4 structures of Canada investor-owned electric</p> <p>5 utilities since 1998. As you can see from</p> <p>6 this table the common equity component of</p> <p>7 the capital structures for each electric</p> <p>8 utility in 2015 which is the furthest column</p> <p>9 over, the last column over here, is either</p> <p>10 at or slightly higher than the capital</p> <p>11 structures in place in 1998, and over this</p> <p>12 time Newfoundland Power's capital structure</p> <p>13 has been consistent. A stable capital</p> <p>14 structure has permitted Newfoundland Power</p> <p>15 to maintain its financial integrity and</p> <p>16 attract capital in all economic conditions.</p> <p>17 And this is consistent with the company's</p> <p>18 obligation to provide least-cost service to</p> <p>19 its customers in all economic conditions.</p> <p>20 KELLY, Q.C.:</p> <p>21 Q. Dr. Booth and Dr. Cleary have recommended a</p> <p>22 reduction in the capital structure from 45</p> <p>23 percent to 40 percent common equity. Can</p> <p>24 you explain to the Board the practical</p> <p>25 effects of changing the capital structure?</p>	<p>1 would expect to achieve a common equity</p> <p>2 return in its investment; not a preferred</p> <p>3 equity return. What Dr. Booth is proposing</p> <p>4 is effectively to compensate five percent</p> <p>5 common equity at about half the common</p> <p>6 equity return. So first, that's not a fair</p> <p>7 return, and it would be reasonable to assume</p> <p>8 that Fortis would redirect that five percent</p> <p>9 equity to another investment that would</p> <p>10 yield an equity return. So the same</p> <p>11 dividend payout I talked about earlier would</p> <p>12 be made.</p> <p>13 KELLY, Q.C.:</p> <p>14 Q. Okay. Next let's discuss the return on</p> <p>15 equity. Do credit rating agencies typically</p> <p>16 assess whether allowed utility returns are</p> <p>17 fair?</p> <p>18 MS. PERRY:</p> <p>19 A. Not directly. Credit rating agencies</p> <p>20 respect that the determination of whether</p> <p>21 the allowed returns are fair rest with</p> <p>22 utility regulators. What credit rating</p> <p>23 agencies care about are the actual earnings</p> <p>24 and actual cash flows of the company.</p> <p>25 However, the actual earnings and actual cash</p>
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<p>1 MS. PERRY:</p> <p>2 A. Yes. This is addressed in the company's</p> <p>3 Finance Rebuttal evidence. So first of all</p> <p>4 we would actually have to take this company</p> <p>5 from a 45 percent common equity ratio to a</p> <p>6 40 percent common equity ratio, and that</p> <p>7 would be done by paying out a common share</p> <p>8 dividend of approximately 55 million. So</p> <p>9 that amount would obviously have to be</p> <p>10 borrowed. That increases our financial risk</p> <p>11 and also decreases our financial metrics.</p> <p>12 Second and equally important, such a change</p> <p>13 in capital structure would likely lead to a</p> <p>14 re-evaluation of the regulatory support as</p> <p>15 perceived by the credit rating agencies. I</p> <p>16 believe a reduction of the capital structure</p> <p>17 from 45 to 40 could lead to a reduction in</p> <p>18 Newfoundland Power's credit rating.</p> <p>19 KELLY, Q.C.:</p> <p>20 Q. Now Dr. Booth has proposed that Newfoundland</p> <p>21 Power's 45 percent common equity ratio be</p> <p>22 deemed at 40 percent. Is that a realistic</p> <p>23 approach?</p> <p>24 MS. PERRY:</p> <p>25 A. No, it is not. A common equity investor</p>	<p>1 flows of the utility will obviously be</p> <p>2 affected by the allowed returns set by</p> <p>3 regulators and the general regulatory regime</p> <p>4 in the area. Allowed returns are therefore</p> <p>5 relevant to the credit rating agencies in</p> <p>6 their assessment of credit worthiness.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. Can you explain for the—to the Board the</p> <p>9 current regulated returns of electric</p> <p>10 investor-owned utilities in Canada?</p> <p>11 MS. PERRY:</p> <p>12 A. Yes. To look at where allowed regulated</p> <p>13 returns are today, if we could go to PUB MPO</p> <p>14 34 First Revision? Thank you, Samantha. So</p> <p>15 as you can see here on the screen on Table</p> <p>16 1, the allowed returns for investor-owned</p> <p>17 utilities in Canada currently range from 8.3</p> <p>18 percent in Alberta to 9.35 percent in PEI.</p> <p>19 And the median allowed return is 9.15, and I</p> <p>20 will note that both the British Columbia</p> <p>21 Utilities Commission and the Alberta</p> <p>22 Utilities Commission are currently assessing</p> <p>23 cost of capital in that province.</p> <p>24 Newfoundland Power's current allowed return</p> <p>25 of 8.8 percent is the second lowest in</p>

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<p>1 Canada, next to Alberta.</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. Does the return on equity of 7.5 percent</p> <p>4 recommended by Dr. Booth appear fair to you?</p> <p>5 MS. PERRY:</p> <p>6 A. No.</p> <p>7 KELLY, Q.C.:</p> <p>8 Q. Why not?</p> <p>9 MS. PERRY:</p> <p>10 A. The seven and a half percent return on</p> <p>11 equity recommended by Dr. Booth is</p> <p>12 significantly below the return of any</p> <p>13 investor-owned electric utility in North</p> <p>14 America.</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. And Dr. Booth and Dr. Cleary both make</p> <p>17 capital structure comparisons with other</p> <p>18 regulated Canadian utilities. Do you have</p> <p>19 any observations on these comparisons?</p> <p>20 MS. PERRY:</p> <p>21 A. I think the Board needs to treat comparisons</p> <p>22 of capital structures carefully particularly</p> <p>23 when it comes to credit worthiness. And</p> <p>24 this is because of the many financial</p> <p>25 differences that exist between utilities</p>	<p>1 now up on the screen. So as you can see on</p> <p>2 Table R3 you can see FortisAlberta's and</p> <p>3 Newfoundland Power's allowed and achieved</p> <p>4 returns from 2012 through to 2014. If you</p> <p>5 look across the first line, under "Allowed</p> <p>6 Returns," you will see that FortisAlberta</p> <p>7 had a lower allowed return on equity than</p> <p>8 Newfoundland Power in each year. However,</p> <p>9 as you can see on the second line, on</p> <p>10 "Achieved ROE," FortisAlberta was able to</p> <p>11 achieve higher actual returns on equity than</p> <p>12 Newfoundland Power in each of those years.</p> <p>13 And to look specifically at 2014 on this</p> <p>14 table, FortisAlberta had an allowed return</p> <p>15 of 8.3 which was lower than Newfoundland</p> <p>16 Power's allowed return of 8.8. However,</p> <p>17 their actual return in 2014 was 9.77 percent</p> <p>18 which was higher than Newfoundland Power's</p> <p>19 actual return of 9.15 percent.</p> <p>20 FortisAlberta's higher actual returns on</p> <p>21 equity over this period helped generate cash</p> <p>22 flow metrics comparable to those of</p> <p>23 Newfoundland Power. This was so even though</p> <p>24 FortisAlberta had a lower capital structure</p> <p>25 and a lower allowed return on equity.</p>
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<p>1 including the differences in regulation, and</p> <p>2 this is the case with comparisons made</p> <p>3 between Newfoundland and Labrador and</p> <p>4 Alberta. This matter was also addressed as</p> <p>5 part of our Finance Rebuttal evidence.</p> <p>6 Newfoundland Power is allowed a 45 percent</p> <p>7 common equity ratio. FortisAlberta, an</p> <p>8 affiliate of Newfoundland Power, is allowed</p> <p>9 a 40 percent common equity ratio by the</p> <p>10 Alberta Utilities Commission. Both of these</p> <p>11 companies however have similar credit</p> <p>12 ratings. As I mentioned earlier, credit</p> <p>13 metrics are considered in the assessment of</p> <p>14 credit worthiness and are impacted by the</p> <p>15 actual returns of the company. Utilities</p> <p>16 such as FortisAlberta are able to achieve</p> <p>17 actual returns which are much higher than</p> <p>18 their allowed returns. By comparison</p> <p>19 Newfoundland Power's actual earnings tend to</p> <p>20 track pretty close to our allowed return,</p> <p>21 and even if we had the opportunity to earn</p> <p>22 more, our earnings would be constrained by</p> <p>23 the excess earnings account. These</p> <p>24 differences are shown in Table R3 in the</p> <p>25 company's Finance Rebuttal evidence and it's</p>	<p>1 KELLY, Q.C.:</p> <p>2 Q. Ms. Perry, have you assessed the impact on</p> <p>3 the company's financial integrity if the</p> <p>4 Board implemented the return and the capital</p> <p>5 structure as recommended by the consumer</p> <p>6 advocate?</p> <p>7 MS. PERRY:</p> <p>8 A. Yes. Again the impacts of the consumer</p> <p>9 advocate's proposals were outlined in the</p> <p>10 company's Finance Rebuttal evidence, and the</p> <p>11 financial impact of these recommendations is</p> <p>12 very, very material. If we could please go</p> <p>13 to Table R1? Thank you. So on this table,</p> <p>14 you will see that the forecast credit</p> <p>15 metrics under both the company's proposals</p> <p>16 compared to those under the consumer</p> <p>17 advocate's proposals. So simply looking at</p> <p>18 credit metrics alone for 2017 our pre-tax</p> <p>19 interest coverage would decline to two</p> <p>20 times. The company's cash flow to interest</p> <p>21 would drop to 3.5 times, and the cash-flow-</p> <p>22 to-debt ratio would be 14.5 percent. These</p> <p>23 credit metrics are considerably lower than</p> <p>24 the proposed—than our proposed metrics. And</p> <p>25 I would like to point out that the 14.5</p>

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<p>1 percent cash-flow-to-debt coverage is</p> <p>2 actually outside of the range indicated by</p> <p>3 Moody's to maintain our current credit</p> <p>4 rating.</p> <p>5 (10:30 a.m.)</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. Are there any other material financial</p> <p>8 impacts of the consumer advocate's</p> <p>9 proposals?</p> <p>10 MS. PERRY:</p> <p>11 A. Yes, there are. The Board's adoption of the</p> <p>12 consumer advocate's proposals would also</p> <p>13 limit Newfoundland Power's future financing</p> <p>14 options. Our least cost long-term source of</p> <p>15 financing is first mortgage bonds. There</p> <p>16 are currently over 550 million dollars of</p> <p>17 first mortgage bonds outstanding today. The</p> <p>18 issuance of additional first mortgage bonds</p> <p>19 is subject to an earnings test. This test</p> <p>20 is similar to, but not quite the same as the</p> <p>21 interest coverage calculation. If we could</p> <p>22 please go to table R2 in the Finance</p> <p>23 Rebuttal evidence? Thank you, Samantha. So</p> <p>24 on Table R2 you will see a comparison of the</p> <p>25 earnings test calculation under the</p>	<p>1 these proposals jeopardize Newfoundland</p> <p>2 Power's credit ratings, both the level of</p> <p>3 regulatory support and the financial</p> <p>4 strength of this company I believe would be</p> <p>5 in question. These proposals simply</p> <p>6 disregard the requirement that we maintain a</p> <p>7 sound credit rating in the financial markets</p> <p>8 of the world.</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Finally, Ms. Perry, the Board hearing</p> <p>11 counsel, Ms. Greene, asked you to address</p> <p>12 the impact on the company's credit metrics</p> <p>13 assuming various rates of return and a 45</p> <p>14 percent capital structure, and I understand</p> <p>15 you prepared an exhibit, JP 1, which has</p> <p>16 been marked which has been filed with the</p> <p>17 Board. Can you take us through this</p> <p>18 exhibit, please?</p> <p>19 MS. PERRY:</p> <p>20 A. Yes. If we could show Exhibit JP 1? Okay,</p> <p>21 thank you. So the table here shows the</p> <p>22 company's credit metrics at various returns</p> <p>23 and this is with a 45 percent capital</p> <p>24 structure. So if you look down the first</p> <p>25 column here on this exhibit, the return on</p>
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<p>1 company's proposal compared to those</p> <p>2 reflecting the consumer advocate's proposal.</p> <p>3 Under the company's proposals the earnings</p> <p>4 test is met in 2017. It's above two times.</p> <p>5 Newfoundland Power would be able to issue</p> <p>6 additional first mortgage bonds to finance</p> <p>7 its capital program. However, with a 40</p> <p>8 percent common equity ratio and a 7.5</p> <p>9 percent return on equity the company would</p> <p>10 not achieve the two times coverage required</p> <p>11 under the trust deed. So this means the</p> <p>12 company would not be able to issue first</p> <p>13 mortgage bonds in 2017.</p> <p>14 KELLY, Q.C.:</p> <p>15 Q. Do these various impacts cause you concern?</p> <p>16 MS. PERRY:</p> <p>17 A. These impacts raise serious concerns for me.</p> <p>18 The consumer advocate's proposals include</p> <p>19 the lowest regulated return in the country.</p> <p>20 It includes a reduction in our capital</p> <p>21 structure at a time when our business risks</p> <p>22 are increasing, and it results in a material</p> <p>23 decline in our credit metrics and it</p> <p>24 actually precludes us from the issuance of</p> <p>25 first mortgage bonds. As CFO I believe that</p>	<p>1 equity assumptions range from 9.5 percent as</p> <p>2 we've proposed in this application to a</p> <p>3 return of 8.3 percent as requested by Ms.</p> <p>4 Greene. So as you go across the next three</p> <p>5 columns in this table, you will see the</p> <p>6 impact on the company's credit metrics. So</p> <p>7 the pre-tax interest coverage, the cash-flow</p> <p>8 interest coverage, and the cash-flow-to-debt</p> <p>9 ratio. I'll address the last column in a</p> <p>10 moment, the earnings test. So what you will</p> <p>11 see here with the credit metrics is as you</p> <p>12 go from a return of 9.5 down to 8.3, the</p> <p>13 metrics do erode. However, they are still</p> <p>14 within the ranges of the credit rating</p> <p>15 agencies. As I said earlier however, the</p> <p>16 credit metrics are only a portion of the</p> <p>17 overall ratings assessment. So going over</p> <p>18 to the last column you'll see the impact of</p> <p>19 the various returns on the earnings test</p> <p>20 that I just briefly spoke about. And again</p> <p>21 a coverage of two times is required prior to</p> <p>22 issuance of bonds under the company's trust</p> <p>23 deed. So under the various returns the</p> <p>24 earnings test coverage range from 2.3 down</p> <p>25 to 2.1, and I would note that the average</p>

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1 earnings test coverage for the last five
2 bonds issuances at Newfoundland Power was
3 2.2 times. While the coverage for all
4 return scenarios are above two, as you can
5 see particularly at the 8.3 percent return,
6 the forecast interest coverage is very close
7 to the minimum requirement of two times.
8 And it is also below the coverage we have
9 had for our most recent five bond issuances,
10 and this is not a position that I believe is
11 in the best interest of the company or our
12 customers.

13 KELLY, Q.C.:
14 Q. Does that conclude your opening testimony?
15 MS. PERRY:
16 A. Yes, it does.
17 KELLY, Q.C.:
18 Q. Thank you, Ms. Perry. Mr. Chairman, those
19 are my questions.
20 CHAIRMAN:
21 Q. So Mr. Johnson, I think it's your turn.
22 MR. GARY SMITH AND MS. JACQUELINE PERRY, CROSS-
23 EXAMINATION BY THOMAS JOHNSON, Q.C.
24 JOHNSON, Q.C.:
25 Q. Good morning, Mr. Smith, Ms. Perry. I want

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1 to start off by addressing questions to you,
2 Mr. Smith. I propose while I have executive
3 compensation questions for you as well, that
4 I'd circle back to those once I've discussed
5 related capital cost—capital question with
6 Ms. Perry, okay?
7 MR. SMITH:
8 A. Sure.
9 JOHNSON, Q.C.:
10 Q. Mr. Smith, I understand that Newfoundland
11 Power agrees with your new expert, Mr.
12 Coyne, that Newfoundland Power is no longer
13 an average risk Canadian utility, is that
14 right?
15 MR. SMITH:
16 A. That would be the evidence of Mr. Coyne
17 certainly that he's used that phrase to
18 categorize the risk of the company, yes.
19 JOHNSON, Q.C.:
20 Q. Right, and you—and Newfoundland Power agrees
21 with Mr. Coyne I take it?
22 MR. SMITH:
23 A. Yes, we would agree with Mr. Coyne.
24 JOHNSON, Q.C.:
25 Q. Okay. And I understand that Mr. Coyne's

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1 basis for arriving at that was comparing
2 Newfoundland Power to five other investor-
3 owned Canadian utilities? Is that your
4 understanding?
5 MR. SMITH:
6 A. Yes, he would do a comparative exercise.
7 JOHNSON, Q.C.:
8 Q. Yes. Like ATCO Electric, FortisAlberta,
9 Fortis BC Electric, Maritime Electric, Nova
10 Scotia Power, is that correct?
11 MR. SMITH:
12 A. He would do the comparative exercise, that's
13 right.
14 JOHNSON, Q.C.:
15 Q. Right. And just to be clear, I understand
16 that Newfoundland Power is itself in no
17 position to make an assessment as to its
18 risk relative to its peers, is that right?
19 MR. SMITH:
20 A. Well, we certainly would hire an expert to
21 do that comparison. That is the work of an
22 expert in terms of doing the various reasons
23 that you would compare utilities and the
24 metrics and those types of things.
25 JOHNSON, Q.C.:

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1 Q. Yes, I understand that that's the work of
2 the expert, but I'm—my question is that
3 Newfoundland Power is not in a position to
4 make an assessment as to its risk relative
5 to its peers, is that correct?
6 MR. SMITH:
7 A. I mean the way I think of risk again is we
8 would hire the expert to do the thing
9 relative to our peers, and the way we would
10 look at risk I guess is relative to our own
11 economy and where we are in this province
12 and in terms of our past where we've been.
13 JOHNSON, Q.C.:
14 Q. I just want clarification on the point. If
15 we could bring up PUB MP 86? You see down—
16 this is a question that was by the Board
17 staff. And part of the question asked,
18 "Does Newfoundland Power concur with the
19 opinions of Concentric that essentially
20 you're above average risk?" et cetera. And
21 then if you go down to the answer to the
22 third—to the fourth paragraph, it says,
23 "Newfoundland Power engages cost of capital
24 experts to assess its risk relative to
25 peers. Newfoundland Power is not

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1 practically in a position to make such
2 assessments itself.” So I understood that
3 you were not able to make that type of
4 assessment yourself.

5 MR. SMITH:
6 A. That’s what we’ve answered in RFI, yes.
7 JOHNSON, Q.C.:
8 Q. Okay and that answer still stands I take it
9 for the purpose of this hearing?

10 MR. SMITH:
11 A. That would be correct.
12 JOHNSON, Q.C.:
13 Q. Okay. So just to understand Newfoundland
14 Power is completely relying on Mr. Coyne’s
15 assessment as to your relative risk profile
16 and you’re agreeing with it? Is that
17 correct?

18 MR. SMITH:
19 A. Again he does the comparison to other
20 utilities, but of course we would look at
21 our own business risk in terms of where
22 we’ve been as a company, and where we are
23 positioned right now in Newfoundland in the
24 economy.
25 JOHNSON, Q.C.:

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1 Q. Okay, when I put that question, I could see
2 Ms. Perry nodding in agreement. Ms. Perry,
3 are you in agreement with what I put to you
4 that you are in fact relying on Mr. Coyne’s
5 assessment and agreeing with him?

6 MS. PERRY:
7 A. We certainly do agree with Mr. Coyne, but as
8 Mr. Smith said, we do assess risk relative
9 to where we were -

10 JOHNSON, Q.C.:
11 Q. Yes, that’s the local -

12 MS. PERRY:
13 A. - the last time that we were before this
14 Board.

15 JOHNSON, Q.C.:
16 Q. The local economy and those types of issues?

17 MS. PERRY:
18 A. Yes.

19 JOHNSON, Q.C.:
20 Q. Okay. Now so in this hearing for the very
21 first time you’re coming forward, agreeing
22 with the proposition that you’re now an
23 above-risk Canadian utility, and so I would
24 assume that the nine and a half percent that
25 Newfoundland Power is seeking for the Board

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1 to give it in this application is
2 commensurate with that above-risk status,
3 would that be right?

4 MR. SMITH:
5 A. Again, that would be the work of our expert,
6 Mr. Coyne, to make that recommendation, yes.

7 JOHNSON, Q.C.:
8 Q. Okay, but your recommendation as far as you
9 are aware at nine and a half percent, that’s
10 not based on an average risk utility?
11 That’s based on an above-average risk
12 Canadian utility, is that correct?

13 MR. SMITH:
14 A. That would be Mr. Coyne’s assessment.

15 JOHNSON, Q.C.:
16 Q. Okay, but is that your understanding?

17 MR. SMITH:
18 A. I believe Mr. Coyne has categorized us to be
19 somewhat more risk than the average utility,
20 and in doing that his assessment was a 45
21 percent equity and a 9.5 percent return on
22 equity.

23 JOHNSON, Q.C.:
24 Q. But let me ask you this question then, do
25 you know how much extra return on equity

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1 Newfoundland Power is seeking because of its
2 new status as an above-average risk Canadian
3 utility?

4 MR. SMITH:
5 A. That would be a question better asked to Mr.
6 Coyne.

7 JOHNSON, Q.C.:
8 Q. Okay. Did you ever ask that question as to
9 what you would be seeking if you were
10 actually still average risk?

11 MR. SMITH:
12 A. To Mr. Coyne?

13 JOHNSON, Q.C.:
14 Q. Yes.

15 MR. SMITH:
16 A. I certainly didn’t. I don’t know if Ms.
17 Perry has that conversation. No.

18 MS. PERRY:
19 A. No.

20 JOHNSON, Q.C.:
21 Q. You didn’t discuss that?

22 MS. PERRY:
23 A. I have not asked Mr. Coyne, no.

24 JOHNSON, Q.C.:
25 Q. Okay, okay. So if it were determined by

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<p>1 this Board that Newfoundland Power remains</p> <p>2 an average risk Canadian utility, are you in</p> <p>3 a position to confirm whether a request for</p> <p>4 nine and a half percent would be too high?</p> <p>5 MR. SMITH:</p> <p>6 A. Could you repeat the question, Mr. Johnson?</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. If it were determined by the Board after the</p> <p>9 hearing and the cross-examination and the</p> <p>10 expert evidence et cetera that Newfoundland</p> <p>11 Power in fact remains an average risk</p> <p>12 Canadian utility, would it be your</p> <p>13 understanding that a request for nine and a</p> <p>14 half percent would be too high?</p> <p>15 MR. SMITH:</p> <p>16 A. Well, I guess when the Board makes its</p> <p>17 deliberation on what an appropriate return</p> <p>18 for Newfoundland Power as comparable to</p> <p>19 other utilities we would accept that</p> <p>20 decision, yes.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. You would accept the decision. I suppose</p> <p>23 we'd all have to accept it, the decision,</p> <p>24 but I just wanted to understand that the</p> <p>25 nine and a half to your knowledge would</p>	<p>1 Q. Okay. So with Newfoundland Power seeking a</p> <p>2 return of nine and a half percent, 90 basis</p> <p>3 points less as being a fair and just return,</p> <p>4 is it Newfoundland Power's position that the</p> <p>5 cost of equity required today is less than</p> <p>6 what it required in 2012?</p> <p>7 MR. SMITH:</p> <p>8 A. So you're referring to the fact that we had</p> <p>9 two different experts? Is –</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. No, I'm referring to the fact that the last</p> <p>12 time Newfoundland Power came in and swore</p> <p>13 that the return they needed was 10 point—or</p> <p>14 nine and half or 10.4 -</p> <p>15 MS. PERRY:</p> <p>16 A. Ten point four.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. - and this time it's saying that the fair</p> <p>19 return that it needs is nine and a half, 90</p> <p>20 basis points lower, and I'm just wondering</p> <p>21 is it your understanding that the cost of</p> <p>22 equity has increased—has decreased like</p> <p>23 that?</p> <p>24 MR. SMITH:</p> <p>25 A. I guess what I would say to that question is</p>
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<p>1 apply whether you're above risk or average</p> <p>2 risk, is that how it would work?</p> <p>3 MR. SMITH:</p> <p>4 A. Again, what I've said is the work of Mr.</p> <p>5 Coyne has categorized us to be somewhat more</p> <p>6 above the average risk, and in doing that</p> <p>7 assessment he's recommended a 9.5 percent</p> <p>8 return.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Okay. Newfoundland Power last filed its</p> <p>11 general rate application in 2012 seeking a</p> <p>12 10.4 percent return on the basis of evidence</p> <p>13 put forward by Ms. Kathleen McShane, your</p> <p>14 prior expert witness. Do you recall that?</p> <p>15 MR. SMITH:</p> <p>16 A. Yes, I believe that is correct.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. Okay. And that was a fair and just return</p> <p>19 request I take it that Newfoundland Power</p> <p>20 thought that it was making at that time?</p> <p>21 MR. SMITH:</p> <p>22 A. That would be the expert advice of Ms.</p> <p>23 McShane at that time. That would be</p> <p>24 correct.</p> <p>25 JOHNSON, Q.C.:</p>	<p>1 that you know in those two different</p> <p>2 hearings, this one and the last one, we've</p> <p>3 had two different experts to give us the</p> <p>4 recommendation, and I would stand by each</p> <p>5 recommendation of each expert at those</p> <p>6 particular points in time.</p> <p>7 (10:45 a.m.)</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. Do you—so is it the company's position that</p> <p>10 the cost of equity has—the need for return</p> <p>11 on equity in terms of the level, is it the</p> <p>12 company's position that it's decreased</p> <p>13 relative to what you needed last time?</p> <p>14 MR. SMITH:</p> <p>15 A. That would be obvious in terms of the two</p> <p>16 experts that have given us advice and their</p> <p>17 recommendations, and we've accepted both</p> <p>18 recommendations. And that would be a</p> <p>19 reflection of the work that Ms. McShane did</p> <p>20 the last time and the work Mr. Coyne has</p> <p>21 done this time, and the analysis they've</p> <p>22 done and the conclusions they've reached.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. I've referred to the fact that you got your</p> <p>25 8.8 percent in your last GRA. That allowed</p>

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<p>1 return, I think we've—you're prepared to</p> <p>2 confirm as you haven't confirmed is 50 basis</p> <p>3 points higher than allowed in Alberta for</p> <p>4 2013, 2014 and 2015, and as I understand it</p> <p>5 interim into 2016, is that correct?</p> <p>6 MR. SMITH:</p> <p>7 A. Certainly would confirm that FortisAlberta</p> <p>8 is 8.3 and we're 8.8 for the last few years,</p> <p>9 yes.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. And I said in my opening that Maritime</p> <p>12 Electric just had its return lowered 40</p> <p>13 basis points. Do you confirm that that's</p> <p>14 your understanding?</p> <p>15 MR. SMITH:</p> <p>16 A. That is correct, yes.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. Maritime Electric is—would not be considered</p> <p>19 a comparable utility to Newfoundland Power,</p> <p>20 would it in terms of they traditionally have</p> <p>21 earned a higher return than Newfoundland</p> <p>22 Power? Is that correct?</p> <p>23 MR. SMITH:</p> <p>24 A. Yeah, Maritime Electric's return at 9.35 and</p> <p>25 before that it was 9.75, and that would be</p>	<p>1 A. Yeah, we certainly made an application to</p> <p>2 the Board last fall about deferring our GRA,</p> <p>3 and that was done at that time just because</p> <p>4 we looked at the congestion in front of the</p> <p>5 regulator and we thought it was the right</p> <p>6 thing to do.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. So I guess at that point when you made the</p> <p>9 application to ask the Board not to review</p> <p>10 your cost of capital in 2016, I take it you</p> <p>11 would have been at that point aware that the</p> <p>12 Alberta Utility Commission in March of 2015</p> <p>13 had reduced the return in Alberta, is that</p> <p>14 correct?</p> <p>15 MR. SMITH:</p> <p>16 A. Could you take me back to the March</p> <p>17 decision? I can't quite follow that.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Yes. Were you—my understanding is that it</p> <p>20 was in March of 2015 when the Alberta</p> <p>21 Utilities Commission reduced the allowed</p> <p>22 returns in Alberta to 8.3, is that correct?</p> <p>23 Is it your understanding?</p> <p>24 MR. SMITH:</p> <p>25 A. I don't follow the Alberta decision-making</p>
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<p>1 decisions made in that province through</p> <p>2 their regulatory proceedings as being a fair</p> <p>3 return for that utility.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. Right. So Maritime Electric when they were—</p> <p>6 they were earning 9.75 up until it was</p> <p>7 changed recently, right?</p> <p>8 MR. SMITH:</p> <p>9 A. Yeah, I believe the 9.75 would go back to</p> <p>10 2009 or maybe 2010.</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. Okay. Now Newfoundland Power wanted to keep</p> <p>13 its 8.8 percent return on equity for 2016,</p> <p>14 isn't that correct?</p> <p>15 MR. SMITH:</p> <p>16 A. For 2016?</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. Yes, that's right.</p> <p>19 MR. SMITH:</p> <p>20 A. Could you –</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. You recall filing an application asking the</p> <p>23 Board to allow you to keep, stand pat at</p> <p>24 eight and a half—8.8 percent for 2016?</p> <p>25 MR. SMITH:</p>	<p>1 that closely. So I really couldn't confirm</p> <p>2 it. I don't know if Ms. Perry could confirm</p> <p>3 it.</p> <p>4 MS. PERRY:</p> <p>5 A. I believe we had known at the time that we</p> <p>6 filed, but I'm certain.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. Okay. And did Newfoundland Power have</p> <p>9 discussions with DBRS about the fact that</p> <p>10 you could looking at a lower approved ROE</p> <p>11 being a possibility coming out of a 2016</p> <p>12 GRA?</p> <p>13 MR. SMITH:</p> <p>14 A. If that's a question for me, I'd refer it to</p> <p>15 Ms. Perry.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Yes.</p> <p>18 MR. SMITH:</p> <p>19 A. She has the discussions with the bond rating</p> <p>20 agencies.</p> <p>21 MS. PERRY:</p> <p>22 A. I don't recall having any discussions with</p> <p>23 DBRS assuming where our returns were going</p> <p>24 to go for 2016.</p> <p>25 JOHNSON, Q.C.:</p>

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<p>1 Q. Okay.</p> <p>2 MS. PERRY:</p> <p>3 A. Particularly as a part of the deferral</p> <p>4 application that we filed, no.</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. You are aware that the report that you filed</p> <p>7 from DBRS in this hearing, I think in</p> <p>8 Exhibit 4, DBRS has stated that a lower</p> <p>9 approved ROE is a possibility? You are</p> <p>10 aware of them saying that?</p> <p>11 MS. PERRY:</p> <p>12 A. Yes, I'm aware that DBRS stated in their</p> <p>13 report that with a modest decrease I believe</p> <p>14 in the ROE they didn't expect it to impact</p> <p>15 the—basically the credit worthiness. It was</p> <p>16 from the perspective of credit worthiness</p> <p>17 and certainly not from the perspective of</p> <p>18 whether it was a fair return.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Okay. I'm just wondering you would have had</p> <p>21 an opportunity, would you, to discuss things</p> <p>22 with DBRS before they issued that report?</p> <p>23 MS. PERRY:</p> <p>24 A. Yes, absolutely I would have.</p> <p>25 JOHNSON, Q.C.:</p>	<p>1 one of the places that we are concerned in</p> <p>2 terms of the future outlook of the company,</p> <p>3 yes.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. Yes, and you've pointed to the provincial</p> <p>6 economy and the recent provincial economy,</p> <p>7 pointing to you—to Newfoundland Power having</p> <p>8 a riskier outlook than you did at the last</p> <p>9 GRA? Is that right?</p> <p>10 MR. SMITH:</p> <p>11 A. Yeah, compared to where we were in 2013, we</p> <p>12 believe the economy is more negative now</p> <p>13 than it was then.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. Okay. If we could just turn up your—the</p> <p>16 evidence that you've sponsored at page 14.</p> <p>17 If we look at line 13 to 14 –</p> <p>18 MR. HAYES:</p> <p>19 Q. (Inaudible) GRA.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. Oh, I'm sorry.</p> <p>22 KELLY, Q.C.:</p> <p>23 Q. The first revision?</p> <p>24 MR. HAYES:</p> <p>25 Q. The first revision of the GRA evidence.</p>
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<p>1 Q. Would you have indicated to DBRS that your</p> <p>2 ROE going down was certainly a possibility?</p> <p>3 MS. PERRY:</p> <p>4 A. No, I'm very, very cautious about predicting</p> <p>5 where returns are going. I respect that the</p> <p>6 Board ultimately will make that decision,</p> <p>7 and their conclusions about expecting a</p> <p>8 decrease in the ROE, I mean I will conclude</p> <p>9 that their not utility cost of capital</p> <p>10 experts, and I believe they were only</p> <p>11 speaking from the fact of interest rates</p> <p>12 were decreasing and they just make the</p> <p>13 connection between interest rates and</p> <p>14 utilities cost of capital.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. Okay. Now Mr. Smith, I understand going</p> <p>17 back to you for a moment that one of the</p> <p>18 reasons that Newfoundland Power says that it</p> <p>19 has a riskier outlook compared to the last</p> <p>20 general rate application is what</p> <p>21 Newfoundland Power has referred to as the</p> <p>22 deterioration of the provincial economy, is</p> <p>23 that correct?</p> <p>24 MR. SMITH:</p> <p>25 A. Yeah, we've indicated that the economy is</p>	<p>1 KELLY, Q.C.:</p> <p>2 Q. Page 1 of 1.</p> <p>3 MS. PIERCEY:</p> <p>4 Q. Page 1 of 1?</p> <p>5 MR. HAYES:</p> <p>6 Q. Yes.</p> <p>7 MS. PIERCEY:</p> <p>8 Q. This one?</p> <p>9 MS. GLYNN:</p> <p>10 Q. Yes.</p> <p>11 KELLY, Q.C.:</p> <p>12 Q. No, that's October. The first revision.</p> <p>13 MS. PIERCEY:</p> <p>14 Q. Section 1?</p> <p>15 KELLY, Q.C.:</p> <p>16 Q. There you go.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. Yes, if you would kindly turn to page 1</p> <p>19 hyphen 4. I'm just focusing now on lines 13</p> <p>20 to 14, Mr. Smith.</p> <p>21 MR. SMITH:</p> <p>22 A. Yes.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Where your revised application indicates</p> <p>25 that—you refer to the four-year period</p>

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<p>1 ending in 2017, and you—and then you go on</p> <p>2 to address that, “Over this period the</p> <p>3 company expects to serve an additional</p> <p>4 10,600 customers which represents an</p> <p>5 increase of one percent a year.” And I</p> <p>6 understand that over that period of time you</p> <p>7 would also be expecting sales to increase</p> <p>8 one percent a year, is that right?</p> <p>9 MR. SMITH:</p> <p>10 A. And again what that –</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. On average.</p> <p>13 MR. SMITH:</p> <p>14 A. Yes, what that paragraph refers to is the</p> <p>15 four years ending in 2017, that’s right.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Yes. No, I am aware of that. Okay, now if</p> <p>18 you—if we could go to one of the cross aids</p> <p>19 that I’ve provided you, Mr. Smith, and just</p> <p>20 look at the low forecast. These are the</p> <p>21 materials that I provided to Mr. Smith on</p> <p>22 March 28th. There was four items.</p> <p>23 MS. GLYNN:</p> <p>24 Q. Mr. Johnson, which one of the four?</p> <p>25 JOHNSON, Q.C.:</p>	<p>1 A. That’s what it says, that’s correct.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Okay. And just at the top paragraph there,</p> <p>4 Mr. Smith, it talks about matters, “Since</p> <p>5 1996 the Newfoundland and Labrador economy</p> <p>6 has been primarily driven by the mining</p> <p>7 section of large resource based projects</p> <p>8 such as”—oh I’m sorry, page—it’s page 3.</p> <p>9 MR. SMITH:</p> <p>10 A. Yes.</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. Sorry, at the top. So it goes on to say -</p> <p>13 “the large resource based projects such as</p> <p>14 Hibernia, Terra Nova, White Rose and</p> <p>15 Voisey’s Bay have resulted in the mining</p> <p>16 sector experiencing average annual growth in</p> <p>17 excess of 20 percent per year during this</p> <p>18 period. As a result Newfoundland and</p> <p>19 Labrador has led the country in economic</p> <p>20 growth in five of the last ten”—“past ten</p> <p>21 years. The fishing sector has also</p> <p>22 contributed with increased landings of both</p> <p>23 crab and shrimp. These developments have</p> <p>24 positively impacted other key indicators</p> <p>25 such as personal income, unemployment rates</p>
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<p>1 Q. I’m referring to Newfoundland Power’s</p> <p>2 Customer Energy Demand Forecast of May 2007,</p> <p>3 filed with its 2008. Thanks.</p> <p>4 MR. SMITH:</p> <p>5 A. I think I have that. Yeah. Could I just</p> <p>6 see it again, the front cover? Yes, I have</p> <p>7 that, thank you.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. Do you have that before you, Mr. Smith?</p> <p>10 MR. SMITH:</p> <p>11 A. I do.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Okay, thank you.</p> <p>14 MS. GLYNN:</p> <p>15 Q. Mr. Johnson, sorry, we’ll enter that as</p> <p>16 Information Number 1.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. Thank you very much, Ms. Glynn.</p> <p>19 EXHIBIT ENTERED UPON HEARING AND MARKED AS INFORMATION</p> <p>20 NUMBER 1</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. And you’ll note that this the Customer</p> <p>23 Energy Demand Forecast filed with your 2008</p> <p>24 GRA. Can you confirm that?</p> <p>25 MR. SMITH:</p>	<p>1 service sector growth.” And then you just</p> <p>2 go into the next paragraph, and you say, “As</p> <p>3 in recent years economic performance will</p> <p>4 continue to be driven by large resource</p> <p>5 based projects. In ’06 economic growth was</p> <p>6 negatively impacted by a two-month strike at</p> <p>7 Voisey’s Bay and lost production due to a</p> <p>8 six-month shutdown in Terra Nova, the oil</p> <p>9 field. With both projects fully operational</p> <p>10 real GDB growth is forecasted to jump from</p> <p>11 2.9 percent in ’06 to a country-leading 5.7</p> <p>12 percent in 2007. In 2008 with lower</p> <p>13 production of Hibernia Field the real GDB</p> <p>14 growth is forecasted to drop 2.2 percent,</p> <p>15 the lowest in the country.” Now so that was</p> <p>16 the—sort of the economic situation that we</p> <p>17 were looking at then. So I’d just like to</p> <p>18 turn then to—and perhaps what we should do,</p> <p>19 Mr. Chairman, given that’s it’s handy to</p> <p>20 eleven is continue this line of questioning</p> <p>21 after the break, if that’s okay? Were we</p> <p>22 planning to break at eleven?</p> <p>23 MS. GLYNN:</p> <p>24 Q. Absolutely.</p> <p>25 JOHNSON, Q.C.:</p>

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<p>1 Q. Okay.</p> <p>2 CHAIRMAN:</p> <p>3 Q. We were? I thought it was 11:30.</p> <p>4 MS. GLYNN:</p> <p>5 Q. No, eleven.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. I'm happy with 11:30, but if you want to –</p> <p>8 UNKNOWN SPEAKER FEMALE:</p> <p>9 Q. No, eleven is fine.</p> <p>10 CHAIRMAN:</p> <p>11 Q. No, no, we're going to break now.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Okay, thank you. Yes.</p> <p>14 (RECESS – 10:58 A.M.)</p> <p>15 (RESUME – 11:30 A.M.)</p> <p>16 CHAIRMAN:</p> <p>17 Q. So, Mr. Johnson, we are back in your court,</p> <p>18 sir.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Thank you very much, Mr. Chairman,</p> <p>21 witnesses. When we left off, we were</p> <p>22 discussing the load forecast that was filed</p> <p>23 in the 2008 GRA. Would it be fair to</p> <p>24 characterize what we read before the break</p> <p>25 in that load forecast as speaking to a</p>	<p>1 filing or Fortis BC Group?</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. May 10th, 2007. Yes, that's it. Was that</p> <p>4 Info No. 2, Ms. Glynn?</p> <p>5 MS. GLYNN:</p> <p>6 Q. I've lost my letters. And yes, that would</p> <p>7 be Info No. 2.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. Okay, so Info No. 2, Mr. Smith, is the</p> <p>10 introduction evidence filed by Newfoundland</p> <p>11 Power on May 10th, 2007 in respect of the</p> <p>12 2008 GRA. Do you have that before you?</p> <p>13 MR. SMITH:</p> <p>14 Q. So that would be the first one, number one</p> <p>15 in the listing?</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. That's correct.</p> <p>18 MR. SMITH:</p> <p>19 A. Okay, yes, yeah.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. And you'll see that on Table 1, you're</p> <p>22 showing customers and sales from 2002 to</p> <p>23 2008 forecast and below that table,</p> <p>24 Newfoundland Power is indicating from 2002</p> <p>25 through 2008 the number of customers served</p>
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<p>1 fairly robust time in Newfoundland and</p> <p>2 Labrador?</p> <p>3 MR. SMITH:</p> <p>4 A. I think your references to what were in the</p> <p>5 paragraphs regarding GDP and some of the</p> <p>6 indications that showed there, would</p> <p>7 certainly indicate the economy then would be</p> <p>8 better than what it is today, yes.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Right, and so we were seeing a robustness in</p> <p>11 the economy in terms of unemployment figures</p> <p>12 and wages, would that be fair from your</p> <p>13 experience?</p> <p>14 MR. SMITH:</p> <p>15 A. In the timeline that's referred to here,</p> <p>16 yes, 2006 and 2008, absolutely.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. So just if we could turn to another cross</p> <p>19 aide for a moment, and I want to bring you</p> <p>20 to the cross aide No. 1 on the May 28th</p> <p>21 document. I'm sorry, I wish, I guess, March</p> <p>22 28th.</p> <p>23 MS. GLYNN:</p> <p>24 Q. We have two documents, sorry, Mr. Johnson,</p> <p>25 so Newfoundland Power is May 10th, 2007</p>	<p>1 by Newfoundland Power is increasing by an</p> <p>2 average of 1.1 percent per year, the annual</p> <p>3 weather adjusted sales are increasing by an</p> <p>4 average of 1.2 percent per year over this</p> <p>5 period. And I take it that would be</p> <p>6 considered very good growth in bulk</p> <p>7 customers and sales at Newfoundland Power?</p> <p>8 MR. SMITH:</p> <p>9 A. The 1 percent numbers?</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Yes.</p> <p>12 MR. SMITH:</p> <p>13 A. Yeah, they would be good growth numbers in</p> <p>14 terms for that period of time, yes.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. Right and when I looked through the</p> <p>17 introduction section, I did not see anything</p> <p>18 along the lines of indicating that these</p> <p>19 relatively better times is in anyway</p> <p>20 decreasing business risk for Newfoundland</p> <p>21 Power, would you just be able to confirm hat</p> <p>22 for me, Mr. Smith, by looking through the</p> <p>23 introduction evidence? It's only four or</p> <p>24 five pages, I think.</p> <p>25 MR. SMITH:</p>

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1 A. So again pages?
 2 JOHNSON, Q.C.:
 3 Q. Maybe nine pages.
 4 MR. SMITH:
 5 A. And these pages, do we talk about the
 6 business risk changing, is that what you
 7 mean?
 8 JOHNSON, Q.C.:
 9 Q. Yeah, I'm wondering—because in your
 10 introduction to this GRA, you've indicated
 11 that you are—Newfoundland Power is exposed
 12 to greater risk because of the economy in
 13 2016, 2017, right?
 14 MR. SMITH:
 15 A. Well I think in terms of the way my direct
 16 was read, we talked about the increasing
 17 risk because of the economy and also because
 18 of Muskrat Falls and the prices that may
 19 come from that. So it's a combination of
 20 things, I guess is what I would say.
 21 JOHNSON, Q.C.:
 22 Q. And just to be clear, if you could turn to
 23 your application, the first revision, at
 24 page 18. Okay, thank you. We see on page
 25 18, starting at line 10, your introduction

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1 evidence. "Since Newfoundland Power filed
 2 its last General Rate Application in 2012,
 3 two specific risks to which the company's
 4 business is exposed have increased. First,
 5 there is the Provincial economic outlook,
 6 that outlook through 2016, 2017 test period
 7 is more negative than the outlook that
 8 existed in 2012. This increases the near-
 9 term economic risks to which the company is
 10 exposed." So that's the risk that you
 11 highlighted because of the economy in 2016,
 12 2017. Now, I just want to go back now to –
 13 MR. SMITH:
 14 A. Mr. Johnson, if I could, the paragraph goes
 15 on to talk about the other risk –
 16 JOHNSON, Q.C.:
 17 Q. No, no, I understand that, Mr. Smith and we
 18 will come back to that.
 19 MR. SMITH:
 20 A. Sure.
 21 JOHNSON, Q.C.:
 22 Q. But I just want to talk to you about the
 23 risk that you highlighted for the Board in
 24 this application, returning to the 2016,
 25 2017 economy, okay?

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1 MR. SMITH:
 2 A. Okay, yes.
 3 JOHNSON, Q.C.:
 4 Q. Now, if you could then go back to the
 5 examination aide for the May 10th, 2007
 6 application.
 7 MR. SMITH:
 8 A. So again this is No. 1?
 9 JOHNSON, Q.C.:
 10 Q. Correct.
 11 MR. SMITH:
 12 A. Okay, and we were on page 1, I think were
 13 we?
 14 JOHNSON, Q.C.:
 15 Q. Page 1, and what I have provided for you,
 16 Mr. Smith, is I've provided you nine pages
 17 which constituted your introduction section
 18 to your May 10th, 2007 GRA application, and
 19 I'd just like for you to confirm that there
 20 is no statement in this introduction section
 21 that indicates that because of the economic
 22 changes to the better that we discussed in
 23 the load forecast, that there's no mention
 24 whatsoever that the risks to which the
 25 company is exposed have decreased, would

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1 that be fair? I searched it and I couldn't
 2 see any reference in that.
 3 MR. SMITH:
 4 A. I don't know, you may be asking a lot. I
 5 mean, I got the document yesterday and I did
 6 read it, but to go through the nine pages
 7 and confirm that, I mean –
 8 JOHNSON, Q.C.:
 9 Q. Okay, well subject to check that there is no
 10 reference, and you can check overnight or
 11 whatever time you wish to, would you take,
 12 subject to check, that there is no reference
 13 in that introduction to that statement that
 14 I just put to you?
 15 MR. SMITH:
 16 A. And again, the statement is the fact that in
 17 these years the economy was doing better
 18 than it is today –
 19 JOHNSON, Q.C.:
 20 Q. Better and there has been a lessening of
 21 Newfoundland Power's business risk.
 22 MR. SMITH:
 23 A. And because the economy was doing better
 24 than the risk then was less than it is
 25 today.

1 JOHNSON, Q.C.:
 2 Q. Right.
 3 MR. SMITH:
 4 A. I could read it tonight and -
 5 JOHNSON, Q.C.:
 6 Q. You understand, Mr. Smith, I point it out in
 7 your recent application that you're pointing
 8 to the economics of 2016 and 2017 as being
 9 poor and you're saying that's been a change
 10 since the last time we were here that
 11 increases our risk, right?
 12 MR. SMITH:
 13 A. We've indicated there's two things that the
 14 outlook makes us more riskier than the last
 15 time; one is the economy and the other is
 16 Muskrat Falls.
 17 JOHNSON, Q.C.:
 18 Q. Right. Now we're dealing with the economy
 19 for the moment.
 20 MR. SMITH:
 21 A. Yes.
 22 JOHNSON, Q.C.:
 23 Q. What I'm just asking you is if you could
 24 look at your introduction section from 2007
 25 and indicate if there's any statement which

1 indicates that there has been a lessening of
 2 Newfoundland Power's risk because of the
 3 economic, the local economic situation.
 4 MR. SMITH:
 5 A. We could check that, sure, and when I read
 6 it, I guess I, you know, when you assess
 7 risk, of course, there's many parts to our
 8 risk that's been before the Board before
 9 and, of course, the economy is the one that
 10 we're singling out now is Muskrat Falls as
 11 the reason the risk is changing.
 12 JOHNSON, Q.C.:
 13 Q. No, but you've signalled out the 2016, 2017,
 14 in addition to Muskrat Falls, correct, in
 15 your present application?
 16 MR. SMITH:
 17 A. Could you repeat that again for me, Mr.
 18 Johnson?
 19 JOHNSON, Q.C.:
 20 Q. We just went back to your present
 21 application, we talked about how risk had
 22 increased from the last GRA on account of
 23 2016 and 2017 economic situation, right?
 24 MR. SMITH:
 25 A. That's correct.

1 JOHNSON, Q.C.:
 2 Q. Okay, all right. Now I'd like for you to
 3 flip over then to the next cross-examination
 4 aide, Mr. Smith. This is from 2009.
 5 MR. SMITH:
 6 A. Okay, I have it.
 7 JOHNSON, Q.C.:
 8 Q. Okay, thank you.
 9 MS. GLYNN:
 10 Q. We'll enter that as Information No. 3.
 11 JOHNSON, Q.C.:
 12 Q. Have you had a chance to look at this, Mr.
 13 Smith?
 14 MR. SMITH:
 15 A. Yes, I read it yesterday.
 16 JOHNSON, Q.C.:
 17 Q. At page 1-1 of the company's introduction
 18 evidence, it shows—I had better slow down
 19 here so we can get it on the screen for
 20 everybody. Okay, thank you very much. This
 21 is, for the record, page 1-1 of the
 22 introduction evidence of Newfoundland
 23 Power's May 28th, 2009 General Rate
 24 Application. You see Table 1-1 in the
 25 middle of the page, Mr. Smith, talking about

1 the number of customers and annual sales
 2 from 2007 to 2009 forecast.
 3 MR. SMITH:
 4 A. Yes, I have that, thank you.
 5 JOHNSON, Q.C.:
 6 Q. And you will confirm that your application
 7 indicates that lines 14 to 16 that from 2007
 8 through 2009 forecast, the numbers of
 9 customers served by Newfoundland Power is
 10 increasing by an average of 1.4 percent per
 11 year and annual weather adjusted sales are
 12 increasing by an average of 2 percent per
 13 year, correct?
 14 MR. SMITH:
 15 A. That's correct.
 16 JOHNSON, Q.C.:
 17 Q. Okay, now would you characterize, I mean,
 18 you said previously that the growth we saw
 19 in the previous GRA was robust. How would
 20 you describe this growth that you were
 21 forecasting at that time?
 22 MR. SMITH:
 23 A. I'm not sure if I used the word "robust" but
 24 certainly this 2 percent increase in our
 25 sales is above typically what we normally

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<p>1 would have in this period, so that's how I</p> <p>2 would characterize it.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. So these would—would you agree that these</p> <p>5 are representing even better economic</p> <p>6 conditions that you were seeing in the prior</p> <p>7 GRA?</p> <p>8 MR. SMITH:</p> <p>9 A. In the 2 percent sales, they would be very</p> <p>10 good sales for the company, yes.</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. Absolutely. Now, Mr. Smith, again I see no</p> <p>13 reference at all within this document to</p> <p>14 indicate that because of the improving</p> <p>15 picture that Newfoundland Power is now</p> <p>16 exposed to less risk than it was at the</p> <p>17 prior GRA, would that be your understanding</p> <p>18 as well?</p> <p>19 MR. SMITH:</p> <p>20 A. Again, I guess it's like the last section,</p> <p>21 Mr. Johnson, I mean, I read this yesterday</p> <p>22 but to be able to quote from it and know a</p> <p>23 specific reference, I'm not able to do it.</p> <p>24 I mean, I can confirm that a 2 percent</p> <p>25 sales' growth is above a typical thing that</p>	<p>1 Q. That's correct.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. What you have before you now, Mr. Smith, is</p> <p>4 the introduction section to your 2013/2014</p> <p>5 GRA, filed September 14th, 2012 and again, in</p> <p>6 the middle of the page, towards the middle</p> <p>7 of the page on 1-1, we see customers and</p> <p>8 sales for 2010 to 2014 forecast. And, Mr.</p> <p>9 Smith, we note that at lines 15 to 19 the</p> <p>10 company states, "From 2010 to 2014 the</p> <p>11 number of customers served by the company is</p> <p>12 expected to increase by an average of 1.4</p> <p>13 percent per year, annual weather adjusted</p> <p>14 sales are expected to increase by an average</p> <p>15 of 1.8 percent per year over this period.</p> <p>16 Newfoundland Power's outlook for growth on</p> <p>17 the number of customers and sales reflects</p> <p>18 both short-term factors and long-term</p> <p>19 economic and demographic trends." Do you</p> <p>20 see that? Now, Mr. Smith, so this would be</p> <p>21 a very healthy level of growth on what has</p> <p>22 already been a very, very healthy level of</p> <p>23 growth, is that right?</p> <p>24 MR. SMITH:</p> <p>25 A. Yes, this indicates 1.8 percent sales'</p>
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<p>1 we seen for the years before that and is</p> <p>2 certainly higher than the years that we're</p> <p>3 going into in the future, so a 2 percent</p> <p>4 sales' growth would be a good sales' growth</p> <p>5 for the company. But to characterize it did</p> <p>6 it mean that we had less risk for the</p> <p>7 company in terms of what's in this</p> <p>8 information, I just would have to take that</p> <p>9 and read it, I guess, to confirm that.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Okay, but you're prepared to say in your</p> <p>12 current application that because sales are</p> <p>13 dropping a little bit because of the economy</p> <p>14 in 2016 and 2017, that the Board should take</p> <p>15 note that now Board, we are now subject to</p> <p>16 greater business risk?</p> <p>17 MR. SMITH:</p> <p>18 A. That is correct.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Yeah. And just turn to the 2012 GRA</p> <p>21 materials, Mr. Smith. That would be Item</p> <p>22 No. 3 on that letter. I guess this would be</p> <p>23 Info No. 4?</p> <p>24 (11:45 a.m.)</p> <p>25 MS. GLYNN:</p>	<p>1 growth was being forecasted at this time and</p> <p>2 those would be good numbers, yes.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Very good numbers. And again, Mr. Smith,</p> <p>5 and the reason I'm putting this to you is</p> <p>6 that I detect a lack of balance in how</p> <p>7 Newfoundland Power goes about telling the</p> <p>8 Board and the Intervenors about the short-</p> <p>9 term business risks that it faces, so I'll</p> <p>10 put to you that when things were going up,</p> <p>11 sales going up, customers going up, at much</p> <p>12 higher rates than traditional, Newfoundland</p> <p>13 Power doesn't come in and say we're facing</p> <p>14 less risk. But when we see 2016/2017,</p> <p>15 Newfoundland Power immediately comes before</p> <p>16 the Board and says look, see, we're exposed</p> <p>17 to more risk. Would that be a fair comment?</p> <p>18 MR. SMITH:</p> <p>19 A. I guess the way you'd have to think about</p> <p>20 that is that the risks to the company that's</p> <p>21 been assessed over many years, there's up</p> <p>22 and downs in terms of the economy that had</p> <p>23 gone along the way and, you know, when we</p> <p>24 assess the risk of the company, it's a</p> <p>25 number of factors that we talked about</p>

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<p>1 before, including the economy and</p> <p>2 demographics and our single-source of supply</p> <p>3 and these types of things. So all those</p> <p>4 things would go together to form the</p> <p>5 assessment of the risk, and in this</p> <p>6 particular timeframe, our sales' growth were</p> <p>7 good in terms of what we were forecasting</p> <p>8 and that would have been part of the</p> <p>9 assessment to the risk at that time.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Okay, but there was no specific highlighting</p> <p>12 of the fact that things are good and that</p> <p>13 affects positively our short-term risks,</p> <p>14 right?</p> <p>15 MR. SMITH:</p> <p>16 A. Again, that's why I will take away and read</p> <p>17 this in more detail tonight just to be able</p> <p>18 to confirm that for you.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. And add that to your undertaking. We talked</p> <p>21 about, Mr. Smith, how the growth over the</p> <p>22 four years projected to the end of 2017 is</p> <p>23 on an average—was on an average of about a</p> <p>24 percent a year, right?</p> <p>25 MR. SMITH:</p>	<p>1 MR. SMITH:</p> <p>2 A. I think there's an RFI we answered on this</p> <p>3 and for quite a number of years now we've</p> <p>4 been able to be within the range of our</p> <p>5 return between the allowed and the upper</p> <p>6 limit in that range, but if you go back –</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. If we could turn—not to interrupt you,</p> <p>9 because you can expand on it when we see it</p> <p>10 on the screen, CANP019.</p> <p>11 MR. SMITH:</p> <p>12 A. Can you move it down to the date a little</p> <p>13 bit?</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. And that goes on to a second page which</p> <p>16 shows your actual approved ROE and as well,</p> <p>17 pre-tax interest coverage from 1990 right up</p> <p>18 through. And if you could scroll down? By</p> <p>19 my reckoning, I think you'd have to go back</p> <p>20 nearly 20 years to see where Newfoundland</p> <p>21 Power did not earn its return and in fact,</p> <p>22 exceeded its return, would that be fair?</p> <p>23 MR. SMITH:</p> <p>24 A. Yeah, I think you'd have to go back to the</p> <p>25 times of the Cod Moratorium when the company</p>
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<p>1 A. Yeah, that would be the four years ending in</p> <p>2 2017, that's right.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Right, and now in terms of—and just to put</p> <p>5 the matter in perspective, would it be fair</p> <p>6 to say whether there's good economic times</p> <p>7 or poor economic times in Newfoundland,</p> <p>8 Newfoundland Power earns its ROE and</p> <p>9 typically earns above it, would that be a</p> <p>10 fair statement?</p> <p>11 MR. SMITH:</p> <p>12 A. I mean, the company works hard in many</p> <p>13 areas, including its return and we look at</p> <p>14 earning our return, I guess, as one of our</p> <p>15 things that we pay attention to each and</p> <p>16 every year, no different than we pay</p> <p>17 attention to safety and reliability, I</p> <p>18 guess, for that matter. And earning our</p> <p>19 return is something that we work hard on</p> <p>20 every year as part of just doing business,</p> <p>21 yes.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. Okay, but to my question, whether good or</p> <p>24 bad times, Newfoundland Power earns its</p> <p>25 return, fair statement?</p>	<p>1 didn't earn its allowed return.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Why don't we flip up to the first page again</p> <p>4 then?</p> <p>5 MR. SMITH:</p> <p>6 A. So yeah, in the early '90s, I guess.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. So you earned your approved return in '92,</p> <p>9 you didn't in '93, you didn't in—I see you</p> <p>10 start earning above your allowed return 20</p> <p>11 years ago, in 1996, is that right?</p> <p>12 MR. SMITH:</p> <p>13 A. Yes, so I guess the early '90s we weren't</p> <p>14 and then once you got to 1998, I guess,</p> <p>15 1997, we were.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. And some, as I understand of the reasons,</p> <p>18 even prior to 1996 that you didn't, was that</p> <p>19 because of tax cases or was that—was that</p> <p>20 right?</p> <p>21 MR. SMITH:</p> <p>22 A. I certainly couldn't speak to that, Mr.</p> <p>23 Johnson.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. Okay, okay. And you're aware that Dr.</p>

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<p>1 Cleary has done a quantitative analysis of</p> <p>2 how non volatile Newfoundland Power's</p> <p>3 earnings are, very remarkable work, he can</p> <p>4 testify to that, but he says that over the</p> <p>5 period from 1995 to 2014, Newfoundland</p> <p>6 Power's sales grew at a higher average</p> <p>7 growth rate than the Province's real GDP</p> <p>8 growth rate, that's what he says in his</p> <p>9 report. Are you familiar with that, either</p> <p>10 of you?</p> <p>11 MR. SMITH:</p> <p>12 A. No, I haven't read Mr. Cleary's evidence or</p> <p>13 report, no.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. Ms. Perry, can you confirm that what Dr.</p> <p>16 Cleary says in that regard is correct?</p> <p>17 MS. PERRY:</p> <p>18 A. I've read Dr. Cleary's report, but I would</p> <p>19 have to be sure on exactly where it is to be</p> <p>20 certain that I've read that exact paragraph.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. Dr. Cleary's report, if we could bring it</p> <p>23 up, page 20? If we can go up a little bit</p> <p>24 further? He states, starting at line 1, "As</p> <p>25 noted previously, Newfoundland Power</p>	<p>1 A. Yes.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. And as the CFO of Newfoundland Power, is</p> <p>4 there anything there that you take exception</p> <p>5 to what Dr. Cleary has observed?</p> <p>6 MS. POWER:</p> <p>7 A. Well first I want to observe that when you</p> <p>8 start talking about standard deviations of</p> <p>9 revenue growth and GDP, I am definitely</p> <p>10 outside of my area of comfort. What I would</p> <p>11 say is that over this particular time</p> <p>12 period, Newfoundland Power has maintained,</p> <p>13 albeit it was a good sales' growth, as Mr.</p> <p>14 Smith said, it's still a pretty modest</p> <p>15 sales' growth. I've always said we we're a</p> <p>16 1 to 2 percent growth utility.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. Okay, and let's just put 1 percent growth</p> <p>19 utility into some sort of perspective, do</p> <p>20 you have a sense, Ms. Perry, as to how that</p> <p>21 would be viewed, 1 percent growth in</p> <p>22 customers and sales would be viewed in other</p> <p>23 jurisdictions, say for instance in the</p> <p>24 United States, for instance?</p> <p>25 MS. PERRY:</p>
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<p>1 experienced only one decline in revenue</p> <p>2 growth over this period and grew in all six</p> <p>3 of the years when the real GDP growth rate</p> <p>4 was negative. Over this period the average</p> <p>5 annual growth rate in Newfoundland Power's</p> <p>6 sales was 3.4 percent versus 2.5 for real</p> <p>7 GDP, but the volatility of NP's sales'</p> <p>8 growth was much lower as measured by the</p> <p>9 standard deviation of 2.9 percent versus the</p> <p>10 5.6 percent for Newfoundland and Labrador's</p> <p>11 real GDP growth. Further, the correlation</p> <p>12 co-efficient between Newfoundland Power's</p> <p>13 sales' growth rates and real GDP grown rates</p> <p>14 over this period was positive, as expected,</p> <p>15 but low at .27, reflecting the fact that</p> <p>16 Newfoundland Power's sales are more</p> <p>17 resilient than Newfoundland and Labrador's</p> <p>18 real GDP growth rates; in other words, while</p> <p>19 Newfoundland and Labrador's economic</p> <p>20 forecast is not a positive, the evidence</p> <p>21 suggests that Newfoundland Power can be</p> <p>22 expected to weather this economic decline</p> <p>23 just as it has in the past." Do you recall</p> <p>24 reading that?</p> <p>25 MS. POWER:</p>	<p>1 A. No, I wouldn't be able to provide a</p> <p>2 perspective on that.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Okay, because that's very important to put</p> <p>5 things in relative terms. Let's just turn</p> <p>6 to Mr. Coyne's evidence at Exhibit JMC-2.</p> <p>7 If you could please turn to page 4, let me</p> <p>8 see if I can find it on the hard copy. I'm</p> <p>9 looking at JMC-2, page 4 and I'm looking at</p> <p>10 a different page. I'm just wondering if he</p> <p>11 has two JMC-2 exhibits.</p> <p>12 (12:00 p.m.)</p> <p>13 MS. PERRY:</p> <p>14 A. He does.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. He does?</p> <p>17 MS. PERRY:</p> <p>18 A. Is it in the cost of capital or the capital</p> <p>19 structure report?</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. It's in the cost of capital.</p> <p>22 MS. PERRY:</p> <p>23 A. So it would be the first one, Samantha.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. It's the Duke Energy page. There you have</p>

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<p>1 it, thank you. So they're talking about</p> <p>2 Duke Energy, this is one of the companies in</p> <p>3 Mr. Coyne's proxy group, talks about Duke</p> <p>4 Energy being the largest electric power</p> <p>5 holding company in the United States,</p> <p>6 approximately 120 billion total assets,</p> <p>7 regulated utility operation serving 7.3</p> <p>8 million electric customers, located in six</p> <p>9 states in the south-east and mid-west, and</p> <p>10 then they go to describe the company a bit</p> <p>11 further and I noted if you go down on the</p> <p>12 left-hand column, business risk, strong. In</p> <p>13 just about the middle of that top paragraph,</p> <p>14 it says, "We assess Duke Energy's business</p> <p>15 risk profile as excellent"—I'm reading from</p> <p>16 the top here now, "incorporating the</p> <p>17 company's regulated utility operations that</p> <p>18 serve more than 7 million customers, spans</p> <p>19 six states and provide about 85 percent of</p> <p>20 operating income while benefiting from</p> <p>21 operating regulatory diversity. Duke Energy</p> <p>22 business risk's profile also benefits from</p> <p>23 regulated utility operations under generally</p> <p>24 constructive regulatory frameworks. The</p> <p>25 majority of Duke Energy's customers are</p>	<p>1 we have had traditionally and in my mind,</p> <p>2 it's modest at best.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Okay, but you've got nothing really to</p> <p>5 compare Newfoundland Power's sales to</p> <p>6 others, so you just feel it's modest, is</p> <p>7 that right?</p> <p>8 MS. POWER:</p> <p>9 A. No, actually I disagree with that, Mr.</p> <p>10 Chair. The 1 percent modest sales' growth,</p> <p>11 I'm reflecting back over a history of</p> <p>12 Newfoundland Power, where it's been, as I</p> <p>13 said, a 1 to 2 percent sales' growth utility</p> <p>14 and I compare that to its customers' growth,</p> <p>15 the amount of capital that we have to spend,</p> <p>16 what we have to do to maintain the service</p> <p>17 to customers in this electric utility and a</p> <p>18 1 percent sales' growth, in my mind, is</p> <p>19 pretty modest to help fulfil that</p> <p>20 obligation.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. So I understand that Newfoundland Power is,</p> <p>23 itself, forecasting oil prices to start</p> <p>24 rebounding in 2017, is that correct?</p> <p>25 MS. POWER:</p>
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<p>1 residential and commercial, providing</p> <p>2 incremental support to revenues and cash</p> <p>3 flow. On aggregate, Duke Energy's customer</p> <p>4 base grew by about 1 percent, reflecting the</p> <p>5 service territory's robust economic</p> <p>6 profile." So, like when I read that, to be</p> <p>7 honest, I was surprised because I keep on</p> <p>8 hearing about Newfoundland 1 percent and,</p> <p>9 but that apparently seems to be fairly</p> <p>10 robust for Duke. Is that news to you as</p> <p>11 well?</p> <p>12 MS. PERRY:</p> <p>13 A. That is what it says here in Mr. Coyne's</p> <p>14 evidence with respect to the 1 percent</p> <p>15 growth. The only context I could provide</p> <p>16 that in is with respect to Newfoundland</p> <p>17 Power, 1 percent sales' growth for us is</p> <p>18 pretty modest. Duke Energy is pretty—it's a</p> <p>19 lot bigger than Newfoundland Power, so 1</p> <p>20 percent sales' growth for them in context</p> <p>21 may actually provide them with, obviously as</p> <p>22 they say here, a sales' growth that they</p> <p>23 deemed to be robust. But for Newfoundland</p> <p>24 Power, 1 percent sales' growth is certainly</p> <p>25 not considered robust; it's considered what</p>	<p>1 A. Sorry, are you directing the question?</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Either one of you.</p> <p>4 MS. POWER:</p> <p>5 A. Okay, can you repeat the question?</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. I understand that Newfoundland Power is</p> <p>8 forecasting for oil prices to start making a</p> <p>9 rebound in 2017, is that right?</p> <p>10 MS. POWER:</p> <p>11 A. Mr. Johnson, can you show me where we've</p> <p>12 actually made that statement?</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Yes, turn to your load forecast, page 4 of</p> <p>15 that load forecast, please?</p> <p>16 MS. GLYNN:</p> <p>17 Q. So that would be report No. 4 in Volume 2, I</p> <p>18 think.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Page 4 of that document, please. Yes, the</p> <p>21 highlighted portion of the energy prices</p> <p>22 outlook, section 3.2, states: "Furnace oil</p> <p>23 prices declined by 25 percent in 2015 and</p> <p>24 are forecast to decline a further 4 percent</p> <p>25 in 2016. Furnace oil prices are forecast to</p>

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1 increase by 11 percent in 2017 as world oil
2 prices start to rebound.” So that’s what I
3 was referring to, Ms. Perry.
4 MS. PERRY:
5 A. Yes, and that referenced a source point of
6 the US Energy Information Administration
7 short-term energy outlook.
8 JOHNSON, Q.C.:
9 Q. Okay, and I notice that that’s January 16th
10 adjusted to reflect the 70 cent—dollar. So
11 that was the most recent that was available,
12 was it?
13 MS. PERRY:
14 A. Yes, I suspect it was.
15 JOHNSON, Q.C.:
16 Q. Okay, could you undertake to see if there
17 was something more recent than January 2016
18 and if so, file it?
19 MS. PERRY:
20 A. Yes.
21 MS. GLYNN:
22 Q. Mr. Johnson, before I note that undertaking,
23 could I get some clarification on a
24 previous, I think it was an undertaking and
25 that was on the subject to check for the

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1 statements in the Information No. 2, 3 and
2 4?
3 JOHNSON, Q.C.:
4 Q. Right.
5 MS. GLYNN:
6 Q. You do want that noted as an undertaking?
7 JOHNSON, Q.C.:
8 Q. Yes.
9 MS. GLYNN:
10 Q. Okay, and it was accepted by –
11 JOHNSON, Q.C.:
12 Q. Yes.
13 MS. GLYNN:
14 Q. Perfect. So we have undertaking No. 1 and
15 then the check for more recent information
16 is undertaking No. 2.
17 KELLY, Q.C.:
18 Q. The first one was simply a matter for the
19 witness to look at, so he could answer
20 further questions tomorrow as opposed to –
21 JOHNSON, Q.C.:
22 Q. No, I thought he was going to undertake to
23 file if there was any reference.
24 MS. GLYNN:
25 Q. And that’s what I wanted the clarification

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1 on.
2 JOHNSON, Q.C.:
3 Q. Is that okay?
4 KELLY, Q.C.:
5 Q. Okay.
6 MS. GLYNN:
7 Q. So we have two undertakings, subject to
8 check the information and we have the more
9 recent information on the oil prices.
10 JOHNSON, Q.C.:
11 Q. Now, Mr. Smith, if you could turn to your
12 application at page 1-6 in the introduction
13 section. On this page, Mr. Smith, your
14 evidence starts off referring to the events
15 of January 2014 being a combination of
16 supply shortages and successive major
17 equipment failures on Hydro’s system and
18 then in the next paragraph gets into the
19 March, 2015 generation issues on the Avalon
20 Peninsula which resulted in outages to
21 Newfoundland Power’s customers and then the
22 next paragraph talks about there being
23 continuing investigation into the
24 circumstances surrounding and causes of
25 these power outages and supply shortages.

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1 Then you go on to say, “However, it appears
2 that a higher risk of these types of events
3 will exist at least until the completion of
4 Nalcor Energy’s Muskrat Falls Hydro Electric
5 Generating Plant and the interconnection of
6 the Island Electrical System to the North
7 American Grid.” So I just want to
8 understand now, Mr. Smith, these risks that
9 have been identified by the Board’s
10 consultants, Liberty, in terms of the
11 further potential for risks up to the
12 Interconnection. These present risks to
13 Newfoundland Power’s customers, not
14 necessarily to Newfoundland Power itself as
15 a utility, would that be fair?
16 MR. SMITH:
17 A. Well I think when these outages have
18 occurred in the past, it certainly has a
19 negative impact on a customer from a
20 reliability point of view.
21 JOHNSON, Q.C.:
22 Q. Certainly.
23 MR. SMITH:
24 A. And in responding to those outages, of
25 course, Newfoundland Power will also incur

<p style="text-align: right;">Page 109</p> <p>1 additional cost above and beyond that it</p> <p>2 normally might have done, and those</p> <p>3 additional costs would also be a concern, I</p> <p>4 guess, for the company.</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. Just if we could turn to Newfoundland</p> <p>7 Power's answer to PUB-NP-014. This question</p> <p>8 asked for Newfoundland Power to describe and</p> <p>9 detail the increased risk for Newfoundland</p> <p>10 Power and its customers associated with the</p> <p>11 wholesale power supply prior to</p> <p>12 interconnection, and explain the</p> <p>13 implications for Newfoundland Power. Now</p> <p>14 are you familiar with this reply?</p> <p>15 MR. SMITH:</p> <p>16 A. I've read it. It's been a while, but I've</p> <p>17 read it, yes.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Understood, and when I read this reply, and</p> <p>20 you can just go down towards the bottom for</p> <p>21 a moment, the final paragraph talks about,</p> <p>22 "Up to the interconnection of the Muskrat</p> <p>23 Falls Project and Labrador Island</p> <p>24 Transmission Link, there is little</p> <p>25 Newfoundland Power can practically do to</p>	<p style="text-align: right;">Page 111</p> <p>1 didn't have a large outage of Dark NL, but</p> <p>2 there were quite a number of times this past</p> <p>3 winter that things were close to the edge in</p> <p>4 terms of reserve margins because of issues</p> <p>5 at Holyrood, so, I guess, we see the</p> <p>6 potential for that continuing to occur until</p> <p>7 we get to the interconnection of Muskrat</p> <p>8 Falls, and if we have those big outages</p> <p>9 again, it certainly can add cost to our</p> <p>10 business in terms of responding to the needs</p> <p>11 of our customers.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Okay, so that's the risk that you're</p> <p>14 referring to. Okay, can you confirm that</p> <p>15 the year of Dark NL – first of all, have you</p> <p>16 ever experienced anything like Dark NL in</p> <p>17 terms of the extensive outages and the</p> <p>18 supply shortages?</p> <p>19 MR. SMITH:</p> <p>20 A. I think the results of Dark NL, 2014 in</p> <p>21 particular, that was certainly a very large</p> <p>22 outage in terms of my time with Newfoundland</p> <p>23 Power. It may be one of the bigger outages</p> <p>24 we've had.</p> <p>25 JOHNSON, Q.C.:</p>
<p style="text-align: right;">Page 110</p> <p>1 improve the sufficiency of its power supply</p> <p>2 arrangements. Should the Muskrat Falls</p> <p>3 Project, as currently envisaged or modified</p> <p>4 by Hydro, and its affiliates not provide</p> <p>5 improved wholesale reliability, Newfoundland</p> <p>6 Power might be obliged to arrange sufficient</p> <p>7 emergency generation", but I don't see</p> <p>8 anything in this answer, Mr. Smith, and take</p> <p>9 a moment, to see where there is an actual</p> <p>10 heightened risk to Newfoundland Power itself</p> <p>11 as a utility?</p> <p>12 MR. SMITH:</p> <p>13 A. And again you're referring to the time</p> <p>14 between now and the interconnection to</p> <p>15 Muskrat Falls?</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Right, that's right.</p> <p>18 MR. SMITH:</p> <p>19 A. Well, I guess, the risk that we would refer</p> <p>20 to in this area is – partly, I guess, the</p> <p>21 risk has been outlined by Liberty in the</p> <p>22 fact that we can possibly expect to have</p> <p>23 more significant outages on our system, and,</p> <p>24 of course, we've seen them in '13, '14, and</p> <p>25 '15, and this winter that's just finished we</p>	<p style="text-align: right;">Page 112</p> <p>1 Q. Right, unprecedented?</p> <p>2 MR. SMITH:</p> <p>3 A. In my time for sure, a big outage.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. And rotating outages, something that</p> <p>6 Newfoundland Power had no experience with,</p> <p>7 correct?</p> <p>8 MR. SMITH:</p> <p>9 A. That's correct.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Right, and would you confirm – Ms. Perry is</p> <p>12 probably the best to confirm this, that</p> <p>13 Newfoundland Power earned 9.15 percent in</p> <p>14 its return on equity in respect of 2014, is</p> <p>15 that right?</p> <p>16 MS. PERRY:</p> <p>17 A. Yes, I can confirm that is right.</p> <p>18 (12:15 p.m.)</p> <p>19</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. Yes. Your application, Mr. Smith, calls the</p> <p>22 interconnection to the North American grid a</p> <p>23 transformative event for the electrical</p> <p>24 system that currently serves the island. I</p> <p>25 think it refers to that in those terms at</p>

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<p>1 the bottom of page 16, and you go on to say</p> <p>2 that, "It also creates significant</p> <p>3 uncertainties for Newfoundland Power and the</p> <p>4 customers it serves". Now I just want to</p> <p>5 talk for a second on the reliability</p> <p>6 component of that, and Mr. Smith, I</p> <p>7 understand that you would be aware that the</p> <p>8 reliability for the post Muskrat Falls era</p> <p>9 is under active review by the Board now</p> <p>10 together with its consultants, correct?</p> <p>11 MR. SMITH:</p> <p>12 A. That is correct.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Okay, and Mr. Smith, is it fair to say that</p> <p>15 the conclusions to be drawn about</p> <p>16 reliability in the post Muskrat era are, in</p> <p>17 fact, yet to be made and yet to be</p> <p>18 completely studied, would that be fair?</p> <p>19 MR. SMITH:</p> <p>20 A. That's part of the review that the Board is</p> <p>21 doing, that would be correct.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. Okay. So in terms of the potential</p> <p>24 benefits, let's say, to reliability of the</p> <p>25 island being connected with not only</p>	<p>1 Newfoundland Power GRA before Muskrat Falls</p> <p>2 is actually all hooked up and running, would</p> <p>3 that be possible?</p> <p>4 MR. SMITH:</p> <p>5 A. The timing of our next GRA, I'm not sure I</p> <p>6 could speak to that. I mean, it's possible</p> <p>7 it could be before interconnection, I'd</p> <p>8 agree with that.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Okay. So the Board at that time would be</p> <p>11 better able to assess whether there is a</p> <p>12 post connection reliability risk, would that</p> <p>13 be fair?</p> <p>14 MR. SMITH:</p> <p>15 A. Well, I guess, all I can really agree to is</p> <p>16 when the Board does its review of the post</p> <p>17 Muskrat Falls reliability, it will make an</p> <p>18 assessment; is the reliability that's being</p> <p>19 proposed adequate, and does anything else</p> <p>20 have to happen to address any deficiency</p> <p>21 they may recognize. Whether our GRA is</p> <p>22 before it or after it, I just don't know.</p> <p>23 It depends, I guess, when the Board makes</p> <p>24 its ultimate decision and when the company</p> <p>25 needs to come before the Board again.</p>
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<p>1 Labrador, but by the Maritimes, that would</p> <p>2 be part of the transformative landscape</p> <p>3 that's coming?</p> <p>4 MR. SMITH:</p> <p>5 A. Yes, I certainly believe that the</p> <p>6 interconnection to the grid in Labrador and</p> <p>7 to the grid through Nova Scotia would be a</p> <p>8 significant change in the way we supply our</p> <p>9 customers.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Okay, and might you see potential benefits</p> <p>12 on the reliability side from those</p> <p>13 interconnections?</p> <p>14 MR. SMITH:</p> <p>15 A. Well, I guess, as we just spoke about,</p> <p>16 that's what's going to be reviewed in the</p> <p>17 hearing that the Board will consider, and it</p> <p>18 will look at the reliability, I guess, once</p> <p>19 interconnection occurs and make an</p> <p>20 assessment is the reliability better, worse,</p> <p>21 or adequate, or not adequate, I guess.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. Right, and then after the Board reports and</p> <p>24 makes the determinations and parties weigh</p> <p>25 in on that, there will likely be another</p>	<p>1 JOHNSON, Q.C.:</p> <p>2 Q. So is it your position that Newfoundland</p> <p>3 Power needs to be compensated for the extra</p> <p>4 risk in the interim before Muskrat Falls is</p> <p>5 studied from a reliability point of view?</p> <p>6 MR. SMITH:</p> <p>7 A. I'm not sure I follow your question, Mr.</p> <p>8 Johnson.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Well, you're referring to how there's</p> <p>11 greater uncertainty in the reliability with</p> <p>12 the post Muskrat Falls link, okay, and I'm</p> <p>13 trying to get a sense, is it Newfoundland</p> <p>14 Power's view that as we sit here today</p> <p>15 Newfoundland Power should earn some sort of</p> <p>16 extra premium or be considered as – or get</p> <p>17 something further because of the fact that</p> <p>18 these risks have not been yet ascertained?</p> <p>19 Is that the position of Newfoundland Power?</p> <p>20 MR. SMITH:</p> <p>21 A. You know, I think we've indicated to the</p> <p>22 Board that, again as we talked about</p> <p>23 earlier, the economy is a potential change</p> <p>24 in our business risk, and also is the cost</p> <p>25 of Muskrat Falls part of the potential</p>

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1 change in our business risk.

2 JOHNSON, Q.C.:

3 Q. I'm just focusing here for the moment, Mr.

4 Smith, on the reliability side of things

5 because you've indicated that that creates

6 significant uncertainties, and I was just

7 wondering if it's actually Newfoundland

8 Power's position that here in this hearing

9 the Board should give them something extra

10 for these uncertainties that have not been

11 yet studied and determined?

12 MR. SMITH:

13 A. Again as I said before, I guess, in the next

14 few years we have to rely on Holyrood and

15 there's risk in terms of how Holyrood may

16 perform, and will be have another version of

17 Dark NL, and it can certainly cost the

18 company money, and then once we get to post

19 Muskrat Falls in terms of what the Board

20 ultimately decides in terms of the

21 reliability, we'll have to assess it at that

22 time.

23 JOHNSON, Q.C.:

24 Q. Can I ask you to turn to CA-NP-031,

25 Attachment "J"?

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1 MR. SMITH:

2 A. Mr. Johnson, could you repeat the number of

3 the question?

4 JOHNSON, Q.C.:

5 Q. CA-NP-031, Attachment "J".

6 MS. GLYNN:

7 Q. It was on the stranded website just because

8 of the volume of the document.

9 JOHNSON, Q.C.:

10 Q. Yes, that's right, yeah. You might not have

11 that, Mr. Smith.

12 MS. GLYNN:

13 Q. What page number, Mr. Johnson?

14 JOHNSON, Q.C.:

15 Q. Page 11 of 144. That's it.

16 MS. GLYNN:

17 Q. That's it. Okay. So we do have the paper

18 copy for the witness.

19 JOHNSON, Q.C.:

20 Q. I think it would be helpful to get it on –

21 MS. GLYNN:

22 Q. Okay.

23 MR. HAYES:

24 Q. It doesn't look like we're going to have

25 that particular one available for the screen

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1 right now, so we'll have to, I guess,

2 proceed with the paper.

3 MS. GLYNN:

4 Q. Is that sufficient, Mr. Johnson?

5 JOHNSON, Q.C.:

6 Q. I think we can try to make do as best we

7 can.

8 MS. GLYNN:

9 Q. If it becomes difficult, we can seek other

10 remedies.

11 JOHNSON, Q.C.:

12 Q. Yes, fair play. The document that you have

13 before you, Mr. Smith, is Fortis Inc. 2014

14 annual report?

15 MR. SMITH:

16 A. Yes, I have the document.

17 JOHNSON, Q.C.:

18 Q. Okay, and at page 11 of 41 (sic.), my notes

19 are referring to the second paragraph of

20 that document.

21 MR. SMITH:

22 A. So 11 of 144?

23 JOHNSON, Q.C.:

24 Q. That's correct.

25 MR. SMITH:

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1 A. Okay.

2 JOHNSON, Q.C.:

3 Q. And the part that I've highlighted, and it

4 appears next to Mr. Karl Smith, the

5 photograph of Mr. Karl Smith, the CFO of

6 Fortis Inc., and this is in the management

7 discussion and analysis, is that correct?

8 MR. SMITH:

9 A. Yes, I have the page, yes.

10 JOHNSON, Q.C.:

11 Q. Okay, and Fortis is saying there that, "The

12 ability of a regulated utility to recover

13 prudently incurred costs of providing

14 service and earn the regulator approved rate

15 of return on common shareholders equity

16 [ROE] and/or rate of return on rate base

17 assets [ROA], depends on the utility

18 achieving the forecast established in the

19 rate setting process". Do you see that in

20 front of you there?

21 MR. SMITH:

22 A. I'm listening to you as you read it, sir,

23 yeah.

24 JOHNSON, Q.C.:

25 Q. Okay. Now you confirm that that's what the

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<p>1 annual report says in its MD and A?</p> <p>2 MR. SMITH:</p> <p>3 A. Yes.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. Now the MD and A would go to investors in</p> <p>6 Fortis, for instance, common equity</p> <p>7 investors, they would read that?</p> <p>8 MR. SMITH:</p> <p>9 A. I would assume so, yes.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Make assessments about risk attached to</p> <p>12 Fortis utilities, fair statement?</p> <p>13 MR. SMITH:</p> <p>14 A. It would go to investors, yes.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. Right, okay. That statement that I've just</p> <p>17 read out to you, how the ability of a</p> <p>18 regulated utility to recover its prudently</p> <p>19 incurred cost depends on the utility</p> <p>20 achieving the forecast established in the</p> <p>21 rate setting process, you would fully and</p> <p>22 wholeheartedly agree with that, correct?</p> <p>23 MR. SMITH:</p> <p>24 A. I guess, what I'd agree to is that when the</p> <p>25 Board sets for Newfoundland Power return on</p>	<p>1 A. Yes.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Return on rate base, all the cost that you</p> <p>4 prudently incurred in delivering services,</p> <p>5 correct?</p> <p>6 MS. PERRY:</p> <p>7 A. Yes, cost that we would submit before this</p> <p>8 Board in a General Rate Application, yes.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. That's right, and I just want to turn to</p> <p>11 page 51 of 144 for a moment, and there's a</p> <p>12 discussion there, and I don't have the hard</p> <p>13 copy in front of me either, but there's a</p> <p>14 discussion, I think you'll confirm, about</p> <p>15 the competitiveness of natural gas in</p> <p>16 British Columbia at page 51. Do you see</p> <p>17 that?</p> <p>18 MS. PERRY:</p> <p>19 A. Mr. Johnson, you'd have to show me where it</p> <p>20 is on this page. It would just take me a</p> <p>21 while to read this whole page.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. I think there's a heading, "competitiveness</p> <p>24 of Natural Gas in BC".</p> <p>25 MS. PERRY:</p>
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<p>1 equity and from that we calculate our</p> <p>2 earnings, it will be our job to try to make</p> <p>3 our earnings each and every year.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. Yeah, but this goes to a slightly different</p> <p>6 point. Ms. Perry, you might want to jump</p> <p>7 in, that the ability of a regulated utility</p> <p>8 to recover its prudently incurred cost of</p> <p>9 providing service, okay, the Fortis annual</p> <p>10 report says that that depends on the utility</p> <p>11 achieving the forecast established in the</p> <p>12 rate setting processes. Do you agree with</p> <p>13 that?</p> <p>14 MS. PERRY:</p> <p>15 A. I would agree that part of recovering our</p> <p>16 cost is actually achieving our forecast,</p> <p>17 yes.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. And your prudently incurred cost would be</p> <p>20 things like operating expense, correct?</p> <p>21 MS. PERRY:</p> <p>22 A. Yes, I would agree.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Depreciation expense?</p> <p>25 MS. PERRY:</p>	<p>1 A. Do you want me to read this whole –</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. No, I'm just – you're there where I'm</p> <p>4 referring to?</p> <p>5 MS. PERRY:</p> <p>6 A. Yes, I am, I see the title there,</p> <p>7 "Competitiveness of Natural Gas in British</p> <p>8 Columbia".</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Right, and when I read that material, Ms.</p> <p>11 Perry, I noted that FortisBC Energy, which</p> <p>12 is a sister affiliate of Newfoundland Power,</p> <p>13 "Has faced Government policy changes which</p> <p>14 have impacted upon the competitiveness of</p> <p>15 natural gas in British Columbia". Do you</p> <p>16 see that in front of you?</p> <p>17 MS. PERRY:</p> <p>18 A. I would have to read it, Mr. Johnson.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Okay, just take a moment.</p> <p>21 MS. PERRY:</p> <p>22 A. Okay.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. This obviously would be easier if we had it</p> <p>25 on the screen, but I'm trying to do what we</p>

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<p>1 can do.</p> <p>2 (12:30 p.m.)</p> <p>3 MR. HAYES:</p> <p>4 Q. Mr. Chair, I apologize for the problem.</p> <p>5 We'll certainly ensure that that's worked</p> <p>6 out for the morning if we can't get it done</p> <p>7 in the next few minutes.</p> <p>8 MS. PERRY:</p> <p>9 A. Okay, I've read this paragraph.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Okay, did you see that they have faced</p> <p>12 Government policy changes which impacts the</p> <p>13 competitiveness of natural gas in British</p> <p>14 Columbia?</p> <p>15 MS. PERRY:</p> <p>16 A. Yes, I see that's what it says here.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. And you see that they are reporting a</p> <p>19 decline in new homes in their service</p> <p>20 territory installing natural gas?</p> <p>21 MS. PERRY:</p> <p>22 A. No, I didn't read that, so that must be in a</p> <p>23 different paragraph. Okay, I see that it</p> <p>24 says that, "The number of dwellings being</p> <p>25 built have less natural gas", yes.</p>	<p>1 Q. Now so Fortis is referring to the notion of</p> <p>2 FortisBC Energy after facing all of these</p> <p>3 challenges about customers dropping off,</p> <p>4 existing customers reducing their</p> <p>5 consumption of natural gas or eliminating it</p> <p>6 altogether. Fortis is referring to the</p> <p>7 notion of BC Energy not being able to fully</p> <p>8 recover its cost of service in rates as</p> <p>9 being an extreme case. Agreed?</p> <p>10 MS. PERRY:</p> <p>11 A. What is your exact question? Is it an</p> <p>12 extreme case?</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Fortis is referring to that as being an</p> <p>15 extreme case, right?</p> <p>16 MS. PERRY:</p> <p>17 A. I'm not sure its referring to it as an</p> <p>18 extreme case.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Well, didn't they just say in the passage</p> <p>21 that we went through that, "The above</p> <p>22 conditions may result in higher customer</p> <p>23 rates, and in an extreme case could</p> <p>24 ultimately lead to an inability of the</p> <p>25 FortisBC Energy companies to fully recover</p>
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<p>1 JOHNSON, Q.C.:</p> <p>2 Q. That's right, and then there's a longer</p> <p>3 paragraph that says, "In the future, if</p> <p>4 natural gas becomes less competitive", do</p> <p>5 you follow me so far where I am?</p> <p>6 MS. PERRY:</p> <p>7 A. Yes.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. "Due to pricing or other factors, the</p> <p>10 ability of the FortisBC Energy companies to</p> <p>11 add new customers could be impaired, and</p> <p>12 existing customers could reduce their</p> <p>13 consumption of natural gas or eliminate its</p> <p>14 usage altogether as furnaces, water heaters,</p> <p>15 and other appliances are replaced. The above</p> <p>16 conditions may result in higher customer</p> <p>17 rates and in an extreme case could</p> <p>18 ultimately lead to an inability of the</p> <p>19 FortisBC Energy companies to fully recover</p> <p>20 the cost of service in rates charged to</p> <p>21 customers". Is that accurate what I've put</p> <p>22 to you there?</p> <p>23 MS. PERRY:</p> <p>24 A. Yes, that's what it says in the MD and A, yes.</p> <p>25 JOHNSON, Q.C.:</p>	<p>1 the cost of service in rates charged".</p> <p>2 MS. PERRY:</p> <p>3 A. Yes, that's exactly what it says there in</p> <p>4 the MD and A, yes.</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. Right, so they would characterize the</p> <p>7 prospect of FortisBC not being able to fully</p> <p>8 recover its cost of service as being an</p> <p>9 extreme case, correct?</p> <p>10 MS. PERRY:</p> <p>11 A. I never like speaking for other documents,</p> <p>12 however, that's how it reads there, yes,</p> <p>13 they view it as an extreme case.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. And FortisBC, it looks like they can be by-</p> <p>16 passed altogether based upon what we've gone</p> <p>17 through there, people don't have to use gas</p> <p>18 in BC, right?</p> <p>19 MS. PERRY:</p> <p>20 A. I'm not going to comment.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. That's what it appears to me to say. Now if</p> <p>23 you turn over the page to page 52 of the</p> <p>24 Management Discussion and Analysis about -</p> <p>25 MS. GLYNN:</p>

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<p>1 Q. Mr. Johnson, I'm going to interrupt because</p> <p>2 it seems that it's just a matter of time for</p> <p>3 it to download from the stranded website.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. Okay.</p> <p>6 MS. GLYNN:</p> <p>7 Q. Maybe we could take a five minute break.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. Certainly.</p> <p>10 MS. GLYNN:</p> <p>11 Q. Oh, no, she's saying "no" now. Let's take a</p> <p>12 five minute break and see if we can access</p> <p>13 the document. I think it would be easier</p> <p>14 all around if everybody could see what we're</p> <p>15 referring to.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Thank you.</p> <p>18 (12:35 p.m.)</p> <p>19 (RECESS)</p> <p>20 (12:45 p.m.)</p> <p>21 MS. GLYNN:</p> <p>22 Q.</p> <p>23</p> <p>24 MS. GLYNN:</p> <p>25 Q. We have fixed the little glitch and we are</p>	<p>1 over, they refer on the next page there's a</p> <p>2 paragraph or two regarding Newfoundland</p> <p>3 Power, and they say, "Newfoundland Power is</p> <p>4 dependent", and this is the second</p> <p>5 paragraph, "on Newfoundland Hydro for</p> <p>6 approximately 93 percent of its customers'</p> <p>7 energy requirements, and Maritime Electric</p> <p>8 is dependent on New Brunswick Power for</p> <p>9 approximately 80 percent of its customers'</p> <p>10 energy requirements. The Corporations' in</p> <p>11 the Caribbean are dependent on third</p> <p>12 parties". They say, "A shortage or</p> <p>13 interruption of the supply of electricity or</p> <p>14 fuel for the above utilities could have a</p> <p>15 material impact on their operations". Then</p> <p>16 they go on to say, "Newfoundland Power</p> <p>17 experienced losses of electricity supply</p> <p>18 from Newfoundland Hydro in January 2013 and</p> <p>19 January 2014, which interrupted power supply</p> <p>20 and resulted in significant outages", and</p> <p>21 they go on then to a short paragraph where</p> <p>22 they say, "Future changes in supply cost at</p> <p>23 Newfoundland Power, including cost</p> <p>24 associated with Nalcor Energy Muskrat Falls</p> <p>25 Hydro-Electric Generation Development, and</p>
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<p>1 ready to proceed, Mr. Chair.</p> <p>2 CHAIRMAN:</p> <p>3 Q. I'm so excited.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. It's almost like a technician at Cessna</p> <p>6 talking to a plane up in the sky, "Do you</p> <p>7 see what I see", you know. Anyway, we are</p> <p>8 now on page 51, and right towards the middle</p> <p>9 of the page is that quote, "In the future,</p> <p>10 if natural gas becomes less expensive due to</p> <p>11 pricing or other factors, the ability of</p> <p>12 FortisBC Energy companies to add new</p> <p>13 customers could be impaired and existing</p> <p>14 customers could reduce their consumption of</p> <p>15 natural gas or eliminate its usage</p> <p>16 altogether as furnaces, water heaters, and</p> <p>17 other appliances are replaced. The above</p> <p>18 conditions may result in higher customer</p> <p>19 rates, and in an extreme case could</p> <p>20 ultimately lead to an inability of the</p> <p>21 FortisBC Energy companies to fully recover</p> <p>22 cost of service in rates charged to</p> <p>23 customers". Now that's where they were</p> <p>24 talking about competitiveness of natural gas</p> <p>25 in British Columbia. If you'll just turn</p>	<p>1 associated transmission assets, may affect</p> <p>2 electricity prices in a manner that affects</p> <p>3 Newfoundland Power's sales", and I note</p> <p>4 there that Fortis is not referencing a</p> <p>5 concern as it was in the case of the BC gas</p> <p>6 companies of even an extreme case of</p> <p>7 Newfoundland Power being unable to fully</p> <p>8 recover its cost of service. That's as I</p> <p>9 read that material. Would you agree?</p> <p>10 MS. PERRY:</p> <p>11 A. No, I would – I can't speak for Fortis.</p> <p>12 They've articulated FEI's situation with</p> <p>13 natural gas a bit differently. I do know</p> <p>14 that the words here for Newfoundland Power</p> <p>15 are really our words that they've used in</p> <p>16 their MD and A. So this is consistent with</p> <p>17 our public disclosures.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Okay. Now just to go further below, the</p> <p>20 next document talks about power purchase and</p> <p>21 capacity sales contracts, and they refer to</p> <p>22 FortisBC Electric's indirect customers are</p> <p>23 directly served by the company's wholesale</p> <p>24 customers, who themselves are municipal</p> <p>25 utilities. "The municipal utilities may be</p>

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<p>1 able to obtain alternate sources of energy</p> <p>2 supply which would result in decreased</p> <p>3 demand, higher customer rates, and in an</p> <p>4 extreme case could ultimately lead to an</p> <p>5 inability by FortisBC Electric to fully</p> <p>6 recover its cost of service in rates charged</p> <p>7 to customers". Again it's called an extreme</p> <p>8 circumstance in the case of FortisBC</p> <p>9 Electric. Ms. Perry, do you know why Fortis</p> <p>10 Inc. tells its investors that the prospects</p> <p>11 of these utilities not being able to fully</p> <p>12 recover its cost of service in rates charged</p> <p>13 is extreme?</p> <p>14 MS. PERRY:</p> <p>15 A. No, Mr. Chair, I can't comment as to why</p> <p>16 Fortis would say that it's extreme. What I</p> <p>17 do know is with management discussions and</p> <p>18 analysis, the risk section of that document</p> <p>19 is supposed to display, I guess, all</p> <p>20 possible risk, and there's many ways of</p> <p>21 saying what those risks are, but I can't</p> <p>22 speak for why they used the word "extreme"</p> <p>23 in that particular case.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. Knowing what you do, Ms. Perry, about the</p>	<p>1 MS. PERRY:</p> <p>2 A. Yes, I recall you said that.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. If I could get you to turn, Ms. Perry, to</p> <p>5 Fortis' third quarter report for a moment.</p> <p>6 That was a cross-aid that was sent over.</p> <p>7 MS. GLYNN:</p> <p>8 Q. So that would be the second document on the</p> <p>9 correspondence of March 28th.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. That's correct.</p> <p>12 MS. GLYNN:</p> <p>13 Q. We'll enter that as Info #5.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. It refers there at page 4, Ms. Perry, that</p> <p>16 "In June of 2015, the New York State Public</p> <p>17 Service Commission issued a rate order for</p> <p>18 Central Hudson covering a three year period</p> <p>19 with new electricity and natural gas</p> <p>20 delivery rates effective July 1, 2015. A</p> <p>21 delivery rate freeze was implemented for</p> <p>22 electricity and natural gas delivery rates</p> <p>23 through June 30, 2015, as part of the</p> <p>24 regulatory approval of the acquisition of</p> <p>25 Central Hudson by Fortis. Central Hudson</p>
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<p>1 regulatory regime and the passage we</p> <p>2 referred to earlier having to do with the</p> <p>3 ability of a regulated utility to recover</p> <p>4 its prudently incurred cost, it depends upon</p> <p>5 the utility achieving the forecast</p> <p>6 established in the rate setting processes,</p> <p>7 so does that shed light on why it would be</p> <p>8 so extreme for a utility in Canada, for</p> <p>9 instance, the Fortis utilities, not to be</p> <p>10 able to recover its cost of service in</p> <p>11 rates?</p> <p>12 MS. PERRY:</p> <p>13 A. Again I can't comment on the word "extreme".</p> <p>14 I just agree that a part of recovery of</p> <p>15 Newfoundland Power's prudently incurred cost</p> <p>16 is, yes, actually achieving our forecast</p> <p>17 cost that we will use when we come before</p> <p>18 this Board and file our General Rate</p> <p>19 Application.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. I referred to the fact that the return for</p> <p>22 Central Hudson in the United States is going</p> <p>23 down and went down by a full percentage</p> <p>24 point in July of 2015. Do you recall me</p> <p>25 saying that?</p>	<p>1 invested approximately US 125 million in</p> <p>2 energy infrastructure during the two year</p> <p>3 delivery rate freeze period ending June 30,</p> <p>4 2015. The approved rate order reflects an</p> <p>5 allowed ROE of 9 percent, and a 48 percent</p> <p>6 common equity component of capital structure</p> <p>7 and includes continuation of revenue</p> <p>8 decoupling and earning sharing mechanisms".</p> <p>9 Ms. Perry, I would like for you to confirm,</p> <p>10 and do you have to do this by going back to</p> <p>11 the stranded document perhaps this evening,</p> <p>12 that at CA-NP-031, Attachment "J", at page</p> <p>13 29 of 144, that Central Hudson had up to</p> <p>14 July of 2015 at an allowed ROE of 10 percent</p> <p>15 on 48 percent equity, okay, so that the</p> <p>16 order resulted in a 1 percent drop in the</p> <p>17 summer, okay. Can you confirm that for us</p> <p>18 tomorrow?</p> <p>19 MR. HAYES:</p> <p>20 Q. The witness can take it subject to check,</p> <p>21 Mr. Chairman.</p> <p>22 MS. PERRY:</p> <p>23 A. Yes, subject to check.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. Okay, thank you.</p>

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<p>1 MS. GLYNN:</p> <p>2 Q. And we'll issue that as an undertaking?</p> <p>3 MR. HAYES:</p> <p>4 Q. From what Mr. Johnson says, it's in the</p> <p>5 document that the witness is being referred</p> <p>6 to, so I'm assuming the document says what</p> <p>7 he says it says, it's confirmed.</p> <p>8 MS. GLYNN:</p> <p>9 Q. We'll just come back to it tomorrow.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Okay. Just referring now into this third</p> <p>12 quarter report at page 10, Ms. Perry,</p> <p>13 there's a discussion here about FortisBC</p> <p>14 Energy, which includes FortisBC Energy Inc.,</p> <p>15 FEI, and prior to December 31st, 2014,</p> <p>16 FortisBC Energy Vancouver Island, and Fortis</p> <p>17 BC Energy Whistler, and just to note here,</p> <p>18 Ms. Perry, that it would indicate at the</p> <p>19 bottom under earnings, if you go further</p> <p>20 down that page, it starts off, "The higher</p> <p>21 loss for the quarter and decrease in</p> <p>22 earnings year to date were mainly due to</p> <p>23 approximately 13 million and 9 million</p> <p>24 respectively associated with the timing of</p> <p>25 regulatory flow through deferral amounts, as</p>	<p>1 FEI, as we refer them to, their ROE, yes,</p> <p>2 did decrease. At the same time,</p> <p>3 Newfoundland Power at the time was 8.8. We</p> <p>4 were still the second lowest in the country</p> <p>5 at that time from what they were back then.</p> <p>6 (1:00 p.m.)</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. Can you turn to page 2 of that document, Ms.</p> <p>9 Perry, under the heading, "Corporate</p> <p>10 Overview"? Towards the bottom of that</p> <p>11 paragraph on page 2, around the middle,</p> <p>12 Fortis is indicating in this interim</p> <p>13 management discussion and analysis piece</p> <p>14 that, "The ability of a regulated utility to</p> <p>15 recover prudently incurred cost of providing</p> <p>16 service and earn the regulator approved rate</p> <p>17 of return on common shareholders equity,</p> <p>18 ROE, and/or rate of return on rate base</p> <p>19 assets, ROA, depends upon the utility</p> <p>20 achieving the forecast established in the</p> <p>21 rate setting process", and they go on to</p> <p>22 say, "If a historical test year is used to</p> <p>23 set customer rates", which is the situation</p> <p>24 that UNS Energy Corporation, "there may be</p> <p>25 regulatory lag between when costs are</p>
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<p>1 discussed above, and a decrease in the</p> <p>2 allowed ROE and equity component of capital</p> <p>3 structure as a result of the amalgamation of</p> <p>4 FBVI, which would be FortisBC Vancouver</p> <p>5 Island, and FBWI, being Fortis BC Energy</p> <p>6 Whistler, with FEI, effective December 31st.</p> <p>7 Prior to the amalgamation, the allowed ROEs</p> <p>8 for FBWI and FBVI were 9.25 percent and 9.5</p> <p>9 percent respectively on common equity</p> <p>10 component of capital structure of 41.5</p> <p>11 percent. Effective January 1st, 2015, the</p> <p>12 allowed ROE and common equity component of</p> <p>13 capital structure reverted to those of FEI,</p> <p>14 which are 8.75 and 38.5 percent</p> <p>15 respectively". So that would be a fairly</p> <p>16 significant drop in their allowed component</p> <p>17 of common equity for those two Fortis</p> <p>18 affiliates, would you agree, recently?</p> <p>19 MS. PERRY:</p> <p>20 A. Yes, I will agree that they both did see a</p> <p>21 drop in their ROE and capital structure. I</p> <p>22 would point out that FEI, the gas utility,</p> <p>23 is probably something in the order of 5 to 6</p> <p>24 times bigger than Newfoundland Power, and I</p> <p>25 would also point out that Fortis BC Gas, or</p>	<p>1 incurred and when they're reflected in</p> <p>2 customer rates", and, Ms. Perry, it seems</p> <p>3 that that would be a risk that Newfoundland</p> <p>4 Power would not have to face of regulatory</p> <p>5 lag on account of your forward test year,</p> <p>6 right?</p> <p>7 MS. PERRY:</p> <p>8 A. Yes, we file on a forecast test year basis,</p> <p>9 and I'm not familiar actually with how UNS</p> <p>10 sets their customer rates.</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. Did you have any discussion with Mr. Coyne</p> <p>13 as to whether the companies that he's trying</p> <p>14 to compare Newfoundland Power to similarly</p> <p>15 used forward test years?</p> <p>16 MS. PERRY:</p> <p>17 A. What was the question, Mr. Johnson?</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Did you have any discussion with Mr. Coyne</p> <p>20 as regards whether the companies that he is</p> <p>21 comparing Newfoundland Power to in terms of</p> <p>22 US utilities are using forward test years</p> <p>23 like Newfoundland Power or historic test</p> <p>24 years?</p> <p>25 MS. PERRY:</p>

<p style="text-align: right;">Page 141</p> <p>1 A. I didn't have direct conversation with Mr. 2 Coyne. I do know that some utilities have 3 historic test years, but they make changes 4 for known and measurable differences, so to 5 bring it almost to a forward looking 6 forecast test year – similar to a forecast 7 test year. 8 JOHNSON, Q.C.: 9 Q. I guess a forward looking testing year 10 according to Fortis is more desirable from 11 the point of view of regulatory lag, is that 12 correct? 13 MS. PERRY: 14 Q. I'm not sure if that is correct. I know 15 with respect to UNS they're suggesting that 16 there may be regulatory lag for when they 17 filed based on historic test year and in 18 that particular jurisdiction, but I'm not 19 sure they're making a broad observation. 20 JOHNSON, Q.C.: 21 Q. So, do you know whether or not Mr. Coyne is 22 putting forward forecast test year to US 23 utilities or whether it's historic or you 24 just don't know? 25 MS. PERRY:</p>	<p style="text-align: right;">Page 143</p> <p>1 each year, no. 2 JOHNSON, Q.C.: 3 Q. Okay. Would that be relevant to an equity 4 investor in Newfoundland Power, whether the 5 track record of actually achieving the 6 allowed returns? 7 MS. PERRY: 8 Q. I can't speak from the fact of how Mr. Coyne 9 uses that information with respect to 10 determination of a fair return or even the 11 purposes of developing a proxy group for 12 purposes of carrying Newfoundland Power or 13 comparing Newfoundland Power. What I would 14 say is that I believe personally that 15 whether you achieve your return, yes, it adds 16 to—it would be important to an equity 17 investor; that they would look to see how 18 you're doing with respect to earning your 19 allowed returns. 20 JOHNSON, Q.C.: 21 Q. Do you have any knowledge—you're a CFO of a 22 successful utility company here in this 23 Province, do you know if it's typical for 24 the Canadian Utilities to typically earn 25 their allowed return?</p>
<p style="text-align: right;">Page 142</p> <p>1 Q. Probably best to ask Mr. Coyne. I believe 2 he uses both. 3 JOHNSON, Q.C.: 4 Q. You believe he uses both. Even from the 5 United States? 6 MS. PERRY: 7 Q. It's probably best to confirm that with Mr. 8 Coyne. 9 JOHNSON, Q.C.: 10 Q. You don't know, is that right? 11 MS. PERRY: 12 Q. I would be subject to check, yes. 13 JOHNSON, Q.C.: 14 Q. We've seen, Ms. Perry, that Newfoundland 15 Power essentially always makes its allowed 16 return; twenty years running, they've done 17 that. Do you know if that's—have you been 18 in discussions with Mr. Coyne as regards 19 whether the US utilities, for instance, in 20 his sample, you know, tend to make the 21 allowed returns set by the regulators? 22 MS. PERRY: 23 Q. No, I have not had conversations with Mr. 24 Coyne about whether or not they've all 25 achieved their actual allowed returns in</p>	<p style="text-align: right;">Page 144</p> <p>1 MS. PERRY: 2 Q. What I can comment on, Mr. Chair, I guess 3 I'm familiar with the Fortis Group, in 4 particular. And I would say that yes, it is 5 reasonable that utilities earn their return. 6 I can't speak for each and every year, but 7 yes, they've been typical to earn their 8 return. 9 JOHNSON, Q.C.: 10 Q. And that would be your experience with the 11 Canadian utilities more generally than 12 besides Fortis, that they typically earn 13 their allowed returns? 14 MS. PERRY: 15 Q. Mr. Chair, I probably will refrain from 16 answering that just because I haven't done a 17 study of these Canadian utilities over any 18 specific period of time. So, I really can 19 only speak to Newfoundland Power and our 20 ability to earn our return. 21 JOHNSON, Q.C.: 22 Q. Have you had any discussion with Mr. Coyne 23 as to whether the typical United States 24 utility earns its returns annually? 25 MS. PERRY:</p>

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<p>1 Q. No, I have not.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Do you have any knowledge outside—given that</p> <p>4 you didn't discuss it with Mr. Coyne, do you</p> <p>5 have any knowledge on your own as to whether</p> <p>6 it's your understanding that the typical US</p> <p>7 utility earns its allowed return?</p> <p>8 MS. PERRY:</p> <p>9 Q. Mr. Chair, as I said, I haven't done any</p> <p>10 analysis to confirm whether or not utilities</p> <p>11 in Canada successively earn their return</p> <p>12 each and every year; I just haven't done</p> <p>13 that.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. And you just don't know what the case is in</p> <p>16 the United States either.</p> <p>17 MS. PERRY:</p> <p>18 Q. I've not done the review or study the United</p> <p>19 States either, no.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. Okay. I have a question about Newfoundland</p> <p>22 Power's weighted average return on equity as</p> <p>23 compared to other Canadian utilities. Could</p> <p>24 you turn to CA NP263? This table shows ATCO</p> <p>25 Electric, Nova Scotia Power, FortisAlberta,</p>	<p>1 table that we had FortisAlberta down as</p> <p>2 return on equity as 9. So, I take it from</p> <p>3 that that would have the effect of lowering</p> <p>4 the group average of weighted average return</p> <p>5 on equity, if we correct it for Alberta.</p> <p>6 MS. PERRY:</p> <p>7 Q. Yes, that is correct.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. Okay, yes, okay. And the justification,</p> <p>10 just—first of all, I guess for the record,</p> <p>11 please explain to us what the weighted</p> <p>12 average return on equity is.</p> <p>13 MS. PERRY:</p> <p>14 Q. Well, it's exactly as this table is showing.</p> <p>15 It's just looking at the percentage of the</p> <p>16 common equity included in the capital</p> <p>17 structure of a utility. And then taking</p> <p>18 into consideration the amount of return</p> <p>19 particularly with respect that one can earn</p> <p>20 on that capital structure. I do have to</p> <p>21 point out in this particular table that</p> <p>22 what's driving Newfoundland Power's weighted</p> <p>23 average return on equity is clearly the</p> <p>24 common equity ratio in our capital</p> <p>25 structure. We're at 45 and you know, we've</p>
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<p>1 FortisBC Electric, Maritime Electric and</p> <p>2 Newfoundland Power. And we asked to confirm</p> <p>3 that the table below was currently accurate</p> <p>4 and if it couldn't be confirmed, to explain.</p> <p>5 And it shows the weighted average return on</p> <p>6 equity—just to be clear. It's indicating</p> <p>7 that amongst these comparator groups, their</p> <p>8 weighted average return on equity over in</p> <p>9 Column G is 3.57 percent. Are you familiar</p> <p>10 with this reply, Ms. Perry?</p> <p>11 MS. PERRY:</p> <p>12 Q. Yes, I am.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Okay. And Newfoundland Power has proposed,</p> <p>15 your weighted average return on equity would</p> <p>16 be 4.28 percent.</p> <p>17 MS. PERRY:</p> <p>18 Q. Yes, that's what we proposed on this</p> <p>19 application.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. Okay. Now, just come down below, the answer</p> <p>22 A. You indicate that this information on</p> <p>23 the table is correct with the exception of</p> <p>24 the return on equity for FortisAlberta which</p> <p>25 is currently 8.3 percent. So, we see in the</p>	<p>1 not tried to hide behind the fact that</p> <p>2 Newfoundland Power's 45 percent is one of</p> <p>3 the highest in Canada and it's been around</p> <p>4 for over 20 years. And the Board has</p> <p>5 supported Newfoundland Power's capital</p> <p>6 structure to be 45 on the basis that we're a</p> <p>7 relatively small utility even when you</p> <p>8 compare to, particularly to FortisAlberta</p> <p>9 and Fortis BC and ATCO Electric. And we're</p> <p>10 in a limited growth environment. So, the 45</p> <p>11 percent for us is really reflective of risk</p> <p>12 that we face as a utility in comparison to</p> <p>13 the other utilities.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. Well, the other ones listed there, of</p> <p>16 course, are Nova Scotia Power and Maritime</p> <p>17 Electric, both have lesser common equity as</p> <p>18 well, Ms. Perry. And in terms of—Ms. Perry,</p> <p>19 that line shows and NP Proposed, would you</p> <p>20 be able to undertake to provide us NP</p> <p>21 Current at the 8.8 percent. And as well,</p> <p>22 fix what we see there for FortisAlberta so</p> <p>23 that we have a true representation of where</p> <p>24 Newfoundland Power's rated average return on</p> <p>25 equity currently sits relative to these</p>

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<p>1 utilities? Would that be possible?</p> <p>2 KELLY, Q.C.:</p> <p>3 Q. Are we being asked to essentially re-do this</p> <p>4 RFI to correct for the information that the</p> <p>5 Consumer Advocate wrongly put in it?</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. Well, if you put it like that, it doesn't</p> <p>8 sound very attractive, but what -</p> <p>9 KELLY, Q.C.:</p> <p>10 Q. Well, the answer to all the RFI's -</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. - I'd like to have, for the record, is an</p> <p>13 indication of how that actually does</p> <p>14 compare, the weighted average return on</p> <p>15 equity in a manner that is fixed. Bearing in</p> <p>16 mind, Mr. Chairman, that we didn't have</p> <p>17 unlimited rounds of RFI's. And so I think</p> <p>18 it's fair to have that before the Board in</p> <p>19 terms of what that weighted average return</p> <p>20 on equity is.</p> <p>21 KELLY, Q.C.</p> <p>22 Q. If you believe it would be helpful to the</p> <p>23 Board, Mr. Chairman, we'll do it, but it's</p> <p>24 your view.</p> <p>25 CHAIRMAN:</p>	<p>1 Q. Page 23.</p> <p>2 (1:15 p.m.)</p> <p>3 MS. GLYNN:</p> <p>4 Q. It's at Consent No. 2 that was entered this</p> <p>5 morning.</p> <p>6 KELLY, Q.C.:</p> <p>7 Q. The new one or the -</p> <p>8 MS. GLYNN:</p> <p>9 Q. No, the one that was entered this morning,</p> <p>10 the January 28th document. Table 10, is that</p> <p>11 correct?</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Table 13. Okay, so here, just to give you a</p> <p>14 chance to orientate yourself to the screen</p> <p>15 there or are you okay there, Ms. Perry?</p> <p>16 MS. PERRY:</p> <p>17 A. I'm good, thank you.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Thank you. At Table 13, if you could just</p> <p>20 scroll up a tiny bit there, Grant Thornton</p> <p>21 has set out the average common equity versus</p> <p>22 return on average rate base 2010 to 2017,</p> <p>23 over all those years and they set it out</p> <p>24 numerically in Table 13 and then they</p> <p>25 actually graph it below, with the red line</p>
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<p>1 Q. My view? I suppose it would help. I mean,</p> <p>2 is it very difficult for you to do, sir?</p> <p>3 KELLY, Q.C.:</p> <p>4 Q. We'll do the math, Mr. Chairman.</p> <p>5 CHAIRMAN:</p> <p>6 Q. Okay, thank you.</p> <p>7 MS. GLYNN:</p> <p>8 Q. The undertaking is noted.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Would you, in connection with that</p> <p>11 undertaking, would you please also show what</p> <p>12 Newfoundland Power would look like at 8.3</p> <p>13 and 40 percent, presumably you'll look</p> <p>14 identical to Fortis, but if you could just</p> <p>15 clarify what that would result, that would</p> <p>16 be appreciated. Is that okay?</p> <p>17 MS. PERRY:</p> <p>18 A. Yes, we will provide.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Thank you. Could I ask you now, Ms. Perry,</p> <p>21 to turn to the Grant Thornton Report at page</p> <p>22 23, Table 13?</p> <p>23 MS. PERRY:</p> <p>24 A. Sorry, what pages was that, Mr. Johnson?</p> <p>25 JOHNSON, Q.C.:</p>	<p>1 being the return on average rate base, the</p> <p>2 blue line being the return on average common</p> <p>3 equity and Grant Thornton observes, quote at</p> <p>4 line 12 "As demonstrated by the graph above,</p> <p>5 the proposed 2016 and 2017 return on average</p> <p>6 rate base results in an increase in the</p> <p>7 spread between the return on average common</p> <p>8 equity and return on average rate base as</p> <p>9 compared to the previous years shown." And</p> <p>10 you really get the sense that in fact, Ms.</p> <p>11 Perry, if you look at Table 13 how it's</p> <p>12 numerically expressed, that you had been</p> <p>13 going along at .97 in terms of the spread in</p> <p>14 2010, .06, 2011, .88 percent, 2012 and then</p> <p>15 it goes to 1.06 in 2013 and that would have</p> <p>16 been a test year, right, 2013?</p> <p>17 MS. PERRY:</p> <p>18 A. 2013 and 2014 were test years, yes.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Right, and so 2014 is 1.32 and then you</p> <p>21 really see it taking off in proposed 2016</p> <p>22 and proposed 2017 where the spread between</p> <p>23 your return on average common equity and</p> <p>24 return on average rate base is up in the</p> <p>25 1.84 percent and 1.86 percent, respectfully,</p>

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<p>1 in 2016 and 2017, and just to get your</p> <p>2 comment about, you know, the fact that that</p> <p>3 was flagged, it just sort of speaks to me</p> <p>4 about the fact that your request for 2016</p> <p>5 and 2017 is driving these spreads out of</p> <p>6 line.</p> <p>7 MS. PERRY:</p> <p>8 A. No, I disagree with the comment, Mr.</p> <p>9 Johnson. This is even a lot of math for me,</p> <p>10 so there's a lot behind the numbers, but the</p> <p>11 rate of return on average rate base is</p> <p>12 obviously subject to what we're forecasting</p> <p>13 in interest costs and also how we're</p> <p>14 forecasting rate base, so I'd have to get in</p> <p>15 under the numbers entirely with those</p> <p>16 spreads. The consistent factor that I do</p> <p>17 know in this mathematics, I guess, for the</p> <p>18 calculation is the average return on equity,</p> <p>19 which we are proposing to be 9.5 in this</p> <p>20 application, and that is higher than our</p> <p>21 current allowed ROE.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. And, you know, the fact that Grant Thornton</p> <p>24 has highlighted how there is an increased</p> <p>25 spread, does that tell anything—is this</p>	<p>1 the same long-term rating of BAA1 to both</p> <p>2 utilities. And did you prepare this</p> <p>3 evidence, Ms. Perry?</p> <p>4 MS. PERRY:</p> <p>5 A. I certainly read this evidence before it was</p> <p>6 filed.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. Okay, who prepared it?</p> <p>9 MS. PERRY:</p> <p>10 A. Well we have a team, a regulatory team that</p> <p>11 will assist in the compiling, but I would</p> <p>12 absolutely ready this before it was filed.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Okay, and are you aware, Ms. Perry, that</p> <p>15 DBRS gives a higher credit rating to</p> <p>16 Newfoundland Power than to Fortis Alberta?</p> <p>17 MS. PERRY:</p> <p>18 A. If you could give me a moment, Mr. Johnson?</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Yes.</p> <p>21 MS. PERRY:</p> <p>22 A. I believe the credit rating from DBRS is a</p> <p>23 low for Fortis Alberta.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. And it's what for Newfoundland Power?</p>
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<p>1 spread relevant to what an appropriate level</p> <p>2 of ROE would be for Newfoundland Power, you</p> <p>3 know, to see such an increased, an</p> <p>4 increasing spread relative to the last</p> <p>5 several years, going back to 2010?</p> <p>6 MS. PERRY:</p> <p>7 A. No, I'm not viewing this to be an indication</p> <p>8 that something is different. The rate of</p> <p>9 return on rate base is a function of your</p> <p>10 return on equity, your finance charges for</p> <p>11 the company and your forecast rate base, so</p> <p>12 one would assume that our rate base has been</p> <p>13 vetted and proved, interest charges that</p> <p>14 we've forecast and laid out in this</p> <p>15 application and our request for the rate of</p> <p>16 return on common equity is currently before</p> <p>17 this Board.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Ms. Perry, you or Newfoundland Power filed</p> <p>20 evidence by way of rebuttal recently in</p> <p>21 which you stated, perhaps we can get your</p> <p>22 rebuttal evidence up, page 7, lines 10 to 11</p> <p>23 you indicate that Moody's provides credit</p> <p>24 opinions in respect of both Newfoundland</p> <p>25 Power and Fortis Alberta and has assigned</p>	<p>1 MS. PERRY:</p> <p>2 A. It's A.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. A, right, okay. You didn't point that out</p> <p>5 in this rebuttal evidence that Newfoundland</p> <p>6 Power had a higher DBRS credit rating than</p> <p>7 Fortis Alberta, I take it?</p> <p>8 MS. PERRY:</p> <p>9 A. It wasn't specifically mentioned, but I did</p> <p>10 in my opening say that they had similar</p> <p>11 credit ratings and they are similar. The</p> <p>12 Moody's is the same and the DBRS is A and A</p> <p>13 low.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. And Moody's also gives an A2 rating on</p> <p>16 Newfoundland Power's senior secured debt,</p> <p>17 right?</p> <p>18 MS. PERRY:</p> <p>19 A. So Moody's has rated Newfoundland Power's</p> <p>20 BAA1 and in line with their methodology,</p> <p>21 they provided double notch upgrade because</p> <p>22 our debt is secured into our trust deed.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Right, and the Moody's report that you</p> <p>25 attached to your rebuttal evidence for</p>

<p style="text-align: right;">Page 157</p> <p>1 Fortis Alberta, perhaps you can just go to</p> <p>2 that in your rebuttal evidence. That's at</p> <p>3 Exhibit R-1 to the rebuttal evidence. Keep</p> <p>4 on going there, if you would. Yeah, so</p> <p>5 there you go, the first page, this is June</p> <p>6 30th, 2015, Moody's Opinion for Fortis</p> <p>7 Alberta and they don't refer to Fortis</p> <p>8 Alberta having a senior secured debt rating,</p> <p>9 is that because Fortis Alberta doesn't issue</p> <p>10 secured debt?</p> <p>11 MS. PERRY:</p> <p>12 A. I don't believe they do, no.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Now, Ms. Perry, can you explain to the Board</p> <p>15 how the issuance of secured debt provides</p> <p>16 more security to creditors than unsecured</p> <p>17 debt?</p> <p>18 MS. PERRY:</p> <p>19 A. Mr. Chair, I'm afraid I'm going to answer</p> <p>20 this and sound that I'm not fully</p> <p>21 understanding the question, but if you have</p> <p>22 security, it's obviously more secure than if</p> <p>23 you were to go a bit low with any unsecured</p> <p>24 assets, so if by chance that we were in</p> <p>25 default, the assets then become security for</p>	<p style="text-align: right;">Page 159</p> <p>1 but if you could take it subject to check.</p> <p>2 At the last hearing, Ms. Perry, we had</p> <p>3 somewhat of a discussion as to how in</p> <p>4 relation to Newfoundland Power's unsecured</p> <p>5 credit facility, I take it that credit</p> <p>6 facility is about 100 million dollars, is</p> <p>7 that right?</p> <p>8 MS. PERRY:</p> <p>9 A. Yes, we have 100 million unsecured credit,</p> <p>10 committed credit facility and a 20-million</p> <p>11 dollar demand facility.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Okay, and the last go-round we were talking</p> <p>14 how there had been an extension of that</p> <p>15 facility up to August of 2017, has that been</p> <p>16 further extended since that time?</p> <p>17 MS. PERRY:</p> <p>18 A. Could you give me a moment, Mr. Johnson, I'm</p> <p>19 just going to confirm that date. Mr.</p> <p>20 Johnson, I don't see it here. I believe we</p> <p>21 put it out to 2019, but that is subject to</p> <p>22 check.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Okay, just confirm that for us.</p> <p>25 MS. PERRY:</p>
<p style="text-align: right;">Page 158</p> <p>1 the lenders, so that just by its essence</p> <p>2 provides more security to the lenders.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. So holders of unsecured debt, they would</p> <p>5 rank subordinate to or behind holders of</p> <p>6 secured debt, would that be right?</p> <p>7 MS. PERRY:</p> <p>8 A. Yes, I would agree with that.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. And the proportion of Newfoundland Power's</p> <p>11 debt that is secured versus unsecured debt,</p> <p>12 I understand that as of 2015, December 31st,</p> <p>13 2015, Newfoundland Power had average debt of</p> <p>14 about 559 million dollars, is that correct?</p> <p>15 MS. PERRY:</p> <p>16 A. That sounds about right.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. Right, and 552 million of it was secured by</p> <p>19 first mortgage bonds, is that correct?</p> <p>20 MS. PERRY:</p> <p>21 A. I'd have to check the exact number, but yes,</p> <p>22 we have about 550 –</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. If you could take that subject to check and</p> <p>25 the reference is page 412 and footnote 21,</p>	<p style="text-align: right;">Page 160</p> <p>1 A. Sure.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Thank you. Is there any covenant as to how</p> <p>4 much debt Newfoundland Power could have in</p> <p>5 its capital structure in relation to that</p> <p>6 100 million dollar unsecured credit</p> <p>7 facility?</p> <p>8 MS. PERRY:</p> <p>9 A. So we are unable to go over a 65-percent</p> <p>10 debt within that credit facility.</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. So the trigger is 65 percent debt.</p> <p>13 MS. PERRY:</p> <p>14 A. 65 percent, yes.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. Okay, and it's close, really close now to</p> <p>17 1:30, Mr. Chairman and I think if it's okay,</p> <p>18 if we could call it here.</p> <p>19 CHAIRMAN:</p> <p>20 Q. Oh yes, thank you.</p> <p>21 Upon concluding at 1:30 p.m.</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 29th 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
29th day of March, 2016

Judy Moss
Discoveries Unlimited Inc.

A				
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