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]	Page 1		Page 3
1 October 19, 2009		1 A	. No, it was actually a fully distributed cost
2 (2:00 p.m.)	2	2	for all four of those individuals.
3 CHAIRMAN:	3	3 MR.	JOHNSON:
4 Q. Our vice-chairman has advised me, if she		4 O	. Okay. So that would be, in addition to the
5 passes out, we are to keep going. We'll not be	4	5	technologists, that would be like the
6 deterred by flu.	1	5	treasurer and those positions as well?
7 VICE-CHAIR WHALEN:		7 MS.	PERRY:
8 Q. You could check on me though.	8	8 A	. Yes, that is correct.
9 CHAIRMAN:	Ģ	9 MR.	JOHNSON:
Q. Check on you, yeah. Now when we broke off,	10	) Q	. And with respect to workers that are
where were we? You were going to continue	11		dispatched to the Caribbean to work on
your cross-examination, sir, were you not, I	12	2	properties that Fortis owns down there, do
believe?	13	3	they get anything extra for doing that, in
14 MR. JOHNSON:	14	4	terms of their pay or recognition?
15 Q. That's right.	15	5 MS.	PERRY:
16 CHAIRMAN:	16	5 A	. No, they do not.
17 Q. Is there anything preliminary before? Yes,	17		JRMAN:
18 sir.	18	8 Q	. Some nice weather, I guess.
19 KELLY, Q.C.	19		PERRY:
20 Q. Thank you, one small matter, Mr. Chairman. An	20	) A	. Nice weather.
21 undertaking from the last day was to provide		1 MR.	JOHNSON:
the BMO document with the current spread and	22	2 Q	. Okay, and turning to Kenmount Road, for a
that's being circulated and can be marked.	23	_	second, Ms. Perry, how did that sale come
24 MS. GLYNN:	24		about?
25 Q. We'll mark that as Undertaking No. 1.	25	5 MS.	PERRY:
	Page 2		Page 4
1 KELLY, Q.C.	a age 2	1 Д	The adjacent property owner was actually
2 Q. No. 1, thank you.		2	expanding its facilities, so the lands person
3 CHAIRMAN:		3	at Newfoundland Power actually queried as to
4 Q. That's this one here, yeah, okay. All right.		4	where they were actually building or expanding
5 So you're ready, Mr. Johnson? I guess, we		5	and it became obvious that it was an
6 can-back to you, sir.		5	opportunity that they actually wanted
7 MS. JOCELYN PERRY, MR. EARL LUDLOW, RESUMES STAND, CROSS		7	additional land coming towards the
8 EXAMINATION BY MR. THOMAS JOHNSON (CONT'D)		8	Newfoundland Power Kenmount Road building and
9 MR. JOHNSON:		9	also some land going out back. So it came
10 Q. Thank you, Mr. Chairman, Commissioners, good	10		about as their expansion of their facility.
afternoon. Just to start off, Ms. Perry, with			JOHNSON:
just a couple of snappers, short snappers that	12		. Okay, and what's the process, Ms. Perry,
were left over from Mr. Ludlow, and one there	13		that's followed at Newfoundland Power for
were left over from Mr. Edutow, and one dieter was an issue that he suggested I ask you	14		deciding whether or when or whether something,
15 about, and that was whether the charge out	15		an asset should come out of rate base?
rate for the technologists who were seconded,			PERRY:
whether that would be a market rate?	17		. If I understand the question, Mr. Johnson, how
18 MS. PERRY:	18		it was decided that this land could actually
19 A. The four seconded individuals that was noted	19		be sold and not included in rate base?
20 in that RFI were actually charged at fully			JOHNSON:
21 distributed cost.	21		. No. No, I mean how does Newfoundland Power,
22 MR. JOHNSON:	22	_	you know, determine or what tests or process
23 Q. Okay. So they would not have been charged at	23		does it apply in saying, you know, this now is
24 market rate?	23		a property or an asset that should no longer
25 MS BEDDY:	24		he in our rate base because it's not used or

be in our rate base because it's not used or

25 MS. PERRY:

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1 useful?	1 I'd r	efer to it as a ditch. It looks no more
2 MS. PERRY:	2 than	a property line, and up back, it's just a
3 A. Well, I haven't went through a process like	3 woo	ded area.
4 that. This particular piece of property was	4 MR. JOHNS	ON:
5 considered useful in the fact, as Mr. Ludlow	5 Q. Oka	y, and as you say, or someone said, it was
6 explained, this piece of property was bought	6 zone	ed rural. Would that be correct?
7 for the consolidation of the offices in the	7 MS. PERRY	:
8 St. John's area and this land was not	8 A. Then	re was one piece of it zoned rural, yes.
9 accessible through the Kenmount Road location.	9 MR. JOHNS	ON:
10 So it was a piece of land that was just	10 Q. And	I think in one of the RFI replies numbered
adjoined to our head office land and when it	11 184	there was a reference to a previous Board
became obvious that there was an opportunity	12 orde	r having to do with property located up at
to sell a bit of it on the side and up at the	13 Duft	fy Place.
14 back of the adjacent property owner's	14 MS. PERRY	:
15 facility, we determined, at that point, that	15 A. Yes.	
yes, this is something we could dispose of to	16 MR. JOHNS	ON:
the adjacent property owner.	17 Q. And	my understanding is that there was a Board
18 MR. JOHNSON:	18 orde	r that Newfoundland Power's rate base for
19 Q. When was Newfoundland Power's control centr	e 19 2000	) be reduced by the \$487,000 book value of
20 built, do you know?	20 that	property should it not be used for
21 MS. PERRY:	21 regu	latoryregulated purposes by 2000.
22 A. That was early 2000.	22 MS. PERRY	:
23 MR. LUDLOW:	23 A. Yes,	that's my understanding.
24 A. Could I -	24 MR. JOHNS	ON:
25 MR. JOHNSON:	25 Q. I thi	nk you got to keep going there, Mike.
	Page 6	Page 8
1 Q. Yeah, I think it would be helpful if you	1 MS. PERRY	
2 would, yeah, sure.		t piece of property was deemed surplus
3 MR. LUDLOW:		erty and that particular Board order
4 A. That would have been in 1999, just prior to		cally indicated that if this piece of
5 Y2K, Mr. Chair.		erty wasn't sold by a specific time, it
6 MR. JOHNSON:		to be removed from rate base.
7 Q. And I think we're referring there, Mr. Ludlo		
8 to the operation out on Topsail Road?		y, and do you know any of the history
9 MR. LUDLOW:	9 behi	nd that piece of property, Ms. Perry?
10 A. Yes, that's correct.	10 MS. PERRY	
11 MR. JOHNSON:		know that that piece of property was sold
12 Q. And I think Duffy Place was built in 1990.		the gain on that sale of property was
Ms. Perry, I think that's the evidence from		rded the same way that the gain on the
last day.	14 Ken	mount Road land was accounted for.
15 MS. PERRY:	15 MR. JOHNS	
16 A. 1990? Subject to check, yes.		do youI should have been more specific.
17 MR. JOHNSON:	· · · · · · · · · · · · · · · · · · ·	you know, you know, the story of how come
18 Q. Around there, okay, and so prior to the		property was not used and the Board had
property being sold to the adjacent people,		y "look, if it's not going to be used by
20 who you've referred to, can you recall wha	I	), it's got to come out of rate base"? Do
21 the property looked like, what had been don		know that story?
22 with it, Ms. Perry?	22 MS. PERRY	
23 MS. PERRY:		in detail, Mr. Johnson. I know that they
24 A. The particular property just has trees on it.	1	hased this plot of land towhich
The piece going up between the two building	re   25 cube	aguantly the call centre was built but

25

subsequently the call centre was built, but

The piece going up between the two buildings,

there was some excess land that resulted, after they decided to put the control centre on Topsail Road and the call centre on Duffy, and it was just considered surplus land at that time.  6 MR.JOHNSON: 7 Q. Okay, and just so I can understand, is there anyis there a process internally followed at Newfoundland Power as to when an asset or on assets are looked at and said "look, guys, should this be in rate hase any more or not?" 13 MS. PERRY: 14 A. Not a formal process. It mean, our assets are 15 bought with the intention of using it for the 16 provision of service. So very rarely would we 17 pm. JOHNSON: 18 Q. A dike in relation to this Kenmount Road 21 property, would your expectation be that the 22 Board or say the Consumer Advocate would have 23 to be asking you guys on, say, a yearly basis, 24 perhaps in the Capital Budget Application or 25 some other application, "look, is this all 26 your expectation? 27 your expectation? 28 MS. PERRY: 29 MR. JOHNSON: 20 Q. And like in relation to this Kenmount Road 21 property, would your expectation be that the 22 go and the call centre of process in the revery 23 MS. PERRY: 24 A. T m not sure that that is necessary. As I 25 said, we onlythese pieces of land are very 26 infrequent. Most of the assets that are 27 acquired are for use in the provision of 28 service. 29 MR. JOHNSON: 30 MS. PERRY: 31 MS. PERRY: 32 MS. PERRY: 33 MS. PERRY: 34 A. T mot sure that that is necessary. As I 35 said, we onlythese pieces of land are very 36 infrequent. Most of the assets that are 37 acquired are for use in the provision of 38 service. 39 MR. JOHNSON: 40 Q. I'll like to turn to another issue, and that is 30 in relation to your next long-term debt issue, 31 in relation to your next long-term debt issue, 32 MS. PERRY: 33 MS. PERRY: 34 A. Yes. 35 MR. JOHNSON: 36 Q. I'll like to turn to another issue, and that is 37 in relation to your next long-term debt issue, 38 MS. PERRY: 39 MS. PERRY: 30 MS. PERRY: 30 MS. PERRY: 31 MS. PERRY: 31 MS. PERRY: 32 MS. PERRY: 33 MS. PERRY: 34 A. T mo	<u> </u>	11111	- ugc	1 to 2010 General Rate Application
after they decided to put the control centre on Topsail Road and the call centre on Duffly, and it was just considered surplus land at that time.  MR.JOHNSON: O, Okay, and just so I can understand, is there a may—is there a process internally followed at Newfoundland Power as to when an asset or assets are looked at and said "look, guys, should this be in rate base any more or not?" Is there a process like that? Is MS.PERRY: Is MR.JOHNSON: To A to formal process. I mean, our assets are bought with the intention of using it for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. So very rarely would we properly, would your expectation be that the Board or say the Consumer Advocate would have to be asking you guys on, say, a yearly basis, perhaps in the Capital Budget Application or some other application, "look, is this all  Page 10 still being used and useful?" Would that be your expectation?  MS. PERRY:  MS. PERRY:  MS. PERRY:  MS. PERRY:  A Not a formal process. I mean, our assets are bought with the intention of using it for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service.  Page 10 still being used and useful?" Would that be your expectation?  MS. PERRY:  MS. PERRY:  MS. PERRY:  A Not a formal process. I mean, our assets are bought with the intention of using it for the that we provide the sale that the provision of service.  The provision of service.  MR. JOHNSON:  MR. JOHNSON		Page 9		Page 11
3 on Topsail Road and the call centre on Duffy, and it was just considered surplus land at that time.  5 that time.  6 MR.JOHNSON:  7 Q. Okay, and just so 1 can understand, is there any—is there a process internally followed at any—is there a process internally followed at any—is there a process like that?  8 any—is there a process internally followed at any—is there a process like that?  10 assets are looked at and said "look, guys, should this be in rate base any more or not?"  11 MS.PERRY:  12 Is there a process like that?  13 MS.PERRY:  14 A. Not a formal process. I mean, our assets are bought with the intention of using it for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. So very rarely would we have anything that wouldn't be deemed for use is 6 or the provision of service.  10 Q. And like in relation to this Kenmount Road property, would your expectation be that the property, would your expectation be that the some other application, "look, is this all property, would your expectation be that the some other application," look, is this all supprison of service.  11 Still being used and useful?" Would that be your expectation?  12 Still being used and useful?" Would that be your expectation?  13 MS.PERRY:  14 A. Pr. Not sure that that is necessary. As 1 said, we only—these pieces of land are very of infrequent. Most of the assest that are acquired are for use in the provision of service.  15 MR. JOHNSON:  16 Q. It dilk to turn to another issue, and that is in relation to your next long-term debt issue, Ms. Perry.  17 Attachment A, and in particular, page nine of nine. If you could come down a little bit further there, Michael? Yes, I'm focusing in on the long-term debt line there. Ms. Perry, the further, Michael? Yes, I'm focusing in on the long-term debt income forecast for line 15th, and the provision of the long of the Amended Application, and at the bottom, there's a footnote 40, and again, this is where you talked about the	1	there was some excess land that resulted,	1 MS. PF	ERRY:
and if was just considered surplus land at that there is a reference that time.  5 that time.  6 MR. JOHNSON:  7 Q. Okay, and just so I can understand, is there any surple shere a process internally followed at so when an asset or assets are looked at and said "look, guys, I is should this be in rate base any more or not?"  10 assets are looked at and said "look, guys, I is should this be in rate base any more or not?"  11 should this be in rate base any more or not?"  12 Is there a process like that?  13 MS. PERRY:  14 A. Not a formal process. I mean, our assets are bought with the intention of using it for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. So very rarely would we propriy, would your expectation be that the log and the propriy, would your expectation be that the log Canada will look like in 2012 in 19 June	2	after they decided to put the control centre	2 A.	Yes, that is correct.
that time.  MR_JOHNSON:  7 Q. Okay, and just so I can understand, is there any—is there a process internally followed at Newfoundland Power as to when an asset or should this be in rate base any more or not?" 10 assets are looked at and said "look, guys, should this be in rate base any more or not?" 11 should this be in rate base any more or not?" 12 Is there a process like that? 13 MS_PERRY: 14 A. Not a formal process. I mean, our assets are bought with the intention of using it for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. 19 MR_JOHNSON: 10 Q. And like in relation to this Kenmount Road property, would your expectation be that the Board or say the Consumer Advocate would have to be asking you guys on, say, a yearly basis, perhaps in the Capital Budget Application or some other application, "look, is this all said, we only—these pieces of land are very infrequent. Most of the assets that are acquired are for use in the provision of service.  9 MR_JOHNSON: 2 That would be difficult to do at this point. 3 MS_PERRY: 4 A. P'm not sure that that is necessary. As I said, we only—these pieces of land are very infrequent. Most of the assets that are acquired are for use in the provision of service.  9 MR_JOHNSON: 10 Q. I'd like to turn to another issue, and that is in relation to your next long-term debt issue, Ms_Perry; 13 MS_PERRY: 14 A. Yes. 15 MR_JOHNSON: 16 Q. It might be useful to turn to CA-NP-43, Attachment A. and in particular, page nine of not long-term debt line there. Ms_Perry, the first paragraph talks about the 6 million of like in relation to your dead of the form of the long on the long-term debt line there. Ms_Perry, the first paragraph talks about the 6 million of like in relation to your and that the provision of service.  10 Q. I'd like to turn to another issue, and that is inclusion to your expectation? 14 MR_JOHNSON:	3	_ ·	3 MR. JO	OHNSON:
6 MR. JOHNSON: 7 Q. Okay, and just so I can understand, is there any—is there a process internally followed at Newfoundland Power as to when an asset or assets are looked at and said "look, guys, if should this be in rate base any more or not?" 12 Is there a process like that? 13 MS. PERRY: 14 A. Not a formal process. I mean, our assets are boyen the intention of using it for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. So very rarely would we property, would your expectation be that the Board or say the Consumer Advocate would have to be asking you guys on, say, a yearly basis, 24 perhaps in the Capital Budget Application or some other application, "look, is this all still being used and useful?" Would that be your expectation? 1 still being used and useful?" Would that be your expectation? 2 MS. PERRY: 3 MS. PERRY: 4 A. I'm not sure that that is necessary. As I said, we only—these pieces of land are very infrequent. Most of the assets that are acquired are for use in the provision of service. 9 MR. JOHNSON: 10 Q. I'd like to turn to another issue, and that is in relation to your next long-term debt issue, Ms. Perry. 14 A. Yes. 15 MS. PERRY: 16 A. Yes. 17 (Q. I might be useful to turn to CA-NP-43, Attachment A, and in particular, page nine of nine. If you could come down a little bit further there, Michael? Yes, I'm focusing in on the long-term debt line there. Ms. Perry, the first paragraph talks about the 65 million dollar issue in May of '09 and then the next paragraph talks about the 65 million dollar issue in May of '09 and then the next paragraph talks about the 65 million dollar issue in May of '09 and then the next paragraph talks about the 65 million dollar issue in May of '09 and then the next paragraph talks about the 65 million dollar issue in May of '09 and then the next paragraph talks about the 65 million dollar issue	4	and it was just considered surplus land at		· · · · · · · · · · · · · · · · · · ·
7 Q. Okay, and just so I can understand, is there anyis there a process internally followed at Newfoundland Power as to when an asset or a sasets are looked at and said "look, guys, assets are looked at and said "look guys and the what the leng canada will look like in section of service.  10 Q. And like in relation to this Kenmount Road property, would your expectation be that the provision of service.  11 June?  22 MS. PERRY:  23 A. No, this is more of an all-in rate that we're looking at here.  24 Iooking at here.  25 MR. JOHNSON:  25 MR. JOHNSON:  26 Okay. So by extension, no assumptions made with respect to a credit spread of the long Canada?  27 MR. JOHNSON:  28 MS. PERRY:  29 MS. PERRY:  20 Do you make any estimate—in reaching that number, do you make any forecast as to what number, do you make any forecast as to what number, do you make any estimate—in reaching that number, do you make any forecast as to what number, do you make any forecast as to what number, do you make any estimate—in r	5	that time.	5	there that the forecast for 30 years at a
8 any—is there a process internally followed at Newfoundland Power as to when an asset or assets are looked at and said "look, guys, should this be in rate base any more or not?" 13 MS.PERRY: 14 A. Not a formal process. I mean, our assets are looked at heighbought with the intention of using it for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. 19 MR. IOHNSON: 20 Q. And like in relation to this Kenmount Road property, would your expectation be that the 22 Board or say the Consumer Advocate would have 23 to be asking you guys on, say, a yearly basis, perhaps in the Capital Budget Application or 25 some other application, "look, is this all 26 your expectation? Page 10 your expectation? Page 10 still being used and useful?" Would that be your expectation? A. T m not sure that that is necessary. As I said, we only—these pieces of land are very infrequent. Most of the assets that are acquired are for use in the provision of service. MS. PERRY: 13 MS.PERRY: 14 A. Yes. 15 MR. JOHNSON: 16 Q. It might be useful to turn to CA-NP-43, Attachment A, and in particular, page nine of nine. If you could come down a little bit further there, Michael? Yes, I'm focusing in on the long-term debt line there. Ms. Perry, the first paragraph talks about the 65 million dollar 24 long-term debt line there. Ms. Perry, the first paragraph talks about the 65 million dollar 24 long-term debt lise the free for June 15th, 24 long-term debt line there. Ms. Perry, the first paragraph talks about the 65 million dollar 24 long-term debt issue forecast for June 15th, 24 long-term debt	6 MR.	JOHNSON:		
Newfoundland Power as to when an asset or assets are looked at and said "look, guys, should this be in rathe base any more or nor?"  Is there a process like that?  MS. PERRY:  A. Not a formal process. I mean, our assets are looking to the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service.  MR. JOHNSON:  B. G. A. Well, it's certainly hard to pinpoint the forecasted cost of debt because we are looking out a few years to 2012. So that's about 50 basis points above the last debt issue that we had completed. There's really no fundamental to basis, other than it approximates the value that we just issue debt at.  MR. JOHNSON:  B. Q. And like in relation to this Kenmount Road property, would your expectation be that the Board or say the Consumer Advocate would have to be asking you guys on, say, a yearly basis, perhaps in the Capital Budget Application or some other application, "look, is this all  Page 10  Still being used and useful?" Would that be your expectation?  MS. PERRY:  A. Tim not sure that that is necessary. As I said, we onlythese pieces of land are very infrequent. Most of the assets that are acquired are for use in the provision of service.  MR. JOHNSON:  MR. JOHNSON:  Page 12  MS. PERRY:  A. Tim not sure that that is necessary. As I said, we onlythese pieces of land are very infrequent. Most of the assets that are acquired are for use in the provision of service.  MR. JOHNSON:  A. Well, it's certainly hard to pinpoint the had completed. There's really no fundamental basis, other han it approximates the value that we just issued debt at.  M. JOHNSON:  B. Q. Oyou make any estimate—in reaching that we just issued debt at.  M. Well, it's certainly hard to pin to favour aftew years to 2012. So that's about 50 basis points above the last debt issue that we lust few that we just issued debt at.  M. Well, it's certainly hard to pin to fav	7 Q		7	wondering how youhow is the forecast arrived
sasets are looked at and said "look, guys, should this be in rate base any more or not?"  Is there a process like that?  Is there a process like that?  Is MS. PERRY:  A. Not a formal process. I mean, our assets are bought with the intention of using it for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service.  A. Mot a formal process. I mean, our assets are bought with the intention of using it for the provision of service. So very rarely would we have anything that wouldn't be deemed for use for the provision of service.  A. A. In a completed. There's really no fundamental basis, other than it approximates the value that we just issued debt at.  A. To the provision of service.  A. Od a dilkie in relation to this Kenmount Road property, would your expectation be that the growing on say, a yearly basis, opportance of the unimber, do you make any estimate—in reaching that number, do you make any forecast as to what the long Canada will look like in 2012 in June?  Sw. PERRY:  Sw. PERRY:  Sw. PERRY:  MS. PERRY:  A. The not sure that that is necessary. As I said, we only-these pieces of land are very infrequent. Most of the assest that are acquired are for use in the provision of service.  MR. JOHNSON:  A. Well, it's certainly hard to polito, all we wait and completed. There's really no fundamental basis, other than it approximates the value that we just issued debt at.  Do you make any estimate—in reaching that unmber, do you make any estimate—in reaching that we number, do you make any estimate—in reaching that unmber, do you make any estimate—in reaching that we number, do you make any estimate—in reaching that we number, do you make any estimate—i	8	• •	8	at?
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Is there a process like that?  Is MS.PERRY:  Is dout a few years to 2012. So that's about 50 basis points above the last debt issue that we had completed. There's really no fundamental basis, other than it approximates the value that we just issued debt at.  If MR. JOHNSON:  O And like in relation to this Kenmount Road property, would your expectation be that the Board or say the Consumer Advocate would have perhaps in the Capital Budget Application or some other application, "look, is this all still being used and useful?" Would that be your expectation?  Is still being used and useful?" Would that be your expectation?  MR. JOHNSON:  Page 10  Still being used and useful?" Would that be your expectation?  MR. JOHNSON:  Page 10  O Okay. So by extension, no assumptions made with respect to a credit spread of the long with respect to a credit spread	10			
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4 M. I'm not sure that that is necessary. As I 5 said, we onlythese pieces of land are very 6 infrequent. Most of the assets that are 7 acquired are for use in the provision of 8 service. 9 MR. JOHNSON: 10 Q. I'd like to turn to another issue, and that is 11 in relation to your next long-term debt issue, 12 Ms. Perry. 13 Ms. Perry. 14 A. Yes. 15 MR. JOHNSON: 16 Q. It might be useful to turn to CA-NP-43, 17 Attachment A, and in particular, page nine of 18 further there, Michael? Yes, I'm focusing in 19 on the long-term debt line there. Ms. Perry, 21 the first paragraph talks about the 65 million 22 dollar issue in May of '09 and then the next 23 paragraph talks about a 50 million dollar 24 long-term debt issue forecast for June 15th,  14 MS. PERRY: 5 A. That would be difficult to do at this point. 6 MR. JOHNSON: 7 Q. Okay, and I take it, do I have this right that 8 there were long bonds issued by Newfoundland 9 Power in 2002, 2005, 2007 and 2009 and we 10 won't see it again until 2012? Would that be 11 right? 12 MS. PERRY: 13 A. Based on today's assumptions, yes, that is 14 true. 15 MR. JOHNSON: 16 Q. And if I could turn you to, again, page 312 of 17 the Amended Application, and at the bottom, 18 there's a footnote 40, and again, this is 19 where you talked about the trust deed coverage 19 being two times or higher. Do you see that, 20 Ms. Perry? 21 Ms. Perry? 22 Ms. PERRY: 23 A. Yes, I do. 24 MR. JOHNSON:	2	your expectation?	2	with respect to a credit spread of the long
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paragraph talks about a 50 million dollar 23 A. Yes, I do. long-term debt issue forecast for June 15th, 24 MR. JOHNSON:	21			•
long-term debt issue forecast for June 15th, 24 MR. JOHNSON:	22	· ·	1	
	1			
25 20102012, I'm sorry. Is that correct?   25 Q. And I just want to focus in, because I don't	24	_		
	125	20102012, I'm sorry. Is that correct?	25 Q.	And I just want to focus in, because I don't

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1	know if I got this properly the last time,	1 utilities.
2	focus in on the part that says that the	2 MR. JOHNSON:
3	company's 2010E trust deed interest is 2.1	3 Q. So has Moody's given you a list of the
4	times, and then it goes on to say "this is	4 companies on your peer group?
5	near the bottom of the range at which the	5 MS. PERRY:
6	company can issue additional first mortgage	6 A. No. However, in the Moody's report, if we
7	bonds." Can you explain exactly what's meant	7 could turn to it, under Exhibit 4, and they're
8	there?	8 not numbered, but on page two of the report -
9 (2:	15 p.m.)	9 MR. JOHNSON:
10 MS.	. PERRY:	10 Q. Is that the March 6th '09 one?
11 A	A. The trust deed requires that Newfoundland	11 MS. PERRY:
12	Power meet an earnings coverage test before it	12 A. Yes. If you turn to the second last paragraph
13	can issue new bonds. So if we are going to	on that page, they do indicate there, the
14	issue and to use assumptions within this	second line, "however, Newfoundland Power's
15	application, if we are going to issue debt in	ratios generally continue to be somewhat
16	2012, we have to take 2011's earnings before	weaker than those of other Baa1 rated peers
17	interest and taxes and we then have to divide	predominately engaged in T and D" and they
18	by total interest. The total interest would	have identified Atlantic City Electric
19	also have to include the new interest on the	19 Company, Connecticut Light and Power, and
20	new bond issued in 2012, and that has to be	20 Fortis Alberta.
21	over two times.	21 MR. JOHNSON:
	. JOHNSON:	22 Q. Okay. Are you aware of whether or not you
23 (	Q. And just go back for a moment. The May 25th	have more peers than just those?
24	2009 bond issue, who were the underwriters of	24 MS. PERRY:
25	that bond issue, Ms. Perry?	25 A. Moody's has not provided who the peer group is
	Page 14	Page 16
	. PERRY:	1 for Newfoundland Power, no.
2 A	A. RBC. We didn't actually underwrite that	2 MR. JOHNSON:
3	particular issue, but RBC was the agent.	3 Q. And would the peer group only consist of
1	. JOHNSON:	4 transmission and distribution utilities or
1	Q. Okay. They were the sole agent on that?	5 others?
	. PERRY:	6 MS. PERRY:
1	A. Yes, they were.	7 A. I suspect so, but I'm not sure.
	. JOHNSON:	8 MR. JOHNSON:
	Q. And just to clean up a little bit more, I	9 Q. See, what gets me about that is that Moody's
10	notice on the transcript from October 15th,	is saying that you appear to be somewhat
11	page 116 actually, yes, at the bottom around	weaker than those of other Baa1 rated peers,
12	line 20, that's where we're having a	and then they say such as, which is a subset
13	discussion about Moody's, etcetera, and you	of peers, and so your evidence is that there
14	say "so to say that they will accept lower	is no other peers that Moody's have told you
15	financial metrics within our peer group, I	15 about?
16	don't believe that to be the case." Now, and	16 MS. PERRY:
17	just to follow up on that, what peer group are you referring to?	17 A. No, I've not specifically received a list from Moody's of all peers that they compare us to.
18	you referring to? . PERRY:	Moody's of all peers that they compare us to.  19 MR. JOHNSON:
	A. Moody's actually indicate in our annual credit	20 Q. Would you be able to find out who they are
$\begin{vmatrix} 20 & P \\ 21 & \end{vmatrix}$	rating that they consider our credit metrics	21 comparing you to when they talk about peers
22	to be low compared to our peer group. So this	22 and provide that as an undertaking?
23	particular peer group that I'm referring to is	23 KELLY, Q.C.
24	the peer group that Moody's has grouped us	24 Q. I don't know if that's even possible, Mr.
25	with within their assessment of regulated	25 Chairman

Chairman.

with within their assessment of regulated

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Page 17	Page 19
1 MR. JOHNSON:	1 A. Yes, that is correct.
2 Q. Well, I guess, I think it would be possible,	2 MR. JOHNSON:
3 Mr. Chairman, I mean, on the basis that	3 Q. Okay, and do you agree, looking at this
4 Moody's has provided a letter. They refer to	4 document, that the percentage ranged plus or
5 peers and as an information say, "by the way,	5 minus 11 percent over that period of time on a
6 further to that letter, who is in the peer	6 yearly basis?
7 group with us?" I can't see Moody's being	7 MS. PERRY:
8 upset by that.	8 A. Yes, it would be minus 11 percent in 1986 and
9 KELLY, Q.C.	9 it ranged to 11.6 in 2006.
10 Q. All we can do is inquire, Mr. Chairman.	10 MR. JOHNSON:
Beyond that, I can't undertake because we	11 Q. Okay, and for instance, in 2006, there was
don't know.	3.48 million as a total adjustment, but the
13 CHAIRMAN:	bulk of that 2.7 million was Weather
14 Q. You can ask.	Normalization Reserve adjustment, right?
15 KELLY, Q.C.	15 MS. PERRY:
16 Q. We can ask.	16 A. Yes, that is correct.
17 CHAIRMAN:	17 MR. JOHNSON:
	18 Q. Okay, and would these be considered material
18 Q. Well, let's ask and see what happens. 19 KELLY, Q.C.	
1	
Q. Oh yes, no problem with that. I just can't	20 MS. PERRY:
21 undertake to do more than that.	21 A. Yes, it's certainly material, yes.
22 MR. JOHNSON:	22 MR. JOHNSON:
Q. Okay. Thank you very much. Just turning to	23 Q. Yeah, and you'll recall, so you recall then
24 another issue now for a moment. On October	24 when we discussed CA-189 in relation to a
25 16th, I provided copies of certain answers to	25 PEVDA transfer, if you would have had the
Page 18	Page 20
1 RFIs from Newfoundland Power's last case. Ms.	1 PEVDA set up for 2006, I think that would
2 Perry, you've seen that I take it?	2 havethat showed, and I think the record will
3 MS. PERRY:	bear me out, that the transfer would have been
4 A. Yes, I have.	4 another 2.864 million dollars in 2006, just in
5 MR. JOHNSON:	5 relation to the PEVDA. Would that be correct?
6 Q. Just -	6 MS. PERRY:
7 MS. GLYNN:	7 A. What RFI was that again, Mr. Johnson?
8 Q. We can enter those as Information items 5, 6	8 MR. JOHNSON:
9 and 7.	9 Q. 189, Ms. Perry.
10 MR. JOHNSON:	10 MS. PERRY:
11 Q. That's fine, thank you. Yes, Ms. Perry, the	11 A. 189. Yes, I have it now, Mr. Johnson.
first one, I guess, I'd like to take you to is	12 MR. JOHNSON:
13 CA-NP-141 from the last hearing.	13 Q. Okay, and if you just go down a little bit,
14 MS. PERRY:	that figure I just mentioned, the 2.864
15 A. Yes, I have it.	million dollar figure, that was in the 2006
16 MR. JOHNSON:	16 column?
	17 MS. PERRY:
Q. Yeah, and in that one, that has to do with the Weather Normalization account and basically	
1	
what that question asks and you provided was a	19 MR. JOHNSON:
table showing adjustments to the Weather	20 Q. So now, like if you'reand I realize we're
Normalization account and the Rate	
Ctal::1:-ation	looking back, but had your PEVDA been an
22 Stabilization account as a percentage of	account by my looking at the math on CA-NP-
return on equity, and for the years 1986 to	22 account by my looking at the math on CA-NP- 23 141, you would have been talking about a
	account by my looking at the math on CA-NP-

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	Page 2		Page 23
1	Weather Normalization Reserve with the nearly	1 MS. I	•
2	2.9 million dollars from the PEVDA in 2006.		. Yes, it is correct.
3	Would that be accurate? Would that be more or		JOHNSON:
4	less fair?		. Those are my questions, Ms. Perry. Thank you.
1	PERRY:		IRMAN:
1 -	A. If you assume that the PEVDA was in operation		. I guess it's Mr. Simmons now, is it?
7	for 2006 and if you assume you benchmarked it		GLYNN:
8	off of 2004's test year, yes, this is the		. No, actually, I believe Mr. Earle is going to
9	amount that would have been transferred to the	9	continue with some cross-examination.
10	PEVDA account. However, of the 2.8 variance,	10 EAR	
11	I spoke of the reason why pension expense was		. We're going to find out now, Mr. Chairman, if
12	higher than the test year was because we	12	a change is as good as a rest. I have some
13	implemented an early retirement program. So	13	questions for the witness in the area of
14	about 1.1 million of that increase actually	14	OPEBS.
15	related to that early retirement program. So	15 CHA	
16	I'm not so sure that the cost associated with		. You're the OPEB man, are you?
17	an early retirement program would have flown	17 EAR	
18	through a PEVDA, if in fact it had existed at		. I'm the OPEB man.
19	that time.	19 CHA	
	JOHNSON:		. We look forward to it.
1	Q. That's fine. I just want to get a sense of	1	PERRY - CROSS-EXAMINATION BY RANDY EARLE, Q.C.:
22	the magnitude of the number as a percentage of	22 EAR	
23	return on equity. The other point that I'll		. Good afternoon, Ms. Perry. Would it be fair
24	just raise with you, and it has to do with the	24	to say, Ms. Perry, that OPEBs are, with the
25	letter that I sent over on Friday, which would	25	exception of the retirement allowance,
	·	+	
,	Page 22 be number 202.	2   1	Page 24 essentially a subset of group benefits?
1	PERRY:	2 MC	PERRY:
	A. Yes.		Yes, that would be a fair statement.
1	a. Tes. JOHNSON:		LE, Q.C.
١	Q. And I take it that this the reason I ask		. And would it also be fair to say that you're
$\begin{vmatrix} 5 \\ 6 \end{vmatrix}$	you this, Ms. Perry, is that in CA-NP-364, I	$\begin{vmatrix} 5 & Q \\ 6 & \end{vmatrix}$	in a position in common with most of the
	asked when these utilities had switched to the	7	Financial VPs or Chief Financial Officers of
7	accrual method, but Newfoundland Power		Canadian corporations providing group
8	indicated it didn't have the requested	8 9	benefits, that the cost of group benefits is a
9	information. So 202 from the last case, that	10	matter very much on your agenda?
10	would be accurate as of the date that was		
11			PERRY:  . It's certainly on the agenda for Newfoundland
12 MG	filed, right?		
1	. PERRY: A. Yes, it would.	13	Power, yes. LE, Q.C.
1	a. Tes, it would. JOHNSON:		· · ·
1			. And would it also be fair to say that of group
1	Q. And finally, and I promise this will be my	16	benefits, for instance, cost of drugs over the
17	last foray into OPEBs, is 213.	17	past few years has probably been one of the
1	. PERRY:	18	most quickly escalating costs in your company,
110	A. Yes.	19	let alone just within the group benefits area?
	IOHNSON:	120 M/S	PERRY:
20 MR			
20 MR 21 (	Q. This from last case would represent	21 A	. We have seen some pressures on our group
20 MR 21 0 22	Q. This from last case would represent Newfoundland Power's forecast of proforma	21 A 22	. We have seen some pressures on our group benefits plan. The utilization, in
20 MR 21 (	Q. This from last case would represent	21 A	. We have seen some pressures on our group

drivers to our premium renewals each year

accounting, correct?

Page 25 versus the drug cost even though that is playing into it, but we've – you know, the costs have increased and they have certainly increased in the last couple of years, but we have controlled those costs over the last couple of years. FARIF, Q.C.  7 EARIF, Q.C.  8 O. So utilization is a driver, as well as the good of prescription drugs, in particular? 10 MS. PERRY: 11 A. Yes, it is. 12 EARLE, Q.C. 18 O. So utilization or and that tells generally your plan operates and I'm sure, for instance, that the curiosity was probably to tweaked by – if we could look at CA-NP-36, and we see discussion of transfers from funds and things of that nature. You have an unrestricted deposit account actually came about as a result of our change from Great West Life to BIbe Cross. When we went to market in 2006, the premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that were negotiated for 2006 and onward were actually lower than the current premiums that		117, 2007 Nuit	- <b>I</b>	age 141 8 2010 General Rate Application
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annual basis. The financial arrangements are such that certain large claims will not make it into the pool of losses. The insurer will take that risk, but certainly Newfoundland Power and the insurer shares in the losses based on the utilization for each year.  PEARLE, Q.C.  A. For retirees over 65, they get a life benefit of \$10,000.00, plus health benefits which are capped at \$5,000.00 per retiree and dependant.  PEARLE, Q.C.  Region of \$10,000.00 per retiree and dependant.  A. Yes, it would.  A. Yes, it would.  A. Yes, it would.  A. For retirees over 65, they get a life benefit of \$10,000.00, plus health benefits which are capped at \$5,000.00 per retiree and dependant.  A. Yes, we do.  A. Yes, there is, yes.  A. Yes, there is, yes.  A. Yes, there is, yes.	12		12	^
14 such that certain large claims will not make 15 it into the pool of losses. The insurer will 16 take that risk, but certainly Newfoundland 17 Power and the insurer shares in the losses 18 based on the utilization for each year. 19 EARLE, Q.C. 20 Q. So you pool certain large claims essentially, 21 right? 22 MS. PERRY: 23 A. Yes, we do. 24 EARLE, Q.C. 31 EARLE, Q.C. 31 EARLE, Q.C. 32 What benefits? 33 A. For retirees over 65, they get a life benefit and separate shares of \$10,000.00, plus health benefits which are and dependent. 30 EARLE, Q.C. 31 Q. And is there a travel benefit? 32 MS. PERRY: 33 A. Yes, we do. 34 EARLE, Q.C. 35 Q. What benefits? 36 MS. PERRY: 37 A. For retirees over 65, they get a life benefit and separate shares of \$10,000.00, plus health benefits which are appeared at \$5,000.00 per retiree and dependent. 30 EARLE, Q.C. 31 Q. And is there a travel benefit? 32 MS. PERRY: 33 A. Yes, there is, yes. 34 EARLE, Q.C.	13	*		
it into the pool of losses. The insurer will take that risk, but certainly Newfoundland Power and the insurer shares in the losses based on the utilization for each year.  Particle 20 Q. So you pool certain large claims essentially, right?  21 Rearres 22 MS. Perry: 22 MS. Perry: 23 A. Yes, we do. 24 EARLE, Q.C. 25 Q. What benefits? 16 MS. Perry: 17 A. For retirees over 65, they get a life benefit 18 of \$10,000.00, plus health benefits which are 19 capped at \$5,000.00 per retiree and dependant. 20 EARLE, Q.C. 21 Q. And is there a travel benefit? 22 MS. Perry: 23 A. Yes, we do. 24 EARLE, Q.C. 25 Q. What benefits? 26 MS. Perry: 27 A. For retirees over 65, they get a life benefit 28 Of \$10,000.00, plus health benefits which are 29 EARLE, Q.C. 20 EARLE, Q.C. 21 Q. And is there a travel benefit? 22 MS. Perry: 23 A. Yes, there is, yes. 24 EARLE, Q.C.	14	_	14	
take that risk, but certainly Newfoundland Power and the insurer shares in the losses based on the utilization for each year.  Particle Earle, Q.C.  Q. So you pool certain large claims essentially, right?  MS. PERRY:  A. For retirees over 65, they get a life benefit of \$10,000.00, plus health benefits which are capped at \$5,000.00 per retiree and dependant.  Particle Earle, Q.C.  Particle MS. PERRY:  Reference over 65, they get a life benefit of \$10,000.00, plus health benefits which are Reference at \$5,000.00 per retiree and dependant.  Particle MS. PERRY: Reference over 65, they get a life benefit Reference over 65, t	1			
Power and the insurer shares in the losses based on the utilization for each year.  18 based on the utilization for each year.  19 EARLE, Q.C.  20 Q. So you pool certain large claims essentially, right?  21 right?  22 MS. PERRY:  23 A. Yes, we do.  24 EARLE, Q.C.  21 Power and the insurer shares in the losses of \$10,000.00, plus health benefits which are capped at \$5,000.00 per retiree and dependant.  20 EARLE, Q.C.  21 Q. And is there a travel benefit?  22 MS. PERRY:  23 A. Yes, we do.  24 EARLE, Q.C.  24 EARLE, Q.C.	1			
based on the utilization for each year.  19 EARLE, Q.C.  20 Q. So you pool certain large claims essentially, 21 right?  22 MS. PERRY: 23 A. Yes, we do. 24 EARLE, Q.C.  18 of \$10,000.00, plus health benefits which are 19 capped at \$5,000.00 per retiree and dependant. 20 EARLE, Q.C. 21 Q. And is there a travel benefit? 22 MS. PERRY: 23 A. Yes, we do. 24 EARLE, Q.C. 24 EARLE, Q.C.	17	•	17	A. For retirees over 65, they get a life benefit
19 EARLE, Q.C.  19 capped at \$5,000.00 per retiree and dependant.  20 Q. So you pool certain large claims essentially,  21 right?  22 MS. PERRY:  23 A. Yes, we do.  24 EARLE, Q.C.  29 capped at \$5,000.00 per retiree and dependant.  20 EARLE, Q.C.  21 Q. And is there a travel benefit?  22 MS. PERRY:  23 A. Yes, there is, yes.  24 EARLE, Q.C.	18		18	· · ·
20 Q. So you pool certain large claims essentially, 21 right? 22 MS. PERRY: 23 A. Yes, we do. 24 EARLE, Q.C. 25 EARLE, Q.C. 26 EARLE, Q.C. 27 EARLE, Q.C. 28 EARLE, Q.C. 29 EARLE, Q.C. 20 EARLE, Q.C. 21 Q. And is there a travel benefit? 22 MS. PERRY: 23 A. Yes, there is, yes. 24 EARLE, Q.C.	19 EAR	•	19	-
21 right? 22 MS. PERRY: 23 A. Yes, we do. 24 EARLE, Q.C. 21 Q. And is there a travel benefit? 22 MS. PERRY: 23 A. Yes, there is, yes. 24 EARLE, Q.C.	1		20	
22 MS. PERRY:       22 MS. PERRY:         23 A. Yes, we do.       23 A. Yes, there is, yes.         24 EARLE, Q.C.       24 EARLE, Q.C.		· · ·		- I
23 A. Yes, we do. 23 A. Yes, there is, yes. 24 EARLE, Q.C. 24 EARLE, Q.C.	22 MS. I	-	22	· · ·
24 EARLE, Q.C. 24 EARLE, Q.C.				
			24	·
25 Q. And you have this unrestricted deposit account   25 Q. But they do not have dental?	1	And you have this unrestricted denosit account	25	O Rut they do not have dental?

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1 MS. PERRY:	supplied us indicates that for your active
2 A. No, there's no dental offered post 65.	2 employees the disability premium for tax
3 EARLE, Q.C.	3 reasons is being paid entirely by the
4 Q. And when you talk health benefits, and I think	4 employee?
5 this is consistent throughout, we're talking	5 MS. PERRY:
6 about what is generally considered extended	6 A. Yes, when you're an active employee of
7 health care, that is prescription drugs,	7 Newfoundland Power, we apply 50 percent of the
8 hospitalization, allied health professionals,	8 premium that the employee pays towards
9 etc?	9 disability first, such that in the event that
10 MS. PERRY:	they avail of the disability income, it'll be
11 A. Yes, that is correct.	non-taxable.
12 EARLE, Q.C.	12 EARLE, Q.C.
Q. And for your under 65 retirees, they receive	Q. So with the diversion of that money back to
what benefits?	the extended health care and dental, one would
15 MS. PERRY:	expect that there might be some reduction in
16 A. Retirees under 65 avail of similar benefits	the overall premium?
that they received when they were active	17 MS. PERRY:
employees. There are some modest reductions	18 A. Once the
when you go into retirement, but they are very	19 EARLE, Q.C.
similar to the active benefits benefits	20 Q. For the pre 65 retiree?
21 that you would get when you're an active	21 MS. PERRY:
employee of Newfoundland Power.	22 A. I suspect there would be some reduction in
23 EARLE, Q.C.	premium, yes, for the employee.
24 Q. And do they receive disability?	24 EARLE, Q.C.
25 MS. PERRY:	Q. Now if we could go to Table 8 of the report on
Page 30	Page 32
1 A. No, we do not offer disability in retirement.	1 OPEBs.
2 EARLE, Q.C.	2 MS. PERRY:
3 Q. Now the under 65 retirees pay half of the	3 A. I'm sorry, Mr. Earle, is that under an
4 cost, correct?	4 exhibit?
5 MS. PERRY:	5 MR. JOHNSON:
6 A. Yes, that is correct.	6 Q. It's at Volume 2, is it?
7 EARLE, Q.C.	7 EARLE, Q.C.
8 Q. The over 65 retirees pay nothing, is that	8 Q. Perhaps you can go to Table 8.
9 correct?	9 MR. JOHNSON:
10 MS. PERRY:	10 Q. Tab 8, is it?
11 A. That is correct, yes.	11 EARLE, Q.C.
12 EARLE, Q.C.	12 Q. Table 8. There we go. So just to confirm,
Q. And, of course, your under 65 retirees are	with the revisions being made, this indicates
somewhat cushioned because with the	that you have after incorporating the tax
termination of the disability benefit, there	effect, you have as the result of accruing
is a significant cost to which employee	OPEBs, in the 2010 test year, just that one
contributions were being made that no longer	item will require 6.8 million dollars more
applies, right?	revenue, correct?
19 MS. PERRY:	19 MS. PERRY:
20 A. Once you go into retirement, there's no need	20 A. Yes, that is correct.
for the employee to pay their portion of the	21 EARLE, Q.C.
disability premium. I believe that's your	22 Q. And if we go to Table 8, not of the revised
question, Mr. Earle?	application, but of the original, if we could,
24 EARLE, Q.C.	and see that the revenue requirement there was
25 Q. Yes, and I believe the information you have	25 5.6 million?

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Page	33 Page 35
1 MS. PERRY:	1 EARLE, Q.C.
2 A. Yes.	2 Q. At the end of every month. So would you
3 EARLE, Q.C.	3 recalculate your accrual expense every month?
4 Q. So that's a change of 1.2 million over how	4 MS. PERRY:
5 long a period has that happened? How long is	5 A. No. The discount rate tat is used to
6 it since your original application was filed	6 calculate the expense is the discount rate in
7 to the revision?	7 effect on December 31st each year. So the
8 MS. PERRY:	8 actuaries provide the discount rate, so we can
9 A. This particular application the first	9 have some visibility as to where the discount
application was filed in May, and this revised	rates are going, but it's certainly pegged off
11 application	the December 31st actual discount rate, and
12 EARLE, Q.C.	that will determine the expense for the
13 Q. The revision was filed late September, wasn't	upcoming year.
14 it?	14 EARLE, Q.C.
15 MS. PERRY:	15 Q. So even though the discount rate might vary as
16 A. September.	much as 1 percent in the course of a year, you
17 EARLE, Q.C.	won't recalculate your expense, you'll just do
18 Q. And would it be fair to say that this change	it on an annual basis?
in valuation is solely a function of a change	19 MS. PERRY:
in the discount rate if there are no other	20 A. If we are forecasting out and looking forward,
variables considered?	I would use the discount rate, the most
22 MS. PERRY:	current discount rate that was provided by the
23 A. That is correct, yes.	23 actuary because that's the best information
24 EARLE, Q.C.	that we would have available.
25 Q. Now how did you calculate the discount rate?	25 EARLE, Q.C.
Page	34 Page 36
1 MS. PERRY:	1 Q. That's when you're forecasting?
2 A. The discount rate that is used to determine	2 MS. PERRY:
the OPEB expense is provided by our actuaries,	3 A. Yes.
4 and it is based on CICA standards for	4 EARLE, Q.C.
5 generally accepted accounting principles.	5 Q. You're not using a forecast discount rate here
6 Fundamentally it is matched with the rate	6 now, are you? You're using a current discount
7 that's used is matched with bonds with similar	7 rate?
8 durations of payments that we expect to pay	8 MS. PERRY:
9 with our post-retirement benefits. So that	9 A. Yes, that is correct.
number is provided by our actuary.	10 EARLE, Q.C.
11 EARLE, Q.C.	11 Q. So while it's a 2010 expense that we're
1.0 0 337 11 1 1 1 1 1 1 1 1	•
Q. Would you in the normal course of business, if	talking about here for test year purposes,
you were not dealing with a rate application,	talking about here for test year purposes, you're actually using a September, 2009,
you were not dealing with a rate application, go back to your actuaries on a four month	talking about here for test year purposes, you're actually using a September, 2009, discount rate?
you were not dealing with a rate application, go back to your actuaries on a four month basis to have these figures recalculated?	talking about here for test year purposes, you're actually using a September, 2009, discount rate?  MS. PERRY:
you were not dealing with a rate application, go back to your actuaries on a four month basis to have these figures recalculated?	talking about here for test year purposes, you're actually using a September, 2009, discount rate?  MS. PERRY: A. That is correct, and I've actually queried
you were not dealing with a rate application, go back to your actuaries on a four month basis to have these figures recalculated?  MS. PERRY:  A. The actuary actually provides us the discount	talking about here for test year purposes, you're actually using a September, 2009, discount rate?  MS. PERRY:  A. That is correct, and I've actually queried whether there are any forecasted discount
you were not dealing with a rate application, go back to your actuaries on a four month basis to have these figures recalculated?  MS. PERRY:  A. The actuary actually provides us the discount rates at the end of every month. I'm not sure	talking about here for test year purposes, you're actually using a September, 2009, discount rate?  MS. PERRY: A. That is correct, and I've actually queried whether there are any forecasted discount rates, but there's no such thing. So the best
you were not dealing with a rate application, go back to your actuaries on a four month basis to have these figures recalculated?  MS. PERRY:  A. The actuary actually provides us the discount rates at the end of every month. I'm not sure if I answered your question, Mr. Earle.	talking about here for test year purposes, you're actually using a September, 2009, discount rate?  MS. PERRY: A. That is correct, and I've actually queried whether there are any forecasted discount rates, but there's no such thing. So the best information that we would have is the current
you were not dealing with a rate application, go back to your actuaries on a four month basis to have these figures recalculated?  MS. PERRY:  A. The actuary actually provides us the discount rates at the end of every month. I'm not sure if I answered your question, Mr. Earle.  EARLE, Q.C.	talking about here for test year purposes, you're actually using a September, 2009, discount rate?  MS. PERRY:  A. That is correct, and I've actually queried whether there are any forecasted discount rates, but there's no such thing. So the best information that we would have is the current rate in effect when we're doing our forecast.
you were not dealing with a rate application, go back to your actuaries on a four month basis to have these figures recalculated?  MS. PERRY:  A. The actuary actually provides us the discount rates at the end of every month. I'm not sure if I answered your question, Mr. Earle.  EARLE, Q.C.  Well, I think you're about to answer it,	talking about here for test year purposes, you're actually using a September, 2009, discount rate?  MS. PERRY: A. That is correct, and I've actually queried whether there are any forecasted discount rates, but there's no such thing. So the best information that we would have is the current rate in effect when we're doing our forecast.  EARLE, Q.C.
you were not dealing with a rate application, go back to your actuaries on a four month basis to have these figures recalculated?  MS. PERRY:  A. The actuary actually provides us the discount rates at the end of every month. I'm not sure if I answered your question, Mr. Earle.  EARLE, Q.C.  Well, I think you're about to answer it, anyway. How often does the actuary provide	talking about here for test year purposes, you're actually using a September, 2009, discount rate?  MS. PERRY: A. That is correct, and I've actually queried whether there are any forecasted discount rates, but there's no such thing. So the best information that we would have is the current rate in effect when we're doing our forecast.  EARLE, Q.C.  O. So if things continue on as they have been in
you were not dealing with a rate application, go back to your actuaries on a four month basis to have these figures recalculated?  MS. PERRY:  A. The actuary actually provides us the discount rates at the end of every month. I'm not sure if I answered your question, Mr. Earle.  EARLE, Q.C.  Q. Well, I think you're about to answer it, anyway. How often does the actuary provide you with the discount rate?	talking about here for test year purposes, you're actually using a September, 2009, discount rate?  MS. PERRY:  A. That is correct, and I've actually queried whether there are any forecasted discount rates, but there's no such thing. So the best information that we would have is the current rate in effect when we're doing our forecast.  EARLE, Q.C.  Q. So if things continue on as they have been in terms of change in the discount rate, by the
you were not dealing with a rate application, go back to your actuaries on a four month basis to have these figures recalculated?  MS. PERRY:  A. The actuary actually provides us the discount rates at the end of every month. I'm not sure if I answered your question, Mr. Earle.  EARLE, Q.C.  Well, I think you're about to answer it, anyway. How often does the actuary provide	talking about here for test year purposes, you're actually using a September, 2009, discount rate?  MS. PERRY: A. That is correct, and I've actually queried whether there are any forecasted discount rates, but there's no such thing. So the best information that we would have is the current rate in effect when we're doing our forecast.  EARLE, Q.C.  O. So if things continue on as they have been in

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Page	37	Page 39
1 MS. PERRY:	1 MS. P	ERRY:
2 A. Theoretically, we could be down one or up one,	2 A.	Yes.
3 yes.	3 EARL	E, Q.C.
4 EARLE, Q.C.	4 Q.	If you go to line 4, actuarial loss[gain], and
5 Q. Now you indicated that your actuary supplies	5	you'll see for fiscal year ending December
6 this to you. Is your arrangement then that	6	31st, 2008, it's \$14,885,000.00, and for
you have a standing contract with your	7	fiscal year December 31st, 2007, you see that
8 actuaries to provide you with this information	8	it's \$3,383,000.00. Could you tell the
9 for all purposes, or is this something new you	9	Commissioners what this is, this actuarial
put in place because of the possibility of	10	loss or gain?
11 accrual of OPEBs?	11 MS. P	ERRY:
12 (2:45 p.m)	12 A.	I think the best way to explain the actuarial
13 MS. PERRY:	13	loss or gain, if you'll go to page 11 of that
14 A. No, I've been receiving the discount rate from	14	report, you'll see the breakdown of the 14.9
15 Mercers for as long as I can remember.	15	million there, so and this is prepared by
16 EARLE, Q.C.	16	the actuaries, so I can't comment on every
17 Q. Do you pay for this service?	17	number, but you'll see one of the biggest
18 MS. PERRY:	18	changes there is a change in discount rate of
19 A. We pay for every hour worked by Mercers.	19	20.9 million, and that was the higher discount
They're our service provider.	20	rate that we experienced in 2008 because this
21 EARLE, Q.C.	21	was done as of December 31st, 2008. So other
22 Q. And these actuaries aren't cheap people, are	22	changes that go through there, change in
they?	23	demographics, they review the actual data of
24 MS. PERRY:	24	Newfoundland Power from the last time that
25 A. They're reasonable.	25	they had done a valuation. They review claims
Page	38	Page 40
1 EARLE, Q.C.	1	cost compared to their actuary projected
2 Q. Would you need that expense if you were	2	assumptions that they had previously provided.
dealing with OPEBs on a cash basis?	3	The change in medical trend there on line 4 of
4 MS. PERRY:	4	18 million, this was this resulted from a
5 A. Yes, we would. We record OPEBs on a cash	5	regrading of how they trended the expected
6 basis for regulatory purposes, but we still	6	increase in health care trend costs. So there
7 recognize the total obligation on an accrual	7	was a change I don't know if it was just
8 basis in your financial statements, but the	8	with Mercers or with the industry in terms of
9 difference between how we account for it from	9	how it was expected over time that health care
a regulatory perspective and from a pure gap	10	trend costs were going to levelize in the
financial accounting perspective is recorded	11	future. So that changed a piece of their
as an OPEB regulatory asset. So we do have to	12	assumption. In the change in mortality
know what the discount rate is to determine	13	assumption, and the increase in the liability,
what the obligation is.	14	is surrounding people are generally living
15 EARLE, Q.C.	15	longer and the new mortality table indicates
16 Q. But not for regulatory purposes?	16	that. So there's a number of things that will
17 MS. PERRY:	17	make up the actuarial gains and losses.
18 A. No, not for regulatory purposes.	18 EARL	•
19 EARLE, Q.C.	19 Q.	Yes, well, I had intended to come here in my
20 Q. So if you could look if we could then turn	20	next question, so if we could just stay here,
to Tab 5 of Volume 2, page 2.	21	we're talking here a change year over year,
22 MS. PERRY:	22	right?
23 A. I'm sorry, Mr. Earle, what page was that?	23 MS. P	ERRY:
24 EARLE, Q.C.	24 A.	Yes.
25 Q. Tab 5, Volume 2, of your application, page 2.	25 EARL	E, Q.C.

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1	Q. So in one year the consequence of the change	1	EARLE, Q.C.
2	in the actuarial assumption arising from the	2	Q. So they've had to boost the projections up,
3	demographics of your plan improves the picture	3	and then the discount rate we've talked about
4	of the plan by \$4,243,000.00, right?	4	before, and the change in mortality
5	MS. PERRY:	5	
6	A. Yes, that's correct.	6	
7	EARLE, Q.C.	7	
8	Q. Pardon?	8	
-	MS. PERRY:	9	
10	A. That is correct, yes.	_	MS. PERRY:
l	EARLE, Q.C.	11	
12	Q. Yes. Likewise, a change in claims costs	12	
13	improves the picture by \$9,391,000.00, right?	13	
l	MS. PERRY:	14	
15	A. Yes, that is correct.		EARLE, Q.C.
l	EARLE, Q.C.	16	
17	Q. And the change in aging, it changes things by	17	
18	\$14,000.00. I get more interested in terms	18	
ı	like that as years go on. What's the change		
19		19	1 '
20	in aging?	20	e
l	MS. PERRY:		MS. PERRY:
22	A. It's a claim pattern by age. It's just a	22	·
23	change in the claim pattern.	l	EARLE, Q.C.
l	EARLE, Q.C.	24	
25	Q. Okay. Then we see the change in medical trend	25	the year over year change in the OPEB expense,
			, , , , , , , , , , , , , , , , , , , ,
	Page 42		Page 44
1	wipes out all of the gain that you've made	1	Page 44 whether transitional expense or the annual
1 2	•	1 2	Page 44 whether transitional expense or the annual accrual, that we are dealing with something
2	wipes out all of the gain that you've made above essentially, doesn't it?  MS. PERRY:		Page 44 whether transitional expense or the annual accrual, that we are dealing with something that is actually fairly complex in terms of
2	wipes out all of the gain that you've made above essentially, doesn't it?	2	Page 44 whether transitional expense or the annual accrual, that we are dealing with something that is actually fairly complex in terms of
2 3 4	wipes out all of the gain that you've made above essentially, doesn't it?  MS. PERRY:  A. In this particular case, yes.  EARLE, Q.C.	2 3 4	Page 44 whether transitional expense or the annual accrual, that we are dealing with something that is actually fairly complex in terms of its calculation? MS. PERRY:
2 3 4	wipes out all of the gain that you've made above essentially, doesn't it?  MS. PERRY:  A. In this particular case, yes.  EARLE, Q.C.  Q. And the change in medical trend, that is the	2 3 4	Page 44 whether transitional expense or the annual accrual, that we are dealing with something that is actually fairly complex in terms of its calculation? MS. PERRY: A. OPEBs is an actuarially determined number, so
2 3 4 5	wipes out all of the gain that you've made above essentially, doesn't it?  MS. PERRY:  A. In this particular case, yes.  EARLE, Q.C.	2 3 4 5	Page 44 whether transitional expense or the annual accrual, that we are dealing with something that is actually fairly complex in terms of its calculation? MS. PERRY: A. OPEBs is an actuarially determined number, so
2 3 4 5 6	wipes out all of the gain that you've made above essentially, doesn't it?  MS. PERRY:  A. In this particular case, yes.  EARLE, Q.C.  Q. And the change in medical trend, that is the increased cost in drugs, the increased cost in hospitalization, increased cost of	2 3 4 5 6	Page 44 whether transitional expense or the annual accrual, that we are dealing with something that is actually fairly complex in terms of its calculation? MS. PERRY: A. OPEBs is an actuarially determined number, so that by its nature, I believe, is complex.
2 3 4 5 6 7	wipes out all of the gain that you've made above essentially, doesn't it?  MS. PERRY:  A. In this particular case, yes.  EARLE, Q.C.  Q. And the change in medical trend, that is the increased cost in drugs, the increased cost in	2 3 4 5 6 7	Page 44 whether transitional expense or the annual accrual, that we are dealing with something that is actually fairly complex in terms of its calculation?  MS. PERRY: A. OPEBs is an actuarially determined number, so that by its nature, I believe, is complex. When we talk about the expense risk of OPEBs
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larger, but the to go back to what you just	are you doing that currently for non-regulated
2 said, the volatility of OPEBs is, in fact - I	2 purposes?
3 suppose we don't know if it's different, but	3 MS. PERRY:
we do know it's subject to an awful lot more	4 A. I'm not sure what the non-regulated reference
5 variables, don't we?	5 is to.
6 MS. PERRY:	6 EARLE, Q.C.
7 A. I'm not sure I understand the question.	7 Q. Well, you indicated that you accounted OPEBs
8 Compared to	8 already for non-regulated purposes using the
9 EARLE, Q.C.	9 discount rate. Do you currently have an
10 Q. Compared to pensions?	actuarial study done on a regular basis to
11 MS. PERRY:	come up with the actuarial gain or loss, the
12 A. Both of them are subject to a number of	change in the valuation from those variables?
assumptions. With respect to OPEBs, it's	13 MS. PERRY:
really discount rate and the health care trend	14 A. Yes, we do. The pension, the actuarial report
costs. Those are the two moving assumptions.	is done at a minimum every three years and
With respect to pension plans, defined benefit	that's required for pension funding purposes.
pension plans, it's the discount rate and the	There are no specific requirements to have an
actual asset returns because in that	OPEBs valuation completed every for a
particular case we have investments that the	specific number of years. Typically, we have
20 asset returns will factor into the expense	been every three years.
going forward. So both have a number of	21 EARLE, Q.C.
assumptions. The magnitude of the expense	22 Q. Who's requiring that?
movement, though, is less under OPEBs than it	23 MS. PERRY:
is under pensions.	24 A. Requiring?
25 EARLE, Q.C.	25 EARLE, Q.C.
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1 Q. Simply because it's a different total amount	1 Q. That the OPEBs valued every three years?
of money that we're dealing with in the first	2 MS. PERRY:
3 place?	3 A. There is no specific requirement. However,
4 MS. PERRY:	4 for your gap financial statements, every so
5 A. That's certainly a part of it, yes.	5 often to have a valuation completed such that
6 EARLE, Q.C.	6 you ensure that the assumptions you're using
7 Q. Of course, if you wanted to fund your OPEBs,	7 are still valid, that you compare your claims
8 then you could have the asset value variable	8 cost with what was actuarially assumed during
9 thrown in as well, couldn't you?	9 the last valuation. It's certainly a way to
10 MS. PERRY:	test that what you have in your financial
11 A. If it were funded, yes.	statements is as close to reality as possible.
12 (3:00 p.m.)	12 EARLE, Q.C.
13 EARLE, Q.C.	13 Q. Well, is the cost of doing that actuarial
Q. Yes, but clearly when dealing with OPEBs, you	study a regulated expense for Newfoundland
15 have things like drug pricing trends,	Power at the present time?

16 MS. PERRY:

18 EARLE, Q.C.

20 MS. PERRY:

22 EARLE, Q.C.

A. Yes.

basis?

A. Yes, it is.

Q. So you treat that as a regulated expense?

Q. I take it, though, there is no necessity for

an actuarial study to pay your OPEBs on a cash

17

21

23

24

25

16 utilization trends, all going into the mix,

17 right?

18 MS. PERRY:

19 A. That goes into the determination of the

premium itself, yes. 20

21 EARLE, Q.C.

23

25

22 Q. Now you told us that you get the discount rate

for non-regulated purposes. What about your

24 actuarial study for OPEBs, have you

established a frequency for doing this study,

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1 MS. PERRY:	1 reconciliation of funded status to accrued
2 A. It certainly is very standard that if you have	2 benefit asset liability, and fiscal year
an OPEBs obligation for financial statement	3 ending December 31st, 2008; fiscal year ending
4 purposes, that there be a OPEB valuation	4 December 31st, 2007, and would you agree with
5 completed every so often to validate the	5 me that there is approximately a 6.5 million
6 assumptions that are determining your	6 dollar change year over year in those two
7 obligation, which is ultimately in your public	7 figures?
8 disclosures.	8 MS. PERRY:
9 EARLE, Q.C.	9 A. Yes.
10 Q. That's fine, but is it necessary? I mean, do	10 EARLE, Q.C.
you need to make a prediction as to the cost	11 Q. And those two figures are essentially what
of OPEBs 17 or so years down the road, which	your transitional charge would be, or cost? I
is the sort of requirements that are built	shouldn't say charge.
into this actuarial study to pay them on a	14 MS. PERRY:
cash basis?	15 A. The annual cost of changing to the accrual
16 MS. PERRY:	basis is about 6.8 million, yes.
17 A. I believe that's two separate issues. The	17 EARLE, Q.C.
cash basis is just determining the cash	Q. No, no, not the annual cost is 6.8, but the
premiums and you pay the cash premiums. With	cost that's hanging out there, the gorilla in
20 respect to financial statement purposes,	20 the closet, so to speak, has got to be
21 that's governed by disclosure rules and	arguably, anyway, to be dealt with down the
22 certainly generally accepted accounting	road, that's that 41 million as of December
principles with respect to how you recognize	23 31st, 2008, but it was 34 million as of
the liability, and I'm not aware of a legal	December 31st, 2007, right?
requirement to have it done, however, I can't	25 MS. PERRY:
Page 50	Page 52
imagine that we would be it would be	1 A. Yes, that is correct.
2 permissible to go beyond a few years before	2 EARLE, Q.C.
3 the auditors of the financial statements would	3 Q. And the changes in that again are a reflection
4 not require that you have a valuation done to	4 of things like changes in the discount rate,
5 validate what it is you're including in your	5 medical trend, so on and so forth, all those
6 financial statements.	6 items we looked at a few moments ago?
7 EARLE, Q.C.	7 MS. PERRY:
8 Q. Well, as compared to the pension situation	8 A. It would certainly include more than that.
9 where pensions legislation and regulations	9 Under the accrual basis, you are fundamentally
actually require you to have an actuarial	present valuing your expected future payments
study done on a three year cycle, right?	of your post-retirement benefits. Under the
12 MS. PERRY:	cash basis, you're just recording the cash
13 A. At a minimum three year cycle, yes.	premium. So each and every year that you're
14 EARLE, Q.C.	under the cash versus the accrual, the
15 Q. So there's no such requirement as that, and	transitional obligation will grow by roughly 6
can you tell me what is your current cycle	16 million.
because I think your answer was "every so	17 EARLE, Q.C.
18 often"?	Q. So you have a lot of factors in there?
19 MS. PERRY:	19 MS. PERRY:
20 A. It has been every three years on average.	20 A. There are a lot of factors, yes.
21 EARLE, Q.C.	21 EARLE, Q.C.
Q. And if we can go to Tab 5 of Volume 2 again,	Q. And you're indicating that you would have an
and page 4. Now if we look at the if we	actuarial study done every three years?
could go back where we were. If we go back	24 MS. PERRY:
right down to the bottom. Thenk you. The	25 A Vos that's on average what we have been

A. Yes, that's on average what we have been

right down to the bottom. Thank you. The

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1 completing the actual study.	1 rate. Each year, you have an expense which is
2 EARLE, Q.C.	the accrual of your OPEB costs, right?
3 Q. But that you get the discount rate at the end	3 MS. PERRY:
4 of each year?	4 A. Yes.
5 MS. PERRY:	5 EARLE, Q.C.
6 A. We do get the discount rate at the end of each	6 Q. And that determines your revenue requirement?
7 year, yes.	7 MS. PERRY:
8 EARLE, Q.C.	8 A. Yes, it does.
9 Q. So you would be changing your OPEB accrual	9 EARLE, Q.C.
each year to reflect the change in the	10 Q. Now when you get that new discount rate, will
discount rate?	11 you for instance, at the end of 2009, you
12 MS. PERRY:	get a discount rate. Will that determine your
13 A. On December 31st each year, the discount rate	actual figure that you use for accrual
would then be used to value the OPEBs	purposes for 2010?
obligation. That would factor into next	15 MS. PERRY:
year's pension expense.	16 A. Yes, it will.
17 EARLE, Q.C.	17 EARLE, Q.C.
18 Q. Pension expense?	18 Q. Okay, and you will do that annually?
19 MS. PERRY:	19 MS. PERRY:
20 A. OPEB expense, OPEB expense, and but a	20 A. Yes, we will.
change in discount rate year over year would	21 EARLE, Q.C.
be exactly what we reviewed earlier, which is	22 Q. So there will be for instance, if there's a
that actuarial gain or loss based on changes	23 1 percent change in the discount rate, you
in assumption. That will then	24 could see year over year changes in that
25 EARLE, Q.C.	25 annual accrual expense in the range of 1.2
Page 54	Page 56
1 Q. Can you repeat that again?	1 million dollars, as we saw earlier?
2 MS. PERRY:	2 MS. PERRY:
3 A. The change in the discount rate from one year	3 A. Yes, if the discount rate moves by 1 percent,
4 to the next, so from one December to the	4 yes.
5 following December, will result in a change in	5 EARLE, Q.C.
6 the OPEBs obligation. That doesn't get fully	6 Q. Now there's another set of changes, and those
7 recognized in the expense in the following	7 are the sets of changes which are driven by
8 year. That "trues itself up" over what is	8 the factors that we saw a few minutes ago;
9 referred to as the average remaining service	9 change in demographics, change in medical
life of the employees on the inside of this	trend, aging, so on, a total of seven in all,
plan. So the discount rate at December 31st	including the discount rate, so six other than
is used in the determination of next year's	the discount rate, is that correct?
pension expense, and there is a piece of the	13 MS. PERRY:
14 actuarial gain or loss because chances are it	14 A. Yes, that is correct.
will move, the discount rate will move, and	15 EARLE, Q.C.
then that will be factored into the expense	16 Q. And they will be reflected in an actuarial
going forward as well.	study, you say, will be done on a three year
18 EARLE, Q.C.	18 cycle, correct?
19 Q. I'm going to have to get you to you keep	19 MS. PERRY:
20 referring to pension expense.	20 A. If I could clarify, the actuarial study is
21 MS. PERRY:	done every couple of years, three years on
22 A. Sorry, it's OPEBs is what I'm referring to.	22 average, but every single year we get a cost
23 EARLE, Q.C.	projection from the actuary to basically
Q. And the end of the year is here. You get	24 advise us what our OPEBs expense is going to
advice from your actuaries as to the discount	be for the upcoming year. So we will actually

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receive the actual cost for OPEBs for 2010.	trend of 18 million dollars, there's nothing
2 We'll get that around mid January.	2 about the discount rate that's going to affect
3 EARLE, Q.C.	3 that change in the medical trend. That
4 Q. So it's a guess, is it?	4 happens as a result of a whole world of
5 MS. PERRY:	5 factors that, if you will, have a life of
6 A. It's their best estimate.	6 their own, correct?
7 (3:15 p.m.)	7 MS. PERRY:
8 EARLE, Q.C.	8 A. Yeah, and I guess that was my point. Inside
9 Q. Their best guess. So will you change your	9 of the changes in actuarial assumptions to
annual accrual on the basis of that	reality with each valuation there's completed,
guesstimate by your actuaries?	there always a number of changes that seem to
12 MS. PERRY:	happen, because the valuation is obviously the
13 A. We will adjust our accrued OPEB expense ea	ch l3 best estimate at the time of the valuation.
year once we receive it from the actuary, yes	. So in this particular case, yes, we did have
15 EARLE, Q.C.	15 18 million in change in the medical trend and
Q. As we've seen from the information in you	that was offset to some degree by change in
actuarial report, the expense can be quite	demographics and change in claims cost. So
volatile irrespective of the discount rate, is	there seems to be always a number of moving
19 that correct?	pieces each time we get a valuation done, yes.
20 MS. PERRY:	20 EARLE, Q.C.
21 A. I'm not sure I agree. The biggest moving	21 Q. That's right, but if your discount rate had
factor for our OPEBs expense is the discount	held, you would have had a figure that would
rate. When there's	be a loss of about 5.5 million at the bottom
24 EARLE, Q.C.	24 of this column, right?
25 Q. Let's go back to page 11 of the report.	25 MS. PERRY:
Pa	ige 58 Page 60
1 MS. PERRY:	1 A. Yes, that is correct.
2 A. This actuarial loss, or gain in this	2 EARLE, Q.C.
particular case, it doesn't impact the expense	
4 all in one year. It actually gets	is, as you said, amortized throughout and will
5 fundamentally amortized in over the averag	
6 remaining service life. So these changes	6 MS. PERRY:
7 would be amortized, so you're not seeing big	
8 swings in the actual discounted OPEBs expen	
9 It certainly could, but the biggest driver	9 Q. I put it to you, Ms. Perry, that this can be
that we've seen in OPEBs expense is actually	
movements in the discount rate.	11 MS. PERRY:
12 EARLE, Q.C.	12 A. We have not seen the volatility in the past
Q. Well, let's just analyze that for a moment,	with changes in our OPEBs costs as a result of
because up until this most recent year, the	these changes. It's not to say that going
discount rate has been stable within quite a	forward it certainly cannot impact future
narrow range, hasn't it?	pension expense, and it would in this
17 MS. PERRY:	particular case. It is built into the
18 A. I would agree with that, yes.	actuarial gain or loss that gets amortized. I
19 EARLE, Q.C.	19 guess what we're talking about is the
20 Q. Yes. I mean, 5, 5.25, year over year, not	20 magnitude of the change that it has on annual
21 unusual, correct?	21 OPEBs expense is what we are referring to.
22 MS. PERRY:	22 EARLE, Q.C.
23 A. It's been within that range, yes.	23 Q. Are you saying you've not seen a change in the
24 EARLE, Q.C.	24 medical trend of the magnitude of 18 million
25 O Det if we had at the share in the	25 Left will

before?

Q. But if we look at the change in the medical

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Page 61		Page 63
1 MS. PERRY:	on to the transitional amount and am	nortized?
2 A. I would have to go back through the other	Is the variation dealt with in annual e	expenses
3 valuation reports to do that comparison.	over a shorter period of time? What	happens
4 EARLE, Q.C.	because of the difficulty of predicting	g these
5 Q. So you can't really say that you haven't seen	5 things?	
6 changes of this magnitude before?	6 MS. PERRY:	
7 MS. PERRY:	A. Any changes in actuarial assumption	ns, which
8 A. No, what I what I'm saying is that we	can happen from year to year, not jus	st with a
9 haven't seen annual changes in our OPEBs	valuation because the actuary will ex	trapolate
expense, the actual impact on the annual OPEBs	their best assumptions each year, the	gains or
11 expense to Newfoundland Power.	losses that arise at any particular tin	ne is
12 EARLE, Q.C.	certainly would certainly impac	et the
13 Q. And what would you do when you get your actual	accrued benefit obligation, so the total	al OPEBs
14 actuarial study in on the three year cycle?	obligation of Newfoundland Power.	That would
15 How would how would you account for the	then get recognized into the expense	e over a
accuracy or inaccuracy of the guesses that you	certain period of time, and for us, it's	s about
had received from your actuaries over the	7 15 years. So it doesn't fully impac	t next
previous couple of years?	year's pension cost, but it just so	it
19 MS. PERRY:	continually trues itself up over time.	
20 A. The purpose of a valuation is to reassess the	EARLE, Q.C.	
best estimates that the actuary had made at	Q. So we are talking about making an a	ndjustment
the previous valuation, but regardless of the	and basically adding it into adding	g it in
valuation, the calculation of the OPEBs	or subtracting it from the future flo	ow of
24 expense is actually completed in accordance	4 charges?	
24 expense is actually completed in accordance	+ Charges:	
25 with Section 3461 of the CICA Handbook under	5 MS. PERRY:	
1	_	Page 64
25 with Section 3461 of the CICA Handbook under	_	Page 64
25 with Section 3461 of the CICA Handbook under  Page 62	5 MS. PERRY:	Page 64
<ul> <li>with Section 3461 of the CICA Handbook under</li> <li>Page 62</li> <li>generally accepted accounting principles. So</li> </ul>	5 MS. PERRY:  1 A. Yes, that is correct.	Ç
25 with Section 3461 of the CICA Handbook under  Page 62  1 generally accepted accounting principles. So 2 actual gains or losses are whatever they are	5 MS. PERRY:  1 A. Yes, that is correct. 2 EARLE, Q.C.	while it is
25 with Section 3461 of the CICA Handbook under  Page 62  1 generally accepted accounting principles. So 2 actual gains or losses are whatever they are 3 determined at a valuation point in time are	5 MS. PERRY:  1 A. Yes, that is correct. 2 EARLE, Q.C. 3 Q. Would you agree with me then that w	while it is at that
25 with Section 3461 of the CICA Handbook under  Page 62  1 generally accepted accounting principles. So 2 actual gains or losses are whatever they are 3 determined at a valuation point in time are 4 accounted for in accordance with accounting	5 MS. PERRY:  1 A. Yes, that is correct. 2 EARLE, Q.C. 3 Q. Would you agree with me then that we perhaps not as long a range issue, the	while it is at that inter-
25 with Section 3461 of the CICA Handbook under  Page 62  1 generally accepted accounting principles. So 2 actual gains or losses are whatever they are 3 determined at a valuation point in time are 4 accounted for in accordance with accounting 5 principles, and they are outside of the	5 MS. PERRY:  1 A. Yes, that is correct. 2 EARLE, Q.C. 3 Q. Would you agree with me then that we perhaps not as long a range issue, the poses some of the same issues as	while it is at that inter- posedly
25 with Section 3461 of the CICA Handbook under  Page 62  1 generally accepted accounting principles. So 2 actual gains or losses are whatever they are 3 determined at a valuation point in time are 4 accounted for in accordance with accounting 5 principles, and they are outside of the 6 specific valuation itself.	A. Yes, that is correct.  EARLE, Q.C.  Q. Would you agree with me then that we perhaps not as long a range issue, the poses some of the same issues as generational in equity, but that supposes.	while it is at that inter- posedly aal basis
25 with Section 3461 of the CICA Handbook under  Page 62  1 generally accepted accounting principles. So 2 actual gains or losses are whatever they are 3 determined at a valuation point in time are 4 accounted for in accordance with accounting 5 principles, and they are outside of the 6 specific valuation itself. 7 EARLE, Q.C.	A. Yes, that is correct.  EARLE, Q.C.  Q. Would you agree with me then that we perhaps not as long a range issue, the poses some of the same issues as generational in equity, but that suppose underlie the need to go with an accru	while it is at that inter- posedly aal basis
Page 62  generally accepted accounting principles. So  actual gains or losses are whatever they are  determined at a valuation point in time are  accounted for in accordance with accounting  principles, and they are outside of the  specific valuation itself.  EARLE, Q.C.  O. That's fine. You can appreciate that I'm not	A. Yes, that is correct.  EARLE, Q.C.  Q. Would you agree with me then that we perhaps not as long a range issue, the poses some of the same issues as generational in equity, but that supply underlie the need to go with an accrube because you are moving expenses and	while it is at that inter- posedly aal basis
Page 62  generally accepted accounting principles. So  actual gains or losses are whatever they are  determined at a valuation point in time are  accounted for in accordance with accounting  principles, and they are outside of the  specific valuation itself.  EARLE, Q.C.  Rearrange With accounting  principles, and they are outside of the  specific valuation itself.	A. Yes, that is correct.  EARLE, Q.C.  Q. Would you agree with me then that we perhaps not as long a range issue, the poses some of the same issues as generational in equity, but that supply underlie the need to go with an accrubecause you are moving expenses and as the case may be?  MS. PERRY:  A. Accrual accounting is generally a	while it is at that inter- cosedly all basis ead or back,
Page 62  generally accepted accounting principles. So  actual gains or losses are whatever they are  determined at a valuation point in time are  accounted for in accordance with accounting  principles, and they are outside of the  specific valuation itself.  EARLE, Q.C.  Q. That's fine. You can appreciate that I'm not  an accountant; you are, but the fact of the  matter is when you have your actual actuarial	A. Yes, that is correct.  EARLE, Q.C.  Q. Would you agree with me then that we perhaps not as long a range issue, the poses some of the same issues as generational in equity, but that supply underlie the need to go with an accrubecause you are moving expenses and as the case may be?  MS. PERRY:  A. Accrual accounting is generally a matching of current costs, but it is	while it is at that inter- cosedly all basis read or back, better not
Page 62  1 generally accepted accounting principles. So 2 actual gains or losses are whatever they are 3 determined at a valuation point in time are 4 accounted for in accordance with accounting 5 principles, and they are outside of the 6 specific valuation itself. 7 EARLE, Q.C. 8 Q. That's fine. You can appreciate that I'm not 9 an accountant; you are, but the fact of the 10 matter is when you have your actual actuarial 11 valuation at the point, your three year cycle, 12 it will tell you whether your accrual, your 13 annual accrual, and for that matter, if you	A. Yes, that is correct.  EARLE, Q.C.  Q. Would you agree with me then that we perhaps not as long a range issue, the poses some of the same issues as generational in equity, but that suppose underlie the need to go with an accrubecause you are moving expenses ahe as the case may be?  MS. PERRY:  A. Accrual accounting is generally a matching of current costs, but it is perfect, and it is certainly similar to	while it is at that interposedly hal basis head or back, better not other
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Page 62  1 generally accepted accounting principles. So 2 actual gains or losses are whatever they are 3 determined at a valuation point in time are 4 accounted for in accordance with accounting 5 principles, and they are outside of the 6 specific valuation itself. 7 EARLE, Q.C. 8 Q. That's fine. You can appreciate that I'm not 9 an accountant; you are, but the fact of the 10 matter is when you have your actual actuarial 11 valuation at the point, your three year cycle, 12 it will tell you whether your accrual, your 13 annual accrual, and for that matter, if you 14 have a transitional amortization in place, 15 whether your amortization has been correct, 16 and you'll have to make some move or other 17 terms of your accruals for regulated purposes	A. Yes, that is correct.  EARLE, Q.C.  Q. Would you agree with me then that we perhaps not as long a range issue, the poses some of the same issues as generational in equity, but that suppunderlie the need to go with an accrubecause you are moving expenses ahe as the case may be?  MS. PERRY:  A. Accrual accounting is generally a matching of current costs, but it is perfect, and it is certainly similar to actuarial pension expense that we reconstructed the posession of the same issues as generational in equity, but that suppunderlie the need to go with an accrubecause you are moving expenses ahe as the case may be?  MS. PERRY:  A. Accrual accounting is generally a matching of current costs, but it is perfect, and it is certainly similar to actuarial pension expense that we reconstructed the posession of the same issues as generational in equity, but that suppunderlie the need to go with an accrubect as the case may be?  MS. PERRY:  A. Accrual accounting is generally a matching of current costs, but it is perfect, and it is certainly similar to actuarial pension expense that we reconstructed the posession of the costs and the posession of the pos	while it is at that interposedly lal basis lead or back, better not the ceive each will be ealth care overment,
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Page 62  1 generally accepted accounting principles. So 2 actual gains or losses are whatever they are 3 determined at a valuation point in time are 4 accounted for in accordance with accounting 5 principles, and they are outside of the 6 specific valuation itself. 7 EARLE, Q.C. 8 Q. That's fine. You can appreciate that I'm not 9 an accountant; you are, but the fact of the 10 matter is when you have your actual actuarial 11 valuation at the point, your three year cycle, 12 it will tell you whether your accrual, your 13 annual accrual, and for that matter, if you 14 have a transitional amortization in place, 15 whether your amortization has been correct, 16 and you'll have to make some move or other 17 terms of your accruals for regulated purposes 18 and your transitional amount, if that were in 19 place for regulated purposes as a result of	A. Yes, that is correct.  EARLE, Q.C.  Q. Would you agree with me then that we perhaps not as long a range issue, the poses some of the same issues as generational in equity, but that suppose underlie the need to go with an accrubecause you are moving expenses and as the case may be?  MS. PERRY:  A. Accrual accounting is generally a matching of current costs, but it is perfect, and it is certainly similar to actuarial pension expense that we recover as well from the actuary. There changes because we are estimating he trend costs, discount rates, market me plan asset performance and these this inevitably move. So there's one sure	while it is at that interposedly hal basis head or back, better not the ceive each will be health care overment, lings will be thing is
Page 62  1 generally accepted accounting principles. So 2 actual gains or losses are whatever they are 3 determined at a valuation point in time are 4 accounted for in accordance with accounting 5 principles, and they are outside of the 6 specific valuation itself. 7 EARLE, Q.C. 8 Q. That's fine. You can appreciate that I'm not 9 an accountant; you are, but the fact of the 10 matter is when you have your actual actuarial 11 valuation at the point, your three year cycle, 12 it will tell you whether your accrual, your 13 annual accrual, and for that matter, if you 14 have a transitional amortization in place, 15 whether your amortization has been correct, 16 and you'll have to make some move or other 17 terms of your accruals for regulated purposes 18 and your transitional amount, if that were in	A. Yes, that is correct.  2 EARLE, Q.C.  Q. Would you agree with me then that we perhaps not as long a range issue, the poses some of the same issues as generational in equity, but that supply underlie the need to go with an accrubecause you are moving expenses and as the case may be?  MS. PERRY:  A. Accrual accounting is generally a matching of current costs, but it is perfect, and it is certainly similar to actuarial pension expense that we reconstructed as well from the actuary. There changes because we are estimating he trend costs, discount rates, market may plan asset performance and these this inevitably move. So there's one sure that the accrual will, albeit based or	while it is at that interposedly lal basis lead or back, better not the ceive each will be lealth care overment, langs will the thing is in the
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Page 62  1 generally accepted accounting principles. So 2 actual gains or losses are whatever they are 3 determined at a valuation point in time are 4 accounted for in accordance with accounting 5 principles, and they are outside of the 6 specific valuation itself. 7 EARLE, Q.C. 8 Q. That's fine. You can appreciate that I'm not 9 an accountant; you are, but the fact of the 10 matter is when you have your actual actuarial 11 valuation at the point, your three year cycle, 12 it will tell you whether your accrual, your 13 annual accrual, and for that matter, if you 14 have a transitional amortization in place, 15 whether your amortization has been correct, 16 and you'll have to make some move or other 17 terms of your accruals for regulated purposes 18 and your transitional amount, if that were in 19 place for regulated purposes as a result of 20 this new information, correct?	A. Yes, that is correct.  2 EARLE, Q.C.  Q. Would you agree with me then that we perhaps not as long a range issue, the poses some of the same issues as generational in equity, but that supply underlie the need to go with an accrubecause you are moving expenses and as the case may be?  MS. PERRY:  A. Accrual accounting is generally a matching of current costs, but it is perfect, and it is certainly similar to actuarial pension expense that we reconstructed as well from the actuary. There changes because we are estimating he trend costs, discount rates, market may plan asset performance and these this inevitably move. So there's one sure that the accrual will, albeit based or	while it is at that interposedly all basis lead or back,  better not the ceive each will be ealth care overment, lings will be thing is a the what is ter

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the cash premiums, which just reflect exactly the cash premiums made in that year. So  ${\rm I}$ 

Q. So what happens, does the variation get added

24 EARLE, Q.C.

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1 will agree that there are some expense	are similarly told that benefits terminate
2 variations that will occur over time, but they	2 with the contract?
3 should level out over time and it's certainly	3 MS. PERRY:
4 a better measure of current cost.	4 A. Yes, that is correct.
5 EARLE, Q.C.:	5 EARLE, Q.C.:
6 Q. I could see that on a current year basis, Ms.	6 Q. And these booklets are given to every
7 Perry, but when it comes to your transitional	7 participant in the plan, as required by law?
8 expense, and you can appreciate while your	8 MS. PERRY:
9 application is not to set up an amortization	9 A. Yes.
of the transitional cost or expense at this	10 EARLE, Q.C.:
point in time, there's a certain tendency on	11 Q. And there is no written document out there of
our part to see transitional costs, you know,	any nature whereby a promise or a contract is
following as night follows day when it comes	made to the employees of Newfoundland Power
to this, that the transitional expense really	that free group benefits will continue after
is just another visiting on tomorrow's users	15 age 65?
of yesterday's costs.	16 MS. PERRY:
17 MS. PERRY:	17 A. I would agree that there's no specific
18 A. By its nature, I would agree, and certainly	contract at Newfoundland Power for existing
the longer that we continue on a cash basis,	retirees over 65 today that said that we have
20 the higher this transitional obligation is	to provide the benefits that we are providing
going to be and tomorrow's customers are going	21 today, including the cost mechanism that we
to have to pay for today's costs.	have. I would point out that, and this is
23 EARLE, Q.C.:	just one of the factors, that I believe that
Q. I'd like to turn to another area and the	if we were to change benefits substantially
25 question whether you can change your current	25 from what they are today for existing
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arrangement with respect to OPEBs and I'll	1 retirees, I believe we would have a challenge
2 give you the reference to CA-NP-363, the	2 on our hands, a legal challenge.
3 collective agreement, but it may not be	3 EARLE, Q.C.:
4 necessary to refer to them, and we asked you	4 Q. That is something that you can speculate on
5 for theI think Commissioner Wells asked a	5 and I can speculate on, but we don't know, do
6 question, to paraphrase on this, there is no	6 we? Now, but you have made some changes to
7 provision in your collective agreements	your group benefits for retirees, haven't you?
8 respecting post employment benefits of the	8 MS. PERRY:
group nature for retirees, is there?	9 A. Yes, we have.
10 (3:30 p.m.)	10 EARLE, Q.C.:
11 MS. PERRY:	11 Q. And most of them, I would allow, are in the
12 A. That is correct.	nature of improved benefits, but you have
13 EARLE, Q.C.:	reduced, for instance, the travel benefit?
14 Q. And in your answer to CA-NP-358, you confirmed	14 MS. PERRY:
that retirees over the age of 65 are told in	15 A. Yes, that is correct.
the pension booklet that their benefit only	16 EARLE, Q.C.:
sorry, not the pension booklet, the group	17 Q. Okay. Now as I understand Newfoundland
benefits booklet, that their benefits will	Power's position put forward is "look, you've
19 terminate at the end of the contract, right?	got to look at these things as a package, and
20 MS. PERRY:	you know, we provide a certain amount of
	1 1 11 1 1
21 A. Yes, that is correct.	21 pension and we provide these group benefits,
22 EARLE, Q.C.:	and if you look at our overall pension and
22 EARLE, Q.C.: 23 Q. And I think if you would look at CA-NP-304,	22 and if you look at our overall pension and 23 group insurance package, well, we're not that
22 EARLE, Q.C.:	and if you look at our overall pension and

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1	stating that to be your position?		1	they are going to receive other pension
2	MS. PERRY:		2	income.
3	A. We did undertake a review, I guess, of our		3 EARL	E, Q.C.:
4	plan to Newfoundland and Labrador Hydro and we		4 Q.	Yes. So if we look at line eight, a
5	provided cost estimates for the two plans, and		5	Newfoundland Power retiree would receive an
6	I would agree that based on the fact that our		6	annual pension of approximately 43,000 from
7	post age 65 benefits are capped at 5,000 per		7	age 60 to 65 and 26,000 after age 65, and what
8	individual and the fact that we do not offer a		8	you see there is that the difference between
9	dental plan, that the two programs are		9	that 43,000 and the 26 is actually going to be
10	reasonably similar.		10	made up by CPP and Old Age Security at age 65,
11	EARLE, Q.C.:		11	right?
12	Q. Your claim is that the savings would be \$260		12 MS. P	ERRY:
13	per participant, I take it.		13 A.	A piece of the difference will be made up,
14	MS. PERRY:		14	yes.
15	A. Yes, based on those cost estimates we		15 EARL	E, Q.C.:
16	provided.		16 Q.	Yeah, that's the way it structured. It's
17	EARLE, Q.C.:		17	intentionally done that way, isn't it?
18	Q. Could we have look at CA-NP-345? Now if we		18 MS. P	
19	could go a little further down and I think			Yes, that is the purpose of levelizing.
20	it's probably the second or third page of your		20 EARL	
21	answer. Just go back up to the second page,	- 1		So, you know, you're not being entirely fair,
22	please. You make a comparison between pension		22	are you, when you say that, you know, the poor
23	income for a member of the public service and	- 1	23	old pensioner, who we're saying well maybe
24	a Newfoundland Power retiree over the age of	- 1	24	they should pay for some of their group
25	65, and Mr. Ludlow made the statement that the		25	benefits like others, only gets \$14,000.
	Pag			Page 72
1	average pension being received by Newfoundl	and	1	Because after all, the employer contribution
2	Power retirees over the age of 65 was in the		2	to the Canada Pension Plan, three percent of
3	range of \$14,000. Tell me, in your figures as		3	YMPE, those are paid by the rate payers,
4	to the average pension being received by		4	aren't they?
5	Newfoundland Power retirees over 65 have yo	ou	5 MS. P	
6	included the Canada Pension benefit?			I would agree, but what I would point out on
	MS. PERRY:		7	Table 1 is we are comparing like for like
8	A. The 14,000 that's referred to in this RFI is		8	here. Under the Provincial Government, we
9	the pension that is being received out of	.	9	have not assumed any other pension income to
10	Newfoundland Power's Defined Benefit Pensi	- 1	10	be received by the pensioners, and under the
11	Plan, so it doesn't include any pensions from		11	Provincial Government plan, between age 60 and
12	government.		12	65, they will receive 42. There is a bridge
	EARLE, Q.C.:		13	that is offered under the Provincial
14	Q. And isn't it true that the way you have structured the Newfoundland Power Defined		14	Government plan that you don't have to give
15	Benefit plan is to essentially front-end load	- 1	15 16	back. So it's not levelizing. It's actually a bridge to age 65. So when you're comparing
16 17	the benefit to take account of the fact that	- 1	17	like for like, after age 65, our pensioners
18	at age 65, most retirees will be receiving		18	will receive 26 and I agree they will receive
19	Canada Pension and Old Age Security. Is that		19	some supplemental pension income as well, but
20	correct?		20	that compares to a Provincial Government
- 1	MS. PERRY:		21	pension of 32,500. So all we were trying to
22	A. Yes, the retiree does have an option of		22	do here was compare like to like. We've
23	choosing a levelizing option whereby they	- 1	23	excludedwe have excluded the government
24	receive more during the first part of their	- 1	24	pension.
25			25 EARL	•
	, 1 0 ,			• •

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Page 73	
1 Q. I'm interested in your assertion that, you	1 contributions, right?
2 know, that all they receive is \$14,000 and I'm	2 MS. PERRY:
3 using this to show, in fact, for instance,	3 A. Yes, I would agree that the employee has to
4 that someone who starts off of a \$43,000	4 contribute more under the Provincial
5 pension at age 60 from Newfoundland Power will	5 Government plan, as opposed to employees under
6 yes, receive 26,000 from Newfoundland Power at	6 the Newfoundland Power plan, but the same will
7 age 65, but that's because you worked inthat	7 hold with respect to Newfoundland Power would
8 they'll get about 800 and some odd per month	8 have to pay more as well, if in fact we were
9 CPP and an old age security benefit of 400 and	9 offering more benefits like bridging or
some odd per month?	indexing.
11 MS. PERRY:	11 EARLE, Q.C.:
12 A. Yes, they will receive that pension at age 65.	12 Q. Ms. Perry, I'm going to your like for like
This is just purely what they would receive	position, and I'm pointing out to you that in
from the company pension plan.	your like for like, you haven't compared
15 EARLE, Q.C.:	similar pension contributions and you've left
16 Q. Now, but there's also a supplemental RRSP	out 1.5 percent which would make it a lot
contribution, right?	17 closer to like for like.
18 MS. PERRY:	18 (3:45 p.m.)
19 A. Yes, that is correct.	19 MS. PERRY:
20 EARLE, Q.C.:	20 A. The 1.5 percent which came in in the early
Q. Right, and that's 1.5 percent matched by the	21 '90s, on average for someone retiring today,
employee and Newfoundland Power, correct?	22 they may have 30 to 40,000 in this pool, so I
23 MS. PERRY:	guess if younow that depends on their
24 A. Yes, that is correct.	24 investment choices. It will depend on their
25 EARLE, Q.C.:	investment return, and it will depend on if
	1
Page 74	1
	Page 76 they contributed right from 1990. It will
Page 74	Page 76
Page 74  1 Q. And the 1.5 percent that is matched, that's a	Page 76 they contributed right from 1990. It will
Page 74  1 Q. And the 1.5 percent that is matched, that's a regulated expense?	Page 76 they contributed right from 1990. It will certainly could yield a couple thousand
Page 74  1 Q. And the 1.5 percent that is matched, that's a  2 regulated expense?  3 MS. PERRY:	Page 76 they contributed right from 1990. It will certainly could yield a couple thousand dollars over the span of their retirement.
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	Page 77	Page 79
1 A. Yes.	1	be, say, 2.5 million on your annual accrual?
2 EARLE, Q.C.:	2	Is that correct?
3 Q. And we are certainly not talking about peo	ople 3 MS.	PERRY:
4 who are going to be left with, on average	_	Yes, based on 337, we did ask the actuaries
5 \$14,000 to pay their retirement expenses?	5	that if going forward if all future retirees
6 MS. PERRY:	6	paid one half of the premium and the benefits
7 A. No, and certainly that's not what we we	ere 7	cap be removed in such instance, they prepared
8 referring to. The \$14,000 is for existing		a pro forma indication, because they would
9 retirees today. Those over 65, retired from		have to look at it in much greater detail
Newfoundland Power, on average the pe		about what the premiums would likely be,
from Newfoundland Power is just under 1		claims costs, you know, there are a number of
12 per year.	12	factors that would go in, but they did provide
13 EARLE, Q.C.:	13	a pro forma indication that indicated that the
14 Q. Now if we could look at CA-NP-337? You d	lidn't 14	expense would decrease by about 2.5 million
answer the question we asked, did you?	15	annually.
16 MS. PERRY:	16 EAR	LE, Q.C.:
17 A. Sorry, Mr. Earle, on this particular RFI?	17 Q	. So in the same fashion that they give you the
18 EARLE, Q.C.:	18	annual indication of where the OPEB expense
19 Q. CA-NP-337, we said "further to CA-NP-326	5, 19	should go without doing an actuarial study?
20 please provide the information requested	so 20 MS.	PERRY:
that the impact of all retirees paying one	21 A	. Yes, I would agree.
22 half of premiums on the calculations	22 EAR	LE, Q.C.:
23 respecting OPEBs as set out in the application	ion 23 Q	. Now you have a substantial number of retirees
24 may be ascertained." You provided us wit	th an 24	under the age of 65. Indeed, you have a
answer that assumes that as of January 1s	st, 25	substantial number of retirees under age 60,
	Page 78	Page 80
1 2010, new retirees would pay half.	1	correct?
2 MS. PERRY:	2 MS.	PERRY:
3 A. Yes, that's the basis of the answer to 337.	3 A	Yes, we do.
4 EARLE, Q.C.:	4 EAR	LE, Q.C.:
5 Q. Yes, which is not our question, is it?	5 Q	. Would you agree that it would save
6 MS. PERRY:	6	substantially more again than that 2.5 million
7 A. The question referred to "all retirees," so		if you were to say that retirees who reach age
8 future and existing retirees to pay half of		65 in the nextafter the expiration of five
9 the premiums, and we've indicated in CA-1		years, i.e. your retirees 60 and under, say to
that Newfoundland Power believes it is ob	-	them "when you reach 65, you're going to have
to continue to offer the benefits and the co		to continue doing as you are doing now," that
sharing mechanism that we currently hav		would save more money even again, wouldn't it?
existing retirees and today, there is		PERRY:
14 certainly no intention on materially changi	-	. I would agree in the fact that any time you
15 what we offer to existing retirees.	15	reduce benefits, if that's what you deem
16 EARLE, Q.C.:	16	appropriate to do, it will in fact decrease
17 Q. Appreciate that that's your position.	17	your expense going forward, yes.
However, I don't think that is particularly		LE, Q.C.:
helpful in having us understand the finance		And suffice it to say that would, given what
impact, but let me ask you this. You have		is generated by telling future retirees that
indicated that if this were done, if you said		they will have to pay when they reach age 65,
to every person who retires as of January 1		that the change that would be brought by
23 2010 that "when you reach 65, you're goir	-	telling persons 60 or under that they will
have to continue on paying for half your g		have to pay half the cost when they reach age
1/5 Incurance as you have hetore " that that we	MH41 175	DA THALLHAL WOULD BROOTICE A MATERIAL CHARGE

65, that that would produce a material change

insurance as you have before," that that would

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in your expense again, a further material	1 A.	When we were actually compiling this
2 change in your expense?	2	particular example, I did contact our benefits
3 MS. PERRY:	3	consultant, because we do not offer a dental
4 A. I would have to run the numbers, but again,	4	program, so we would not have access to what
5 any time you reduce a benefit, if that's what	5	it would cost to put in a comparable dental
6 you deem appropriate to do, it will tend to	6	program for Newfoundland Power. So I did ask
7 reduce the expense.	7	the question to ensure we're reasonable with
8 EARLE, Q.C.:	8	respect to the costs that we are providing in
9 Q. Now in the example at CA-NP-345, if you go to,	9	this particular instance, and Aon indicated
I think, page three at Table 2, you see the	10	that certainly the \$750 a year premium is a
cost of dental care?	11	good indication of what it would cost in a
12 MS. PERRY:	12	total premium to offer a dental program to
13 A. Yes, I do.	13	retirees, and we actually used 640 here.
14 EARLE, Q.C.:	14 EARI	LE, Q.C.:
15 Q. And according to the footnotes at the bottom,	15 Q.	I find that surprising because I don't think
you tell us that that's calculated by taking	16	there's a person in this room who has gone
the average dental cost for active employees	17	through that part of their life when they've
and retirees under age 65, right?	18	had dependents, i.e. children requiring dental
19 MS. PERRY:	19	care and orthodontic and all those good
20 A. Yes.	20	things, who wouldn't say that their dental
21 EARLE, Q.C.:	21	expenses will be substantially less as a
22 Q. Would you not agree with me that for retirees	22	retiree than when they were paying the shot
over 65 a far better proxy for their costs	23	or, thanks be to heaven, having a group plan
would be retirees under the age of 65?	24	pay the shot for a bunch of youngsters.
25 MS. PERRY:	25	Now if we could return now to CA-NP-293?
Page 82		Page 8
1 A. Currently, I believe that the dental rate for	1	Could you tell us what the purpose of having
2 retirees under 65 and active employees are the	2	the report, which is Attachment A, done?
3 same rate. So that's the rate that we have	3 MS PI	FRRY

3 MS. PERRY:

5

16

22

4 A. The report from Aon was completed during the

latter part of 2005. Aon actually were not

6 the benefits consultants for Newfoundland

7 Power at that time. We had Morneau Sobeco.

8 Aon was obviously trying for the business of

9 Newfoundland Power and they, during one of

10 their visits to Newfoundland Power, indicated

11 that they could and would like to come in to

12 do a full benefits review to offer a fresh

perspective in respect to our complete 13

14 benefits package, so we agreed in 2005 to do

15 that and Aon did complete--without, I will

say, with limited knowledge of Newfoundland

17 Power, but certainly they came in to do a

18 detailed review of the benefit that we offered

19 under all of our benefit plans.

20 EARLE, O.C.:

21 Q. From the point of view of Newfoundland Power,

what was the purpose of having the study done?

23 MS. PERRY:

24 A. Certainly to identify where we are with 25 respect to market, where exposures are with

- same rate. So that's the rate that we have 3
- applied to this example.
- 5 EARLE, Q.C.:
- Q. You've got a blended plan, but I'm talking 6
- about your cost, your claims cost. 7
- 8 MS. PERRY:
- A. The actual dental claims in a particular year?
- 11 Q. Claims cost grossed up by administration,
- 12 retention.
- 13 MS. PERRY:
- 14 A. We do not have a refund accounting basis
- dental program. It's actually a fully insured 15
- dental program, so we pay a specific dental 16
- 17 premium each year and this is what we've
- included in this estimate. 18
- 19 EARLE, Q.C.:
- 20 Q. But you do have access to your claims cost?
- 21 MS. PERRY:
- A. Yes, we do. 22
- 23 EARLE, Q.C.:
- Q. So you could have found out that information?
- 25 MS. PERRY:

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1 r	respect to the financial arrangements on the	1	l	Newfoundland Power to make plan amendments, we
2 i	nside of our Health and Life Plans, looking	2	2	actually do that that, we reserve the right to
3 8	at the comparativeness of the renewal rates	3	3	make plan amendments. They made a
1	hat are being offered to Newfoundland Power.	4	1	recommendation that any changes should be made
5 EARLE		5	5	with reasonable notice, would not -
1	And if we could go to page 3 of the	1	5 EAR	LE, Q.C.:
1	attachment, go to the recommendations, under	7	7 (	2. You skipped over one though, you skipped over
1	olan design you recommend that Newfoundlan	d   8		consider future hire separately.
9 Î	Power develop a statement of plan objectives	9	MS.	PERRY:
1	to provide a link with overall human resource	10	) A	A. Yes, certainly. We have not made any changes
1	and corporate strategy. Did you do that?	11		to our OPEB's plan for new hires.
12 MS. PEI				LE, Q.C.:
1	No, we specifically decided not to develop a	13		2. And that would be a process analogous, for
	statement of plan objective. This was a	14		instance to Newfoundland Power switch to the
1	recommendation from Aon, but subsequent	15		D.C. Pension Plan, would it not?
1	discussions with them indicated that a lot of	$ _{1\epsilon}$	6 MS.	PERRY:
	corporations choose not to do this in the fact	17	7 A	A. I'm not sure I understand the question.
	hat it sets certain expectations for the			LE, Q.C.:
1	Company with respect to what has to be offered			2. Considering future hires separately, that's
	n the future. And we do have a Health and	20		analogous to the process you adopted by
1	Wellness strategy in the human resources area	21		telling at a point, telling future hires that
<b>   </b>	of Newfoundland Power, but we do not have a			they would not be participating in the D.B.
1	statement of plan objective.	23		Pension Plan but would be eligible to
24 EARLE	- · · · · · · · · · · · · · · · · · · ·	24		participate in a Declined Contribution Pension
1	Γhat sounds pretty much to me like don't do	25		Plan?
	Page	86		Page 88
1 t	hat, you might get bumped over the head with		ı MS	PERRY:
1	t in collective bargaining.			A. Yes, I would agree it's the same similar
3 MS. PEI		3		concept.
1	No comment.			RLE, Q.C.:
5 EARLE				2. So if you could go through the rest of these
1	If we could go to page 5, retiree	1		and I think we need to move down the screen.
	considerations and just go over onto page 6,	7		Thank you.
1	where we just had it with page 5 there. Has			PERRY:
	Newfoundland Power undertaken any of these			a. Do I need to read out the -
1	recommendations with respect to retirees?			RLE, Q.C.:
11 MS. PEI	•	11		2. Well I'd like to know which of these that you,
1	So starting on page 5, Mr. Earle?	12		you undertook, if any?
13 EARLE				PERRY:
	Yes, starting on -	14		A. When this report was provided by Aon in 2005,
15 MS. PEI	-	15		we certainly acknowledged the recommendations
1	Retiree considerations?	16	5	that they made with respect to retiree
17 EARLE		17	7	benefits and their views on how to potentially
18 Q.		18	3	reduce the exposure to the post-retirement
19 MS. PE		19		plans that were offered at Newfoundland Power.
	With respect to retiree consideration, Aon	20		Again, this is already in the context of this
1	recommended that we look at current and future			is all they were reviewing and they certainly
ı	retirees separate. We currently still offer	22		did not have A) visibility with respect to
1	he same programs that we offered back in	23		Newfoundland Power's Pension Plans or the
1	2005. The second point they made here with	24	1	overall benefits that we offered. We did
1	respect to that we should reserve the right of	25	5	change benefits consultants in early 2006 to
				<u> </u>

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1	Aon and we, at that point, renegotiated new	1	Pension Plan, when you compare that to others
2	carriers for Newfoundland Power. We changed	2	in this market, there are deficiencies in our
3	from Great West Life to Blue Cross in 2006 and	3	plan, compared to others, so it is a big
4	as a part of, what I call the continue of	4	issue. So we agreed that we would get through
5	benefits review for Newfoundland Power, we	5	collective bargaining, which we did and we
6	certainly did put, I guess, further boarders	6	came out of collective bargaining without
7	around what we offered when we did change to	7	making any changes to our Defined Benefit
8	Blue Cross. Now that is with specific	8	Pension Plan. We managed to get through it
9	reference to active employees and the benefits	9	without those changes, because they're simply
10	that are provided to active members, but those	10	too costly. Any changes at this point are too
11	are the benefits that move into retirement.	11	expensive. We did manage, as a part of our
12	So we did make some changes.	12	collective bargaining, to open up the door
13 I	EARLE, Q.C.:	13	with respect to doing a review of our benefits
14	Q. Clearly you're essentially saying you've	14	plan and certainly the employees that are
15	tightened up on active employee -	15	engaged with that because no one likes to see
16 N	MS. PERRY:	16	premium increases year over year, but
17	A. Our benefits, yes.	17	certainly there is an expectation that we're
18 I	EARLE, Q.C.:	18	going to look at the benefits that we're
19	Q benefits and that change flows over into	19	offering as well, because I'm sure any time
20	retiree benefits.	20	you open up a benefits review, there is an
21 1	MS. PERRY:	21	expectation that certain benefits will
22	A. It certainly flows through because the	22	improve. So we've agreed to do this, which we
23	benefits are offered, continue to be offered	23	are going to include retirees as well, future
24	when you retire up to age 65 and then	24	retirees as well, as a part of this review by
1			
25	certainly after the benefits are capped. So	25	the end of 2010.
25	certainly after the benefits are capped. So  Page 90		the end of 2010.
25	<u>*</u>		
	Page 90	1 EAF	Page 92
1	Page 90 in 2006 we changed, in October of 2006 we	1 EAF	Page 92 RLE, Q.C.:
1 2	Page 90 in 2006 we changed, in October of 2006 we changed the carriers and on going into 2007,	1 EAF	Page 92 RLE, Q.C.: Q. Ms. Perry, if I could summarize a rather long
1 2 3	Page 90 in 2006 we changed, in October of 2006 we changed the carriers and on going into 2007, there was initial indication that we would do	1 EAF 2 (	Page 92 RLE, Q.C.: Q. Ms. Perry, if I could summarize a rather long answer, you did not undertake any of the
1 2 3 4	Page 90 in 2006 we changed, in October of 2006 we changed the carriers and on going into 2007, there was initial indication that we would do a benefits reviewa further, a stage 2, I	1 EAF 2 (3 4 5	Page 92 RLE, Q.C.: Q. Ms. Perry, if I could summarize a rather long answer, you did not undertake any of the recommended changes in CA-NP-293 for retiree
1 2 3 4 5	Page 90 in 2006 we changed, in October of 2006 we changed the carriers and on going into 2007, there was initial indication that we would do a benefits reviewa further, a stage 2, I guess, to this review as to it's time to look at benefits and have a review as to what is offered and what is the best way to offer	1 EAF 2 () 3 4 5 6 MS.	Page 92 RLE, Q.C.: Q. Ms. Perry, if I could summarize a rather long answer, you did not undertake any of the recommended changes in CA-NP-293 for retiree benefits, correct?  PERRY: A. If I could just have one second, I'll go down
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benefits?

Newfoundland Power. Our Defined Benefit

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Pa	nge 93	Page 95
1 MS. PERRY:	1	be applied to Newfoundland Power.
2 A. No, you are correct.	2 (	4:15 p.m.)
3 EARLE, Q.C.:		EARLE, Q.C.:
4 Q. If we could look at CA-NP-341? And go to pag		Q. Well let's take Health Care spending account,
5 43, you will notice in answer to question No.	· I	is that worthy of consideration by an
6 24, "Please indicate the benefit you currently		organization such as Newfoundland Power to
offer to retirees?" And none is 58.7 percent,	7	look into the cost of OPEBs?
8 correct?	'	MS. PERRY:
9 MS. PERRY:	9	A. I think everything is worthy of consideration
10 A. Yes, that is correct.	10	when we do a benefits review.
11 EARLE, Q.C.:		EARLE, Q.C.:
12 Q. So I take it that you are, in terms of your	12	Q. Let me ask you to turn to CA-NP-362? And if
· · · · · · · · · · · · · · · · · · ·	13	*
benefits to retirees, you are somewhat better		we go to the letters there attached, and
than the 50th percentile that Mr. Ludlow	14	particularly those that are signed by
15 suggested?	15	yourself. These move along in time and this
16 MS. PERRY:	16	one is 2008, December 17th, 2008, and if you
17 A. But I think that would matter with respect to		will, I notice the signatories have moved up
which market you are comparing yourself to		the corporate ladder and with due respect to
This is a national, a national survey from Aor		Mr. Frank and others, and you're higher up in
and it gives a broad indication of what is	20	the organization, what's the intent of having
21 happening nationally.	21	you sign these letters rather than someone, if
22 EARLE, Q.C.:	22	you will, lower down in the corporate
23 Q. This is a national survey and if you want to	23	structure of Newfoundland Power?
24 flip back to the identified employers, this is	24 N	MS. PERRY:
25 the same sort of people that you referred to	25	A. I'm not sure there was any purpose or intent
Pa	nge 94	Page 96
when you're looking for data on salaries,		of me signing the letter. It certainly could
2 isn't it, for executives?	2	be signed by a manager or a V.P.
3 MS. PERRY:	3 F	EARLE, Q.C.:
4 A. For executives I would agree, yes.	4	Q. And if you could go down to thethere's a
5 EARLE, Q.C.:	5	number of suggestions there. "In addition to
6 Q. Now, if you go to question No. 25, you see		maintaining a healthy lifestyle, you can
that there are a number of options that are	7	further help by"and see there's three
being considered by employers in respect to		suggestions and the first two are "asking your
9 retiree benefits. And I'll just ask you to	9	doctor for a generic brand of any drug
review those and tell the Board of	10	prescribed, asking your doctor for less
		expensive brands of prescribed medication if
· · · · · · · · · · · · · · · · · · ·		· •
reasonable sorts of items for an employer to		generic drugs are not available." Would you
be looking at, in terms of reducing cost of	13	agree with me that those two items are in fact
14 OPEBS.	14	cost-saving features that are often
15 MS. PERRY:	15	mandatorily required in group health plans?
16 A. With respect to the items noted in question		MS. PERRY:
No. 25, there's a list here of things you can	17	A. The first two bullets, Mr. Earle?
look at to change your OPEB plan. Whether it		EARLE, Q.C.:
is reasonable would depend on what is	19	Q. Yes.
reasonable for individual companies, but for		MS. PERRY:
Newfoundland Power, one of the things that		A. Yes, I would agree and with respect to generic
are going to do is to take a review of our	22	brands, that is a requirement under our plan,
group benefits plan to see what is reasonable		it has to bethe generic drug has to be
for us. So right now I cannot say which one		offered first.
of these items are actually going to, if ever,	25 F	EARLE, Q.C.:

October 19, 2009	Multi-Page	NP's 2010 General Rate Application
	Page 97	Page 99
1 Q. Why are you writing asking people to do that?	1 MS	S. PERRY:
2 MS. PERRY:	2	A. Yes, it's based on a proforma indication, yes,
3 A. What we find is that if the doctor	3	a reduction of the benefit would yield around
4 specifically prescribes a specific drug, then	4	those cost reductions and that's assuming
5 there isthen they can flow through the plan	5	there are no other changes with respect to
6 and not always do the general drug prevail, so	6	retiree benefits.
7 we're just reminding employees or retirees	7 EA	RLE, Q.C.:
8 that they should, should remind doctors that	8	Q. So given that you're engaging in a review to
9 the generic drug is what's covered under the	9	be concluded by the end of 2010, what do you
10 plan.	10	see as being the damage that would be caused
11 EARLE, Q.C.:	11	by dealing with OPEBs when, at the end of the
12 Q. What happens when they flow through? Do yo		last GRA application for Newfoundland Power,
have the claim rejected and sent back? Do you	13	it was thought that OPEBs would be dealt with,
14 enforce it?	14	that is not on the test year 2010, but a test
15 MS. PERRY:	15	year 2011?
16 A. I would say we do. I'm not sure about how		S. PERRY:
many or to what degree it's enforced, but it's		A. With respect to the benefits review and the
only supposed to be generic drugs covered.	18	adoption, I guess, of accrual accounting, I do
19 EARLE, Q.C.:	19	see those two particular items as separate
20 Q. Well clearly it must be a problem if it rates	20	items and I indicated that in my opening
21 a notation in a letter from the vice president	20 21	testimony. We have proposed, I guess, the
22 of finance of the Company.	22	adoption of accrual accounting on several
23 MS. PERRY:	23	occasions and to be waiting for a benefits
24 A. I'm not sure it was deemed to be a problem to	23	review such that we can nail down an accrued
25 make it to this letter, it was more of a	25	cost, I just don't see, I don't see the
		*
	Page 98	Page 100
friendly reminder that you will ask your		linkage there. The change that will come
2 doctor for a generic drug brand.	2	about as a result of this review is, it's
3 EARLE, Q.C.:	3	completely unknown at this point in time. I
4 Q. You've indicated that a change in retiree		suspect that some change will occur, that
5 being eligible for the free, if you will,	. 5	change will occur in the future and certainly
6 post-retirement group held benefit as of		when those changes are known and if they do
7 January 1st, 2010 would be worth about		have a cost impact, that will certainly be
8 million on the annual OPEB expense, so we		factored into customer rates in the future.
9 talking about, because I realize you've got		But in terms of waiting until we can actually
integrate the tax effect. We're talking about	t 10	nail down the accrued OPEBs' cost on an annual
going from 6.8 to 4. something, right?	11	basis, I don't think it's necessary to wait.
12 MS. PERRY:	12	Adoption of accrual accounting is a better
13 A. Yes, that would be correct.	13	estimate of what today's costs are based on
14 EARLE, Q.C.:	14	the plan that we have today and certainly if
Q. Would you agree with me that on an ann		we continue to wait, the transitional
basis it wouldn't be significantly different		obligation will continue to grow and it's
if you were to do that in 2011?	17	certainly going to be a bigger cost that we
18 MS. PERRY:	18	have to deal with in the future. And
19 A. Sorry, to do what in 2011?	19	recognizingis my last point with this,
20 EARLE, Q.C.:	20	recognizing that we have only proposed to deal
21 Q. To say that effective January 1st, 2011,	21	with a portion of the accrued benefit
retirees will not be receiving this benefit at		obligation, we have not proposed to deal with
age 65? The impact would still be in the		the transitional obligation, so the proposal
range of two million plus on the annual		that we have is balanced to begin with and
25 accrual?	25	certainly reasonable. So when and if changes

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	Page 101		Page 103
1	should occur with respect to the benefits	1	1 your cost picture, isn't it?
2	review, that will certainly be incorporated in	2	2 MS. PERRY:
3	customer rates going in the future.	3	
4	EARLE, Q.C.:	4	4 EARLE, Q.C.:
5	Q. Ms. Perry, Newfoundland Power is proposing a	5	
6	test year 2010 for the purpose of setting	6	, , , , ,
7	rates ofwith, excuse me, with a 6.8 million	7	7 MS. PERRY:
8	dollar OPEB expense, correct, 6.84 I think,	8	<i>e</i> , , , , , , , , , , , , , , , , , , ,
9	actually.	9	
10	MS. PERRY:	10	0 EARLE, Q.C.:
11	A. Yes, that is correct.	11	
12	EARLE, Q.C.:	12	7 7 1
13	Q. If you were to make the kind of change we're	13	3 scenario?
14	discussing, that is essentially tell anyone	14	4 MS. PERRY:
15	who retires in January 1st, 2011 that they	15	E
16	will not be receiving free health care	16	, ,
17	benefits at age 65 effective January 1st,	17	8
18	2011, doesn't that mean that Newfoundland	18	8 to say that we will be actuallywe will
19	Power's 2011 bottom line is more than two	19	actually reduce costs in the short term, I
20	million dollars better off, unless we have a	20	o can't say for sure.
21	whole bunch of changes in your forecast is not	21	1 EARLE, Q.C.:
22	right.	22	2 Q. I have no further questions.
23	MS. PERRY:	23	3 CHAIRMAN:
24	A. If we just simply assume that we make the	24	4 Q. We're going to take a little break for, say 10
25	changes that you're referring to, Mr. Earle,	25	5 minutes, is that all right?
		_	
	Page 102		
1	Page 102 the expense would be two million or so lower		
1 2	——————————————————————————————————————		Page 104  1 MR. JOHNSON:
1	the expense would be two million or so lower	1 2	Page 104 1 MR. JOHNSON:
2	the expense would be two million or so lower going forward, but I guess that's where I	1 2	Page 104  1 MR. JOHNSON:  2 Q. That's fine with us.  3 CHAIRMAN:
2 3	the expense would be two million or so lower going forward, but I guess that's where I struggle with respect to making that	1 2 3	Page 104  1 MR. JOHNSON:  2 Q. That's fine with us.  3 CHAIRMAN:  4 Q. Yes, okay.
2 3 4	the expense would be two million or so lower going forward, but I guess that's where I struggle with respect to making that assumption that that is going to be the	1 2 3 4 5	Page 104  1 MR. JOHNSON:  2 Q. That's fine with us.  3 CHAIRMAN:  4 Q. Yes, okay.
2 3 4 5	the expense would be two million or so lower going forward, but I guess that's where I struggle with respect to making that assumption that that is going to be the change. I simply do not know the change today	1 2 3 4 5 6	Page 104  1 MR. JOHNSON:  2 Q. That's fine with us.  3 CHAIRMAN:  4 Q. Yes, okay.  5 (RECESS)
2 3 4 5 6	the expense would be two million or so lower going forward, but I guess that's where I struggle with respect to making that assumption that that is going to be the change. I simply do not know the change today or the magnitude of the change and I also do	1 2 3 4 5 6	Page 104  1 MR. JOHNSON:  2 Q. That's fine with us.  3 CHAIRMAN:  4 Q. Yes, okay.  5 (RECESS)  6 (4:42 p.m.)  7 CHAIRMAN:
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1	but if you do, I don't mind if you have to		1 MR. LUDLOW:
2	defer one to the other for the answer or if	2	2 A. Okay, Mr. Simmons and Mr. Chairman, I will
3	you both want to contribute in turn, so we can	3	-
4	address the question in one go, without having	4	
5	to have an examination of one of you and then	5	
6	the other. And I wanted to ask you first	6	6 the AAF until such time, either the market
7	questions about the Automatic Adjustment	7	7 settles or whatever conditions can occur as we
8	Formula and in particular just what	8	8 move to the future. There may be alternatives
9	Newfoundland Power's position is on the future	9	9 to the design of the formula which we have not
10	of the formula. And I'd like to start by	10	-
11	referring you please to page 319 of the	11	
12	application. Yes, near the bottom of the	12	2 So given the current volatility of the market
13	page, please. There starting on line 318, it	13	and the decreased revenue which we're
14	says that given the current financial market	14	4 forecasting in 2010, that's the way we looked
15	conditions, this amended application proposes	15	5 at this was to propose it that way. The fact
16	discontinuing use of the formula for the	16	6 that we're discontinuing don't mean that it
17	adjustment of the Company's rate of return on	17	7 cannot be restarted with some changes or with
18	rate base and customer rates in years	18	8 some adjustments and that was the basis upon
19	subsequent to the 2010 test year and I'd like	19	9 which we had proposed, Mr. Simmons, in the
20	to refer you, please, to CA-NP-44, and in	20	
21	answer a) to the question posed there, the	21	add?
22	statement is made that Newfoundland Power's	22	2 MS. PERRY:
23	proposal is to discontinue use of AAF based	23	A. Yes, I think when we look forward at the
24	upon fairness of cost of equity, including	24	formula when we were filing the Application,
25	forecast 2010 cost of equity, which suggests	25	we were seeing a decrease in the cost of
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1	there that the proposal is to consider	1	equity coming out of the formula and certainly
2	discontinuing the AAF because of the result	2	this was at a time when our cost of debt was
3	from its use in the 2010 year, and at the	3	actually going up. Soand albeit the markets
4	commencement of this hearing last week in the	4	4 have improved somewhat since we filed, our
5	opening statements from your counsel, I	5	5 cost of debt is certainly not going down
6	understood him to say that Newfoundland Power	6	6 though from previous levels, so the fact that
7	proposed discontinuing the Automatic	7	we are experiencing historical low long-Canada
8	Adjustment Formula until the next GRA or until	8	8 bond yields and the fact that we are
9	a further hearing is called by the Board. So	9	9 projecting a declining cost of equity, that
10	my question to you is there are a number of	10	o relationship was flawed when we filedand
11	alternatives available about what can happen	11	today. There are other jurisdictions that are
12	coming out of this hearing. We could simply	12	reviewing the formula as well. I know that
13	suspend the Automatic Adjustment Formula for	13	the BCUC and the AUB, the Alberta Utilities
14	the 2010 year in order to allow a new rate to	14	Board, and certainly the National Energy Board
15	be set, or we could suspend the Automatic	15	5 have all recently considered the formula in
1,0	Adjustment Formula for future years until	10	C light of our market conditions. And so in

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light of current market conditions. And so in

terms of discontinuing the formula, it was

certainly based on the fact that there was

some apparent flaws with the formula itself.

As Mr. Ludlow said, we're not against

formulas, it's just this particular one wasn't

conditions. Our approach with this is to let

markets, I guess, come to some stabilizing

place and also look to see what other

yielding a fair return in today's market

Adjustment Formula for future years until

there is another hearing of the Board, or it

could be as seen to be presented in the

tell us just what it is that Newfoundland

Power sees as being the future of the

Automatic Adjustment Formula after this

discontinuing use of the Automatic Adjustment

Formula. So maybe, Mr. Ludlow, if you could

permanently

originally,

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Application

hearing?

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1 regulatory jurisdictions propose coming	out of 1	because of the current conditions that exist
their reviews and certainly we would re		in the market and your current forecast for
3 formula or some version of the formula	ata 3	
4 later date and also we certainly can be c	alled 4	revenues if the Automatic Adjustment Formula
5 to put forward a proposal before then.	5	is used, is that right?
6 MR. SIMMONS:	6	MS. PERRY:
7 Q. You've told us that you anticipate that	it's 7	A. Yes, we're proposing to discontinue the
8 also going to be necessary to come back		
9 General Rate Application for 2011, I be		MR. SIMMONS:
10 Can you foresee any circumstances in w		Q. Right, but you're open to reinstatement of the
will not be here in 2011 for a General 1	-	formula or a modified formula when those
12 Application?	12	conditions abate, for example when the markets
13 MS. PERRY:	13	return to a more normal state of operation?
14 A. Well I guess a lot would have to change		MS. PERRY:
15 what we see today. I did indicate in		A. Certainly, we're not against formulas.
opening that we do have a number	-	MR. SIMMONS:
amortizations that are expiring and that		Q. Okay. If you do come back for another GRA in
certainly contributing to almost half of		2011, is there any imperative or any
short fall that we're currently projecting		particular reason why it's necessary to make
but we are still short about two million,	_	any decision regarding the Automatic
that certainly will be a challenge. We want		Adjustment Formula on this Application?
have to look to see where are sales are.		MS. PERRY:
got to look forward as we move out to the		A. Well I guess timing is of an issue, we will be
24 couple of months. We got to take a ha		making a definitive decision on whether or not
look at our operating, see where short-		we have to file for 2011 early in the new year
25 Took at our operating, see where short		<u>·</u>
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interest rates are. There are a number		and a part of that decision will include what
2 factors that can impact the outlook go	•	we see going forward with respect to our cost
forward, but particularly the deferrals the		of capital. So early in the year we will have
4 we have expiring, certainly is a big piec		to, if the formula were in effect, we would
5 I guess, a solution, for lack of a better		have to look forward and to see what the
6 word, with respect to potentially not ha		formula is yielding and that could very well
7 to file.	7	be one of the reasons why we decide to come
8 (5:00 p.m.)	8	back in is because of what the formula is
9 MR. SIMMONS:	9	yielding for 2011.
10 Q. So although, based on what you're lo	_	MR. SIMMONS:
ahead to 2011 for right now, you're exp	-	Q. Now if the Board were to agree and suspend the
it would be necessary to come in, at the		operation of the Automatic Adjustment Formula
time, there are things that you can do be		and Newfoundland Power did not come back for a
now and then that may result in it not b	_	General Rate Application in 2011, am I correct
necessary to file in 2011, is that a fair		that the rates that are now set for 2010 would
16 summary?	16	then continue to apply in 2011?
17 MS. PERRY:		MS. PERRY:
18 A. That certainly could be a possibility, w		A. Yes.
unsure about that as of yet, but certainly		MR. SIMMONS:
are going to be looking four ways to, I g	·	Q. That would be the effect?
21 stay out.		MS. PERRY:
22 MR. SIMMONS:	22	A. That would be the effect.
Q. Okay, so the request now is to, I'll sa	-	MR. LUDLOW:
suspend the Automatic Adjustment For		Q. Mr. Simmons, if I may, I have to say that we
you described it as being necessary to de	o that 25	have absolutely no desire to be back into this

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1	hearing room in 2010 and it's a distraction to	1	l	effect on a lower ROE over this period, so the
2	the Company, we started this filing in March			fairness of the return, I guess, could be at
3	of this year and we're not into mid to late		3	question over those years, but it certainly
4	October, so as Ms. Perry has said, whatever	2		yielded reasonable returns to allow us to
5	can be overturned or found or done, it is our	5		certainly maintain our credit worthiness over
6	objective to find that. Now the point that is	1		those three years.
7	being made is that by the end of the first			SIMMONS:
8	quarter when we will start to get some	8		o. And for those three years, in each of those
9	visibility of the analysis and forecasting as	9		years I presume if the formula was returning
10	it starts to firm up as we move into 2010.	10		unsatisfactory results to the point where it
	IMMONS:	11		affected the credit rating of Newfoundland
	I've looked back a little bit to educate	12		Power or your ability to proceed, Newfoundland
13	myself because I'm new to this process about	13		Power had the ability to bring an application
14	some of the history of the Automatic	14		for a new GRA, just as it is being done this
15	Adjustment Formula and I just wanted to run	15		year?
16	through just a brief outline of how it's been			PERRY:
17	used since it was instituted in 1999. I won't	17		Yes, that is correct. There would be some
18	go to the documents to demonstrate this	18	3	practical limitations from a timing
19	because I expect you're familiar with it and	19	)	perspective with respect to when we could
20	that will take time, but the formula was set	20	)	practically file a GRA, so if the formula was
21	up in 1999. 1999 was a test year, so rates	21	[	actually yielding an unfair return, by the
22	were actually set using the hearing process to	22		time we get to that point, which is October or
23	set rates for 1999. The formula was then used	23		November, it's late in the year to be filing a
24	to set rates in the three subsequent years,	24		General Rate Application for the upcoming
25	2000, 2001 and 2002, there was then a General	25	5	year, I guess.
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1	Rate Application brought in '03, which		MR.	SIMMONS:
2	resulted in two test years, '03 and '04. The			e. But where it's used for three years in a row,
3	formula was then used to set rates for the		3	we can safely say that at least for the first
4	next three years, '05, '06 and '07. There was			of those two years Newfoundland Power must
5	a General Rate Application in '08 with the	5		have been satisfied with the operation of the
6	result that '08 was a test year and the	1		formula?
7	formula was used then to set the rate in '09,			PERRY:
8	so I think I got that right?	8		Yes, that's fair.
9 MS. P		و		SIMMONS:
	I think so, yes.	10		Okay, and then in the second three-year
	IMMONS:	11		period, which was 2005 to 2007, did in your
12 Q.	So we do have a number of years of experience	12	2	view the formula similarly produce a
13	of the operation of the formula here in this	13	3	satisfactory result in the sense that
14	jurisdiction. And in the first three-year	14	1	Newfoundland Power was able to maintain its
15	period when it was used from 2000 and 2002,	15	5	credit ratings and continue without having to
16	I'm interested in knowing your views on	16	5	bring a GRA to address any problems that were
17	whether you regard the operation of the	17	7	being produced by the formula in that period?
18	formula as having produced satisfactory	18	MS.	PERRY:
19	results in that period?	19	) A	Yes, I would agree that it has produced
20 MS. P	ERRY:	20	)	reasonable returns that allowed us to maintain
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our credit worthiness, again, in 2007 in

particular, our cost of equity was, I believe

it was 8.6, so there was a decline from the

previous year. But it has allowed us, the

returns have allowed us to maintain our credit

A. I think the formula in those years produced a

return that allowed us to maintain our

a lot of material, I guess, with respect to

performance over those years. There has been

declining long-Canada bond yields and its

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1 worthiness, yes.	1	Newfoundland Power, that an Automatic
2 MR. SIMMONS:	2	Adjustment Formula is an appropriate part of
3 Q. And the real difference now is that the marke	et 3	that regime because it allows rates to be set
4 has been behaving differently over the last	4	in intervening years without having to have a
5 couple of years than it had through those	5	full hearing every year to determine the rate
6 earlier time periods when the formula worker	ed 6	of return on rate base. Does Newfoundland
7 satisfactorily, is that correct?	7	Power have any position on whether the
8 MS. PERRY:	8	Automatic Adjustment Formula is an appropriate
9 A. Absolutely, yes.	9	part of a multi-year regulatory regime, or any
10 MR. SIMMONS:	10	comment on that position taken by Mr. Todd?
11 Q. Now a hypothetical question, but we've bee	n 11 1	MR. LUDLOW:
dealing with lots of those, should the markets	s 12	A. I'll start on that one. I mean, I think the
return to the type of stability that existed	13	Automatic Adjustment Formula is one mechanism,
prior to the last couple years, is there any	14	as long as it yields appropriate outputs, and
reason why you think the formula would no	ot 15	what we're seeing is that that is not the
work as well in the future as it did in the	16	case, in our opinion, at this point in time.
17 past?	17	Now there may be other alternatives to multi-
18 MS. PERRY:	18	year regimes that we have not studied
19 A. It's a hard question in the fact that it is	19	ourselves, similar to PBR, and other types of
20 hypothetical, I guess. I think it's worthy to	20	regulatory mechanisms that do exist. It can
look across the country as to what other	21	be, Mr. Simmons, a fundamental principle, but
formulas may result as a result of this review	22	at this point we're seeing that it is not
that's taking place across the country. So	23	yielding the returns that we would require.
there may, in fact, be a better formula.	24 1	MR. SIMMONS:
25 MR. SIMMONS:	25	Q. So the prospect exists then that Newfoundland
Pag	ge 118	Page 120
1 Q. Uh-hm.	1	Power would accept that an Automatic
2 MS. PERRY:	2	Adjustment Formula again becomes relevant and
3 A. And I'll certainly leave that up to the	3	useful once market conditions subside, but
4 experts with respect to the appropriate	4	you're suggesting that it may be necessary
5 relationships between long term bond yields	s 5	that there be some variation to the way the
6 and corporation's cost of equity, but	6	formula works, and you probably answered this
7 certainly there may be lessons to be learned	7	question already, has there been any
8 from this market change, and what a better	8	consideration given to what types of changes
9 formula should look like going forward. So I	I 9	might be necessary to improve the formula?
wouldn't be surprised if there's some element	ıt 10 I	MS. PERRY:
that may come about as a result of the	11	A. No. I would say that it's early days for a
12 formula.	12	look at what the formula should look like. So
13 MR. SIMMONS:	13	we have not we have not taken that extra
14 Q. The Consumer Advocate has a report filed in	in   14	step now to engage and review the appropriate
pre-filed evidence from Mr. John Todd, and y	you 15	formula or what the formula should look like.
probably had a look at that at some point in	16	I don't believe there's really a whole lot out

17 your preparation. Mr. Todd makes the case, or 17 18 takes the position that an Automatic 18 19 Adjustment Formula is just one element of 19 multi-year regulation and other elements 20 20 21 include the deferrals that allow for the 21 22 smoothing of the effects of variations and 23 expenses over years and so on, and that he 23 24 makes the case that if you have a regime which 24

developments across the country with respect to what a formula should look like. So I think all that will play into what the formula should look like going forward. 22 MR. SIMMONS: Q. Okay. So if I could summarize what you've told me then about the automatic -- the 25 position of the company on the Automatic

there just yet with respect to regulatory

includes deferrals, such as exist here for

Page 121  1 Adjustment Formula, the problem with the formula has not so much been its use instorically, but the problem is the effect that its use will have under current market conditions. That's the first point.  5 Colkay, and if you look back at that settlement and a superior that was used and adopted in the page 123 and in the pre-tax interest coverage sa well.  5 Colkay, and if you look back at that settlement and a superior that was used and adopted in the page 123 and in the pre-tax interest coverage as well.  5 Colkay, and if you look back at that settlement and adopted in the pre-tax interest coverage as well.  5 Colkay, and if you look back at that settlement and adopted in the pre-tax interest coverage as well.  5 Colkay, and if you look back at that settlement and adopted in the produce a cash flow interest coverage of 29 times? I don't know if you recognize that number as cash flow interest coverage of 29 times? I don't know if you recognize that number as cash flow interest coverage of 29 times? I don't know if you recognize that number as cash flow interest coverage of 149 percent.  12 Mr. RIMDIONS:  13 Mr. PERRY:  14 A. Absolutely,  15 Mr. SIMMONS:  15 Q. And the question is, is the current formula the appropriate one, and your view is that is it's too early to be able to tell what changes would have to be made to improve the formula?  20 Mr. PERRY:  21 A. That's correct.  22 Mr. LIDLOW:  22 Mr. LIDLOW:  23 A. That's correct.  24 Mr. SIMMONS:  25 Q. Now unfortunately I have some questions on  26 Page 122 credit metrics. I'll try and summarize at ithings coincided, and one of those would be a risk of a downgrade in its credit rating if several that would have achieved a pre-tax interest that was a settlement agreement at the GRA.  26 Liblustication of the set of the board there was information presented to the Board that have heen discussed here at the Board the effect of that settlement agreement at the GRA.  27 Liblustication of the set of the pre-tax interest that we was a settlement agreement	October	r 19, 2009 Mul	tı-P	Page NP's 2010 General Rate Application
2 formula has not so much been its use 3 historically, but the problem is the effect 4 that it is use will have under current market 5 conditions. That's the first point. 6 MS. PFRRY: 7 A. That is correct, yeab. 8 MR. SIMMONS: 9 Q. And the second point is that the company is 10 not philosophically imposed in any way to the 11 use of an Automatic Adjustment Formula in the 12 future? 13 MS. PERRY: 14 A. Absolutely. 15 MR. SIMMONS: 16 Q. And the question is, is the current formula 17 the appropriate one, and your view is that 18 if sto oe arily to be able to tell what changes 19 would have to be made to improve the formula? 21 MS. PERRY: 22 MR. FUDLOW: 22 MR. PILDLOW: 23 MS. PERRY: 24 A. That's correct. 24 MR. SIMMONS: 25 Q. Now unfortunately I have some questions on 26 Ceredit metrics. I'll try and summarize a little bit some of what we've heard already, a interested in. There's three particular credit metrics that seem to have been discussed that have been used in the pust, one less so currently, and one is pre-tax interest in word a half times? 3 that the effect of that settlement agreement that was a settlement agreement that was a settlement agreement at the GRA. the provided a pre-tax interest in that the other two credit metrics trainers? 4 A. Yes, that's correct. 5 Q. Now unfortunately I have some questions on the provided provided in the pust, one less so currently, and one is pre-tax interest in the reason of the board that the effect of that settlement agreement that the GRA. the some of what we've heard the GRA. the provided a pre-tax interest in that the effect of that settlement agreement that was a settlement agreement the under the pust, one less so currently, and one is pre-tax interest in the pust, one less so currently, and one is pre-tax interest in the pust, one less so currently and one is pre-tax interest in the pust, one less so currently and one is pre-tax interest in the pust, one less so currently and one is pre-tax interest in the pust, one less so currently and one is pre-tax interest		Page 12	l	Page 123
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that its use will have under current market conditions. That's the first point.  MS. PERRY: 7 A. That is correct, yeah. 8 MR. SIMMONS: 9 Q. And the second point is that the company is 10 not philosophically imposed in any way to the 11 use of an Automatic Adjustment Formula in the 12 future? 13 MS. PERRY: 14 A. Absolutely. 15 MR. SIMMONS: 16 Q. And the question is, is the current formula 17 the appropriate one, and your view is that 18 ii's too early to be able to tell what changes 19 would have to be made to improve the formula? 20 MS. PERRY: 21 A. That's correct. 22 MR. LIDILOW: 23 A. That's correct. 24 MR. SIMMONS: 25 Q. Now unfortunately I have some questions on 26 g. It interested in. There's three particular 27 credit metrics. I'll try and summarize a 28 little bit some of what we've heard already, 29 as or can pose the questions that I'm 4 interested in. There's three particular 5 credit metrics that seem to have been 29 discussed that have been used in the past, one 20 credit metrics that seem to have been 21 there was information presented to the Board 10 before, and am I correct that in 2007 when 11 there was a settlement agreement at the GRA, 12 there was information presented to the Board 10 before, and am I correct that in 2007 when 11 there was a settlement agreement at the GRA, 12 there was information presented to the Board 13 that he effect of that settlement agreement in the GRA, 14 there was information presented to the Board 15 there was a settlement agreement in the GRA, 16 there was a settlement agreement in the GRA, 17 con prose the current formula' 18 MR. SIMMONS: 19 Q. Okay, and that the other two credit metrics 20 that have been discussed here are cash flow 21 interest coverage and cash flow debt coverage, 22 and that both of those are ones that are used 23 by the credit rating agencies, in particular 24 Moody's, in reference to the pre-tax interest 25 coverage of two and a half times? 26 Coverage of two and a half times? 27 Q. Okay, and that the other two credit metrics 28 that have b	2	formula has not so much been its use	2	2 A. Yes, that is correct, yeah, DBRS does follow
5 Q. Okay, and if you look back at that settlement agreement that was used and adopted in the 7 A. That is correct, yeah.  5 MR. SIMMONS: 9 Q. And the second point is that the company is 10 not philosophically imposed in any way to the 11 use of an Automatic Adjustment Formula in the 11 ture? 13 MS. PERRY: 13 MS. PERRY: 14 A. Absolutely. 15 MR. SIMMONS: 16 Q. And the question is, is the current formula 7 the appropriate one, and your view is that 18 it's too early to be able to tell what changes 19 would have to be made to improve the formula? 22 MR. LUDLOW: 21 A. That's correct. 22 MR. LUDLOW: 22 MR. SIMMONS: 23 A. That's correct. 24 MR. SIMMONS: 25 Q. Now unfortunately I have some questions on 19 credit metrics. I'll try and summarize a 2 little bit some of what we' ve heard already, 3 so I can pose the questions that I'm 4 interested in. There's three particular 5 credit metrics that seem to have been 6 discussed that have been used in the past, one 7 less so currently, and one is pre-tax interest to the free was a settlement agreement that she filed to the Board that the effect of that settlement agreement that the would have achieved a pre-tax interest to worage of 129 times? 11 to don't know if you recognize that number as correct. You do? 11 MR. SIMMONS: 15 Q. Ou have a good head for it, and a cash flow debt coverage of 14.9 percent. 16 MS. PIRRY: 18 A. That's right. 19 MR. SIMMONS: 20 Q. Now you were taken to the Moody's March, 2009, report at Exhibit 4, and we'll take you there again, and we saw in that report hat Moody's said that Newfoundland Power would be at risk of a downgrade in its credit rating if several that's been discussed here at the Board that been the effect of that seem to have been discussed here at the Board that the effect of that settlement agreement the first page of Attachment "A". This was a credit metric measurement that the effect of that settlement agreement to the past, one of the past of the	3	historically, but the problem is the effect	3	the pre-tax interest coverage as well.
A Natis correct, yeah.   5	4	· ·	4	
A Natis correct, yeah.   5	5	conditions. That's the first point.	5	5 Q. Okay, and if you look back at that settlement
7 A. That is correct, yeah. 8 MR. SIMMONS: 9 Q. And the second point is that the company is not philosophically imposed in any way to the use of an Automatic Adjustment Formula in the future? 13 MS. PERRY: 13 MS. PERRY: 14 A. Absolutely. 15 MR. SIMMONS: 16 Q. And the question is, is the current formula in the appropriate one, and your view is that is it's too early to be able to tell what changes would have to be made to improve the formula? 20 MS. PERRY: 21 A. That's correct. 22 MS. LUDIOW: 23 A. That's correct. 24 MR. SIMMONS: 25 Q. Now you were taken to the Moody's March, 2009, report at Exhibit 4, and we'll take you there again, and we saw in that report the Moody's said that Newfoundland Power would be at risk of a downgrade in its credit rating if several that's been discussed that have been used in the past, one discussed that have been used in the past, one for each of increase that is a coverage, which is a credit metric measurement that's been discussed here are the Board there was a settlement agreement at the GRA, there was information presented to the Board that the effect of that settlement agreement at the GRA, the ratio and implemented then were projected to produce a cash flow interest coverage of 129 percent. 10 don't know if you recognize that number as corete. Ye dod't know if you recognize that number as coverage of 14.9 percent. 11 do, vss. 14 MR. SIMMONS: 15 Q. You have a good head for it, and a cash flow debt coverage of 14.9 percent. 16 MR. SIMMONS: 29 Q. Now you were taken to the Moody's March, 2009, report at Exhibit 4, and we'll take you there 22 again, and we saw in that report that would be at risk of a downgrade in its credit rating if several things coincided, and one of those would be at risk of a downgrade in its credit rating if several things coincided, and one of those would be a floor of this work of the cash flow interest coverage that the GRA, there was information presented to the Board that before of the attendent agreement would have a chieved a pre-tax interest overag	6 MS. P.	ERRY:	6	agreement that was used and adopted in the
9 Q. And the second point is that the company is not philosophically imposed in any way to the use of an Automatic Adjustment Formula in the future?  12 future?  13 MS. PERRY: 14 A. Absolutely. 15 MR, SIMMONS: 16 Q. And the question is, is the current formula in the appropriate one, and your view is that it it's too early to be able to tell what changes would have to be made to improve the formula? 18 iv's too early to be able to tell what changes would have to be made to improve the formula? 20 MS. PERRY: 21 A. That's correct. 22 MR, LIDLOW: 23 A. That's correct. 24 MR SIMMONS: 25 Q. Now unfortunately I have some questions on  Page 122 1 credit metrics. I'll try and summarize a little bit some of what we've heard already, a so I can pose the questions that I'm interested in. There's three particular coverage, which is a credit metric measurement that's been discussed here at the Board before, and and I correct that in 2007 when the there was a settlement agreement at the GRA, there was information presented to the Board that the effect of that settlement agreement would have achieved a pre-tax interest coverage of two and a half times? 16 MS. PERRY: 27 A. That's correct. 28 Coverage, which is a credit metric measurement that's been discussed here at the Board there was a settlement agreement at the GRA, there was information presented to the Board that would have achieved a pre-tax interest coverage of two and a half times? 18 MR. SIMMONS: 19 Q. Okay, and that the other two credit metrics that have been discussed here are cash flow interest coverage should not be the loor of the years 2004 to 2008, and forecasts for 2009 and 2010? 28 MR. SIMMONS: 29 Q. Okay, and that the other two credit metrics that have been discussed here are cash flow interest coverage and that both of those are ones that are used by the credit rating agencies, in particular interest coverage and that both of those are ones that are used by the credit rating agencies, in particular interest coverage and that both of those are ones that are	7 A.	That is correct, yeah.	7	
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10 not philosophically imposed in any way to the 11 use of an Automatic Adjustment Formula in the 12 future? 13 MS. PERRY: 14 A. Absolutely. 15 MR. SIMMONS: 16 Q. And the question is, is the current formula 17 the appropriate one, and your view is that 18 if's too early to be able to tell what changes 19 would have to be made to improve the formula? 19 would have to be made to improve the formula? 20 MS. PERRY: 21 A. That's correct. 22 MR. LUDLOW: 22 MR. SIMMONS: 25 Q. Now unfortunately I have some questions on 25 Q. Now unfortunately I have some questions on 26 discussed that we've heard already, 27 a go of the formula of discussed there are cash flow here was information presented to the Board 28 that the effect of that settlement agreement 29 that 's been discussed here at the Board 20 there was information presented to the Board 21 there was a settlement agreement at the GRA. 22 there was information presented to the Board 23 that the effect of that settlement agreement 24 would have achieved a pre-tax interest 25 coverage of two and a half times? 26 interest coverage and cash flow debt coverage, 27 and that bath we been used in the past, one 28 first page of Attachment 'Agreement at the GRA. 29 the company wants to achieve, and that cash flow debt coverage of 14.9 percent. 29 km. SIMMONS: 20 Q. Now you were taken to the Moody's March, 2009, report at Exhibit 4, and we'll take you there 29 again, and we saw in that report that Moody's said that Newboundland Power would be a risk of a downgrade in its credit rating if several 25 things coincided, and one of those would be 26 credit metrics that seem to have been 27 cash flow interest coverage falling below two 28 days and that the effect of that settlement agreement 29 that have been used in the past, one 29 first page of Attachment 'Agreement and the GRA. 20 first page of Attachment 'Agreement and the company wants to achieve, and the first page of Attachment 'Agreement and the company wants to achieve, and the Consumer Advocate, and as I understand it, it	9 Q.	And the second point is that the company is	9	9 cash flow interest coverage of 2.9 times? I
11			10	
12 MS. PERRY:   13 M. I do, yes.   14 Ms. SIMMONS:   15 MR. SIMMONS:   15 MR. SIMMONS:   16 Q. And the question is, is the current formula   17 the appropriate one, and your view is that   18 it's too early to be able to tell what changes   19 would have to be made to improve the formula?   18 Ms. PERRY:   19 Ms. SIMMONS:   19 Ms. SIMMONS:   19 Ms. SIMMONS:   19 Ms. SIMMONS:   20 Ms. PERRY:   21 A. That's correct.   21 report at Exhibit 4, and we'll take you there   22 again, and we saw in that report that Moody's said that Newfoundland Power would be at risk   23 said that Newfoundland Power would be at risk   24 of a downgrade in its credit rating if several   25 things coincided, and one of those would be   25 things coincided, and one of those would be   26 things coincided, and one of those would be   27 ms. Ms. SIMMONS:   28 things coincided, and one of those would be   28 ms. Ms. SIMMONS:   29 ms. Ms. SIMMONS:   21 cash flow interest coverage falling below two   25 ms. Ms. SIMMONS:   26 ms. Ms. SIMMONS:   27 ms. Ms. SIMMONS:   28 ms. Ms. SIMMONS:   29 ms. Ms. SIMMONS:   29 ms. Ms. SIMMONS:   21 ms. Ms. SIMMONS:   22 ms. Ms. SIMMONS:   23 ms. Ms. SIMMONS:   24 ms. Ms. SIMMONS:   25 ms. Ms. SIMMONS:   26 ms. Ms. SIMMONS:   27 ms. Ms. SIMMONS:   28 ms. Ms. SIMMONS:   29 m	11		11	•
13 MS. PERRY: 14 A. Absolutely. 15 MR. SIMMONS: 16 Q. And the question is, is the current formula 17 the appropriate one, and your view is that 18 it's too early to be able to tell what changes 19 would have to be made to improve the formula? 20 MS. PERRY: 21 A. That's correct. 22 MR. LUDLOW: 22 A. That's correct. 23 MR. SIMMONS: 25 Q. Now unfortunately I have some questions on 26 Ittle bit some of what we've heard already, 27 so I can pose the questions that I'm 28 interested in. There's three particular 29 citient metrics. I'll try and summarize a 20 little bit some of what we've heard already, 31 so I can pose the questions that I'm 42 interested in. There's three particular 43 coverage, which is a credit metric measurement 44 that's been discussed here at the Board 45 credit metrics is a credit metric measurement 46 there was a settlement agreement 47 there was a settlement agreement 48 that the effect of that settlement agreement 49 there was a sinformation presented to the Board 40 there was information presented to the Board 41 that the effect of that settlement agreement 41 would have achieved a pre-tax interest 42 coverage of two and a half times? 43 MS. PERRY: 44 A. Yes. 55 (5:15 p.m.) 6 MR. SIMMONS: 75 Q. So two and a half times would be a floor 76 really of the cash flow interest coverage that 77 the coverage should not be in the low 78 the coverage of two and a half times? 79 Q. Okay, and that the other two credit metrics 70 that have been discussed here are cash flow 71 a. Yes, that's correct. 71 a. Yes, that's correct. 72 MR. SIMMONS: 73 A. Yes, that's correct. 74 A. Yes, that's correct. 75 A. Yes, that's correct. 75 A. Yes, that's correct. 76 A. Yes, that's correct. 77 A. Yes, that's correct. 78 MR. SIMMONS: 80 Q. Okay, and that the other two credit metrics 90 Coverage of two and a half times? 91 Q. Okay, and that the other two credit metrics 91 the coverage and cash flow debt coverage, 92 and that both of those are ones that are used 93 by the credit rating agencies, in particular 94 MR. SIMMON	12	•	12	12 MS. PERRY:
14 M. SIMMONS: 15 MK. SIMMONS: 16 Q. And the question is, is the current formula 17 the appropriate one, and your view is that 18 it's too early to be able to tell what changes 19 would have to be made to improve the formula? 20 MS. PERRY: 21 A. That's correct. 22 MR. LIDLOW: 23 A. That's correct. 24 MR. SIMMONS: 25 Q. Now unfortunately I have some questions on 26 little bit some of what we've heard already, 27 a interested in. There's three particular 28 credit metrics that seem to have been 29 discussed that have been used in the past, one 29 discussed that have been discussed here at the Board 20 before, and am I correct that in 2007 when 21 there was a settlement agreement that would have achieved a pre-tax interest 29 that hee effect of that settlement agreement that would have achieved a pre-tax interest 20 that have been discussed here are cash flow interest coverage and cash flow debt coverage, and that the other two credit metrics 20 that have been discussed here are cash flow interest coverage and that both of those are ones that are used 21 there was information presented to the Board that the effect of that settlement agreement that would have achieved a pre-tax interest to that settlement agreement that would have achieved a pre-tax interest to that settlement agreement that have been discussed here are cash flow interest coverage and cash flow debt coverage, and that both of those are ones that are used 25 that have been discussed here are cash flow interest coverage and cash flow debt coverage, and that both of those are ones that are used 26 by the credit rating agencies, in particular the part of this application?  18 MS. SIMMONS:  19 Q. Okay, and that the other two credit metrics to the flow of this application?  19 Q. Okay, and that the other two credit metrics to the flow of this application?  20 And the 2010 forecast, is that based on there being on changes as a result of this application?		ERRY:	13	13 A. I do, ves.
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		ge 141 5 2010 General Nate Application
P	Page 125	Page 127
1 A. That's correct.	1	which is a decrease and is less than the 2.5
2 MR. SIMMONS:	2	that's regarded as the floor. The cash flow
3 Q. So it's the pre-application position?	3	interest coverage is 2.8, which is only a
4 MS. PERRY:	4	slight bit below the 2.9 that was approved in
5 A. Yes.	5	the 2008 GRA, and the cash flow debt coverage
6 MR. SIMMONS:	6	is 13.1, which is a little bit below the
7 Q. And if you look down at the bottom then	re, 7	target. So your projection then for 2010, if
8 there are credit metrics described in the las	st 8	there was no change, would produce credit
9 three lines, line 38 to 40. I'm just going to	9	metrics that are not quite as good as the
look first at the interest coverage, and I	10	previous two test years and not as good as
draw your attention to 2004, which w	'e 11	what was approved in 2008. Now if you go to
identified was the test year, and the interes	st 12	Exhibit 11, please. This is an exhibit that
coverage in that test year was 2.5 times, ar	nd 13	demonstrates what the effect would be, I
that appears to be the same as what wa	ıs 14	believe, of granting all the relief claimed in
approved by the Board in the 2007 GR	2A, 15	this application, correct?
16 correct?	16 1	MS. PERRY:
17 MS. PERRY:	17	A. Yes.
18 A. Yes.	18 1	MR. SIMMONS:
19 MR. SIMMONS:	19	Q. And if you go down to the bottom, you'll see
20 Q. The next test year is 2008, and again the	e 20	that the effect would be that interest
interest coverage is 2.5 times, and in the	21	coverage now would become 2.7 times?
intervening years from '04 to '08, there's	a 22 1	MS. PERRY:
gradual decline of about .1 percent per yea		A. Yes.
24 If you then look at the cash flow interest		MR. SIMMONS:
coverage for the 2004 test year, it's at 3,	25	Q. Cash flow interest coverage becomes 3.6, and
p	Page 126	Page 128
	uge 120	1 450 120
and for the next test year it is /UUX it s	1	cash flow debt coverage becomes 19.5 Now
and for the next test year it is 2008, it's	er 2	cash flow debt coverage becomes 19.5. Now it's taken me a long while to get there but
2 at 3.1, and both of those numbers are bette	er 2	it's taken me a long while to get there, but
2 at 3.1, and both of those numbers are better 3 than the ones that were approved in the 20	er 2 005 3	it's taken me a long while to get there, but you will see that what is predicted for your
2 at 3.1, and both of those numbers are bette 3 than the ones that were approved in the 20 4 GRA, correct?	er 2 005 3 4	it's taken me a long while to get there, but you will see that what is predicted for your credit metrics, if all the relief claimed in
2 at 3.1, and both of those numbers are bette 3 than the ones that were approved in the 20 4 GRA, correct? 5 MS. PERRY:	er 2 005 3 4 5	it's taken me a long while to get there, but you will see that what is predicted for your credit metrics, if all the relief claimed in this application is granted, is an improvement
at 3.1, and both of those numbers are betted than the ones that were approved in the 20 GRA, correct?  MS. PERRY:  A. 2008?	er 2 005 3 4 5 6	it's taken me a long while to get there, but you will see that what is predicted for your credit metrics, if all the relief claimed in this application is granted, is an improvement of credit metrics over what was approved in
at 3.1, and both of those numbers are betted than the ones that were approved in the 20 GRA, correct?  MS. PERRY:  A. 2008?  MR. SIMMONS:	er 2 3 4 5 6 7	it's taken me a long while to get there, but you will see that what is predicted for your credit metrics, if all the relief claimed in this application is granted, is an improvement of credit metrics over what was approved in 2008, and better credit metrics than were the
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Page 129  1 A. Up to 2007, yes, and then it goes from 16 2 percent, which is Cr0 to debt to 12.6. This 3 was coming after a period of a number of cost 4 deferrals we had proposed, but it certainly 5 was imposing a strain on the company's eash 6 flow from operations, which in turn reduced 7 these particular credit metrics. Coming out 8 of the 2008 GRA, we had a hill to climb with 9 respect to those metrics because we were 10 starting at relatively low levels, levels that 11 were considered too low by credit rating 12 agencies. So, yes, we did settle, but we did 13 indicate in 2008 that the 2.9 times Cr0 14 interest coverage, and the CF0 to debt of 14.9 15 percent, was at the bottom end of the range. 16 It truly was just right at the limit of what 17 was recommended. The proposals in this 18 particular application is still within the 19 range of a Baa-1 rated utility, and I think 10 if's important to note that both DBRS and 21 Moody's indicate that these particular 22 coverage of just one second, of 2.7, the 23 range sorry, Cr0 interest coverage of 3.6, 3 the range is 2.7 to 4.5 that's recommended by 24 Moody's So we're proposal that we've ben in the past are low 25 relative to our Ban I peers that we talked 26 range sorry, Cr0 interest coverage of 3.6, 3 the range is 2.7 to 4.5 that's recommended by 26 Moody's So we're proposing 3.6, so cortainly 27 within the range. The Cr0 to debt coverage 28 that's recommended by Moody's for a Bala 29 rated utility is 13 to 22 percent, and we are 29 proposal that we've put forward is 1 I percent 20 coverage of just one second, of 2.7 the 21 gain we have slipped based on the existing 28 rated utility; and the gets us to 2.7 pre- 29 that's recommended by Moody's for a Bala 20 rated utility; is 13 to 22 percent, and we are 20 proposal that we've up ut forward is 1 I percent 21 return on equity, and that gets us to 2.7 pre- 22 tax interest coverage; or proposal dat we've up utility, and that gets us to 2.7 pre- 29 tax interest coverage is projected to go down to 20 ta	1	0001 19, 2009 William	Til 5 2010 General Rate Tippheation
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October 15, 2005	Till 5 2010 General Rate Application
Page 133	Page 135
1 2004 and 2008, that could be done with a	1 Q. And I realize we're leaving aside the other
2 return on equity of between 9.5 and 9. 75	2 reasons why you're looking for the increased
3 percent?	3 return on equity, but would it be fair to say
4 MS. PERRY:	4 then that if the credit metrics were the only
5 A. To achieve the interest cover metric, that was	5 concern, that it would not be necessary to go
6 the objective, yes.	6 to 11 percent in order to achieve satisfactory
7 MR. SIMMONS:	7 credit metrics to maintain your credit rating?
8 Q. Now for cash flow interest coverage, if we	8 MS. PERRY:
9 stay on Exhibit 5, in the 2008 GRA it was 2. 9	9 A. I think that's a fair statement, that to
times cash flow interest coverage that was	sustain the credit worthiness is one thing,
approved, and Moody's targets above 2.5 in	and credit metrics just being one element of
order to maintain your credit rating, and it	that decision, but the fair return is a
is the second table there that addresses the	separate issue, yes.
cash flow interest coverage, I think, and	14 MR. SIMMONS:
would it be correct that even if you go to the	15 Q. Okay. I had a question of clarification for
lowest allowed return on equity of 8. 5	you, and we can do this by looking at Exhibit
percent, you would meet at least that minimum	17 11, please. I believe you answered this in
cash flow interest coverage number?	your direct-examination, but I want to make
19 MS. PERRY:	sure that we have it right. The column there
20 A. Yes, Moody's indicate that they expect us to	under "Existing" shows the projections for
be over three to sustain our rating. Based on	what happened if the Automatic Adjustment
their ratings action, they indicate they	Formula were used and there were no changes as
expect us to be over three.	23 a result of a GRA Application, and if you
24 MR. SIMMONS:	could scroll back up, please, to the Revenue
25 Q. Okay.	from Rates line. In your direct-examination,
1=0 €. 0==).	20 mon rates mile. In Jour and the continuence,
·	-
Page 134	Page 136
Page 134	Page 136  I believe you had said that the effect of the
Page 134  1 MS. PERRY: 2 A. So, yes, you are right.	Page 136  I believe you had said that the effect of the  Automatic Adjustment Formula in 2010 would be
Page 134  1 MS. PERRY: 2 A. So, yes, you are right. 3 MR. SIMMONS:	Page 136  I believe you had said that the effect of the  Automatic Adjustment Formula in 2010 would be  to remove 3 million dollars from the revenue
Page 134  1 MS. PERRY: 2 A. So, yes, you are right. 3 MR. SIMMONS: 4 Q. So even at 8.5 percent, these projections	Page 136  I believe you had said that the effect of the  Automatic Adjustment Formula in 2010 would be  to remove 3 million dollars from the revenue  from rates?
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Page 134  1 MS. PERRY:  2 A. So, yes, you are right.  3 MR. SIMMONS:  4 Q. So even at 8.5 percent, these projections  5 would predict that you would meet that  6 requirement?	Page 136  I believe you had said that the effect of the  Automatic Adjustment Formula in 2010 would be  to remove 3 million dollars from the revenue  from rates?  MS. PERRY:  A. Yes.
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Pa	ige 137	Page 139
1 MS. PERRY:		to produce some different projects for us on a
2 A. Yes.	2	different basis and Newfoundland Power has
3 MR. SIMMONS:	3	been very efficient and actually prepared them
4 Q. And the return on rate base there, the first	4	over the weekend. So I'd like to introduce
5 line, if you extend it across there's a	5	two exhibits, JHP #1 and 2. There's copies
6 percent rate change there showing that it	6	for the Board?
7 contributes 2.8 percent to the rate increase.	7 MS. G	
8 I think there might have been a little bit of		They've already been circulated.
9 confusion when those two numbers came		IMMONS:
before, and I wonder if maybe you could		Okay. Ms. Perry, the request concerned the
explain how you reconciled the two figure		preparation of a projection to show what the
the 2.2 and the 2.8?	12	effect would be if instead of the application
13 MS. PERRY:	13	being brought or granted on the terms that
14 A. I will try.	14	have been requested, instead there were a
15 MR. SIMMONS:	15	deferral of two elements of cost out of 2010,
16 Q. Okay. I know it's late, but	16	one being a deferral of the 2010 conservation
17 MS. PERRY:	17	costs, and the other being a deferral of what
18 A. The 2.2 that's referred to in EAL #1 is the	18	I generally call the extraordinary pension
difference between what we're currently		expense compared to the previous year, and I
20 collecting from customers currently in	20	understand that there's been two different
rates today it's an 8.95 return on equity.	21	projections prepared based on a variation in
That's in customer rates today. So to go from		the assumption of how the variance and the
23 8.95 to 11 percent, that would be the 2.2	23	pension cost pension expense is calculated.
percent that we're referring to. What CA-NP-		
is displaying, it is basically going from the		Yes.
	ige 138	Page 140
	_	IMMONS:
		And you probably understand that now better
2 Exhibit #3. So that's assuming all of our ne 3 costs, the end ROE for Newfoundland Pov		than I do, so just take maybe a moment and
today, if we didn't file a General Rate	4	just tell us what JP-1 and JP-2 show.
1		
Application, would be 6.45 percent that w would be getting as a return on equity.		So under JP-1, the only difference between the
7 MR. SIMMONS:	7 A.	Exhibit 3, which is based off of existing
8 Q. That would be with the Automatic Adjustr		rates and forecasted costs for Newfoundland
9 Formula used?	9	Power, which yielded a 645 return on equity,
10 MS. PERRY:	10	the adjustments that have been made to that
11 A. Right, with the Automatic Adjustment Forn		forecast were two adjustments. The first is
and with all of our new costs as well, we	12	onthey're both on line 20. They're called
would be yielding an ROE of 6.45. So by		deferred costs. So 4,364,000 and that is made
default, the return on rate base going from 6		up of deferred conservation costs, deferred
to 79 is fundamentally going from a return of		2010 conservation costs of \$1,869,000 and it
equity of 645 to 11 percent. So it's just a	16	also includes the change in pensions back to
different display of a set of numbers, but	17	the first initial filing that we completed in
when we talk about the proposed rate reque		May. So it removed the impact of the change
and what it entails, we base it on what end		in the discount rate between May and
rates today, which is the 895 is what's end		September.
rates today, and we are going from 895 to 1		IMMONS:

24

25

Q. Okay, and -

A. And that was 2,495,000. So together, that's

4,364,000 in deferred costs.

23 MS. PERRY:

Q. Okay, thank you, that clarifies that. Friday

afternoon I advised your counsel that I'd be

asking you if you might be able to undertake

22 MR. SIMMONS:

23 24

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	Page 141	Page 143
1 MR. SIMMONS:	1 MR. SIMI	MONS:
2 Q. If you look at page nine of nine, there'	s a 2 Q. Ai	nd what effect does that have then on return
3 section in bold there under cost recov	ery 3 on	rate base?
4 deferral. Do those two describe those	two 4 MS. PERI	RY:
5 assumptions that you've justif I can so	eroll 5 A. W	hen you go down through lines 35 to 40, the
6 up there, okay. So you see there under	"cost 6 rat	te of return on rate base is 7.59. Line 36,
7 recovery deferral" fourth paragraph do	·	e regulated return on book equity goes to
8 refers to deferral of 2010 conservati		7 and again that's up from the 645. With
9 program costs.		spect to the credit metrics, interest
10 MS. PERRY:		verage is 2.2 times and CFO to interest and
11 A. Yes.		To to debt doesn't change. It's 2.8 and
12 MR. SIMMONS:		.1.
13 Q. And the next one is the deferral of pen		
costs based on using the 7.5 percent disc		kay, thank you, and thank you to your staff
rate instead of changing the 6.5, and a	l l	well for turning those around for us on the
based on asset returns of seven percent?		eekend.
17 MS. PERRY:	17 MS. PERI	
18 A. Yes, which were the asset returns in the	·	problem.
19 filing, yes.	19 MR. SIMI	
20 MR. SIMMONS:		st a couple more general type questions
Q. Right, right, so if you do this pro forma		out OPEBs, nothing detailed. The statement
that basis, what impact does that then have		s been made that if nothing is done to move
what the rate of return on rate base migl 4 MS. PERRY:		counting for OPEBs from a cash basis to crual basis that the amount of the
25 A. So if you look down to line 35, so 35 th		insitional obligation will continue to grow
25 A. 50 ft you look down to line 55, so 55 th		
1 40 an line 25 the note of notions on not	Page 142	Page 144
1 40, on line 35, the rate of return on rate		to the future, and is the reason that the
base would be 7.37. The return on ec	- ·	insitional obligation is growing related to
would be 7.19 percent. So that would-return on equity would have changed from		e fact that the costs of providing OPEBs to ose employees who will be retired in the
7.10		ture is projected to be greater than the
5 percent to 7.19 percent, and just lookin 6 the three credit metrics that we just	-	sh cost of providing benefits to employees
7 discussed, interest coverage, on line 38		at are retired today?
8 still 2.1 and CFO interest coverage is 2.8	·	•
9 CFO to debt is 13.1 percent.		nat is certainly part of the answer. Accrual
10 MR. SIMMONS:		counting is not just payingit's not the
11 Q. Okay, and then what is the difference th	l l	emiums for people that are retired. Accrual
JHP No. 2, different in the assumption		counting would actually accrue post
here?		tirement benefits for me today. So even
14 MS. PERRY:		ough I'm not retired, so there's no premium
15 A. So the change in the assumption here is		pay with respect to my post retirement
we've still deferred the 2010 CDM cost	, but 16 be	nefits, you're actually accruing some of the
the pension costs that we've deferred	is 17 co	st for me. So it would conceptually be
actually the difference between the	2010 18 his	gher than the cash premium.
forecasted pension expense and the fore	casted 19 MR. SIMI	MONS:
pension expense for 2009. So on line 1	9, the 20 Q. If	the OPEBs continue to be accounted for on a
21 difference in the third and fourth colum		sh basis, is it correct that the
difference between the 2703 in 2009 a		insitional obligation would continue to grow
23 8196, which is 5493, is added to the 201		rever or would the point come where the
cost of 1869 to get total deferrals of 7.		insitional obligation would stabilize or
los million	25 00	an raduca?

even reduce?

million.

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Page	e 145 Page 147
1 MS. PERRY:	than to amortize it and recover it through
2 A. There would be a point where it would cross	s 2 rates?
3 over, yes.	3 MS. PERRY:
4 MR. SIMMONS:	4 A. No, that's the only thing I see withthe only
5 Q. Yes, and what -	5 other option that could potentially be there
6 MS. PERRY:	6 is if we had some other offsetting regulatory
7 A. I would not project -	7 liabilities to offset, and at this particular
8 MR. SIMMONS:	8 time, we do not have any. I know when we've
9 Q would cause that to happen?	9 deferredwe proposed and it was approved to
10 MS. PERRY:	defer depreciation expense in 2005 and '06, we
11 A. Well, eventuallyaccrual accounting is simply	y did, at that time, have an unbilled revenue
just the present value of your expected future	liability that we had as well. So there were
payments. So at some point in time, they will	l some offsetting balances there that we had
meet. I've not asked the actuaries to project	that we could take advantage of. But in this
out when that's going to be, but at some	particular case, there's none currently on the
point, they would cross over, yes.	books for Newfoundland Power. So the only
17 MR. SIMMONS:	option that I see with respect to the
18 Q. Okay. This application only deals with movin	ng 18 transitional obligation is to actually recover
to accrual for the current pension expense and	d it through customer rates.
doesn't deal with the transitional obligation,	20 MR. SIMMONS:
but it is, as has been described, the gorilla	21 Q. If the transitional obligation were frozen and
that's out there to be dealt with at some	put to one side, am I correct that it forms
point. Have you conducted any kind of study	
or given any consideration to what the options	_
are for dealing with the transitional expense	25 amount, does it?
Page	e 146 Page 148
1 should this application be granted and the	1 MS. PERRY:
2 move be made to accrual?	2 A. No, not today.
3 MS. PERRY:	3 MR. SIMMONS:
4 A. No, we have not completed a study with respect	4 Q. No, it doesn't.
5 to options. I know in the past, I believe we	5 MS. PERRY:
6 changed the GEC policy for Newfoundland Power,	
7 we did propose, and it was granted by this	7 that we received in customer rates above and
8 Board, I believe that was over a five-year	beyond what we pay out as cash premiums, that
9 period, and most often, with the amortizations	9 will serve to reduce rate base as we go
that we've put forward, we have amortized it	10 forward.
over three to five years. What you're trying	11 MR. SIMMONS:
to do is you're trying to not continuously	12 Q. In the future?
push it so far out into the future, but	13 MS. PERRY:
understanding that there are rate impacts and	14 A. In the future.
for something of the magnitude of 46 million,	15 MR. SIMMONS:
we've indicated that between five or ten years	16 Q. Right. How the transitional obligation is
appeared reasonable. It's hard to get	dealt with, whether it's amortized over two
information with respect to what other	years, five years, ten years or whatever,
19 utilities have done with their transitional	19 would that have any impact on rate base?
obligations, but I think five to ten years is	20 MS. PERRY:
21 a reasonable supposition.	21 A. Yes, as we collect from customers, the
22 (5:45 p.m.)	difference in what we collect from what we pay
23 MR. SIMMONS:	out will in turn reduce rate base.
Q. Can you foresee there being any options for	24 MR. SIMMONS:
dealing with the transitional obligation other	25 Q. Okay, so deferring the amortization of the

Page 151  1 transitional obligation will have the effect as well of deferring the reduction in the rate hase would have a benefit for the rate payer?  5 MS. PERRY:  6 A. Yes, absolutely.  7 MR. SIMMONS:  8 Q. Okay, A question a PEVDAs, and I have only PPVDAs and one other topic. Oh, and first, 10 just a point of clarification. Do I understand correctly that the PFVDA account 12 will not—if the OPEBs are accrued, OPEB 13 expenses are accrued, those will not flow 14 through the PFVDA account? Is that correct?  15 MS. PERRY:  16 A. Yes, that is correct.  17 MR. SIMMONS:  18 Q. The proposal does not include the OPEBs, okay, 10 and first control to say that conceptually it would not work in future to flow OPEBs through the volatility of the discount the person on to say that conceptually it would not work in future to flow OPEBs through the volatility could have on Newfoundland Power's pension expense was predicated off of the volatility could have on Newfoundland Power's pension expense was predicated off of the pension expense was predicated off of the volatility could have on Newfoundland Power's pension expense.  5 MR. SIMMONS:  8 A. So that was the basis by which we proposed that the volatility could have on Newfoundland Power's pension expense.  5 MR. SIMMONS:  8 A. So that was the basis by which we proposed that the pension expense expension expense would actually flow through the PFVDA.  6 Q. Okay, so some people would expect that once the OPEBs accrual is put in place, the next step would seem to be to then want to flow yor variances through an account like PEVDA, but the optas is not conceptually is millar in that it moves with the market, but not to the same degree that we have seen pension expense would a factor other than the unpredictability of the pension expense expension expense would a factor other than the unpredictability of the pension expense is the resulted in a fairly large variance in factor within Newfoundland Power's control, in that it was a choice to have an early retirement pension expe	October 19, 2009 Mul	u-Page NP's 2010 General Kate Application
as well of deferring the reduction in the rate base and the reduction in the rate base would have a benefit for the rate payer?  5 MS. FFRRY: 5 MS. PFRRY: 5 MS. PFRRY: 5 MS. STRRY: 6 A. Yes, absolutely. 6 A. Yes, absolutely. 7 MR. SIMMONS: 8 Q. Okay. A question a PEVDAs, and I have only 9 PEVDAs and one other topic. Oh, and first, 10 just a point of clarification. Do I 11 understand correctly that the PEVDA account 12 will not—if the OPEBs are accrued, OPEB 13 cxpenses are accrued, those will not flow 14 through the PFVDA account? Is that correct? 15 MS. FERRY: 16 A. Yes, that is correct. 17 MR. SIMMONS: 18 Q. The proposal does not include the OPEBs, okay, and did I understand you earlier this 20 afternoon to say that conceptually it would 21 not with in future to flow OPEBs through the 22 PEVDA account? Is there any particular reason 23 why that would not be appropriate? 24 MS. FERRY: 25 A. No, the proposal that we've put forward for 2 volatility in the market, and the extent that 3 that volatility could have on Newfoundland 4 Power's pension expense. 5 MR. SIMMONS: 5 MR. SIMMONS: 6 Q. Okay. 6 Q. Okay, 7 MS. PERRY: 7 MS. PERRY: 7 MS. PERRY: 8 A. So that was the basis by which we proposed that 9 PEVDA. OPEBs is conceptually similar in that 10 it moves with the market, but not to the same 12 degree that we have seen pension expense move 13 around. So we've only proposed that the 14 actually flow through the PEVDA. 15 MR. SIMMONS: 16 Q. Okay, 17 MS. PERRY: 18 A. So that was the basis by which we proposed that 19 pension—Defined Benefit pension expense move 19 around. So we've only proposed that the 19 pension—Defined Benefit pension expense move 19 around. So we've only proposed that the 19 pension expense, one 19 pension expense move 19 around. So we've only proposed that the 19 pension expense move 19 around. So we've only proposed that the 19 pension expense in the variances in the rate of the with 19 pension—Defined Benefit pension expense move 19 around. So we've only proposed that the 19 pension—Defined Ben	Page 14	Page 151
base and the reduction in the rate base would have a benefit for the rate puyer?  5 MS. PFRRY:  6 A. Yes, absolutely.  7 MR. SIMMONS:  8 Q. Okay. A question a PFVDAs, and I have only pFVDAs and one other topic. Oh, and first, just a point of clarification. Do I understand correctly that the PEVDA account? Is that correct?  10 just a point of clarification. Do I understand correctly that the PEVDA account? Is that correct?  11 understand correctly that the PEVDA account? Is that correct?  12 will not-lif the OFEBs are accrued, OFEB capeable and of the open account is the personal of t	transitional obligation will have the effect	1 yes.
4 have a benefit for the rate payer? 5 MS. PERRY: 6 MS. PERRY: 6 MS. PERRY: 6 MS. PERRY: 7 MS. PERRY: 7 MS. PERRY: 7 MS. PERRY: 8 MS. PERRY: 8 MS. PERRY: 8 MS. P	2 as well of deferring the reduction in the rate	2 MR. SIMMONS:
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25 A. Based on where we are today, that is right, 25 retirement program flowing through the PEVDA.	24 MS. PERRY:	see cost changes as a result of an early
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2 Q. Right, so if the Board were, for example, to 3 consider requesting that Newfoundland Power 4 notify in advance of any programs or steps it 5 chose to take which could affect the pension 6 expense, that that I presume would be 7 something that would not be objectionable to 8 Newfoundland Power? 9 MS. PERRY: 10 A. No, certainly not. 11 MR. SIMMONS: 12 Q. Okay, and the last thing that I wanted to ask 13 you about are a couple of questions about the 14 IFES. Now Newfoundland Power has been 15 reporting. I think, on a quarterly basis to 16 the Board on the progress towards moving from 17 Canadian GAP to the IFRS as a basis for its 18 accounting? 19 MS. PERRY: 19 MS. PERRY: 20 A. Yes. 21 MR. SIMMONS: 22 Q. Okay. Can you give us an idea of-I'll try 23 and cut this short now, just take a moment. 24 If I understand correctly, 2011 is the year 25 that Newfoundland Power is going to have-  That N. S. STARY: 28 A. Yes. 29 MR. SIMMONS: 30 MR. SIMMONS: 40 A. Yes. 51 MR. SIMMONS: 51 Q. Okay. So you need to be in a position to know 52 Newfoundland Power is infertious and the appearance of the start preparing its statements on the IFRS 53 MR. SIMMONS: 54 Q. Okay. So you need to be in a position to know 55 Nest STARY: 56 Q. Okay. Are you anticipating that the move to 56 Q. Okay. Are you anticipating that the move to 57 IFRS is itself going to have any material 58 the fact that the International Accounting 59 unknown during the last rate case. Since the thing the last rate case. Since the thing the last was a big unknown during the last rate case. Since the thing the last was a big unknown during the last rate case. Since the thing the last was a big unknown during the last rate case. Since the thing the last was a big unknown during the last rate case. Since the thing the last was a big unknown during the last rate case. Since the thing the last was a big unknown during the last rate case. Since the thing the last was a big unknown during the last rate case. Since the the fact that the International Accounting the last was			Page 153		Page 155
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11 MR. SIMMONS: 12 Q. Okay, and the last thing that I wanted to ask 13 you about are a couple of questions about the 14 IFRS. Now Newfoundland Power has been 15 reporting, I think, on a quarterly basis to 16 the Board on the progress towards moving from 17 Canadian GAP to the IFRS as a basis for its 18 accounting? 19 MS. PERRY: 20 A. Yes. 21 MR. SIMMONS: 22 Q. Okay. Can you give us an idea of—I'll try 23 and cut this short now, just take a moment. 24 If I understand correctly, 2011 is the year 25 that Newfoundland Power is going to have—  Page 154 1 start preparing its statements on the IFRS 3 MS. PERRY: 4 A. Yes. 5 MR. SIMMONS: 5 MR. SIMMONS: 6 Q. Is that right? 7 MS. PERRY: 8 A. January 1, 2011 with comparative financials 9 for 2010. 10 MR. SIMMONS: 11 Q. Okay. So you need to be in a position to know 12 how you're going to account for this in 2010? 13 MS. PERRY: 14 A. Yes. 15 MR. SIMMONS: 16 Q. Okay. Are you anticipating that the move to 17 IFRS is itself going to have any material 18 impacts on the calculation of rates that would 19 be of interest to the Board? 20 MS. PERRY: 21 A. Well, during the last proceeding, we did talk 22 at length with respect to IFRS and the impact 23 that it could potentially have on Newfoundland 24 Power. The big issue with IFRS is urrounding 25 that it could potentially have on Newfoundland 26 Power. The big issue with IFRS is urrounding 27 the fact that it is linter the International Accounting Standard Doard relaxed an Exposure draft which identified under what instances it would allow the recognition and measurement of regulatory astandard. It's only an exposure draft. So until it's a standard, It's only an exposure draft, which identified under what instances it would allow the recognition and measurement of regulatory sastes and liabilities. I's not a standard. It's only an exposure draft, and an intil it is a standard. It's only an exposure draft and intil it is a standard. It's only an exposure draft and intil it is a standard. It's only an exposure draft and intil it is a	9	MS. PERRY:		9	need to be adjusted. So that was a big
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	1.4	Power. The big issue with IFRS is surro	ounding	24	nailed down, I get nervous that they're asking
25 whether or not under International Financial 25 us to recognize a different value for these	24	<u>C</u>		l	

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particular assets. So there's a little bit of	1	Spe	end, you've got about \$1,800,000 in there, I
a road that we have to travel yet to get full	2	_	nk it is.
3 clarification, but today, I think we're in a	3	MS. PERF	
4 much better position then we were in 2007.	4	A. Fo	r 2010, yes.
5 MR. SIMMONS:	5	CHAIRMA	-
6 Q. So based on what you know of what will happen			r 2010 for conservation costs, and I think I
7 if IFRS now and some things that still remain	7		w in something that for every dollar spent
8 uncertain, is there any prospect that the	8		conservation, the return to the rate payer
9 implementation of the IFRS would, apart from	9		2.7. Is that correct? Is that the number
any other causes, cause Newfoundland Power to	10		t you used?
have to come back in in 2011 for a GRA in		MS. PERF	•
order to deal with the effects of implementing	12	A. Th	ere are particular tests that we do that we
13 IFRS? Anything that you can foresee now?	13		we filed with our conservation plan. I'd
14 MS. PERRY:	14		ve to look up the actual test, but yes,
15 A. There's nothing right now. I mean, as I said,	15		ere is a total resource test, I believe.
I think there are still some uncertainties		MR. LUD	·
with respect to IFRS, but there's nothing that	17		ere's several tests, and I do believe Lorne,
18 I can see right now.	18		Henderson, I'm sorry, can probably go to
19 MR. SIMMONS:	19		cruciating detail -
20 Q. Thank you very much. I don't have any other		CHAIRM	_
21 questions.	21		he the guy to ask about all that?
22 CHAIRMAN:		MR. LUD	
23 Q. I guess it's our turn now, is it? Is it our	23		nink he can take you to excruciating detail
turn now? What's thehave you gotor do you	24		that one, Mr. Chair.
do redirect? I forget.		CHAIRMA	
Page 15			Page 160
1 MR. JOHNSON:	1	o. Be	cause from what I've been reading in the
2 Q. I'll make it easy, Mr. Chairman. We don't	2		ites, all this smart grid and stuff, it's
3 plan to ask anything.	3		t saving any money. I mean, it's saving
4 CHAIRMAN:	4		oney for the consumers, but to the degree
5 Q. Okay. Do you have any questions then?	5		ich demand is reduced, utilities lose
6 VICE-CHAIR WHALEN:	6		venue and they have to come back for
7 Q. No, I have no questions, thank you.	7		reases in rates. So there seems to be a
8 COMMISSIONER NEWMAN:	8		radox here with respect to conservation. I
9 Q. No questions. Thank you very much.	9	_	n't know. Do you have any thoughts?
10 CHAIRMAN:	10	MR. LUD	
11 Q. I do. Just want to ask you a question about	11		ell, I mean, one of the biggest issues we're
elasticity. You were saying because of the	12		ing is just the topic you're bringing up,
rate changes or proposed rate changes, there	13		M, conservation. We look at the customers
will be some loss of revenue because	14		nt it, it seems to be the right thing to do.
electricity is fairly elastic. Is that	15		the same time, the paradox is that we're
16 correct?	16		ending operating dollars to reduce sales.
17 MS. PERRY:	17	_	that's going to, you know, drive rates and
18 A. Yes.	18		t's the balance, I guess, Mr. Henderson
	1.0		

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will speak to. Even internal to the company, as I look at it, it's almost like a counter

intuitive exercise that as we reorganize the

company and structurally organize and

trying to convince, work with managers,

engineers, technologists and line personnel

structure the company around that whole area,

revenue requirement?

Q. And if it wasn't elastic, you'd have less of a

Q. The conservation dollars that you're going to

19 CHAIRMAN:

22 MS. PERRY:

24 CHAIRMAN:

A. Yes, exactly.

20

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about the value of conservation		1		locations around this province to be able to
2 challenge we face, even wi		2		respond in a timely manner, and that's a
3 organization. So there's parac		3		bigger question as we look at how we structure
4 fronts, Mr. Chairman, on that		4		and build. It's a real quandary, you know,
5 CHAIRMAN:	4	5		and it's one we're facing and have been facing
6 Q. So conservation may, in fact	, not save any	6		now for several years actually.
7 money over the long run?	7	7	(6:00	p.m.)
8 MR. LUDLOW:	8	8	CHAII	RMAN:
9 A. No, I think, you know, from	l l	9	Q.	I don't think I'm too worried about the next
we look at the island, we're a	separate grid	0		25 years. The last question is just your
11 too, you know. If we look at	the production 11	1		opinions onI mean, economists are debating
12 system, transmission, distrib		2		whether there is anyrecovery is underway or
totality, you know, I think if	•	3		whether it's not, and you can read 50
look at Holyrood, if we can o		4		economists and I read 50 and there's 25 are
cent energy that's being produ	·	5		saying yes, things are starting to look up and
that's where we'll get the ban	- I	6		there's another 25 saying things are not.
17 It's on that whole system piec				What are youMadame Controller, what do you
and our assessment of it is that				think? What are your thoughts?
right direction to be headed in			MS. PI	
20 CHAIRMAN:	20		A.	I'm probably the same camp. You read 50
Q. The other-just another quick	-			articles and they all say different things. I
respect to people moving from				guess the one real reservation that I have is
are you finding or will you fir				once the Government spending dries up. You
24 this trend continues, and it so				know, what is the true economic activity
25 long-term secular trend, that y		25		that'll be left after that's over? But you
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1 have sort of stranded investme		1		know, we've seen a lot of movement in the
2 the hinterlands that is not go	-	2		market and it's movement that wasn't
3 there's not going to be any use		3		predicted. So I think after you go through
4 MR. LUDLOW:		4		that, you lose faith as to what's coming. So
5 A. I'm not seeing to that end. N	•	5		I've lost faith in the predictions that are
or 20 years, there might be.		6		out there, and even the predictions that we're
7 to be happening is we're seei	-	7		out of a recession, we're in a recession, we
8 of the things, tale of two econ		8		never were, you know, we were never in a
quote that was used here some few days. It seems that house		9		recession. It gets confusing. So I think time will be the testament over the next year,
in what I will call the non-Av				to just see how it all unfolds, but I'm
that way, and split it. So yo	_			sceptical about the level of Government
keeping services on, although				spending, I guess, and about what's behind
revenue coming off some of				that.
declining because a lot of the			CHAII	RMAN:
homes and those type. So yo	l l			Dow Jones said today "the bond market yields
dynamic in use change as wel			ζ.	and US treasuries have collapsed to historic
came to the point that commu				lows. A 30-year bond is yielding just 4.2
19 close down and things such a				percent, well below long-term trends. This is
20 not in the next five to six year				usually a strong signal of tougher times
21 my viewpoint, let's go 20-25				ahead." Do you agree with that? You don't
be a different challenge. The	*	22		know?
in this exercise is the provision	_	23	MS. PI	ERRY:
24 and keeping the right resource	ces, the right 24	24	A.	Never know what'sit's hard to make a
people and the right equip	ment in the	25		prediction.

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1 CHAIRMAN: 2 Q. And I think Mr. Simmons answered the question of the issue of the accrual versus the expense, over time, it does not really matter? I mean, both approaches are revenue neutral, aren't they? MS. PERRY: A. Yes, they should equate over time, yes. CHAIRMAN: Q. It's just that the accrual better matches the occurrence of the expense and who should part for it? Is that MS. PERRY: A. That is exactly it, yes. CHAIRMAN: Q. So I guess if there's nothing further. Do you have anything? KELLY, Q.C. Q. No, Mr. Chair. CHAIRMAN: Q. I guess so we're adjourned until 9:00 tomorrow. MS. GLYNN: Q. Mr. Chair.	Page 165  1 ion, 2 3 4 5 6 7 8 9 10	Page 167 CERTIFICATE  I, Judy Moss, hereby certify that the foregoing is a true and correct transcript in the matter of Newfoundland Power's 2010 General Rate Application heard on the 19th day of October, A.D., 2009 before Commissioners of the Public Utilities Board, Prince Charles Building, St. John's, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.  Dated at St. John's, Newfoundland and Labrador this 19th day of October, A.D., 2009.  Judy Moss
25 CHAIRMAN:		
1 Q. I'm sorry. 2 MS. GLYNN: 3 Q. Just one point. 4 CHAIRMAN: 5 Q. I can't see you. There you are. 6 MS. GLYNN: 7 Q. Just one point of housekeeping. I'd like to note for the record that Mr. Young from Newfoundland Hydro was not present to was he present for Friday's proceedings. 10 Was he present for Friday's proceedings. 11 Just like to put that on the record, because the it was noted in the transcript that he was the here on Friday. 12 HAIRMAN: 13 Dear Adjourned was not present to declare the interpolation of the proceedings. 14 CHAIRMAN: 15 Q. Okay. Well, I guess, we are adjourned was not present to declare the interpolation of the proceedings. 16 Priday. 18 Q. Thank you, Mr. Chair. 19 CHAIRMAN: 20 Q. Thank you. 21 ADJOURNED AT 6:05 P.M.	om lay, nor I'd e	

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