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<p>1 (9:08 a.m.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. So do we have any preliminary matters?</p> <p>4 MS. GLYNN:</p> <p>5 Q. No, Mr. Chair.</p> <p>6 CHAIRMAN:</p> <p>7 Q. All right. So I guess we're over to Hydro.</p> <p>8 MR. CASS:</p> <p>9 Q. Yes, Mr. Chair. We have the Finance witnesses</p> <p>10 ready to be sworn. For the record, they are</p> <p>11 Scott Pelley, Carla Russell and Carol Ann</p> <p>12 Lutz.</p> <p>13 CHAIRMAN:</p> <p>14 Q. Okay. Let me get my -- here we are. Okay,</p> <p>15 Mr. Pelley, I guess I'll start with you.</p> <p>16 MR. SCOTT PELLEY, AFFIRMED</p> <p>17 MS. CARLA RUSSELL, AFFIRMED</p> <p>18 MS. CAROL ANN LUTZ, AFFIRMED</p> <p>19 CHAIRMAN:</p> <p>20 Q. Your panel is sworn, sir.</p> <p>21 EXAMINATION-IN-CHIEF BY MR. FREDERICK CASS</p> <p>22 MR. CASS:</p> <p>23 Q. Thank you. Mr. Pelley, could you please just</p> <p>24 confirm your position for the record and give</p> <p>25 a summary of your work experience?</p>	<p>1 got my chartered accounting designation in</p> <p>2 1999, worked with Deloitte and I've been at</p> <p>3 Hydro for the last four years in a couple of</p> <p>4 different positions. I was manager of rates</p> <p>5 for a year and also manager of investment</p> <p>6 analysis and financial planning for a year as</p> <p>7 well. Previous to that, I've worked in other</p> <p>8 companies such as Newfoundland Power, Vector</p> <p>9 Aerospace, Fortis, XWave, and my current role</p> <p>10 is, as I said, the general manager of finance</p> <p>11 for Hydro.</p> <p>12 MR. CASS:</p> <p>13 Q. All right. And Ms. Lutz, the same for you</p> <p>14 please, just your position and your work</p> <p>15 experience.</p> <p>16 MS. LUTZ:</p> <p>17 A. Sure. I'm the divisional controller for</p> <p>18 Hydro. I have a Bachelor of Commerce and a</p> <p>19 certified management accounting designation</p> <p>20 and an MBA. I spent a significant portion of</p> <p>21 my career working in the private sector. I</p> <p>22 joined Nalcor Energy in 2007 and joined in the</p> <p>23 financial reporting group in the corporate</p> <p>24 office. I was the corporate controller for</p> <p>25 Nalcor from 2011 until 2014 and in the summer</p>
<p>1 MR. PELLEY:</p> <p>2 A. Sure. I'm Scott Pelley. I'm the corporate</p> <p>3 treasurer with Nalcor Energy, as well as</p> <p>4 Newfoundland and Labrador Hydro. So in my</p> <p>5 role I'm responsible for a couple of areas for</p> <p>6 all our subsidiaries, including Newfoundland</p> <p>7 and Labrador Hydro. I guess one of the main</p> <p>8 areas would be financing, the design and</p> <p>9 execution of financing strategies for Nalcor</p> <p>10 and its subsidiaries. The other area would be</p> <p>11 financial risk management for the company, as</p> <p>12 well as cash management and general banking,</p> <p>13 and relationship management with some of our</p> <p>14 key finance stakeholders, such as banks,</p> <p>15 rating agencies and our shareholder. Anything</p> <p>16 else?</p> <p>17 MR. CASS:</p> <p>18 Q. No, that's fine, thank you. Ms. Russell, the</p> <p>19 same, please, could you just confirm your</p> <p>20 position and give a summary of your work</p> <p>21 experience?</p> <p>22 MS. RUSSELL:</p> <p>23 A. Sure. I'm the general manager of finance for</p> <p>24 Hydro and responsible for the finance,</p> <p>25 regulatory and supply chain areas in Hydro. I</p>	<p>1 of 2014, I moved over as controller of Hydro.</p> <p>2 MR. CASS:</p> <p>3 Q. Thank you.</p> <p>4 MR. PELLEY:</p> <p>5 A. I believe, Fred, I think I only answered half</p> <p>6 your question. I left out the, I guess,</p> <p>7 background and work experience piece. I'm</p> <p>8 also a chartered accountant, have a B.Sc</p> <p>9 (honours) from Memorial and an MBA from</p> <p>10 Memorial with a concentration in finance.</p> <p>11 I've been with Nalcor for about five years in</p> <p>12 several different roles, and prior to that, I</p> <p>13 worked in public accounting in the areas of</p> <p>14 audit insurance, as well as corporate finance</p> <p>15 and business valuations.</p> <p>16 MR. CASS:</p> <p>17 Q. Okay. Thank you. Ms. Russell, what area of</p> <p>18 evidence is this panel responsible for?</p> <p>19 MS. RUSSELL:</p> <p>20 A. We'll be responsible for Section 3 of the</p> <p>21 finance evidence.</p> <p>22 MR. CASS:</p> <p>23 Q. Okay, thank you, and do you adopt the written</p> <p>24 evidence in that area?</p> <p>25 MS. RUSSELL:</p>

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1 A. Yes.  
 2 MR. CASS:  
 3 Q. Okay. Now with respect to Hydro's proposed  
 4 new supply deferral mechanisms, what do you  
 5 say, Ms. Russell, about the comments that have  
 6 been made that they transfer risk and take  
 7 away incentive to manage costs?  
 8 MS. RUSSELL:  
 9 A. First I would disagree that these accounts  
 10 take away Hydro's incentive to manage these  
 11 costs. While Hydro always strives to provide  
 12 least cost service to customers, there are  
 13 some items that are beyond management's  
 14 control, regardless of how good the forecast  
 15 may or may not be. So these three deferral  
 16 accounts, in Hydro's opinion, are examples of  
 17 such costs. For example, the isolated systems  
 18 deferral account, which shares with customers  
 19 large changes in the price of diesel fuel,  
 20 includes a plus or minus \$500,000 dead band  
 21 which accrues to Hydro before any amounts are  
 22 paid for by customers. So this means that in  
 23 one account -- in this one account has a one  
 24 million dollar incentive to manage these  
 25 costs. Further, if you look to page 347 on

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1 Hydro's evidence, which Jenny, I don't know if  
 2 you can bring that up for a second? You'll  
 3 see that the price of diesel fuel spiked from  
 4 65 cents a litre to 110 cents a litre in the  
 5 mid 2008 due to market factors, which would  
 6 have been beyond management's control.  
 7 It is Hydro's position that these  
 8 deferrals, through the proposed dead bands,  
 9 provide management the incentive to  
 10 efficiently manage costs that are within its  
 11 control and share with customers a portion of  
 12 an increase or a decrease in the cost of  
 13 providing service.  
 14 MR. CASS:  
 15 Q. Why is Hydro proposing these accounts at this  
 16 time?  
 17 MS. RUSSELL:  
 18 A. So there are two reasons. First, many of the  
 19 sources of energy supply are new since Hydro's  
 20 last GRA. This includes wind generation,  
 21 Nalcor Exploits and the Holyrood CT. To the  
 22 extent that production varies from these  
 23 sources, they can materially impact Hydro's  
 24 financial results and with respect to the  
 25 Holyrood conversion factor, the 630 kilowatt

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1 hours a barrel began to change materially in  
 2 2009 and if we pull up Table 2.21 on page 2.75  
 3 of our evidence, it'll show the magnitude of  
 4 the impact this change has had since Hydro's  
 5 last GRA. So if you look at the last line  
 6 there, Hydro's financial loss.  
 7 Finally, with respect to the isolated  
 8 systems deferral, I would like to reference  
 9 the chart 3.9 on page 3.47, the one we  
 10 previously looked at, and this chart shows the  
 11 amount of volatility that can exist in the  
 12 price of diesel, over which Hydro has no  
 13 control, which was most apparent in 2008. And  
 14 this increased volatility is the driver behind  
 15 Hydro's request for this deferral mechanism.  
 16 MR. CASS:  
 17 Q. Okay. Do you have a forecast of what the  
 18 balances will be for 2015?  
 19 MS. RUSSELL:  
 20 A. Yes. These are included in Appendix A of an  
 21 Undertaking 55 that was provided and basically  
 22 the amounts total about 12.7 million.  
 23 MR. CASS:  
 24 Q. Okay. And how will these proposed deferral  
 25 accounts affect Hydro's 2015 forecast results?

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1 MS. RUSSELL:  
 2 A. So if we look at the 2015 forecast, and that  
 3 was filed in the Undertaking, without these  
 4 deferral accounts in 2015, Hydro's net income  
 5 would be approximately 12.7 million dollars  
 6 lower and excluding the deferral accounts and  
 7 other items, such as RSP interest, Hydro's  
 8 return on rate base would be 5.69 in 2015,  
 9 which is substantially below the bottom of the  
 10 range of 6.62. So I would say that getting  
 11 approval of these accounts is of great  
 12 importance to maintaining Hydro's financial  
 13 health for 2015, as well as 2016 forward.  
 14 MR. CASS:  
 15 Q. Okay. Are you proposing any adjustments to  
 16 Hydro's 2015 test year rate base?  
 17 MS. RUSSELL:  
 18 A. Yes, we are, but not for the purpose of  
 19 determining revenue requirements for rates to  
 20 be in effect for 2016. Hydro, in its amended  
 21 2015 cost deferral application, is proposing  
 22 an adjustment of five million dollars for 2015  
 23 to reflect lower actual capital additions when  
 24 compared to the 2015 test year. However, this  
 25 rate base adjustment is appropriate for the

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1 2015 cost deferral only and not for the  
 2 purpose of determining revenue requirement for  
 3 2016. These assets are already in service,  
 4 like the Holyrood CT, or expected to be in  
 5 service in 2015 and therefore will be used and  
 6 useful in the provision of service to  
 7 customers for all of 2016. As such, it is  
 8 appropriate that Hydro should be given the  
 9 opportunity to earn a return on these assets  
 10 in 2016 and necessary for Hydro to have the  
 11 opportunity to earn a just and reasonable  
 12 return in 2016.  
 13 (9:15 a.m.)  
 14 MR. CASS:  
 15 Q. All right, thank you. Now, Ms. Lutz, just a  
 16 few questions for you following up on Mr.  
 17 Rolph's examination-in-chief that I think was  
 18 on October 19th. Now first, Mr. Rolph  
 19 mentioned two potential issues with respect to  
 20 cost for common services, one that related to  
 21 payroll taxes and the other relating to the  
 22 allocation of common expenses. Can you  
 23 comment on what Mr. Rolph said in those areas?  
 24 MS. LUTZ:  
 25 A. Yes. With regard to the payroll tax, we had

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1 explained in RFI NP-NLH-313 what the nature of  
 2 the payroll tax is and essentially what it is,  
 3 all the payroll tax that is in the common  
 4 service business unit that is part of the  
 5 admin fee allocation relates to Hydro  
 6 employees and therefore it was deducted from  
 7 the allocation of the common expenses that  
 8 would be shared across the lines of business  
 9 of Nalcor. I think there was a little bit of  
 10 confusion about that, so I'd just like to  
 11 clarify. The other point was he had indicated  
 12 that all the costs might not be fully  
 13 burdened. So the way I had interpreted his  
 14 common was that to say that in terms of the  
 15 human resource department, for instance, we  
 16 had not factored in human resources share of  
 17 the IS department's expenses, for instance.  
 18 I believe he is correct on that particular  
 19 point.  
 20 MR. CASS:  
 21 Q. Okay. He also spoke about clarification  
 22 regarding which of Nalcor's other lines of  
 23 businesses were allocated an amount for common  
 24 expenses. Do you have a comment on that?  
 25 MS. LUTZ:

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1 A. Yes. There were a number of RFIs where we  
 2 responded that the allocation -- the  
 3 description of which particular line of  
 4 Nalcor, which line of business was included in  
 5 the admin fee wasn't relevant. We certainly  
 6 just didn't provide that information not to be  
 7 not transparent, just we just didn't see the  
 8 importance of the difference between just  
 9 Hydro and the other Nalcor lines. So, all of  
 10 the Nalcor lines that are included are 100  
 11 percent owned by Nalcor. So, if the Board  
 12 would like us to provide that information, we  
 13 certainly can do so.  
 14 MR. CASS:  
 15 Q. Okay. Another area he addressed was about  
 16 Hydro providing information on the common  
 17 expenses it charges Nalcor and other entities  
 18 in the Nalcor group. Do you have a comment on  
 19 his testimony there?  
 20 MS. LUTZ:  
 21 A. Yes. In that particular section, I believe he  
 22 was referencing a particular RFI where he had  
 23 asked for information on which expenses Hydro  
 24 had paid and which ones, whether they belong  
 25 to Nalcor or not. The particular RFI was PUB-

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1 NLH-411 and that was expenses related to cell  
 2 phones and auto fees and things like that.  
 3 The reason we couldn't provide that  
 4 information, in order to get the info back to  
 5 2007 would have meant that we would have to  
 6 review all the invoices since that time in all  
 7 those categories and we would have had to  
 8 analyze and provide that information and we  
 9 couldn't do that in the timeframe that we had.  
 10 All the expenses that were noted on that  
 11 RFI and the one that that one actually  
 12 referenced, which was PUB-NLH-155 and 156, was  
 13 -- they're all Hydro's expenses only, so they  
 14 weren't any expenses related to Nalcor or  
 15 anything else. The intercompany transaction  
 16 costing guidelines note that any payments  
 17 between entities are settled within 30 days.  
 18 MR. CASS:  
 19 Q. Okay. Thank you. And he also recommended  
 20 that time be coded in 15-minute increments  
 21 rather than 30 minutes. What would be your  
 22 comment on that?  
 23 MS. LUTZ:  
 24 A. Our timesheet system codes time in 30-minute  
 25 increments and basically, the nature of the

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1 work that we do, being more project based, we  
 2 don't really see any benefits in moving to a  
 3 15-minute increment. However, if the Board  
 4 would like us to do that, we could review  
 5 this, but it would require us to make a  
 6 modification to our system. But if that's  
 7 something important, we could look at it.

8 MR. CASS:  
 9 Q. Okay. And Mr. Pelley, just a few questions  
 10 for you about the debt guarantee fee, please.  
 11 First, how does Hydro's debt guarantee from  
 12 the Province compare to the situation of other  
 13 Canadian Crown owned utilities?

14 MR. PELLEY:  
 15 A. I think if you take a step back and look at  
 16 what the guarantee is meant to achieve, you'll  
 17 see that Hydro is probably not unique amongst  
 18 other Crown owned corporations, and I think to  
 19 understand that, just to give a bit of  
 20 context, we look back, take a step back and  
 21 look at how the credit markets view  
 22 governments. Obviously amongst all the types  
 23 of potential debt issuers out there, because  
 24 governments can raise revenues through taxes  
 25 and other means, they tend to be viewed as,

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1 you know, amongst the most creditworthy of  
 2 counter parties. So, you know, in Hydro's  
 3 case, that means we can -- armed with a  
 4 provincial guarantee, we have the benefit of  
 5 being able to access the credit markets both  
 6 in good times and in bad times.

7 And the only other, I think, utility that  
 8 I'm aware of that borrows directly with a  
 9 guarantee, and that guarantee is included in  
 10 rates, is the case of Hydro Quebec. But if  
 11 you look at other Crown corporations across  
 12 the country, such as those in Ontario, BC  
 13 Hydro, Manitoba Hydro, instead of getting a  
 14 guarantee from their province, they borrow  
 15 directly from the province. So at the end of  
 16 the day, when you look past it all, in either  
 17 case you're getting the benefit of the strong  
 18 creditworthiness of the government. So even  
 19 though Hydro is only one of two Crown  
 20 utilities that I'm aware of that borrow  
 21 directly through a guarantee, again when you  
 22 look at what it achieves at the end of the  
 23 day, which is access to the credit markets,  
 24 it's not unique.

25 MR. CASS:

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1 Q. Okay. And what is the basis for Hydro's  
 2 request that the Board approve recovery of the  
 3 debt guarantee fee?

4 MR. PELLEY:  
 5 A. I guess, the -- and that's been discussed at  
 6 this hearing I think on a number of occasions  
 7 and I think there's two issues here. One is  
 8 the fact that legislation has changed with  
 9 respect to the debt guarantee fee and instead  
 10 of it being a legislative obligation, for lack  
 11 of a better word, we've been directed by our  
 12 shareholders to continue to pay a guarantee  
 13 fee. So we don't -- we certainly don't view  
 14 that direction that we received from our  
 15 shareholder as binding on the Board. The  
 16 Board has a decision to make with respect to  
 17 whether or not the debt guarantee fee should  
 18 be recovered in rates, but our rationale for  
 19 including it is twofold. I guess one, it  
 20 represents a component of Hydro's cost of  
 21 service and going back to the answer I just  
 22 gave, we rely on that guarantee fee for  
 23 accessing the credit markets, so we view it as  
 24 being very much a part of -- or very much an  
 25 expense incurred in connection with our

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1 mandate to provide safe, reliable and least  
 2 cost power, and secondly, we think that we've  
 3 gone through great lengths to ensure that the  
 4 amount is still reasonable.

5 So we're asking the Board to consider  
 6 those factors and looking back as well at past  
 7 precedent. Hydro has always been able to  
 8 recover the debt guarantee fee in rates and if  
 9 we go back to even 2002, 2003 in P.U. -- I  
 10 think it was P.U. 7, and I could read  
 11 directly, "the Board acknowledges the  
 12 fundamental importance of the provincial  
 13 guarantee to Hydro's financial status. The  
 14 Board recognizes the need to maintain the  
 15 provincial guarantee until such a time as  
 16 Hydro is in a position to achieve or maintain  
 17 a sound credit rating in the financial markets  
 18 of the world on a stand-alone basis."

19 And then again, it was in 2004 in P.U.  
 20 14, "the Board accepts that the Government  
 21 guarantee plays a key role in supporting  
 22 Hydro's ability to access needed capital at  
 23 reasonable rates." And in our view, nothing  
 24 has really changed with respect to our  
 25 circumstances since then, so we still rely on

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<p>1 that guarantee for access to the credit 2 markets.</p> <p>3 And then secondly, I think we've gone 4 through great lengths to ensure that the fee 5 is still reasonable. We've done a number of 6 market studies and those have all been placed 7 on the record as well. So, really we're just 8 -- again, to recap, you know, we don't view 9 the Order in Council that we received as being 10 binding on the Board. The Board still has a 11 decision to make, but I think the 12 circumstances that caused the Board to approve 13 the fee in the past are still relevant.</p> <p>14 MR. CASS: 15 Q. Okay. Thank you, Mr. Pelley.</p> <p>16 MR. PELLEY: 17 A. So that would be my view on that.</p> <p>18 MR. CASS: 19 Q. And then just one final question in another 20 area. What is your comment on whether the new 21 deferral mechanisms proposed by Hydro are 22 affected by Hydro's return on equity now being 23 set by government directive? Do you see any 24 relationship between the return being set by 25 government directive and the proposed new</p>	<p>1 And I guess one thing I would say is that 2 Hydro is not unique in the fact that it is a 3 Crown owned utility with a government directed 4 ROE that also has deferral accounts. I'm not 5 sure if it's been mentioned in this context or 6 not, but I am aware that BC Hydro, for 7 instance, has a directed ROE which is much 8 higher than Hydro's. They have, I think, 9 three key deferral accounts that I'm aware of. 10 Now two of those accounts were directed by 11 government as part of the ROE, but I believe 12 it's their non-heritage deferral account, 13 their board awarded them after that ROE had 14 been directed. So there is -- you know, so 15 there is precedent for that out there in other 16 jurisdictions.</p> <p>17 But, you know, and as I said before, I 18 guess in a more broad sense, supply mechanism 19 deferrals are common in other utilities across 20 Canada. I think it was in our response to 21 PUB-388, we had outlined some of those. 22 They're common in other jurisdictions across 23 the country. So there's other utilities out 24 there that have accounts similar to what Hydro 25 is proposing and I'm making you jump all</p>
<p>1 deferral mechanisms?</p> <p>2 MR. PELLEY: 3 A. Well, I think if you look at it, and I believe 4 we've answered this in an RFI. I'm not sure 5 if it's -- just one second now, I'm just 6 getting her to bring up a reference, if I 7 could. Yeah, if you could bring up PUB-098, 8 Jenny? Actually, 097 first, sorry.</p> <p>9 So based on our response here to PUB-097, 10 we definitely think or it's our view that cost 11 deferral and recovery mechanisms definitely 12 affect what I call the residual risks that a 13 utility faces after those costs are 14 stabilizing. Generally speaking, those are -- 15 those mechanisms are definitely part of 16 establishing what a fair return is for any 17 regulated utility and I think the Board still 18 -- you know, our position is that the Board 19 still has to, I guess, look at the fact that 20 our return has been directed and as well as 21 the fact that now on top of that, we're 22 proposing these recovery mechanisms, but I 23 believe your -- I guess your original question 24 is, I guess, in my opinion, how do I think 25 those things fit together.</p>	<p>1 around here, Jenny, I'm sorry, but if you look 2 at chart 3.4 then on our pre-filed evidence, a 3 lot of those same utilities that have these 4 types of deferral accounts have much higher 5 ROEs than Hydro currently has. So you know, 6 what this tells me, is looking at both the 7 direct comparison to what's going on in 8 British Columbia with BC Hydro and the 9 industry as a whole across Canada, as well as 10 the other utility in this province, being 11 Newfoundland Power, the types of deferral 12 accounts that we're proposing are common and 13 consistent with Hydro's level of return.</p> <p>14 MR. CASS: 15 Q. Okay, thank you. That completes the 16 examination-in-chief, Mr. Chair. Thank you.</p> <p>17 CHAIRMAN: 18 Q. So, Mr. O'Brien, I believe we're over to you, 19 sir.</p> <p>20 CROSS-EXAMINATION BY MR. LIAM O'BRIEN 21 MR. O'BRIEN: 22 Q. Thank you, Mr. Chair. Good morning, folks. 23 If I could -- I thank you for the background 24 information. I wrote down some of it. I 25 don't think I got all of it, so I might ask</p>
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<p>1 you a little bit more, just from each of you.  2 I wonder if we could bring up PUB-NLH-138,  3 Attachment 1, page five? I just get a sense  4 here of -- I think this is Finance. Okay,  5 here we go. Just get a sense of where  6 everybody lies on that. Ms. Russell, your  7 position is general manager of finance.  8 That's you right in the middle of the second  9 line? Is that right?  10 MS. RUSSELL:  11 A. Yes.  12 MR. O'BRIEN:  13 Q. Okay. And how long have you been in that  14 position?  15 MS. RUSSELL:  16 A. Since January 2014.  17 MR. O'BRIEN:  18 Q. January 2014, okay. And what was your  19 position prior to that?  20 MS. RUSSELL:  21 A. I was in the manager of rates and regulatory  22 for one year prior to that.  23 MR. O'BRIEN:  24 Q. Okay. And the manager of rates, that's right  25 below?</p>	<p>1 there was a general manager of finance which  2 had all roles underneath that. Like you might  3 see general manager corporate services.  4 MR. O'BRIEN:  5 Q. Okay, on the left-hand side there?  6 MS. RUSSELL:  7 A. That's an older job description, yeah.  8 MR. O'BRIEN:  9 Q. Okay, all right.  10 MS. RUSSELL:  11 A. And the change occurred after that.  12 MR. O'BRIEN:  13 Q. And the change, okay. And you right now  14 report directly to the VP of Finance and CFO.  15 Is that still the case now since the recent  16 restructuring?  17 (9:30 a.m.)  18 MS. RUSSELL:  19 A. No. Now I report to the president.  20 MR. O'BRIEN:  21 Q. Okay. So you report to Mr. MacIsaac directly  22 now, do you?  23 MS. RUSSELL:  24 A. I do, yes.  25 MR. O'BRIEN:</p>
<p>Page 22</p> <p>1 MS. RUSSELL:  2 A. Yeah.  3 MR. O'BRIEN:  4 Q. That's the 520-24 position, is it?  5 MS. RUSSELL:  6 A. Correct.  7 MR. O'BRIEN:  8 Q. Okay. And that's Mr. Fagan's position now?  9 MS. RUSSELL:  10 A. Correct.  11 MR. O'BRIEN:  12 Q. And who was in the position of general manager  13 finance prior to you?  14 MS. RUSSELL:  15 A. That's a new position.  16 MR. O'BRIEN:  17 Q. That's a new position, okay. And the reason I  18 ask that, I had a look at -- I believe you  19 report directly to the VP of Finance and the  20 CFO and I didn't see under his job description  21 a list of -- I saw a list of positions that  22 were boarded in, but I didn't see yours.  23 MS. RUSSELL:  24 A. I think the reason for that is because at the  25 time that RFI was probably originally filed,</p>	<p>Page 24</p> <p>1 Q. Okay. And prior to, I guess, the recent  2 restructuring, just give me an idea as to what  3 your reporting relationship was with the VP of  4 Finance. Was that a regular -- did you have  5 regular meetings, that kind of thing? How did  6 that work?  7 MS. RUSSELL:  8 A. Yes, we had regular meetings. We have a  9 regular meeting every Monday morning and then  10 if there's any particular issues or anything  11 that are ongoing, he's always available for  12 me, depending on what's going on.  13 MR. O'BRIEN:  14 Q. Okay. And I wonder if we could pull up PUB-  15 NLH-228, Revision 5? So these are -- this is  16 the famous PUB-228 we looked at on a number of  17 occasions. If we can look at the attachment,  18 and these are the hours that are charged in  19 for Nalcor leadership team positions into  20 Hydro. The VP of Finance and chief financial  21 officer there, if we look across, we see 2011,  22 88.5 hours, 2012 48, 2013 60.5. I'm just  23 trying to get a flavour as to sort of how much  24 oversight the VP of Finance would have  25 provided to you in your role as, I guess -- or</p>

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<p>1 to the manager of finance, I guess, in that</p> <p>2 role.</p> <p>3 MS. RUSSELL:</p> <p>4 A. So as I said, he is always available, so I can</p> <p>5 see the time charged there. While I can't</p> <p>6 speak for how Mr. Sturge codes his time, I</p> <p>7 know that when I look at that, I know I've</p> <p>8 spent more time than that with him. So I'm</p> <p>9 not sure, you know, could be the same instance</p> <p>10 as the other people as to how time coding for</p> <p>11 things that are sort of safety and related</p> <p>12 that span across all different business units.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. Okay. So starting then in your new position</p> <p>15 in January of 2014, there's hours there of 300</p> <p>16 hours. What level of oversight did Mr. Sturge</p> <p>17 provide to you, I guess, going forward in</p> <p>18 January? Was it -- do you think it was more</p> <p>19 than what was provided to the previous manager</p> <p>20 of finance?</p> <p>21 MS. RUSSELL:</p> <p>22 A. And which year are you referring to now?</p> <p>23 MR. O'BRIEN:</p> <p>24 Q. 2014 when you started in your new position.</p> <p>25 MS. RUSSELL:</p>	<p>1 regulatory group and then the supply chain</p> <p>2 function as well.</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. Okay. So the regulatory applications, they</p> <p>5 all go through you?</p> <p>6 MS. RUSSELL:</p> <p>7 A. Yes, Mr. Fagan, like they go through Mr. Fagan</p> <p>8 first and then the majority of them would come</p> <p>9 to me.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. Okay, then they come through you. Okay. And</p> <p>12 prior to the recent restructuring, did you</p> <p>13 have any sort of dotted line reporting</p> <p>14 requirements to the VP of Hydro? How did that</p> <p>15 work?</p> <p>16 MS. RUSSELL:</p> <p>17 A. In my current role, I do have a dual reporting</p> <p>18 relationship to Mr. Henderson and it is in my</p> <p>19 job description.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. Okay. And I don't know if we have your job</p> <p>22 description on file. I wonder if you could</p> <p>23 undertake to provide a copy of that?</p> <p>24 MS. RUSSELL:</p> <p>25 A. Yeah, no problem.</p>
<p>Page 26</p> <p>1 A. 2014, I think there was -- 2014 when I started</p> <p>2 in that position, there were a lot of the --</p> <p>3 the GRA was ongoing. There were a lot of</p> <p>4 applications, regulatory applications that</p> <p>5 would have taken up a lot of his time in that</p> <p>6 year.</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. Okay. And you're involved in the regulatory</p> <p>9 applications, I guess, as manager of</p> <p>10 regulatory as well?</p> <p>11 MS. RUSSELL:</p> <p>12 A. Yes.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. In your position. Just give me an idea of --</p> <p>15 can you expand on exactly what your role</p> <p>16 involves on a day-to-day basis, I guess?</p> <p>17 MS. RUSSELL:</p> <p>18 A. So I'm in charge of the regulatory department</p> <p>19 and the finance department and the supply</p> <p>20 chain department. So those are my -- the</p> <p>21 groups that report up to me. And so, you</p> <p>22 know, all the financial reporting, quarterly</p> <p>23 reporting that goes on for Hydro, the</p> <p>24 regulatory applications that would be -- all</p> <p>25 the work would be done in the rates and</p>	<p>Page 28</p> <p>1 MS. GLYNN:</p> <p>2 Q. Noted on the record.</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. And I guess starting in January with your new</p> <p>5 position, of 2014, did you provide any</p> <p>6 services to other lines of business for Nalcor</p> <p>7 or was it just Hydro?</p> <p>8 MS. RUSSELL:</p> <p>9 A. Just Hydro.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. Just Hydro, okay. And you're a member of the</p> <p>12 Hydro leadership team?</p> <p>13 MS. RUSSELL:</p> <p>14 A. I am.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Okay. And we've heard some mention of regular</p> <p>17 monthly meetings of the leadership team.</p> <p>18 MS. RUSSELL:</p> <p>19 A. Yes.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. You take part in those meetings, do you?</p> <p>22 MS. RUSSELL:</p> <p>23 A. Yes.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Okay. And do you attend any Nalcor leadership</p>

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<p>1 meetings?</p> <p>2 MS. RUSSELL:</p> <p>3 A. No.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. No, okay. Now in terms of your direct -- if</p> <p>6 we could go back to the PUB-138, just to get</p> <p>7 an idea of your direct reports? You have --</p> <p>8 is this an up-to-date sort of structure or is</p> <p>9 there changes now in terms of who directly</p> <p>10 reports into you?</p> <p>11 MS. RUSSELL:</p> <p>12 A. No, I think that's an up-to-date structure,</p> <p>13 except for the manager of regulatory</p> <p>14 engineering.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Okay.</p> <p>17 MS. RUSSELL:</p> <p>18 A. That position is down underneath -- on this</p> <p>19 chart, it's down underneath Kevin, the manager</p> <p>20 of rates, Fagan.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. Okay, and the manager of -- I'm just trying to</p> <p>23 find it.</p> <p>24 MS. RUSSELL:</p> <p>25 A. It's 520-33.</p>	<p>1 Q. It's since been changed, okay, all right. And</p> <p>2 that's with the recent restructuring that it's</p> <p>3 been changed to a Hydro position, is it?</p> <p>4 MS. RUSSELL:</p> <p>5 A. Yeah, in 2014.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. In 2014?</p> <p>8 MS. RUSSELL:</p> <p>9 A. I'd have to check the timing. It could have</p> <p>10 been late -- I think it might have been the</p> <p>11 beginning, late '14 or beginning of 2015.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. Okay. And so that's since this -</p> <p>14 MS. RUSSELL:</p> <p>15 A. Correct, since this.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. - this organizational chart was provided.</p> <p>18 MS. RUSSELL:</p> <p>19 A. Yes.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. And Mr. Pelley, are you on this particular -</p> <p>22 MR. PELLEY:</p> <p>23 A. Let me see.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. You're corporate treasurer? Is that right?</p>
<p style="text-align: right;">Page 30</p> <p>1 MR. O'BRIEN:</p> <p>2 Q. Okay, all right.</p> <p>3 MS. RUSSELL:</p> <p>4 A. Three down underneath. That person, that's</p> <p>5 another position that reports directly to me.</p> <p>6 So there's five.</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. Okay. So that person is moved up?</p> <p>9 MS. RUSSELL:</p> <p>10 A. Correct.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. To the line with the four direct reports,</p> <p>13 okay.</p> <p>14 MS. RUSSELL:</p> <p>15 A. Um-hm.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. And the manager of supply chain management,</p> <p>18 that's a Nalcor position?</p> <p>19 MS. RUSSELL:</p> <p>20 A. No, it's a Hydro position.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. Okay.</p> <p>23 MS. RUSSELL:</p> <p>24 A. It's since been changed to a Hydro position.</p> <p>25 MR. O'BRIEN:</p>	<p style="text-align: right;">Page 32</p> <p>1 MR. PELLEY:</p> <p>2 A. That's right. So that would -- just for</p> <p>3 reference, that's -</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. You're over here on the right-hand side?</p> <p>6 MR. PELLEY:</p> <p>7 A. 441-02.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. Right, okay, I can see you there.</p> <p>10 MR. PELLEY:</p> <p>11 A. I would say that it appears to be I'm missing</p> <p>12 -- I don't know if there's more to this</p> <p>13 graphic or is this everything, Jenny? Because</p> <p>14 I actually have -- there's two positions that</p> <p>15 report into me. One is shown there as manager</p> <p>16 of treasury operations.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Right.</p> <p>19 MR. PELLEY:</p> <p>20 A. 432-01. But there'd also be an assistant</p> <p>21 treasurer.</p> <p>22 MR. O'BRIEN:</p> <p>23 Q. Assistant treasurer as well. Is that a Nalcor</p> <p>24 position or a Hydro position?</p> <p>25 MR. PELLEY:</p>



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<p>1 A. That is a Nalcor position.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Nalcor.</p> <p>4 MR. PELLE:Y:</p> <p>5 A. As is the manager of treasury operations.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. Right, okay. And Mr. Pelley, you're a Nalcor</p> <p>8 employee?</p> <p>9 MR. PELLE:Y:</p> <p>10 A. That's correct.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. And how long have you been in your present</p> <p>13 position?</p> <p>14 MR. PELLE:Y:</p> <p>15 A. Presently two years approximately.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. Two years.</p> <p>18 MR. PELLE:Y:</p> <p>19 A. Since 2013.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. Okay. And this may be a repeat, but your</p> <p>22 prior position?</p> <p>23 MR. PELLE:Y:</p> <p>24 A. Prior to that, I was the assistant treasurer.</p> <p>25 MR. O'BRIEN:</p>	<p>1 Q. That's divisional controller, electrical</p> <p>2 utilities?</p> <p>3 MS. LUTZ:</p> <p>4 A. Yes.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. And how long have you been in that particular</p> <p>7 role?</p> <p>8 MS. LUTZ:</p> <p>9 A. Since July of 2014.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. 2014, okay. And just give me an overview as</p> <p>12 to what your role entails?</p> <p>13 MS. LUTZ:</p> <p>14 A. Essentially it's financial reporting,</p> <p>15 forecasting, budgeting, GRA support.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. And what -- and are you responsible for</p> <p>18 overseeing intercompany transactions?</p> <p>19 MS. LUTZ:</p> <p>20 A. Yes.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. Is that part of your role as well? How does</p> <p>23 that work?</p> <p>24 MS. LUTZ:</p> <p>25 A. As part of the -- part of my role, yes, for</p>
Page 34	Page 36
<p>1 Q. Okay.</p> <p>2 MR. PELLE:Y:</p> <p>3 A. For approximately two years.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. All right.</p> <p>6 MR. PELLE:Y:</p> <p>7 A. And prior to that, I was the manager -- I was</p> <p>8 in the position that's shown here as manager</p> <p>9 of treasury operations.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. Right, okay. And I think I got a good flavour</p> <p>12 for your background and your responsibilities.</p> <p>13 Now, Ms. Lutz, are you on this particular</p> <p>14 chart as well?</p> <p>15 MS. LUTZ:</p> <p>16 A. Yes, on page five.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Page five, all right.</p> <p>19 MS. LUTZ:</p> <p>20 A. Yes, 101 -</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. 101-11?</p> <p>23 MS. LUTZ:</p> <p>24 A. Yes.</p> <p>25 MR. O'BRIEN:</p>	<p>1 Hydro.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. And is it just for Hydro? Is there a separate</p> <p>4 Nalcor piece of that role?</p> <p>5 MS. LUTZ:</p> <p>6 A. There would be a Nalcor piece of it.</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. Okay. And who's involved with it from an</p> <p>9 Nalcor side of things?</p> <p>10 MS. LUTZ:</p> <p>11 A. I think there's a lady named Jennifer Warren.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. Okay. And do you know what her position is?</p> <p>14 MS. LUTZ:</p> <p>15 A. Assistant corporate controller.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. Okay. And do you have regular contact with</p> <p>18 her, in terms of performing that aspect of</p> <p>19 your role? How does that work?</p> <p>20 MS. LUTZ:</p> <p>21 A. If I have questions or if there's an update to</p> <p>22 a process, I would work with Jennifer, yes.</p> <p>23 MR. O'BRIEN:</p> <p>24 Q. Okay. And were you involved with establishing</p> <p>25 the guidelines, intercompany guidelines or</p>

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<p>1 anything like that? Did you have any role in 2 that? 3 MS. LUTZ: 4 A. I participated in it, yes. 5 MR. O'BRIEN: 6 Q. You did, okay. And how long have you been 7 doing that particular piece? Has that been 8 part of a previous role that you were involved 9 in? 10 MS. LUTZ: 11 A. Yes. When I worked in the corporate office as 12 a corporate controller and prior to that, I 13 was involved in the intercompany transactions. 14 MR. O'BRIEN: 15 Q. Okay. And your previous role then as 16 corporate controller, was that with Hydro? 17 MS. LUTZ: 18 A. No, it was Nalcor. 19 MR. O'BRIEN: 20 Q. Nalcor, okay. And how long were you in that 21 role? 22 MS. LUTZ: 23 A. From 2011 to 2014 when I moved over to Hydro. 24 MR. O'BRIEN: 25 Q. Okay. Right before you moved to Hydro?</p>	<p>1 separate meetings. Like if there was a 2 particular issue, for example, budgets or 3 forecasting, we would just hold separate 4 meetings outside of that for the group that 5 would be required to be there. Lots of times, 6 you know, I would go up and speak with Mr. 7 Henderson about finance issues, and as well 8 the budgeting and forecasting are separate. 9 MR. O'BRIEN: 10 Q. Okay. And they wouldn't necessarily be 11 regular -- on a regular schedule, would they? 12 That would be sort of an ad-hoc basis? 13 MS. RUSSELL: 14 A. They would be whenever they were needed. We 15 do do quarterly forecasting. There are 16 certain -- and the budget process as well, 17 once we start the budget process, there are 18 set meetings to get together with managers on 19 costs. 20 MR. O'BRIEN: 21 Q. So before you get to the budget sort of 22 process, I understand that starts sort of 23 midyear I take it, is it? 24 MS. RUSSELL: 25 A. Yes.</p>
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<p>1 MS. LUTZ: 2 A. Yes. 3 MR. O'BRIEN: 4 Q. Okay. And what sort of direct reports do you 5 have, Ms. Lutz? 6 MS. LUTZ: 7 A. I have two direct reports. One is the manager 8 of regulatory finance, who you met last week, 9 Mr. Michael Conway. 10 MR. O'BRIEN: 11 Q. Okay. 12 MS. LUTZ: 13 A. Another is the manager of accounting, 14 financial reporting and budgeting. 15 (9:45 a.m.) 16 MR. O'BRIEN: 17 Q. Okay. And I just want to ask you, Ms. 18 Russell, just in terms of the Hydro leadership 19 team, I just want to get some background with 20 respect to how that works. So we have monthly 21 meetings you talked about. Are there separate 22 finance meetings that you have, separate from 23 the Hydro sort of leadership meetings? 24 MS. RUSSELL: 25 A. We would have -- so, yeah, there would be</p>	<p>1 MR. O'BRIEN: 2 Q. Before you get to that, you have early 3 quarterly meetings, I guess, first quarter, 4 that kind of thing? 5 MS. RUSSELL: 6 A. For just in general, like to talk about the 7 results. 8 MR. O'BRIEN: 9 Q. Okay. 10 MS. RUSSELL: 11 A. And every month we do -- every month we also 12 go out to all the operations groups to get the 13 variance analysis from actuals to budget. 14 MR. O'BRIEN: 15 Q. Okay. And that's every month? 16 MS. RUSSELL: 17 A. Every month. 18 MR. O'BRIEN: 19 Q. Okay. When you say various groups, those are 20 the different divisions? 21 MS. RUSSELL: 22 A. Whatever, yes. We would pull together the 23 variances and then we would go out to the 24 different -- it could be, you know, like it 25 could be Holyrood, could be Bay d'Espoir. We</p>

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<p>1 would go right across to get them to provide 2 the variance analysis. 3 MR. O'BRIEN: 4 Q. And how detailed are those variance analysis? 5 Do they get down into the minutia or are they 6 sort of high level? 7 MS. RUSSELL: 8 A. I think it depends on what the -- how big the 9 variance is. 10 MR. O'BRIEN: 11 Q. Okay. 12 MS. RUSSELL: 13 A. It would depend on the magnitude of the 14 variance. 15 MR. O'BRIEN: 16 Q. And what do you mean by that? 17 MS. RUSSELL: 18 A. Well, if it was -- I think if there were 19 certain variances that were larger, then we 20 would have more backup. It really depends on 21 what the variance is and what the item is. 22 MR. O'BRIEN: 23 Q. And you would look for that backup yourself? 24 Is that how that would work? 25 MS. RUSSELL:</p>	<p>1 A. No. 2 MR. O'BRIEN: 3 Q. No? 4 MS. RUSSELL: 5 A. No. 6 MR. O'BRIEN: 7 Q. And would you agree with me that it's 8 important as a regulated entity for Hydro to 9 ensure that its interests were protected 10 within that organization? 11 MS. RUSSELL: 12 A. Yes. 13 MR. O'BRIEN: 14 Q. Okay. And do you know if there's any -- were 15 you aware of or informed of any guidelines or 16 rules to follow with respect to any -- if 17 there ever arose a situation where there's a 18 conflict between interests of Hydro and one of 19 the other lines of business? 20 MS. RUSSELL: 21 A. Am I aware of any conflict? 22 MR. O'BRIEN: 23 Q. Yeah, or were you advised of how to deal with 24 it if it arises? 25 MS. RUSSELL:</p>
<p>Page 42</p> <p>1 A. Yes, and Carol Ann would as well, Ms. Lutz 2 would as well. 3 MR. O'BRIEN: 4 Q. All right. And if we backtrack, I guess, 5 talking about the Hydro leadership meetings 6 and we talked a lot throughout this hearing 7 about the matrix organization structure and I 8 presume you'll all agree that when it comes to 9 Hydro, for the purposes of this hearing 10 anyway, Mr. Henderson was the single point of 11 accountability? Is that right? 12 MS. RUSSELL: 13 A. Yes. 14 MR. O'BRIEN: 15 Q. Okay. And in terms of the matrix organization 16 itself and the Hydro meetings, were there 17 regular discussions at those meetings as to 18 how Hydro is to ensure that its interests are 19 protected with inside of this matrix 20 organization? Was that ever a topic? 21 MS. RUSSELL: 22 A. No. At the Hydro leadership meetings? 23 MR. O'BRIEN: 24 Q. Yes. 25 MS. RUSSELL:</p>	<p>Page 44</p> <p>1 A. I don't think there -- I think -- I mean, I've 2 never experienced a conflict that wasn't 3 resolved between the parties involved. 4 MR. O'BRIEN: 5 Q. Okay. 6 MS. RUSSELL: 7 A. And you know, I think from the perspective of 8 working in Hydro, you're always looking out 9 for Hydro's interests and you work with any 10 parties on items if there is any disagreement, 11 but as I've said, I've -- any disagreements or 12 if there ever have been any, have always been 13 able to have been worked out. 14 MR. O'BRIEN: 15 Q. Did Mr. Martin attend Hydro leadership 16 meetings? 17 MS. RUSSELL: 18 A. No. 19 MR. O'BRIEN: 20 Q. And what Nalcor employees or positions 21 attended, to your recollection? 22 MS. RUSSELL: 23 A. You mean people who are Nalcor as in like 24 their home base is Nalcor? 25 MR. O'BRIEN:</p>

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<p>1 Q. Yeah, as their home base, yeah.</p> <p>2 MS. RUSSELL:</p> <p>3 A. The manager of HR would be a Nalcor. The</p> <p>4 safety, there's a manager of safety. I'm</p> <p>5 trying to recall. It's sort of like you don't</p> <p>6 really know who's Hydro. When you go to these</p> <p>7 meetings -</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. Sure.</p> <p>10 MS. RUSSELL:</p> <p>11 A. - like I don't know who's Nalcor and who's</p> <p>12 Hydro, like when everybody is there, they're</p> <p>13 all representing Hydro in the meeting. So,</p> <p>14 everybody is representing -- I'd have to go</p> <p>15 back to see, you know, what actual home base</p> <p>16 they are.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. And what VPs were present at those meetings?</p> <p>19 MS. RUSSELL:</p> <p>20 A. So Mr. Henderson, Mr. Humphries and I believe</p> <p>21 Ms. Dalley is also there.</p> <p>22 MR. O'BRIEN:</p> <p>23 Q. Okay.</p> <p>24 MS. RUSSELL:</p> <p>25 A. She would be a Nalcor VP.</p>	<p>1 MR. O'BRIEN:</p> <p>2 Q. Okay. So during each budget process in the</p> <p>3 previous year, there's a number of hours that</p> <p>4 are submitted by each department?</p> <p>5 MS. RUSSELL:</p> <p>6 A. Correct</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. And is that the same for say executive level?</p> <p>9 Do they submit hours -</p> <p>10 MS. RUSSELL:</p> <p>11 A. Yes.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. - each year as to what's going to be submitted</p> <p>14 the following year? Is that how that works?</p> <p>15 MS. RUSSELL:</p> <p>16 A. Yes, all the hours would be compiled.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Okay. And you get a regular, I guess, on a</p> <p>19 quarterly basis then, you get a -- or is it a</p> <p>20 monthly basis you get an idea as to any</p> <p>21 variances on that?</p> <p>22 MS. RUSSELL:</p> <p>23 A. Monthly. We do month end statements and so</p> <p>24 all the variances are done monthly.</p> <p>25 MR. O'BRIEN:</p>
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<p>1 MR. O'BRIEN:</p> <p>2 Q. Okay. And in terms of say project execution,</p> <p>3 there was Mr. Gardiner.</p> <p>4 MS. RUSSELL:</p> <p>5 A. Mr. Gardiner was there.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. Okay. I wonder if we could -- we looked at</p> <p>8 the hours on that PUB-228 earlier. Is that</p> <p>9 something that -- the hours charged in, is</p> <p>10 that something the finance department tracks?</p> <p>11 How does that work?</p> <p>12 MS. RUSSELL:</p> <p>13 A. So the role that, I guess, the finance</p> <p>14 department would have in that is that we would</p> <p>15 -- in the budgeting process, there would be a</p> <p>16 certain amount of hours that are budgeted that</p> <p>17 would go through the budget process and be</p> <p>18 approved for Hydro for charging in. So</p> <p>19 finance's role would be to every month the</p> <p>20 variances get compiled and if there was a</p> <p>21 variance in that area, it would be identified</p> <p>22 and it would go back out to the operations or</p> <p>23 the area that the variance occurred for an</p> <p>24 explanation and that's how you would track if</p> <p>25 things were over what were -</p>	<p>1 Q. And is there -- apart from -- I wonder if we</p> <p>2 can pull that up again, Ms. Gray, the 228,</p> <p>3 PUB-228? Say in 2014, I presume, when you</p> <p>4 started, Ms. Russell, there would have been a</p> <p>5 number of variances early on in that year.</p> <p>6 Is that correct?</p> <p>7 MS. RUSSELL:</p> <p>8 A. In 2014?</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Yes. Was 2014 actually on budget?</p> <p>11 MS. RUSSELL:</p> <p>12 A. I believe -</p> <p>13 MS. LUTZ:</p> <p>14 A. It was actually higher.</p> <p>15 MS. RUSSELL:</p> <p>16 A. Higher.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. It was higher, was it?</p> <p>19 MS. LUTZ:</p> <p>20 A. Than what was in the 2014.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. And when you do get those variances, you get</p> <p>23 explanations from say the VPs in these</p> <p>24 positions or the leadership team members as to</p> <p>25 the reasons for it?</p>

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<p>1 MS. RUSSELL: 2 A. Yes. 3 MR. O'BRIEN: 4 Q. Okay. Do you revise the budget for the rest 5 of the year then based on those variances or 6 how does that work? 7 MS. RUSSELL: 8 A. We don't revise budget. We would revise -- we 9 may revise the forecast. 10 MR. O'BRIEN: 11 Q. The forecast, yeah, okay. 12 MS. RUSSELL: 13 A. Depending, yeah. 14 MR. O'BRIEN: 15 Q. You'd agree with me, I guess, when we're 16 talking about the hours here, that it's 17 important that these are reflective of what 18 hours are being charged in? Is that important 19 from an accounting perspective? 20 MS. RUSSELL: 21 A. Yes. 22 MR. O'BRIEN: 23 Q. Okay. And what is it that the finance 24 department does to ensure that they are 25 reflective of the hours charged?</p>	<p>1 MS. RUSSELL: 2 A. But ultimately, I guess, the first control 3 would be the supervisor that would be 4 approving those timesheets. 5 MR. O'BRIEN: 6 Q. So from the finance department perspective, 7 really the only way you can track it is on 8 those variances, but it's whoever is charging 9 it in really is the first -- is the one that 10 would have to answer for those variances and 11 provide that information to you? 12 MS. RUSSELL: 13 A. Yes. 14 MR. O'BRIEN: 15 Q. Okay. Can you tell me the forecast here for 16 2015 and 2016, who -- who puts together those 17 forecasts for each year for your budget for 18 those figures? Is that something that just 19 gets submitted by the individuals themselves 20 to finance? 21 MS. RUSSELL: 22 A. This Rev 5? 23 MR. O'BRIEN: 24 Q. Yeah. 25 MS. RUSSELL:</p>
<p>Page 50</p> <p>1 MS. RUSSELL: 2 A. Again, with respect to -- I've sort of already 3 explained how we would identify like variances 4 because we would be looking at what was 5 approved in the budget because that's what 6 would have been an approved amount for Hydro, 7 you know, going through its budgeting process, 8 and then if there were any variances through 9 the year, that's when -- that's sort of the 10 role we would pick up on. 11 MR. O'BRIEN: 12 Q. Okay. 13 MS. RUSSELL: 14 A. With respect to people charging their time 15 correctly, I mean, ultimately that's -- that 16 would be on the supervisor to make sure 17 whoever is doing the timesheet. 18 MR. O'BRIEN: 19 Q. Okay. 20 MS. RUSSELL: 21 A. We would pick up through -- we would see it in 22 variance analysis if there were more hours 23 charged or less hours charged. 24 MR. O'BRIEN: 25 Q. Right.</p>	<p>Page 52</p> <p>1 A. So I believe -- and Ms. Lutz may be able to 2 step in here. So this is a forecast that I 3 think was prepared after the fact. It's not 4 the numbers that are reflective in the test 5 year. 6 MR. O'BRIEN: 7 Q. No? Okay. 8 MS. RUSSELL: 9 A. You're wondering how they get - 10 MR. O'BRIEN: 11 Q. Yeah, in those figures there, we see those 12 figures are higher in 2015 and 2016 than some 13 of them before. Like if you look at president 14 and chief executive officer, 2013 is 137 and 15 it goes up to 560 and then it continues on in 16 the forecast at 560 and 560. Is it the 17 individual themselves that prepare those 18 forecasts or is that something the finance 19 department does? 20 MS. RUSSELL: 21 A. So I think Ms. Lutz can probably best answer 22 that question for you. 23 MR. O'BRIEN: 24 Q. Okay, sure. 25 MS. LUTZ:</p>

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<p>1 A. So with regards to the 2014 forecast, it was 2 reflective of the actuals up to November. 3 MR. O'BRIEN: 4 Q. Of the actuals, right. 5 MS. LUTZ: 6 A. And with an estimate for the last number of 7 pay periods. 8 MR. O'BRIEN: 9 Q. Okay. 10 MS. LUTZ: 11 A. That's where the original '14 came from. ' 15 12 was also presented to be -- as you can see, 13 it's very similar. And '16 was -- at the time 14 that we filed '16, we hadn't done our 2016 15 budget process, so that was the information 16 that we had at that time. 17 MR. O'BRIEN: 18 Q. Okay. So that's just a reflective of what was 19 for 2015 because you didn't have a budget for 20 2016? 21 MS. LUTZ: 22 A. We hadn't had 2016, but the forecast that's 23 there for 2015 is not the 2015 number that's 24 in the 2015 test year. 25 MR. O'BRIEN:</p>	<p>1 best information that we have as a proxy for 2 say if we were doing a budget, unless someone 3 knew specifically that their level of activity 4 would not be representative in an upcoming 5 year, for which we would do an adjustment. 6 MR. O'BRIEN: 7 Q. Okay. That makes sense. Just in terms of 8 each of you, I'll ask each of you separately, 9 I guess, just in terms of your involvement in 10 the rate case, I guess. Your panel has 11 adopted Section 3, I guess, of the case, but I 12 want to know from each of you what sort of 13 involvement you had. So Ms. Lutz, what was 14 your involvement with -- let's say the 2013 15 rate case filing first off, did you have any 16 involvement in that? 17 MS. LUTZ: 18 A. Yes, I did. As I mentioned, I was in 19 corporate at the time and I participated in 20 the compilation of the intercompany policies 21 and the guidelines and the actual FTE numbers 22 in conjunction with HR. 23 MR. O'BRIEN: 24 Q. Okay. And Ms. Russell? 25 MS. RUSSELL:</p>
<p>1 Q. No, I understand that. 2 MS. LUTZ: 3 A. Okay. 4 MR. O'BRIEN: 5 Q. I'm just wondering in terms of the forecast 6 itself that's in there, those numbers, who 7 prepared those forecast numbers for '15 and 8 '16? Was it the individuals themselves or was 9 that prepared by finance in the context of the 10 GRA or how did that work? 11 MS. LUTZ: 12 A. It would have been -- so, individuals would 13 have done their 2014 through their timesheet 14 and then those numbers carried forward into 15 '15 and '16 was prepared by Human Resources 16 and I think they indicated when they were here 17 that they compiled that information. 18 MR. O'BRIEN: 19 Q. Okay. And does Human Resources do that on a 20 regular basis? Like for the earlier figures, 21 is it Human Resources that compiles that and 22 gives it to finance? 23 MS. LUTZ: 24 A. So essentially the way we do the budgeting for 25 intercompany transactions, we would use the</p>	<p>1 A. For the 2013? 2 MR. O'BRIEN: 3 Q. 2013 filing. 4 MS. RUSSELL: 5 A. Yes, I would have been involved in the 6 preparation of that. 7 MR. O'BRIEN: 8 Q. Okay. And what would your involvement have 9 been at that time? You were in a different 10 position. 11 MS. RUSSELL: 12 A. At that time I would have been manager of 13 rates and regulatory at that time. 14 MR. O'BRIEN: 15 Q. Okay. 16 MS. RUSSELL: 17 A. So we filed in July, so I think I would have 18 been there probably about six months earlier 19 that I would have started in the beginning of 20 that year. 21 (10:00 a.m.) 22 MR. O'BRIEN: 23 Q. Okay. You started in January of 2013 as 24 manager of rates and regulation -- or 25 regulatory.</p>

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<p>1 MS. RUSSELL: 2 A. Um-hm. 3 MR. O'BRIEN: 4 Q. And so your role, who would have been -- yeah, 5 okay. So you would have been involved with 6 the regulatory aspect of that, so Section 2 of 7 that GRA at that time, would you? 8 MS. RUSSELL: 9 A. Section 4. 10 MR. O'BRIEN: 11 Q. Section 4, sorry. 12 MS. RUSSELL: 13 A. Yes. 14 MR. O'BRIEN: 15 Q. With the rates, okay. And Mr. Pelley, what 16 was your involvement, if any? 17 MR. PELLELY: 18 A. Personally, I would have been directly 19 involved with the actual preparation of some 20 of the evidence in Section 3. 21 MR. O'BRIEN: 22 Q. Okay. 23 MR. PELLELY: 24 A. As well as some of the folks that were -- or 25 one of the individuals that reports to me, the</p>	<p>1 and the CEO. 2 MR. O'BRIEN: 3 Q. Okay. 4 MS. RUSSELL: 5 A. Before anything was filed. 6 MR. PELLELY: 7 A. For my part, I was not involved in any final 8 approval. 9 MR. O'BRIEN: 10 Q. No, okay. And do you know if the VP of 11 Finance would have been involved with the 12 final approval at that time? 13 MS. RUSSELL: 14 A. Yes. 15 MR. O'BRIEN: 16 Q. Okay. And do you know if there were any 17 changes made in the rate case at sort of the 18 upper levels, VP of Finance or the CEO levels, 19 once it was prepared? 20 MS. RUSSELL: 21 A. The 2013 one? 22 MR. O'BRIEN: 23 Q. 2013 one. 24 MS. RUSSELL: 25 A. It's hard to recall going back, but I know</p>
<p>1 manager of treasury operations, would have 2 been involved with preparation of some of what 3 I'm calling the finance schedules that are 4 attached to Section 3, as well as some of the 5 modelling that went behind that. 6 MR. O'BRIEN: 7 Q. Okay, all right. And would you - 8 MR. PELLELY: 9 A. And of course, subsequent to that, we 10 participated in answering RFIs on those 11 relevant sections. 12 MR. O'BRIEN: 13 Q. And would you have overseen what your direct 14 report would have been involved with preparing 15 for those finance schedules? 16 MR. PELLELY: 17 A. Yes. 18 MR. O'BRIEN: 19 Q. Yes, okay. And who gave the final approval 20 for the 2013 rate case? Were you -- either 21 one of you involved in any discussions when it 22 was finally approved and filed? 23 MS. RUSSELL: 24 A. Well, final approval would go up through like 25 -- it would go through CFO, the VP of Hydro</p>	<p>1 that there were -- and I would say for sure 2 there were changes, like there would have been 3 some feedback and comments and changes before 4 we got to the final version of what was filed. 5 MR. O'BRIEN: 6 Q. And were there any discussions with any levels 7 of government that you were aware of in terms 8 of that initial rate filing? 9 MS. RUSSELL: 10 A. Not that I'm aware - not that I was involved 11 in or aware of. 12 MR. O'BRIEN: 13 Q. And neither one of you would have been 14 involved in any of those? 15 MR. PELLELY: 16 A. There's no discussions that I was aware of. 17 MR. O'BRIEN: 18 Q. Okay, so in terms of the amended filing, just 19 take me through sort of what happened in June, 20 I guess, of 2014 or prior, as to why there was 21 a decision made to file - or not to go ahead 22 with the public hearing in July, what the 23 thought process was? Were you involved with 24 that, Ms. Russell? 25 MS. RUSSELL:</p>

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<p>1 A. Yes, so there's an RFI that talks about, I</p> <p>2 guess, some of - NP-NLH-369, that talks about</p> <p>3 some of the delays, but the reason that - one</p> <p>4 of the reasons that we refiled was because it</p> <p>5 had been so long in the process and there had</p> <p>6 been some changes in the operating costs for</p> <p>7 Hydro. The CT being one of the bigger items,</p> <p>8 we needed to amend the financial information</p> <p>9 in order to provide rates that would provide a</p> <p>10 fair and reasonable return based on some of</p> <p>11 these financial changes.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. When you say the CT was a big item, how did</p> <p>14 that affect the operating cost?</p> <p>15 MS. RUSSELL:</p> <p>16 A. Well, there is a fuel component of the new CT,</p> <p>17 and the fuel efficiency factor was another</p> <p>18 item.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. The CT wasn't operating at that point in 2014,</p> <p>21 was it?</p> <p>22 MS. RUSSELL:</p> <p>23 A. No, but when we amended, we did a 2015 test</p> <p>24 year.</p> <p>25 MR. O'BRIEN:</p>	<p>1 Q. And when was that first - when did you first</p> <p>2 become aware of that?</p> <p>3 MS. RUSSELL:</p> <p>4 A. I can't remember the exact time. Probably</p> <p>5 would have been somewhere in the second</p> <p>6 quarter, probably closer to May when we were</p> <p>7 looking at the numbers.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. And when you were tracking, and you mentioned</p> <p>10 earlier you tracked monthly any variances and</p> <p>11 that sort of thing, when you were tracking</p> <p>12 monthly variances -</p> <p>13 MS. RUSSELL:</p> <p>14 A. Yes.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Did that - was that raising concern in</p> <p>17 January, February, and March, how did you</p> <p>18 track them?</p> <p>19 MS. RUSSELL:</p> <p>20 A. Well, some of the items that were going to be</p> <p>21 causing the change we think that were going to</p> <p>22 happen, like the CT back then would not have</p> <p>23 been in service, but it would have been a</p> <p>24 factor.</p> <p>25 MR. O'BRIEN:</p>
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<p>1 Q. 2015 test year.</p> <p>2 MS. RUSSELL:</p> <p>3 A. And it was anticipated being in service at the</p> <p>4 end of 2014.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. Okay. Were you involved with any discussions</p> <p>7 with the VP of Finance or the VP of Hydro</p> <p>8 about the need for a new rate case?</p> <p>9 MS. RUSSELL:</p> <p>10 A. Yes.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Or need for amendment, I should say?</p> <p>13 MS. RUSSELL:</p> <p>14 A. Yes.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. And I got the understanding that, and, I</p> <p>17 guess, based on what you're saying here this</p> <p>18 morning, early on or maybe mid of 2014, there</p> <p>19 was more information showing the forecast</p> <p>20 might be off for 2014 and 2015, is that fair?</p> <p>21 MS. RUSSELL:</p> <p>22 A. Because of the length of time, yes, that had</p> <p>23 gone on, the length of time, yes, and some</p> <p>24 changes to the forecast cost.</p> <p>25 MR. O'BRIEN:</p>	<p>1 Q. Were you seeing any other changes in terms -</p> <p>2 MS. RUSSELL:</p> <p>3 A. The fuel efficiency factor would have been</p> <p>4 another driver of that as well.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. You say the fuel efficiency factor, is that -</p> <p>7 MS. RUSSELL:</p> <p>8 A. The Holyrood conversion.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. The Holyrood conversion factor?</p> <p>11 MS. RUSSELL:</p> <p>12 A. Uh-hm.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. Is that tracked monthly?</p> <p>15 MS. RUSSELL:</p> <p>16 A. It is tracked monthly, yes.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Now what role did each of you play in the</p> <p>19 amended filing? Was your role the same, did</p> <p>20 you have any different sort of roles that you</p> <p>21 played, can you take me through that? Ms.</p> <p>22 Lutz, what was your role in the amended</p> <p>23 filing, was it any different?</p> <p>24 MS. LUTZ:</p> <p>25 A. It was different. In addition to responding</p>



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<p>1 to questions on the inter-company process, I</p> <p>2 also participated in compilation of some of</p> <p>3 the sections of the evidence and review of</p> <p>4 Section 3 as it was being compiled.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. And what sections of the evidence did you</p> <p>7 participate in compiling?</p> <p>8 MS. LUTZ:</p> <p>9 A. Section 2.4.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. Okay. Just that section?</p> <p>12 MS. LUTZ:</p> <p>13 A. And the inter-company section.</p> <p>14 MR. O'BRIEN:</p> <p>15 Q. The inter-company section, okay.</p> <p>16 MS. LUTZ:</p> <p>17 A. Section 3.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. And you answered, I guess, subsequent RFIs,</p> <p>20 you took part in that as well, did you, for</p> <p>21 those sections?</p> <p>22 MS. LUTZ:</p> <p>23 A. The inter-company RFIs, yes.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Inter-company RFIs.</p>	<p>1 A. It may have been in October, end of October.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Okay. Was there any discussions in June or</p> <p>4 earlier than that about the need for an</p> <p>5 amended filing?</p> <p>6 MS. RUSSELL:</p> <p>7 A. There may have been a discussion about the</p> <p>8 need to amend, I think, the need to amend.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. And do you know what levels of government</p> <p>11 those discussions would have been held at?</p> <p>12 MS. RUSSELL:</p> <p>13 A. It probably would have been informing the</p> <p>14 Department of Natural Resources that we were</p> <p>15 amending, to inform them that we would be</p> <p>16 amending.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Okay, and were you involved in any such</p> <p>19 discussions?</p> <p>20 MS. RUSSELL:</p> <p>21 A. I can't recall if directly - I was involved in</p> <p>22 afterwards presenting the change, explaining</p> <p>23 the change in the amended application.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Okay, and that would have been once the</p>
<p>1 MS. LUTZ:</p> <p>2 A. Both times, actually.</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. And Ms. Russell, what was your role with the</p> <p>5 amended filing? You were in a new position</p> <p>6 this time around?</p> <p>7 MS. RUSSELL:</p> <p>8 A. Right. So Section 3, the finance section, I</p> <p>9 would have been - I would have reviewed the</p> <p>10 finance section of that.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Can you tell me just to backtrack a little</p> <p>13 bit, in terms of sort or mid 2014 when the</p> <p>14 decision was made to go with an amended</p> <p>15 filing, were there any discussions with</p> <p>16 government at that stage about that need for</p> <p>17 an amended filing that you have any</p> <p>18 recollection of?</p> <p>19 MS. RUSSELL:</p> <p>20 A. There was an update. Like, once we amended,</p> <p>21 we gave an update to the - we provided them</p> <p>22 with an update of the amended filing.</p> <p>23 MR. O'BRIEN:</p> <p>24 Q. So that was in November, was it?</p> <p>25 MS. RUSSELL:</p>	<p>1 amended application was complete?</p> <p>2 MS. RUSSELL:</p> <p>3 A. It would have been prior to, just prior to.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. To filing?</p> <p>6 MS. RUSSELL:</p> <p>7 A. Right, probably, like, the week before.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. And who was involved in those discussions?</p> <p>10 MS. RUSSELL:</p> <p>11 A. In those -</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. That was a presentation, was it?</p> <p>14 MS. RUSSELL:</p> <p>15 A. It was just a presentation, I think.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. Of the planned filing, okay. That's a yes,</p> <p>18 are you nodding yes?</p> <p>19 MS. RUSSELL:</p> <p>20 A. Yes.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. And I presume, and I'm going to backtrack a</p> <p>23 bit in terms of years here, but I presume</p> <p>24 neither one of you were involved with</p> <p>25 discussions with government over the</p>

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<p>1 guaranteed return on equity, is that a fair 2 assumption? 3 MR. PELLE:Y: 4 A. For my part, it is, yes. 5 MR. O'BRIEN: 6 Q. Okay, all right, and since the Order in 7 Council that provided that guarantee, have any 8 of you been involved with discussions on that 9 particular topic with government? 10 MR. PELLE:Y: 11 A. I've never participated in any discussions 12 with government on the issue of a directed 13 ROE, no. 14 MS. RUSSELL: 15 A. No. 16 MR. O'BRIEN: 17 Q. And Mr. Pelley, maybe what I'll do is talk to 18 you about this. You've given some evidence, I 19 guess, on the - I presume that's your area, 20 the return on equity, you've got some 21 background in that? 22 MR. PELLE:Y: 23 A. Yes. 24 MR. O'BRIEN: 25 Q. Okay, and I want to get a flavour as to</p>	<p>1 Order in Council provides for that, is that 2 right? 3 MS. RUSSELL: 4 A. Yes. 5 MR. O'BRIEN: 6 Q. Okay. If Newfoundland Power - the Order in 7 Council suggests that Hydro would get the same 8 sort of return on equity as Newfoundland 9 Power, is that correct? 10 MS. RUSSELL: 11 A. Yes. 12 MR. O'BRIEN: 13 Q. And I wonder if I could get your thoughts on 14 if Newfoundland Power's return of equity 15 changes, say, after the Board's order in this 16 particular hearing, what's Hydro's position on 17 whether or not Hydro's ROE should change as 18 well through some sort of adjustment 19 mechanism? 20 MS. RUSSELL: 21 A. So Hydro's position would be that the ROEs 22 usually change during a GRA, so it would be 23 Hydro's position, and there is an RFI on this, 24 that it would be changed in the next GRA. 25 MR. O'BRIEN:</p>
<p>Page 70</p> <p>1 whether or not - I got the impression from the 2 evidence filed that Hydro takes the position 3 that the return on equity should be a part of 4 the 2014 revenue requirement as well as 2015, 5 is that fair? 6 MR. PELLE:Y: 7 A. I don't know if that's a better question for 8 you. 9 MR. O'BRIEN: 10 Q. Okay. 11 MS. RUSSELL: 12 A. Sorry, could you repeat the question? 13 MR. O'BRIEN: 14 Q. Sorry, I think it's fair to assume from the 15 evidence that Hydro takes the position that 16 the return on equity should be part of the 17 2014 revenue deficiency as well as the 2015? 18 MS. RUSSELL: 19 A. Yes. 20 MR. O'BRIEN: 21 Q. That's correct? 22 MS. RUSSELL: 23 A. Yes. 24 MR. O'BRIEN: 25 Q. And so Hydro has taken the position that the</p>	<p>Page 72</p> <p>1 Q. So if the ROE for Newfoundland Power goes 2 down, Hydro's ROE would stay at 8.8 if it's 3 awarded at 8.8? 4 MS. RUSSELL: 5 A. Hydro's ROE would be addressed at its next 6 GRA. 7 MR. O'BRIEN: 8 Q. At the next GRA, so it wouldn't be until 2017 9 for 2018? 10 MS. RUSSELL: 11 A. Correct. 12 MR. O'BRIEN: 13 Q. Unless there's one prior to that. 14 MS. RUSSELL: 15 A. Correct. 16 (10:15 a.m.) 17 MR. O'BRIEN: 18 Q. Why do you take the position that it's 19 necessary for another GRA to change the return 20 on equity? Is there any reason for that? 21 MS. RUSSELL: 22 A. I think it's because typically ROE is changed 23 during a GRA proceeding, so Hydro just feels 24 that would be the appropriate place for any 25 changes in an ROE to take place during a GRA.</p>

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<p>1 MR. O'BRIEN:  2 Q. And I take it, do you take any - well, I'll  3 ask you, do you feel the Board has any  4 jurisdiction to make an order for an  5 adjustment mechanism on that ROE?  6 MS. RUSSELL:  7 A. Well, I guess, yes, the Board can - if the  8 Board wanted to do some kind of a mechanism in  9 between, that would be up to the Board's  10 discretion.  11 MR. O'BRIEN:  12 Q. Okay. Mr. Pelley, I'd like to ask you about  13 the debt guarantee fee. You had mentioned in  14 your direct just about some of the - you  15 provided us with some evidence on that. This  16 is an annual fee paid to government in return  17 for the guarantee of Hydro's debt obligations.  18 That's correct?  19 MR. PELLEY:  20 A. Correct.  21 MR. O'BRIEN:  22 Q. And I think what you said, and I think it's  23 fair what you said in your direct, was that  24 Hydro takes the position that the Board is not  25 bound by the Order in Council that suggests</p>	<p>1 had before. I understood Hydro felt it was an  2 obligation, but do you feel it's an obligation  3 that Hydro pay that fee to government?  4 MR. CASS:  5 Q. Pardon me, Mr. Chair, I think this question is  6 confusing. Two subjects; one is Hydro's  7 obligation which Mr. Pelley had not addressed  8 previously, and the other is the Board's  9 discretion.  10 MR. O'BRIEN:  11 Q. That's fine. Maybe I'll ask Mr. Pelley what  12 he feels Hydro's obligation is on that?  13 MR. PELLEY:  14 A. I think Hydro's position is that we were  15 directed by our shareholder to pay the fee.  16 We took steps to, of course, make sure that we  17 felt the fee was reasonable. Therefore, we  18 pay it, we comply with it as we would with any  19 other shareholder directive.  20 MR. O'BRIEN:  21 Q. When you say Hydro was directed by its  22 shareholder, who are you talking about there?  23 MR. PELLEY:  24 A. Okay, Hydro was directed by the province, not  25 by its - Hydro's ultimate shareholder, yes, is</p>
<p>1 that Hydro should pay that fee, is that right?  2 MR. PELLEY:  3 A. I think what I meant was the Board is not  4 bound by that in terms of flowing the  5 guarantee fee through the rates.  6 MR. O'BRIEN:  7 Q. Yeah, and what do you mean by that in terms of  8 not bound to flow it through the rates?  9 MR. PELLEY:  10 A. The Board has - what I meant was, I think, the  11 Board still has jurisdiction, for lack of a  12 better word, over the decision whether or not  13 the fee that we pay the government is  14 recovered in our rates.  15 MR. O'BRIEN:  16 Q. And is that something - that's not something  17 really that we've heard to date. We've asked  18 some questions as to whether or not Hydro felt  19 they were obligated to pay that fee to  20 government by way of the OIC.  21 MR. PELLEY:  22 A. Sure, yeah.  23 MR. O'BRIEN:  24 Q. But that position that you've taken there  25 doesn't seem to square with the responses I</p>	<p>1 Nalcor.  2 MR. O'BRIEN:  3 Q. Right. Were you involved in any discussions  4 over whether - at any level over whether or  5 not Hydro is obligated to pay that fee?  6 MR. PELLEY:  7 A. I was not, no.  8 MR. O'BRIEN:  9 Q. Were you, Ms. Russell, at any point?  10 MS. RUSSELL:  11 A. No.  12 MR. PELLEY:  13 A. I can say that I've had - certainly since my  14 time as Corporate Treasurer, I've had  15 discussions with our legal counsel over the  16 debt guarantee fee, both in the context of  17 this GRA and outside of that.  18 MR. O'BRIEN:  19 Q. Okay, and I'm not going to ask you in terms of  20 your legal counsel's opinion, but I wonder if  21 anyone is able to tell me sort of who made the  22 decision to include that debt guarantee fee in  23 the rate filings?  24 MR. PELLEY:  25 A. I think largely it would have been my</p>

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<p>1 proposal.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Your proposal?</p> <p>4 MR. PELLE:Y:</p> <p>5 A. Yes.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. And -</p> <p>8 MR. PELLE:Y:</p> <p>9 A. Obviously then, you know, reviewed and aligned</p> <p>10 with both Mr. Henderson and the CFO.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Okay, and you never had any discussion with</p> <p>13 Mr. Henderson or the CFO over whether or not</p> <p>14 this was an Hydro obligation, did you?</p> <p>15 MR. PELLE:Y:</p> <p>16 A. No, I did not.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Okay, and we talked about earlier -</p> <p>19 MR. PELLE:Y:</p> <p>20 A. But I would, sorry, just to add that in that</p> <p>21 context, I did have discussions with internal</p> <p>22 counsel because I viewed that as part of</p> <p>23 putting the argument together for inclusion of</p> <p>24 the debt guarantee fee and rates.</p> <p>25 MR. O'BRIEN:</p>	<p>1 Q. Sure, I appreciate that.</p> <p>2 MR. PELLE:Y:</p> <p>3 A. It may take me a moment.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. That's okay.</p> <p>6 MR. PELLE:Y:</p> <p>7 A. PUB-NLH-058, Jenny. No, I got that one wrong.</p> <p>8 Actually, it was Newfoundland Power, NLH-254.</p> <p>9 This is essentially the position we came to</p> <p>10 based on consideration of those factors that</p> <p>11 we just talked about.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. Okay, so your decision making was on the basis</p> <p>14 of it being a government policy as stated in</p> <p>15 the Order in Council?</p> <p>16 MR. PELLE:Y:</p> <p>17 A. That's correct.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. Okay. Was there ever a discussion as to</p> <p>20 whether or not the Order in Council was a</p> <p>21 valid Order in Council?</p> <p>22 MR. PELLE:Y:</p> <p>23 A. Now there was - you had made reference to the</p> <p>24 fact that the decision itself, and I'm just</p> <p>25 clarifying that we're talking about the</p>
<p>Page 78</p> <p>1 Q. And if there's - I guess, in terms of the</p> <p>2 obligation, we've talked about with other</p> <p>3 witnesses the fact that the legislation had</p> <p>4 been changed and there seems to be a gap in</p> <p>5 the legislation now over whether in that there</p> <p>6 may not be an obligation under the legislation</p> <p>7 for Hydro to pay that fee. I wonder was there</p> <p>8 any discussion over any sort of gap in that</p> <p>9 legislation before Hydro decided to put this</p> <p>10 in their -</p> <p>11 MR. PELLE:Y:</p> <p>12 A. I didn't participate in - actually, no, that's</p> <p>13 not true. That's the nature of what I</p> <p>14 discussed with legal counsel in putting the</p> <p>15 argument together.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. Okay.</p> <p>18 MR. PELLE:Y:</p> <p>19 A. Was how does the - specifically, how does the</p> <p>20 change in legislation impact how we deal with</p> <p>21 this on a go forward basis, and I think our</p> <p>22 position in that is largely captured in - I'm</p> <p>23 just going to get the reference to the RFI, if</p> <p>24 you don't mind.</p> <p>25 MR. O'BRIEN:</p>	<p>Page 80</p> <p>1 decision to include the debt guarantee fee on</p> <p>2 our rate case.</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. Okay, sure.</p> <p>5 MR. PELLE:Y:</p> <p>6 A. Yes, legislation was one element to that</p> <p>7 consideration, but it's important to not lose</p> <p>8 sight that so was our assessment of the</p> <p>9 reasonability of the fee and the context of</p> <p>10 the market.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. No, and I understand that, and I will ask you</p> <p>13 about that and give you an opportunity to talk</p> <p>14 about that.</p> <p>15 MR. PELLE:Y:</p> <p>16 A. But what I would say is I did not participate</p> <p>17 in any lengthy discussions over the validity</p> <p>18 of the Order.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. Okay, so I'm wondering -</p> <p>21 MR. PELLE:Y:</p> <p>22 A. Other than relying on, I guess, internal legal</p> <p>23 counsel's assessment.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Sure. So there wasn't any discussion that you</p>

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<p>1 can tell us about how Hydro would have squared</p> <p>2 its interest versus, say, Nalcor's interest,</p> <p>3 and government's interest, in coming to this</p> <p>4 decision that it should be paid?</p> <p>5 MR. PELLE:Y:</p> <p>6 A. I'm hesitant to say no because I'm not really</p> <p>7 sure what you're driving at with the question</p> <p>8 of interest of Hydro, interest of government,</p> <p>9 interest of Nalcor.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. Well, it's a direction made from government to</p> <p>12 Nalcor.</p> <p>13 MR. PELLE:Y:</p> <p>14 A. To Hydro.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Sorry, to Hydro, right.</p> <p>17 MR. PELLE:Y:</p> <p>18 A. Uh-hm.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. And in terms of it being - if it's not a valid</p> <p>21 direction, was there any discussion how do we</p> <p>22 balance Hydro's interest here with the</p> <p>23 shareholder's interest?</p> <p>24 MR. PELLE:Y:</p> <p>25 A. And I think what you're talking about is -</p>	<p>1 Quebec pays? How did that compare?</p> <p>2 MR. PELLE:Y:</p> <p>3 A. Well, Hydro Quebec also pays actually a 50</p> <p>4 basis point fee to its shareholder, and this</p> <p>5 goes back some time, but I did review the -</p> <p>6 there was a decision by the Regie in 2002, and</p> <p>7 if it's something that the Board wanted us to</p> <p>8 provide in an undertaking, we could, or</p> <p>9 Newfoundland Power. They actually followed a</p> <p>10 similar approach in that they had, I believe,</p> <p>11 Merrill Lynch, I guess, look at their 50 basis</p> <p>12 point fee in the context of the market, and it</p> <p>13 was deemed to be reasonable by the Regie. So</p> <p>14 their fee is comparable to ours. Although we</p> <p>15 have a range of 25 to 50 basis points, theirs</p> <p>16 is strictly 50 on all outstanding debt.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. For short term and long term?</p> <p>19 MR. PELLE:Y:</p> <p>20 A. Short term, long term, regardless, yeah.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. And what year was that?</p> <p>23 MR. PELLE:Y:</p> <p>24 A. 2002.</p> <p>25 MR. O'BRIEN:</p>
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<p>1 when I hear you say "validity", I just mean is</p> <p>2 it valid from a legal perspective, and I would</p> <p>3 ultimately defer that to our legal counsel.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. Well, let's talk about the reasonableness of</p> <p>6 it and that was the next part that you had</p> <p>7 mentioned.</p> <p>8 MR. PELLE:Y:</p> <p>9 A. Yes, sure.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. And I heard you gave some direct evidence on</p> <p>12 that, and you've touched on some of the</p> <p>13 questions, I think, that I had.</p> <p>14 MR. PELLE:Y:</p> <p>15 A. Yeah.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. You did look at other Crown utilities?</p> <p>18 MR. PELLE:Y:</p> <p>19 A. Uh-hm.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. You mentioned Hydro Quebec was one?</p> <p>22 MR. PELLE:Y:</p> <p>23 A. Yes.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. And did you have a look at the fee that Hydro</p>	<p>1 Q. Okay.</p> <p>2 MR. PELLE:Y:</p> <p>3 A. The order actually was D2002-95.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. Actually, I wouldn't mind if you have it, if</p> <p>6 you're offering to provide it, we can get an</p> <p>7 undertaking to provide a copy of that.</p> <p>8 MR. CASS:</p> <p>9 Q. Yes, that can be done, Mr. Chair.</p> <p>10 MS. GLYNN:</p> <p>11 Q. Noted on the record.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. Thank you.</p> <p>14 MR. PELLE:Y:</p> <p>15 A. You get the final say on that, do you? Okay,</p> <p>16 I'll remember that.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Have you reviewed the Grant Thornton Report on</p> <p>19 the issue of reasonableness?</p> <p>20 MR. PELLE:Y:</p> <p>21 A. Absolutely.</p> <p>22 MR. O'BRIEN:</p> <p>23 Q. Okay, and it appears that with respect to, I</p> <p>24 guess, the short term Hydro's fee is 25 basis</p> <p>25 points, is that right?</p>

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<p>1 MR. PELLELY: 2 A. Yes. 3 MR. O'BRIEN: 4 Q. And Grant Thornton doesn't appear to take 5 issue with that, but does take issue with some 6 concerns about methodology and cost savings. 7 Do you have any concerns over what Grant 8 Thornton has stated in its report on cost 9 savings and a sharing of cost savings between 10 Hydro and government? 11 MR. PELLELY: 12 A. I do. I guess, there's a couple of things 13 there - because that's the first time I've 14 seen that type of proposal, I guess, in the 15 context of something like this, like, a debt - 16 a government guarantee, and a couple of 17 concerns with that proposal from my 18 perspective. One is it's inconsistent with 19 the limited regulatory precedent we have in 20 Canada, which is the Quebec example I just 21 gave. They're allowed to recover the full 22 market value of their guarantee. I guess, the 23 second piece of it, I question from my 24 perspective, is the case law that they 25 referenced was largely around transfer pricing</p>	<p>1 MR. PELLELY: 2 A. Please don't ask me to speak to that one. 3 MR. O'BRIEN: 4 Q. No, that's for later. 5 MR. PELLELY: 6 A. This is the one, yes. 7 MR. O'BRIEN: 8 Q. Yes, that's the one. 9 MR. PELLELY: 10 A. Actually, line 7, yes. 11 MR. O'BRIEN: 12 Q. So in this report it says, "Scotiabank did not 13 apportion the benefit of the cost savings 14 between". So Scotiabank - before we get to 15 that, Scotiabank is who assisted Hydro with 16 the review, is that right? 17 MR. PELLELY: 18 A. Yes, Scotia Capital. 19 MR. O'BRIEN: 20 Q. Scotia Capital, okay. Line 7, "Scotiabank did 21 not apportion the benefit of the cost savings 22 between the recipient and the guarantor". So 23 that's Hydro and government. "The payment of 24 the entire cost savings associated the 25 guarantee back to the guarantor in the form of</p>
<p>Page 86</p> <p>1 which is largely concerned with taxation, 2 ensuring that the corporations are not using 3 guarantees to shift taxable income around 4 jurisdictions. The limited look I had, there 5 didn't seem to be any connection to that being 6 used as precedent in regulatory cases. I 7 think the other part of it is in terms of the 8 sharing, they argued that - I think their 9 argument was, and maybe we can bring it up, 10 the Grant Thornton Report. 11 MR. O'BRIEN: 12 Q. Yes, Grant Thornton Report, page 20, I think 13 is what it's on. Page 20, go to line 7 to 12, 14 I think it talks about the short term. 15 MR. PELLELY: 16 A. Yeah. I think perhaps while you're scrolling, 17 I'll use the dead space. I think the - 18 MR. O'BRIEN: 19 Q. June 4th report of Grant Thornton. It's the 20 Grant Thornton Report. 21 MR. PELLELY: 22 A. Grant Thornton Report as directed to the 23 Board. 24 MR. O'BRIEN: 25 Q. Oh, this is the Brad Rolph one you've got.</p>	<p>Page 88</p> <p>1 a guarantee fee eliminates the incentive for 2 obtaining the guarantee. The average 3 differences between the yield on short term 4 debt issued by the province, and that issued 5 by the three Canadian utilities, range from" - 6 this is the long term, 31.7 and 33. No, this 7 is short term, "to BPS. The 25 basis points 8 guarantee fee paid by Hydro for short term 9 debt implies a cost savings split of 79/21 to 10 76/24 for the province over Hydro 11 respectively". So there's a suggestion in the 12 next line - sorry, there's a suggestion there 13 that it should be, I guess, an equal cost 14 savings between government and Hydro for it to 15 be an incentive for Hydro to obtain the 16 guarantee, and what position would you take on 17 that? 18 MR. PELLELY: 19 A. I don't agree with that. I think now that we 20 have the statement up in front of us, we can 21 probably go back to, I guess, the first two 22 things I put out there. One is although it's 23 a limited precedent, this is different than 24 how it works, for instance, in Quebec, and 25 secondly, there's the issue of, and I put it</p>

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<p>1 out there for consideration, of whether or not 2 the principles that this is based on, which is 3 tax case law, are even relevant for a 4 regulatory proceeding, but, I guess, the third 5 part of it that I perhaps more fundamentally 6 disagree with is that having the entire cost 7 savings equal the guarantee removes the 8 incentive, and maybe to elaborate on that, I 9 need to pull up - to make a point, I need to 10 pull up - just bear with me one second again. 11 Actually, PUB-NLH-059, because I think that 12 has one of Scotia's several reports attached 13 to it that I can refer to.</p> <p>14 (10:30 a.m.)</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Okay.</p> <p>17 MR. PELLE:</p> <p>18 A. And we may have to rotate that, I guess, and 19 if I could go to page 6, and basically what 20 this bullet point says, and I'll read it out 21 for the record, "There are two additional 22 features of a guarantee that are very", and 23 ignore the typo that's there, "that are very 24 difficult to value; namely, that during 25 periods of stress in the credit markets, a</p>	<p>1 difficult to value features should result in 2 an offset on cost savings?</p> <p>3 MR. PELLE:</p> <p>4 A. Not directly, no, I would agree with you.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. There's nothing in there to say that?</p> <p>7 MR. PELLE:</p> <p>8 A. No. I am looking for one more reference, 9 though, that I wanted to - before we leave 10 this. Just one moment.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Sure.</p> <p>13 MR. PELLE:</p> <p>14 A. If I go back to page 4 of the report, and I 15 want to look at the second bullet point, and 16 specifically the companies Scotia chose to use 17 as comparative companies.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. Uh-hm.</p> <p>20 MR. PELLE:</p> <p>21 A. You'll note that Scotia chose Hydro One, 22 Enbridge Gas, and Enbridge Pipeline, as those 23 companies are regulated utilities with ratings 24 that would be somewhat similar to Newfoundland 25 Hydro's rating without a provincial guarantee.</p>
<p>1 guarantee from a government entity provides 2 for unrestricted market access, and that a 3 guarantee allows for more flexibility as to 4 maturity". This ties in with a point that, I 5 think, I made in one of my responses in 6 direct, and this is one of the very - this is 7 the crux of the benefit of a government 8 guarantee, and Scotia is acknowledging. 9 They're saying that they're making an 10 assessment of value putting it at between 25 11 and 50 basis points based on market, but 12 they're not factoring in these two 13 considerations and capturing the value. So 14 one could argue from that, that 25 to 50 basis 15 points is probably a conservative valuation of 16 what the fee is worth, if that makes sense.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. And is that what Scotia Capital is saying 19 there, because of that, it's a conservative?</p> <p>20 MR. PELLE:</p> <p>21 A. Not directly, no, but I'm taking the extra 22 step and making an inference.</p> <p>23 MR. O'BRIEN:</p> <p>24 Q. And is there anything in the Scotia Capital 25 Report that suggests that these particular</p>	<p>1 MR. O'BRIEN:</p> <p>2 Q. Okay.</p> <p>3 MR. PELLE:</p> <p>4 A. So by saying somewhat similar, we don't know 5 if ultimately without, I guess, additional 6 work, whether or not the comparative companies 7 they chose may be slightly less risky than 8 Hydro from a bond holders perspective, because 9 some of those companies do have standalone "A" 10 grade ratings, which again would speak to the 11 valuation being somewhat conservative.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. But you don't know that from there, you'd have 14 to do further analysis?</p> <p>15 MR. PELLE:</p> <p>16 A. You'd have to do further, yes.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. I wonder if we could go back to the Grant 19 Thornton Report, and we were on page 20 there. 20 The next line there, line 13 to 15. So we 21 talked about short term and long term debt, so 22 there's a different basis points applied for 23 the short term and long term, and the long 24 term is over ten years, is that right?</p> <p>25 MR. PELLE:</p>

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<p>1 A. Yes, that's correct in this context, yes.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Okay, in that context, and that's not</p> <p>4 something - this separation is not something</p> <p>5 Scotiabank looked at in terms of different</p> <p>6 basis points between the short term and the</p> <p>7 long term?</p> <p>8 MR. PELLEY:</p> <p>9 A. I'm not sure I follow your question because I</p> <p>10 would have thought they did.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Sorry, not Scotiabank, the Hydro Quebec case</p> <p>13 didn't look at a difference between those two?</p> <p>14 MR. PELLEY:</p> <p>15 A. No.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. It was all one. So here in 13 to 15, "By</p> <p>18 comparison, the average difference on long</p> <p>19 term debt yields range from 35.6 basis points</p> <p>20 to 47.8 basis points, already below the 50</p> <p>21 basis points paid by Hydro". Does that give</p> <p>22 Hydro a concern that the fee may be too high?</p> <p>23 MR. PELLEY:</p> <p>24 A. Absolutely not.</p> <p>25 MR. O'BRIEN:</p>	<p>1 periods of time where the spreads could be 70</p> <p>2 or 80 basis points. So you're trying to</p> <p>3 capture a concept that's fluctuating in time</p> <p>4 with a single number. There's always going to</p> <p>5 be some discrepancy.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. And again they raise a concern of apportioning</p> <p>8 the benefits of the guarantee would lower</p> <p>9 these ranges further, which would bring into</p> <p>10 question the 50 basis points. So if you had a</p> <p>11 50/50 split on the cost savings, you'd</p> <p>12 actually bring it down further.</p> <p>13 MR. PELLEY:</p> <p>14 A. Yeah.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Is that fair what they're saying?</p> <p>17 MR. PELLEY:</p> <p>18 A. I would agree with that, and that all presumes</p> <p>19 that apportioning the benefit is -</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. Is the appropriate way to go?</p> <p>22 MR. PELLEY:</p> <p>23 A. Is the appropriate way to deal with it.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Okay, but again you don't accept that concept?</p>
<p>Page 94</p> <p>1 Q. The 50 basis points, and why is that?</p> <p>2 MR. PELLEY:</p> <p>3 A. Because, for instance, one thing I recognize</p> <p>4 is the basis point spreads that they're</p> <p>5 quoting here are based on looking at the</p> <p>6 market over a certain period of time. That's</p> <p>7 not to say that if we expanded that window,</p> <p>8 that there's not times that those spreads are</p> <p>9 probably 70 or 80 basis points or 100. If you</p> <p>10 look at it over a long cross-section of time,</p> <p>11 such that, you know - like, all you're trying</p> <p>12 to do is say - you're trying to look at a</p> <p>13 period of time and say what's reasonable.</p> <p>14 Okay, you know, they're quoting here 35.6 to</p> <p>15 47.8, and all they're saying from that is in</p> <p>16 their view, based on that, 50 is not</p> <p>17 unreasonable, but from my position, I'm not</p> <p>18 concerned that 50 is too high for the reason I</p> <p>19 just gave. These spreads fluctuate over time.</p> <p>20 There will be times when actually your long</p> <p>21 term, let's say, your greater than ten year</p> <p>22 spread to your question, may be less than 50</p> <p>23 basis points, in which case the fee - I don't</p> <p>24 want to describe it this way, but you could</p> <p>25 say "too high", but then there would be other</p>	<p>Page 96</p> <p>1 MR. PELLEY:</p> <p>2 A. No, it wouldn't be my position, no, and I</p> <p>3 would add that, I mean, this approach, as we</p> <p>4 said before, is a generally accepted approach</p> <p>5 to valuing, and I believe Grant Thornton</p> <p>6 acknowledged that taking the market base</p> <p>7 approach to value the guarantee they agreed</p> <p>8 with. The point of departure is on whether or</p> <p>9 not you apportion - you take that value and</p> <p>10 apportion it between the guarantor and the one</p> <p>11 receiving the guarantee.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. Assume the Board accepted Grant Thornton's</p> <p>14 opinion here and that the debt guarantee fee</p> <p>15 for the long term should be between the 35 and</p> <p>16 47 basis points with a 50/50 cost savings,</p> <p>17 would Hydro be able to calculate what that fee</p> <p>18 should be?</p> <p>19 MR. PELLEY:</p> <p>20 A. I believe they would, yes.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. With those parameters?</p> <p>23 MR. PELLEY:</p> <p>24 A. Yeah.</p> <p>25 MR. O'BRIEN:</p>



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<p>1 Q. Would you be able to do that for us as an 2 undertaking?</p> <p>3 MR. PELLETTY:</p> <p>4 A. As an undertaking, yeah. I'm sorry, I 5 remember I - I may be signing us up for 6 something they don't want me to.</p> <p>7 MR. CASS:</p> <p>8 Q. That's fine, Mr. Chair.</p> <p>9 MR. PELLETTY:</p> <p>10 A. That's fine, yes.</p> <p>11 MS. GLYNN:</p> <p>12 Q. Noted on the record.</p> <p>13 MR. PELLETTY:</p> <p>14 A. What I would add to what you just said, again 15 quoting the 35.6 to 47.8 basis points, if we 16 look at the market today, I guarantee you 17 those numbers are going to be different. They 18 may be 36 to 48, it may be 50 to 60.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. But that's not in the rate case today?</p> <p>21 MR. PELLETTY:</p> <p>22 A. That's correct, yes.</p> <p>23 MR. O'BRIEN:</p> <p>24 Q. These are the figures that we'll be looking 25 at, is that right?</p>	<p>1 be considered over the long term. Because the 2 province has unconditionally guaranteed 3 Hydro's existing long term debt, there's a 4 direct linkage between Hydro's 5 creditworthiness, which is influenced by 6 Hydro's ability to achieve financial targets 7 consistent with an investment-grade utility 8 and the credit rating of the province. To the 9 extent that credit rating agencies continue to 10 view Hydro to be self-supporting, then the 11 province's credit rating is not likely to be 12 affected. A poor financial position for Hydro 13 over the long term could adversely impact the 14 province's credit rating, and thereby increase 15 the borrowing cost of the province, and hence 16 Hydro's own borrowing costs". I want to deal 17 with sort of that concept. There's a couple 18 of concepts in there I want to deal with. I 19 guess, the first one would be self-supporting, 20 the concept of self-supporting. Is Hydro at 21 this stage self-supporting?</p> <p>22 MR. PELLETTY:</p> <p>23 A. I'd add the caveat that I'm not a cost capital 24 expert, so what I'm offering is observations 25 and opinions based on my experience. That</p>
<p style="text-align: right;">Page 98</p> <p>1 MR. PELLETTY:</p> <p>2 A. They would not be -</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. The debt guarantee fee that's included in the 5 rate case is based on these figures?</p> <p>6 MR. PELLETTY:</p> <p>7 A. Yeah, I agree.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. Okay.</p> <p>10 MR. PELLETTY:</p> <p>11 A. They're not based directly on, they're 12 supportive of the 50 basis points.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. Supportive of that, okay. If I could turn to 15 another topic, financial integrity. I wonder 16 if we could bring up TIR, the third interim 17 rates application, TIR-CA-NLH-001. I believe 18 that's the right one, page 6, and maybe I'll 19 start with line 9 here. Can we scroll down 20 just a little bit there, Ms. Gray. Thank you. 21 The impact of a continued denial of the Board" 22 - so this is in the context of the third 23 interim rates application. "The impact of a 24 continued denial of the Board to permit cost 25 recovery on Hydro's creditworthiness needs to</p>	<p style="text-align: right;">Page 100</p> <p>1 definition of self-supporting is in the 2 context of how credit rating agencies would 3 view self-supporting, meaning that there's 4 very little risk that the entity that's 5 guaranteed can't service the debt. That's 6 essentially what that means, so that's a 7 credit - you know, in the context of what I 8 know and from experience dealing with credit 9 rating agencies, even at a capital structure 10 of between 70 to 75 percent debt, that's 11 generally not consistent with the notion of a 12 self-supporting entity.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. What kind of return would Hydro need to have 15 to maintain self-supporting?</p> <p>16 MR. PELLETTY:</p> <p>17 A. Again self-supporting in this context is in a 18 rating agency in terms of how the rating 19 agencies view things, and ultimately that will 20 be one of many things they would consider in 21 giving an overall rating to Hydro, so I don't 22 know what level of return would be necessary.</p> <p>23 MR. O'BRIEN:</p> <p>24 Q. You're not able to answer that, okay. Is 25 Hydro suggesting in this paragraph that the</p>

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<p>1 province's debt rating is directly linked to</p> <p>2 Hydro's creditworthiness? It appears from</p> <p>3 what's being said.</p> <p>4 MR. PELLELY:</p> <p>5 A. Undoubtedly there is a relationship between</p> <p>6 the two concepts, and I'll have to admit that</p> <p>7 at the outer end it's somewhat theoretical,</p> <p>8 but there definitely would be a point where</p> <p>9 Hydro - I mean, if Hydro were to default, for</p> <p>10 instance, there's potential that could impact</p> <p>11 on the province's credit rating. Right now</p> <p>12 Hydro's, I think, net outstanding debt still</p> <p>13 comprises somewhere between 10/12 percent of</p> <p>14 the province's outstanding debt.</p> <p>15 Directionally speaking, again the rating</p> <p>16 agencies have the final view on how these</p> <p>17 things are determined, but thinking</p> <p>18 directionally, if that number were to increase</p> <p>19 to, say, 20 or 25 percent of the province's</p> <p>20 outstanding debt, then there's no doubt that</p> <p>21 that would cause rating agencies to take a</p> <p>22 closer look at the impact of Hydro on the</p> <p>23 province's creditworthiness, I think, is</p> <p>24 really what in my view it's trying to say.</p> <p>25 MR. O'BRIEN:</p>	<p>1 MR. PELLELY:</p> <p>2 A. Again, ultimately - conceptually, in terms of</p> <p>3 order of magnitude right now, I would agree</p> <p>4 with your statement, but ultimately that would</p> <p>5 be again a call made by the rating agencies.</p> <p>6 One thing that you have to realize there in</p> <p>7 that situation is the guarantor ultimately is</p> <p>8 Government of Canada, not the Province of</p> <p>9 Newfoundland.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. So that's not apples to apples, is that what</p> <p>12 you're saying?</p> <p>13 MR. PELLELY:</p> <p>14 A. Yes, that's correct.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Given Hydro's debt ratings are a flow through</p> <p>17 of the ratings of government, whether or not</p> <p>18 Hydro receives, I guess, or earns an 8.8</p> <p>19 percent return on equity, would it really</p> <p>20 likely affect government's credit rating?</p> <p>21 MR. PELLELY:</p> <p>22 A. I think you have to look at this over - in the</p> <p>23 short term?</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Yeah.</p>
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<p>1 Q. What's the likelihood of Hydro's debt reaching</p> <p>2 20/25 percent of the province's outstanding</p> <p>3 debt?</p> <p>4 MR. PELLELY:</p> <p>5 A. I wouldn't want to speculate on what the</p> <p>6 likelihood of that is.</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. I mean, what kind of losses would Hydro have</p> <p>9 to experience for the province's credit rating</p> <p>10 to suffer?</p> <p>11 MR. PELLELY:</p> <p>12 A. Again that would ultimately be within the</p> <p>13 purview of rating agencies.</p> <p>14 (10:45 a.m.)</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. You're aware of the recent announcements at</p> <p>17 Nalcor that the Muskrat Falls Project has an</p> <p>18 overrun of in the range of 650 million dollars</p> <p>19 at this point?</p> <p>20 MR. PELLELY:</p> <p>21 A. Yes.</p> <p>22 MR. O'BRIEN:</p> <p>23 Q. Would that be something that would more likely</p> <p>24 have an effect on government's credit rating</p> <p>25 than Hydro's?</p>	<p>1 MR. PELLELY:</p> <p>2 A. Again we're speaking - I think we have to</p> <p>3 speak theoretically, because as I've said a</p> <p>4 number of times, ultimately the rating</p> <p>5 agencies are going to be the ones that issue</p> <p>6 the opinion on this and financial metrics are</p> <p>7 one thing they look at. They look at</p> <p>8 business, they look at business risk, they</p> <p>9 look at a whole suite of factors, but, you</p> <p>10 know, conceptually over the long - in the</p> <p>11 short run, yes, you can float losses and</p> <p>12 probably still not impair the creditworthiness</p> <p>13 of your guarantor, but over the long run as</p> <p>14 you continue to sustain losses, you erode your</p> <p>15 equity base that we've built up and you start</p> <p>16 to approach 100 percent debt financed entity,</p> <p>17 while still growing at the same time, then I</p> <p>18 agree there is a possibility - I'm not putting</p> <p>19 a number on what that possibility is, there is</p> <p>20 a possibility that you could have an impact on</p> <p>21 your guarantor's credit rating, absolutely. I</p> <p>22 think there's been experts that have testified</p> <p>23 on Hydro's behalf and on the behalf of other</p> <p>24 parties in previous hearings that have put</p> <p>25 that opinion out there, that while it's</p>

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<p>1 difficult to put exact numbers around it, yes, 2 there is some point out there where Hydro, 3 having received the guarantee from its parent, 4 could ultimately impair the creditworthiness 5 of the parent. 6 MR. O'BRIEN: 7 Q. Has the province's credit rating changed in 8 the last number of years? 9 MR. PELLEY: 10 A. I'd have to undertake to - I want to say, no, 11 but I'd have to undertake to answer that for 12 you in the affirmative. 13 MR. O'BRIEN: 14 Q. Okay, can you do that for me, say, from 2007 15 onwards? 16 MR. PELLEY: 17 A. Yeah. Anecdotally, I think it's improved, but, 18 yes, I will have to get you the exact - 19 MS. GLYNN: 20 Q. Noted on the record. 21 MR. O'BRIEN: 22 Q. All right, let's move to another topic. We 23 talked earlier a little about this, but I want 24 to get some more detail on the budget process 25 and how that works. I wonder if we could</p>	<p>1 Q. And what particular department produces them? 2 MS. LUTZ: 3 A. Which particular department of Nalcor? 4 MR. O'BRIEN: 5 Q. In Nalcor, yes, where would it come from? 6 MS. LUTZ: 7 A. The Comptroller's corporate office. 8 MR. O'BRIEN: 9 Q. Comptroller's. 10 MR. PELLEY: 11 A. Comptroller's department. 12 MR. O'BRIEN: 13 Q. So prior to your move, Ms. Lutz, into Hydro, 14 would you have been part of producing those 15 guidelines? 16 MS. LUTZ: 17 A. Yes, I would have. 18 MR. O'BRIEN: 19 Q. And when does that - when do the guidelines 20 get prepared? They're an annual document that 21 gets prepared. When does that start? 22 MS. LUTZ: 23 A. Typically, the budget process would start - 24 the guidelines, we try to issue them around 25 June. It might be July. The budget is</p>
<p>1 reference Undertaking 4, the budget 2 guidelines, and bring those up. Maybe the 3 2013 one is the first page, I guess, we can 4 stick on that page for now. The Finance 5 Department produces these guidelines, do they, 6 is that correct? 7 MS. LUTZ: 8 A. These particular guidelines would come from 9 the corporate office. 10 MR. O'BRIEN: 11 Q. The corporate office, okay. 12 MS. LUTZ: 13 A. And then once we get the schedule as 14 established by the corporate office in terms 15 of when budget review meetings will be, we 16 will take that information and then backtrack 17 into our own schedules so we can meet that 18 timeline. 19 MR. O'BRIEN: 20 Q. Okay, so it comes from - when you say 21 corporate office, Nalcor produces the 22 guidelines, is that right? 23 MS. LUTZ: 24 A. Correct. 25 MR. O'BRIEN:</p>	<p>1 usually compiled during that summer and the 2 review meetings are in September, and they 3 proceed up through October and for 4 finalization in November. 5 MS. RUSSELL: 6 A. And there is an RFI, NP-NLH-374 that shows 7 that - 8 MR. O'BRIEN: 9 Q. That outlines the timeline? 10 MS. RUSSELL: 11 A. Correct. 12 MR. O'BRIEN: 13 Q. And I believe there's schedules in these 14 particular guidelines as well, is that right? 15 MS. LUTZ: 16 A. That's right. 17 MR. O'BRIEN: 18 Q. Some guidelines in some of them. Some of the 19 time tables are listed in there. So it starts 20 in and around June, and for Hydro's purposes, 21 is there a separate person or a separate group 22 that deals with putting together the budget or 23 is there different groups within Hydro that 24 puts together the budget? 25 MS. LUTZ:</p>

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<p>1 A. So the budget would be prepared in the 2 regions. So out in the TRO area, Hydro Gen, 3 and the support departments. We have a system 4 that people use to enter their information so 5 that we have it in one consolidated place. 6 Once everyone is finished entering their 7 numbers, then the corporate - the Hydro 8 finance area will then start to review the 9 numbers and do some compiling of the 10 information. 11 MR. O'BRIEN: 12 Q. Okay, and - 13 MS. LUTZ: 14 A. Schedule meetings and so on. 15 MR. O'BRIEN: 16 Q. And there's separate processes for the 17 operating budget and the capital budget, is 18 that right? 19 MS. LUTZ: 20 A. Yes. 21 MR. O'BRIEN: 22 Q. Okay, and in terms of final approval, once it 23 goes through - say, for 2014, Ms. Russell, you 24 would have been involved, I take it, in 25 approving each one of those budgets at some</p>	<p>1 be involved with those three groups. Would 2 you have any discussions with Mr. Henderson 3 after he receives all of the other? 4 MS. RUSSELL: 5 A. Yes, we do. We facilitate, like, the 6 consolidation of all of those groups and 7 providing the variance analysis to Mr. 8 Henderson over previous year previous budget, 9 and we would also facilitate meetings with 10 those individuals to discuss the budgets 11 during the process with Mr. Henderson. 12 MR. O'BRIEN: 13 Q. In Mr. Martin's testimony, he indicated that 14 the real drivers of the budget were the asset 15 management program, and I think, human 16 resources plan. Is that fair, is that 17 something that you see as well? 18 MS. RUSSELL: 19 A. The drivers would be, yes, the asset 20 management, the aging assets, and - 21 MR. O'BRIEN: 22 Q. And how about human resources plan? He 23 mentioned that as well. 24 MS. RUSSELL: 25 A. The plan or -</p>
<p>1 point, is that right? 2 MS. RUSSELL: 3 A. The total budgets? 4 MR. O'BRIEN: 5 Q. For Hydro? 6 MS. RUSSELL: 7 A. For Hydro, I would - I own a budget for my 8 three groups. I would approve - ultimately 9 have approval on the budget before it's 10 submitted from my three groups, and then it 11 would go up to Henderson, who would have the 12 ultimate approval on the total budget for 13 Hydro. 14 MR. O'BRIEN: 15 Q. Okay, and in terms of the number of groups 16 then that would be submitted to Mr. Henderson, 17 how many groups are there, can you give me a 18 ball park? 19 MS. LUTZ: 20 A. I'd say eight or nine. 21 MS. RUSSELL: 22 A. Eight or nine, yeah, there's a few. 23 MR. O'BRIEN: 24 Q. Eight or nine groups, okay. So in terms of 25 your involvement, Ms. Russell, you would only</p>	<p>1 MR. O'BRIEN: 2 Q. Yes. 3 MS. RUSSELL: 4 A. I'm not sure what you mean by plan. Do you 5 mean the - 6 MR. O'BRIEN: 7 Q. Well, I guess, maybe it's not a set plan, 8 maybe it's salaries and that kind of thing are 9 the other key - 10 MS. RUSSELL: 11 A. Salaries and benefits is one of the key 12 increases in the revenue requirement over 13 2007, that would be fair. 14 MR. O'BRIEN: 15 Q. Let's just talk about the operating budget 16 first. If we could look at Undertaking 4 17 here. Under the highlights on the first page, 18 the first bullet there, 2013 O &amp; M budgets 19 will be completed using clarity, and based on 20 escalation from 2012. In terms of that 21 paragraph, I take it that the budget process 22 starts with looking at the previous year and 23 then escalations on top of that, is that the 24 initial thought process for O &amp; M? 25 MS. LUTZ:</p>
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<p style="text-align: right;">Page 113</p> <p>1 A. So essentially what happens when we start the 2 budget cycle, we could either have - we make 3 the templates available for all the different 4 regions. We could start with zeros in them or 5 we could take the previous year and seed it 6 with some information, and that information 7 will be escalated by a particular factor. 8 MR. O'BRIEN: 9 Q. Okay, and we look down and this particular 10 budget plan, I guess, you would have started 11 with 2012 figures, is that right? 12 MS. LUTZ: 13 A. Yes. 14 MR. O'BRIEN: 15 Q. And who chooses the escalation factor on the 16 budget? 17 MS. LUTZ: 18 A. The factor would be in accordance with our 19 corporate assumptions. 20 MR. O'BRIEN: 21 Q. Okay. 22 MS. LUTZ: 23 A. So it's based on inflation rates from the 24 Conference Board of Canada. 25 MR. O'BRIEN:</p>	<p style="text-align: right;">Page 115</p> <p>1 and benefits, I guess, aren't included in that 2 2.2 percent, is that right? 3 MS. LUTZ: 4 A. That would be correct. 5 MR. O'BRIEN: 6 Q. And why is that? 7 MS. LUTZ: 8 A. The salary information is basically calculated 9 by the human resources group based on the 10 established pay scales, and for the permanent 11 staff complement, and also the salaries for 12 any temporary staff, and divisions are 13 required to confirm the level of temporary 14 staff that they need in the upcoming year and 15 then in terms of the review process, we would 16 look at all the changes in salary. So we 17 would isolate the increases due to step 18 increases, economic increase, and so on, and 19 the increases that would be due to FTE 20 additions. 21 MR. O'BRIEN: 22 Q. Okay. 23 MS. LUTZ: 24 A. So for both temporary and permanent. 25 MR. O'BRIEN:</p>
<p style="text-align: right;">Page 114</p> <p>1 Q. All right, and Mr. Martin indicated that as 2 well. I think that there's evidence to the 3 extent that Hydro strives to keep within 4 inflation with their O &amp; M budget, is that 5 right? 6 MS. LUTZ: 7 A. So essentially in the undertaking here, it 8 describes the process and it indicates that 9 anything over and above the 2.2 in this 10 particular case will be subject to review, 11 specific review. 12 MR. O'BRIEN: 13 Q. And how does that work, the review itself? 14 MS. LUTZ: 15 A. So essentially we have meetings with all the 16 different regions and people are expected to 17 come with explanations of anything that is 18 over that 2.2 percent. So it could be travel 19 or it could be conferences or whatever the 20 case may be, and they have to come in and 21 present their case as to why it's over the 22 2.2. 23 MR. O'BRIEN: 24 Q. And we heard some evidence from the human 25 resources panel that indicate that salaries</p>	<p style="text-align: right;">Page 116</p> <p>1 Q. And what steps are - during that process, I 2 guess, when you isolate increases from FTEs 3 and increases from salary step increases, are 4 there any discussions about how to manage 5 those costs at that stage? 6 MS. LUTZ: 7 A. Certainly one of the things would be you would 8 have to analyze and justify why the new 9 positions were requested and required. 10 MR. O'BRIEN: 11 Q. And what role does the Finance Department play 12 in that? Do you have a say in whether or not 13 those roles are required? 14 MS. LUTZ: 15 A. We facilitate the presentation of the 16 information for decision making. 17 MR. O'BRIEN: 18 Q. Okay, who makes the decision ultimately? 19 MS. LUTZ: 20 A. Ultimately, it was Mr. Henderson. 21 MR. O'BRIEN: 22 Q. Okay. Perhaps we can take our break there, 23 Mr. Chair. 24 CHAIRMAN: 25 Q. Yes, sir.</p>

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<p>1 MR. O'BRIEN:  2 Q. I'm just reminded of the time.  3 (10:59 a.m.)  4 (RECESS)  5 (11:36 a.m.)  6 CHAIRMAN:  7 Q. You're on, sir.  8 MR. O'BRIEN:  9 Q. Thank you, Mr. Chair. I have to apologize, I  10 do have to go back to the debt guarantee fee  11 for one quick moment. I just want to clarify  12 an undertaking, and I think we had asked for  13 an undertaking with respect to the calculation  14 of the 50 basis points and the 50/50 split on  15 that. I wonder could we get one for the short  16 term debt as well, the 25 basis points  17 assuming there is a 50/50 split of the  18 savings. Could you do that for us?  19 MR. PELLEY:  20 A. Sure.  21 MS. GLYNN:  22 Q. Noted on the record.  23 MR. O'BRIEN:  24 Q. Okay.  25 MR. PELLEY:</p>	<p>1 items that are considered to be new yearly  2 costs, such as professional services,  3 operating projects, and temporary salaries.  4 The process is also designed to expedite the  5 review process with a focus on mostly new  6 budgetary items". Is this a new process in  7 2013 from what was followed in 2012?  8 MS. LUTZ:  9 A. I believe it is.  10 MR. O'BRIEN:  11 Q. Okay, and can you give me just the flavour as  12 to what the difference were in 2012 versus the  13 new approach?  14 MS. LUTZ:  15 A. I'm just going from my memory now, but what I  16 think the difference was, at the time we would  17 come in and review every single account, but  18 with this new approach, we focus on anything  19 that exceeded that inflation level.  20 MR. O'BRIEN:  21 Q. And it says, "The process is designed to  22 reduce business unit owners input". What's  23 intended to be dealt with there? Is it that  24 the business owners just produce the budget  25 and it gets determined as to whether or not</p>
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<p>1 A. I'm sorry, just to clarify, we'll base that on  2 the 2015 test year?  3 MR. O'BRIEN:  4 Q. That's right.  5 MR. PELLEY:  6 A. Okay.  7 MR. O'BRIEN:  8 Q. Now we were talking about budget and the  9 budget guidelines, I think, when we left.  10 We're on the 2013 budget guidelines. I wonder  11 if we could turn to the 2013 budget O &amp; M  12 guidance sheet. I think it's a number of  13 pages in. It was added to the undertaking.  14 Here we go, okay. This guidance sheet, this  15 would be - would have been provided with the  16 budget guidelines, is that right?  17 MS. LUTZ:  18 A. Yes, I believe so.  19 MR. O'BRIEN:  20 Q. As part of the document. In that opening  21 paragraph there, "Revised budget process,  22 putting the emphasis on change in budget from  23 one year to the next has been developed. The  24 new approach is designed to reduce business  25 unit owners input with a concentration on</p>	<p>1 it's reasonable at an upper level, or is there  2 any sort of discussion within the business  3 owners, in each of those units, as to when  4 we're going forward with a budget, what's a  5 reasonable budget from a cost perspective?  6 MS. LUTZ:  7 A. Every business unit owner are responsible for  8 their budget, so I think - it doesn't say that  9 there, but I think the intent is, like, cell  10 phones, we don't - cell phone numbers is  11 number of cell phones, so we wouldn't spend a  12 lot of time talking about that unless there  13 was a huge increase in the number of cell  14 phones.  15 MR. O'BRIEN:  16 Q. Okay.  17 MS. LUTZ:  18 A. As I mentioned, everyone is responsible for  19 their budget numbers that they're presenting  20 and do have an opportunity to discuss it and  21 present it to their direct manager and up  22 through to Mr. Henderson, and then ultimately  23 up to the CEO.  24 MR. O'BRIEN:  25 Q. And so would there be discussions prior to</p>

<p style="text-align: right;">Page 121</p> <p>1 going to Mr. Henderson, say, with respect to  2 how many - if you're going to add FTEs, how  3 many we need, what's reasonable, that sort of  4 thing, is that part of your discussion prior  5 to going to Mr. Henderson?  6 MS. LUTZ:  7 A. That would take place - let's say, if it was  8 human resources department, the human  9 resources, they would determine how many - if  10 they had FTEs, they would determine the  11 requirement, and then that would go up through  12 Mr. Roberts, and Mr. McDonald at the time.  13 MR. O'BRIEN:  14 Q. So human resources would make the  15 determination for each business unit, or would  16 it be a discussion -  17 MS. LUTZ:  18 A. No, just for their own.  19 MR. O'BRIEN:  20 Q. For their own?  21 MS. LUTZ:  22 A. Yes.  23 MR. O'BRIEN:  24 Q. Okay, and how about each business unit, would  25 they make the determination for their unit?</p>	<p style="text-align: right;">Page 123</p> <p>1 MR. O'BRIEN:  2 Q. So, say, in your position -  3 MS. RUSSELL:  4 A. And justification.  5 MR. O'BRIEN:  6 Q. In your position, would you look at that  7 before you bring it, or do you just come up  8 with the figures and then go to Mr. Henderson  9 and say this is what we need?  10 MS. RUSSELL:  11 A. For my groups, which would be regulatory,  12 finance, and supply chain, I would go through  13 what I thought based on work plans and level  14 of resources, workloads, what was required.  15 Then I would discuss it with the VP Finance,  16 CFO, and then it would be - once had his  17 approval, then I would go forward and it would  18 go to Mr. Henderson for approval, and then  19 ultimately it goes to Mr. Martin, who has the  20 ultimate approval on the FTE.  21 MR. O'BRIEN:  22 Q. So in terms of the overall accountability on  23 the O &amp; M budget, that falls with Mr.  24 Henderson, does it?  25 MS. RUSSELL:</p>
<p style="text-align: right;">Page 122</p> <p>1 MS. LUTZ:  2 A. Yes, they would identify the requirement in  3 their business unit, and then they would  4 submit it up through their own department and  5 then ultimately up through Mr. Henderson, and  6 then up through the CEO.  7 MR. O'BRIEN:  8 Q. Okay, and what level of sort of analysis would  9 you go through prior to getting to Mr.  10 Henderson? Would each unit decide how many  11 FTEs are needed on an annual basis or is it  12 just whether we need more?  13 MS. LUTZ:  14 A. I wouldn't be able to say what process human  15 resources used, but you can probably jump in  16 for finance, for instance.  17 MS. RUSSELL:  18 A. Sure, I can only speak, I guess, to in the  19 finance role the 2014 and 2015, I guess, as to  20 how - everybody would provide, would come with  21 each different division, for example, for  22 mine, if I had FTEs, you would have to explain  23 the number of FTEs, if you had any increases  24 or decreases, your change in your FTEs for the  25 budget.</p>	<p style="text-align: right;">Page 124</p> <p>1 A. Yes. Ultimately, it is approved by Mr.  2 Martin, though, afterwards.  3 MR. O'BRIEN:  4 Q. Okay.  5 MS. RUSSELL:  6 A. He does the final approval.  7 MR. O'BRIEN:  8 Q. But for the purposes of the rate case, you are  9 able to talk about the O &amp; M budget, you've  10 sponsored these figures in Section 3?  11 MS. RUSSELL:  12 A. The finance -  13 MR. O'BRIEN:  14 Q. Finance, yeah.  15 MS. RUSSELL:  16 A. For the -  17 MR. O'BRIEN:  18 Q. For the revenue requirements and what's built  19 into that, you can speak to that?  20 MS. RUSSELL:  21 A. Yes, we can speak to that, to the changes, and  22 a lot of the explanations, I think, are  23 provided in Section 2.4 of the evidence.  24 MR. O'BRIEN:  25 Q. We're looking at that first paragraph in the</p>

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<p>1 guidance in terms of mostly new budgetary 2 items. I take it that includes costs that 3 will no longer be needed as well, is that 4 right, you're able to speak to that? You make 5 a determination on whether or not you can save 6 costs as well? 7 MS. RUSSELL: 8 A. Correct. If you were increasing, for example, 9 you know, an FTE, there may be some associated 10 reduction in overtime, or a reduction in 11 temporary salaries to offset the permanent 12 employee. 13 MR. O'BRIEN: 14 Q. Okay. 15 MS. RUSSELL: 16 A. Or it could be due to increases in work plans, 17 depending on the circumstance. 18 MR. O'BRIEN: 19 Q. Okay, and if we look at items 1 to 3, the 20 budget is broken down into three components. 21 So we have salaries, base budget, and 22 professional services. Just have a look at 23 the base budget itself, where does the base 24 budget come from? Is that just generated by 25 computer each year, is that what you -</p>	<p>1 previous year, and escalate by 2.2, and you're 2 expected to come and explain any difference 3 over 2.2. 4 MR. O'BRIEN: 5 Q. Okay. 6 MS. LUTZ: 7 A. All professional services are built from zero, 8 and then it's all by the each. 9 MR. O'BRIEN: 10 Q. Okay, that's it? 11 MS. LUTZ: 12 A. Yes. 13 MR. O'BRIEN: 14 Q. So it just starts from zero and you fill it 15 in? 16 MS. LUTZ: 17 A. Right. 18 MR. O'BRIEN: 19 Q. Okay, and the salaries then, why are they 20 excluded from the base budget? 21 MS. LUTZ: 22 A. Salaries are compiled the Human Resources 23 Department in accordance with the established 24 pay scales. 25 MR. O'BRIEN:</p>
<p>Page 126</p> <p>1 MS. LUTZ: 2 A. So there's a certain number of accounts in 3 everyone's business unit. This particular 4 item indicates that it's not a salary account, 5 it's not professional services, or any 6 operating projects, which it could contain 7 consulting or SEM, or anything like that, but 8 it's everything other than those accounts 9 essentially. 10 MR. O'BRIEN: 11 Q. Okay, and that's the 2.2 percent you talked 12 about for inflation index. The professional 13 services and operating projects, those are all 14 zero based. This relates to the shared 15 services, is it, is that how that works? 16 MS. LUTZ: 17 A. I'm not sure I'm following exactly what you 18 mean. 19 MR. O'BRIEN: 20 Q. Maybe you can explain to me what zero base 21 means with respect to the professional 22 services and operating projects? 23 MS. LUTZ: 24 A. It means in relation to the base budget, we 25 would take the information that was there from</p>	<p>Page 128</p> <p>1 Q. So there's not an intent to try to manage 2 salaries within the CPI? 3 MS. LUTZ: 4 A. There's an intent in managing salaries to the 5 extent that whether you're adding people or 6 not, but once the person has been hired and 7 we've already established what the salary 8 increases are, as the human resources panel 9 already explained, we calculate the salary 10 estimates based on those numbers. 11 (11:45 a.m.) 12 MR. O'BRIEN: 13 Q. I wonder if we can turn to the 2014 14 instructions. I never saw a guidance form in 15 2014. Would there have been a similar 16 guidance form to that 2013 in 2014? 17 MS. LUTZ: 18 A. Similar to this - 19 MR. O'BRIEN: 20 Q. Yes. 21 MS. LUTZ: 22 A. The one that came late, you mean? 23 MR. O'BRIEN: 24 Q. The one we looked at before, the 2013 budget O 25 &amp; M guidance. I didn't see one in 2014.</p>



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<p>1 MS. LUTZ: 2 A. I think the information is actually contained 3 within this memo. 4 MR. O'BRIEN: 5 Q. In Appendix "B"? 6 MS. LUTZ: 7 A. Yeah. 8 MR. O'BRIEN: 9 Q. Perhaps we can scroll to Appendix "B". This 10 would be capturing the O &amp; M budget 11 requirements or are there more? 12 MS. LUTZ: 13 A. I believe this is the - 14 MR. O'BRIEN: 15 Q. That's the document, okay. So in terms of 16 2014, still looking at a 2.2 percent 17 inflationary index. Mr. Roberts and Mr. 18 McDonald talked about a salary matrix. Is 19 that what you get in terms of HR to put into 20 your budget, they produce some sort of salary 21 compensation matrix? 22 MS. LUTZ: 23 A. They actually calculate the salaries by 24 person. 25 MR. O'BRIEN:</p>	<p>1 A. So when we have our meetings for reviewing the 2 various budgets, there's a budget template 3 that's done, and anything that's over and 4 above has to be outlined to explain why it's 5 over a certain level. 6 MR. O'BRIEN: 7 Q. And that's in your presentation to Mr. 8 Henderson? 9 MS. LUTZ: 10 A. There's a series - as I mentioned, there's a 11 series of reviews. Let's say, Human Resources 12 Department came in to review their budget with 13 Mr. Henderson, and then there might be 14 Finance, and so on. 15 MR. O'BRIEN: 16 Q. Okay. 17 MS. LUTZ: 18 A. So within those, and any operations people as 19 well, so they would bring in their budget 20 submission for presentation to Mr. Henderson, 21 and that information should be contained 22 within there, and then when it ultimately gets 23 consolidated for presentation up through as 24 part of the Nalcor consolidated submission, 25 and also for presentation to the CEO for</p>
<p>1 Q. By person? 2 MS. LUTZ: 3 A. In accordance with the salary matrix. 4 MR. O'BRIEN: 5 Q. Okay, and once you get those calculations, is 6 there any room for the business unit owners to 7 look at the salary budget and suggest changes 8 in the budget? 9 MS. LUTZ: 10 A. They can certainly look at it, and if they 11 don't understand why salaries is the way it 12 is, they can certainly ask the question of 13 human resources. 14 MR. O'BRIEN: 15 Q. Does that happen at all? 16 MS. LUTZ: 17 A. I believe it does. 18 MR. O'BRIEN: 19 Q. Okay. When we talk about in each of these 20 budgets when there's going to be costs over 21 the inflation of 2.2 percent, that support for 22 costs should be available. Is that support in 23 general, how does that work to provide the 24 support? 25 MS. LUTZ:</p>	<p>1 review, there would be a more summarized 2 version, but it would highlight any of the 3 increases over and above that 2.2, or whatever 4 the number happens to be. 5 MR. O'BRIEN: 6 Q. Once you have your budget established, I 7 guess, the overall budget for Hydro, going 8 forward then, who's responsible for managing 9 the budget? Is it each business unit owner 10 for their own budget? 11 MS. LUTZ: 12 A. They are responsible for ensuring that they 13 stay within their budget. However, if there 14 are variances, they provide variance analysis 15 and so on, and Mr. Henderson would be involved 16 in any overs or unders. 17 MR. O'BRIEN: 18 Q. And is there any measures that you would use 19 to track that apart from the variance 20 analysis? 21 MS. LUTZ: 22 A. We have a operating cost metric that we 23 measure. 24 MR. O'BRIEN: 25 Q. Okay, and that's what I wanted to - how does</p>
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<p>1 that work?</p> <p>2 MS. LUTZ:</p> <p>3 A. So it's a certain amount and there's a target</p> <p>4 number, and an opportunity, and a threshold</p> <p>5 number.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. Just explain to me how that works?</p> <p>8 MS. LUTZ:</p> <p>9 A. Okay. So if you - I believe it's 2 percent, I</p> <p>10 can't remember the number. Subject to check,</p> <p>11 but I think it's 1 percent over or 2 percent</p> <p>12 over, and 1/2 percent under for opportunity.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. 1/2 percent under for opportunity?</p> <p>15 MS. LUTZ:</p> <p>16 A. I'd have to check. I don't recall right -</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Can you check for me, just to find out the</p> <p>19 parameters, I guess, of that cost matrix, and</p> <p>20 is that something that's looked at on a</p> <p>21 monthly basis?</p> <p>22 MS. LUTZ:</p> <p>23 A. Yes, it is.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. And it's within each unit or is it something</p>	<p>1 meetings and how Hydro is progressing?</p> <p>2 MS. LUTZ:</p> <p>3 A. Which matrix?</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. The operation cost matrix you're talking</p> <p>6 about, how each -</p> <p>7 MS. LUTZ:</p> <p>8 A. The target?</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Yes, the target.</p> <p>11 MS. LUTZ:</p> <p>12 A. Yes.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. It is, okay. Are there any other measures</p> <p>15 that Hydro uses to track its operation O &amp; M</p> <p>16 budget throughout the year?</p> <p>17 MS. LUTZ:</p> <p>18 A. At that particular meeting?</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. Or at any meeting?</p> <p>21 MS. LUTZ:</p> <p>22 A. At the leadership meeting, we have net income,</p> <p>23 operating expenditures, as I mentioned, and</p> <p>24 also cash from operations.</p> <p>25 MR. O'BRIEN:</p>
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<p>1 looked at by the Finance Department as a</p> <p>2 whole?</p> <p>3 MS. LUTZ:</p> <p>4 A. It's for consolidated Hydro.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. For consolidated Hydro?</p> <p>7 MS. LUTZ:</p> <p>8 A. Yes.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Okay.</p> <p>11 MS. GLYNN:</p> <p>12 Q. I just want to note the undertaking on the</p> <p>13 record.</p> <p>14 MR. O'BRIEN:</p> <p>15 Q. Thank you. Now in terms of the monthly, I</p> <p>16 guess, review and monthly meetings with Hydro,</p> <p>17 are you part of those meetings, Ms. Lutz?</p> <p>18 MS. LUTZ:</p> <p>19 A. The Hydro leadership team?</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. Yes.</p> <p>22 MS. LUTZ:</p> <p>23 A. Yes.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. And do you discuss that matrix at those</p>	<p>1 Q. Cash from operations?</p> <p>2 MS. LUTZ:</p> <p>3 A. As well, we do some reporting on capital</p> <p>4 metrics.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. What capital metrics do you report on?</p> <p>7 MS. LUTZ:</p> <p>8 A. We would participate in the compilation of the</p> <p>9 costs that are on the capital projects. There</p> <p>10 are four measures; schedule, quality, safety,</p> <p>11 and cost, and we participate in the cost</p> <p>12 piece.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. Okay, schedule, quality, safety and cost?</p> <p>15 MS. LUTZ:</p> <p>16 A. Yes.</p> <p>17 MR. PELLE:</p> <p>18 A. I don't know if I could add -</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. Sure.</p> <p>21 MR. PELLE:</p> <p>22 A. Just to give you a perspective if I'm a</p> <p>23 business unit owner, I own two business units,</p> <p>24 actually, Nalcor Treasury, and Newfoundland</p> <p>25 and Labrador Hydro Treasury, and from my</p>

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<p>1 perspective, one of the key things or one of 2 the key deliverables that I have as part of my 3 performance contract is ensuring that my O &amp; M 4 expenses stay within a certain band. So just 5 to give you some flavour of how that works 6 down at that level, I'd have to undertake to 7 tell you what exactly the plus and minus was.</p> <p>8 MR. O'BRIEN: 9 Q. Okay.</p> <p>10 MR. PELLEY: 11 A. Much like Carol Ann said, they exist at the 12 corporate level, they exist at the business 13 unit level as well.</p> <p>14 MR. O'BRIEN: 15 Q. At the business unit level as well.</p> <p>16 MR. PELLEY: 17 A. So on a monthly basis, I'll be looking at my 18 budget as to where I am against those targets 19 that are in my performance contract. So 20 there's a direct link between performance pay 21 and control over your budget.</p> <p>22 MR. O'BRIEN: 23 Q. So you'd have a threshold and opportunity as 24 well in your -</p> <p>25 MS. LUTZ:</p>	<p>1 MR. PELLEY: 2 A. We all have those.</p> <p>3 MS. RUSSELL: 4 A. Yeah, they're all the same.</p> <p>5 MR. PELLEY: 6 A. Just to clarify, that's common across 7 everyone's performance contract would be 8 performance at the corporate level, and then 9 as individuals we all have our own business 10 units, which is another step towards meeting 11 completion of the performance contract.</p> <p>12 MS. RUSSELL: 13 A. And all those have been filed under the 14 Undertaking 3B.</p> <p>15 MR. O'BRIEN: 16 Q. Okay. Does Hydro look at controllable costs 17 as a way of tracking operation costs 18 throughout the year? Is that one of the key 19 performance indicators or targets that it 20 looks at?</p> <p>21 MS. LUTZ: 22 A. Could you say that again?</p> <p>23 MR. O'BRIEN: 24 Q. Controllable costs, maybe we can bring up 25 Information 5, and I'll show you what I'm</p>
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<p>1 A. That's right, the exact same nomenclature down 2 at that level, target, threshold, and 3 opportunity.</p> <p>4 MR. O'BRIEN: 5 Q. And Ms. Russell, would you have the same in 6 your unit?</p> <p>7 MS. RUSSELL: 8 A. Correct.</p> <p>9 MR. O'BRIEN: 10 Q. And do you have any further - as manager, 11 general manager, do you have any different 12 targets that you look at from a finance 13 perspective?</p> <p>14 MS. RUSSELL: 15 A. Financial performance in my contract is the 16 net income, it would be the same types of - 17 and operating expenses.</p> <p>18 MR. O'BRIEN: 19 Q. So net income and operating expenses, and 20 you'd have thresholds and - target, threshold, 21 opportunity for each of those?</p> <p>22 MS. RUSSELL: 23 A. Correct.</p> <p>24 MR. O'BRIEN: 25 Q. Okay.</p>	<p>1 talking about. It's a list of key performance 2 indicators. It's an appendix to the December 3 31st, 2014 quarterly report of Hydro, and 4 there's some key performance indicators in the 5 category there on the left hand side. If we 6 scroll down under financial, one of the key 7 performance indicators is controllable unit 8 cost. Is that something that's tracked by 9 Hydro as a way of managing operating and 10 maintenance costs?</p> <p>11 MS. LUTZ: 12 A. To the extent that we'd be measuring the 13 numerator in that particular case.</p> <p>14 MR. O'BRIEN: 15 Q. Just explain that to me?</p> <p>16 MS. LUTZ: 17 A. Well, a controllable cost would correspond to 18 the O &amp; M numbers that we just discussed.</p> <p>19 MR. O'BRIEN: 20 Q. Right.</p> <p>21 MS. RUSSELL: 22 A. In Undertaking 6, Hydro did do a comparison of 23 what Mr. Martin had talked about, the KPIs 24 that are measured within Hydro, the leadership 25 team, and the difference and the comparison to</p>

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<p>1 what's reported in the PUB report.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Sure.</p> <p>4 MS. RUSSELL:</p> <p>5 A. So if you go to Undertaking 6, you can see -</p> <p>6 it'll compare for you the finance ones and it</p> <p>7 shows where they are at different places maybe</p> <p>8 throughout the PUB reporting. They may not be</p> <p>9 exactly in that appendix, but it gives the -</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. Okay.</p> <p>12 MS. RUSSELL:</p> <p>13 A. As Carol Ann said, to maintain operating costs</p> <p>14 is there, and that's the comparator.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. So in terms of if we go back to Information 5</p> <p>17 then, is there an annual target set for</p> <p>18 controllable unit costs? If you scroll up,</p> <p>19 you'll see there's - if you go across, you see</p> <p>20 each of the years, 2009 and 2013 variance from</p> <p>21 averages, and 2014, is there a target set each</p> <p>22 year for that indicator?</p> <p>23 MS. RUSSELL:</p> <p>24 A. The only targets are the ones that Mr. Martin</p> <p>25 has previously spoken to and the operating</p>	<p>1 seriously, and there's a lot of discussion</p> <p>2 about them in the company.</p> <p>3 (12:00 p.m.)</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. Was there any discussion about changing any</p> <p>6 targets or to set a target to try to keep that</p> <p>7 within a certain range?</p> <p>8 MS. RUSSELL:</p> <p>9 A. Well, the targets are already set, so if they</p> <p>10 go over, then - the targets were already set</p> <p>11 to the budgets.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. To the budgets.</p> <p>14 MS. RUSSELL:</p> <p>15 A. So if you are over, then you were over the</p> <p>16 target, unless you had a recovery plan to come</p> <p>17 back. So whenever - Mr. Henderson will always</p> <p>18 ask for if somebody is over, if there's a</p> <p>19 recovery - what the recovery plan is, if</p> <p>20 there's a recovery plan in place for the item</p> <p>21 that may be over, if there is one.</p> <p>22 MR. O'BRIEN:</p> <p>23 Q. And how does that work, say, on a monthly -</p> <p>24 does it happen quarterly, monthly, or each</p> <p>25 time you're over you ask about the recovery</p>
<p>Page 142</p> <p>1 ones are the targets that are set within</p> <p>2 Hydro.</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. If you scroll back down and just have a look</p> <p>5 at the - if we go across, this controllable O</p> <p>6 &amp; M over energy delivery, it's measured, I</p> <p>7 guess, in dollars per megawatt hour. If you</p> <p>8 go across for the years, it seems relatively</p> <p>9 stable until you get out to 2014, it jumps</p> <p>10 from \$15.53 to \$18.09. Is that something that</p> <p>11 in your Hydro leadership meetings raised a</p> <p>12 concern?</p> <p>13 MS. RUSSELL:</p> <p>14 A. Well, that would have been a function of O &amp; M</p> <p>15 piece that we do track, and that does get</p> <p>16 discussion at the Hydro leadership team, so,</p> <p>17 yes.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. All right. Was that a concern, do you have a</p> <p>20 recollection of it being raised as a concern</p> <p>21 at any point in those meetings?</p> <p>22 MS. RUSSELL:</p> <p>23 A. Definitely, like, variances off budget that</p> <p>24 are higher than budget are obviously always</p> <p>25 something that are discussed and taken</p>	<p>Page 144</p> <p>1 plan, or he asks about the recovery plan?</p> <p>2 MS. RUSSELL:</p> <p>3 A. Well, for 2015, on the quarterly forecast,</p> <p>4 it's done through the forecasting because the</p> <p>5 budget is what the budget was approved, and</p> <p>6 then on the quarter there are meetings with</p> <p>7 all the managers of the departments, and if</p> <p>8 they want to have any upward adjustments or</p> <p>9 changes to the forecast, they would have to be</p> <p>10 approved by Mr. Henderson before they could</p> <p>11 actually make that change.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. And is there a discussion about how to - if</p> <p>14 you're over, how to, like you say, recovery</p> <p>15 plan, what steps can be taken to recover?</p> <p>16 MS. RUSSELL:</p> <p>17 A. Yes, there is, yeah.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. And what sorts of things get discussed in that</p> <p>20 regard?</p> <p>21 MS. RUSSELL:</p> <p>22 A. It depends on what the item is that's causing</p> <p>23 - what the item is that's causing the overage.</p> <p>24 It would really depend on what line item it</p> <p>25 was.</p>

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1 MR. O'BRIEN:  
 2 Q. Okay, if it was salaries were higher, benefits  
 3 were higher, is that ever discussed as a - is  
 4 there a way to recover from that?  
 5 MS. RUSSELL:  
 6 A. I think the salaries and benefits one, as  
 7 Carol Ann had indicated, those ones are part  
 8 of the budget. Those ones are - they don't  
 9 vary much from the budget because they're set.  
 10 MR. O'BRIEN:  
 11 Q. For the year.  
 12 MS. RUSSELL:  
 13 A. You know what those ones are.  
 14 MR. O'BRIEN:  
 15 Q. So it's the other aspects of the operating and  
 16 maintenance that would be more likely to be  
 17 subject to recovery plan discussions?  
 18 MS. RUSSELL:  
 19 A. Yes.  
 20 MR. O'BRIEN:  
 21 Q. Okay.  
 22 MS. LUTZ:  
 23 A. Can I add -  
 24 MR. O'BRIEN:  
 25 Q. Sure.

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1 MS. LUTZ:  
 2 A. To the extent that the increase in salaries,  
 3 for instance, was due to new people there may  
 4 be a delay in hiring or so on.  
 5 MR. O'BRIEN:  
 6 Q. Okay, and if there's temporary employees, the  
 7 same sort of thing?  
 8 MS. LUTZ:  
 9 A. That is possible.  
 10 MR. O'BRIEN:  
 11 Q. Yeah.  
 12 MS. RUSSELL:  
 13 A. The only thing you could impact at that point  
 14 wouldn't be the dollars associated with  
 15 someone's salary who's currently, you know,  
 16 employed. It could be - if there are future  
 17 hire that have not been hired, or a temp, or  
 18 potentially overtime, but that would depend on  
 19 work plans too.  
 20 MR. O'BRIEN:  
 21 Q. So obviously you wouldn't reduce someone's  
 22 salary necessarily just to do that, but if  
 23 there were plans in place to hire someone, you  
 24 could delay those plans or you could shorten a  
 25 temporary position or something like that?

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1 MS. LUTZ:  
 2 A. All the while making sure that they understand  
 3 what the impact of that would be.  
 4 MR. O'BRIEN:  
 5 Q. Sure.  
 6 MS. RUSSELL:  
 7 A. To the work plans that Hydro has set out for -  
 8 so you'd have to look at that too.  
 9 MR. O'BRIEN:  
 10 Q. So when you do that, do you have discussions  
 11 concerning reliability and that kind of thing  
 12 as to whether or not -  
 13 MS. RUSSELL:  
 14 A. That would be with the Ops. That would be  
 15 amongst Mr. Henderson's operations group.  
 16 MR. O'BRIEN:  
 17 Q. I've asked this question of a few witnesses,  
 18 and I understood from Mr. Henderson and from  
 19 Mr. McDonald that Hydro doesn't have any  
 20 specific measures built into operations to  
 21 keep costs down, productivity measures. Are  
 22 you aware of any that you can tell us about?  
 23 MS. RUSSELL:  
 24 A. There are some RFIs, I believe, that have been  
 25 answered on that. I'd have to just -

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1 MR. O'BRIEN:  
 2 Q. There was one I was going to refer to and that  
 3 might be the one you're looking to, NP-NLH-  
 4 384. I don't know if that's possibly one.  
 5 Scroll through there and have a look.  
 6 MS. RUSSELL:  
 7 A. That would be -  
 8 MR. O'BRIEN:  
 9 Q. That would be one, yeah, okay.  
 10 MS. RUSSELL:  
 11 A. That would be one, yeah.  
 12 MR. O'BRIEN:  
 13 Q. Okay, and if you want - I know you're having a  
 14 look there, if you want to have a look for  
 15 other ones, you can do that before I ask you a  
 16 few questions on this one, seeing you got them  
 17 handy.  
 18 MS. RUSSELL:  
 19 A. I think there are some ones relating to  
 20 capital, like, PUB-NLH-021.  
 21 MR. O'BRIEN:  
 22 Q. Okay.  
 23 MS. RUSSELL:  
 24 A. PUB-NLH-301, they would be capital type. On  
 25 maintenance and capital work, FTES, I think

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<p>1 there are some - PUB-NLH-409, NP-NLH-394, and 2 NP-NLH-395, and I believe the operations panel 3 would have discussed as well. 4 MR. O'BRIEN: 5 Q. Okay. Let's have a look at this one, I guess, 6 that we have up here. Can we go back to 384 7 there, Ms. Gray. Thank you. I wanted to ask 8 you about the answer here. The question 9 further to the response to request for 10 information, CA-NLH-328, "Please confirm that 11 Hydro has not included a specific allowance 12 for productivity in its 2015 test year 13 operating expenses". So dealing with 14 operating expenses specifically, and the first 15 paragraph there, the answer, "Hydro's 16 budgeting methodology incorporates 17 productivity improvements into its base 18 budgets, not as a specific allowance to be 19 shown separately. Both methods have the same 20 end results". So when you're referring to 21 base budgets here, how is it that Hydro would 22 incorporate it into the base budget, and I 23 understood base budget not to include salaries 24 or benefits? Is that fair? 25 MS. RUSSELL:</p>	<p>1 A. Well, I think here they're indicating that the 2 overtime was reduced, but it wasn't put in as 3 an allowance as such, but it was part of the 4 base number that was presented. 5 MR. O'BRIEN: 6 Q. And that's part of the 2015 budget. Who put 7 that together? When this GRA was done, do you 8 recall any discussions that as part of the 9 productivity allowance here, we're going to 10 reduce overtime from 2014 to 2015, do you 11 recall any discussions on that? 12 MS. LUTZ: 13 A. I don't recall it being referred to as 14 productivity allowance as such. 15 MR. O'BRIEN: 16 Q. Okay. 17 MS. LUTZ: 18 A. However, I do recall that, as you know, we had 19 added a number of positions in 2015. 20 MR. O'BRIEN: 21 Q. Uh-hm. 22 MS. LUTZ: 23 A. And accordingly, we said we had to look at the 24 overtime levels as well, so we challenged the 25 operations and in some cases they came forth</p>
<p>Page 150</p> <p>1 A. Just one second. Is there any - can you 2 scroll down to that for a second. So your 3 question was the base budget. 4 MR. O'BRIEN: 5 Q. The base budget, is that just a generic term 6 or are you referring to the base budget 7 exclusive of salaries and benefits? We talked 8 about the budgeting process before, we saw 9 three categories, and one was the base budget. 10 MS. RUSSELL: 11 A. I think the base budget piece is without the 12 salaries and benefits piece. Carol Ann can - 13 MS. LUTZ: 14 A. Well, perhaps here, I think, that was just a 15 generic term here in terms of this RFI. 16 MR. O'BRIEN: 17 Q. I just wanted it clarified because you talk 18 about overtime here in the next paragraph. 19 MS. LUTZ: 20 A. Right. 21 MR. O'BRIEN: 22 Q. And I would have put that into the salaries 23 piece, but - would you put that into the 24 salaries piece or is that part of the - 25 MS. LUTZ:</p>	<p>Page 152</p> <p>1 with reductions in overtime as well, so I 2 can't recall if all of them did or if we made 3 an adjustment. 4 MR. O'BRIEN: 5 Q. Okay, and that was prior to the rate case 6 being filed? 7 MS. LUTZ: 8 A. Yes. 9 MR. O'BRIEN: 10 Q. And are you able to tell me - perhaps we could 11 go to NP-307, Attachment 1, page 9. I just 12 want to get a flavour for the cost there. 13 MS. GRAY: 14 Q. Revision 1? 15 MR. O'BRIEN: 16 Q. Revision 1, yes, thank you. So if we can blow 17 this up a little bit, overtime there is on 18 line 5. So if we go across that line from 2007 19 on, we see up to about 2012 overtime is down 20 under 10 million, but in 2012, it goes from 10 21 to 12.2. The actuals for 2014 are up around 22 16. Are you able to tell me how much of that 23 is related to the - just a ball park, related 24 to the outages? 25 MS. LUTZ:</p>

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<p>1 A. I think there's an RFI for that.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Okay, your test year for 2014 was at 12</p> <p>4 million. If we scroll over a little bit</p> <p>5 further, Ms. Gray, it's about a 4.4 million</p> <p>6 difference.</p> <p>7 MS. LUTZ:</p> <p>8 A. I think it's part of the prudence review.</p> <p>9 There was -</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. Okay, it's part of that. I understood some of</p> <p>12 that to be part of that the increased -- I</p> <p>13 guess the plan to have maintenance,</p> <p>14 preventative maintenance done to catch up with</p> <p>15 the six-year plan. Is that right?</p> <p>16 MS. LUTZ:</p> <p>17 A. That's not necessarily outage related though.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. Okay. But is that the part that you feel is</p> <p>20 dealt with in the increase? Is it largely due</p> <p>21 to that?</p> <p>22 MS. LUTZ:</p> <p>23 A. I'd have to check.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Okay. Perhaps I'll ask you to check on that,</p>	<p>1 MR. O'BRIEN:</p> <p>2 Q. Okay. I'm just trying to get a flavour, I</p> <p>3 guess, in terms of challenging the regions to</p> <p>4 reduce overtime and challenging the business</p> <p>5 owners to reduce overtime, whether or not</p> <p>6 there was an anomaly in 2014 that overtime was</p> <p>7 high and that it really wouldn't have been a</p> <p>8 challenge to reduce it back to 10 million by</p> <p>9 2015. Can you give me any comment on that?</p> <p>10 MS. RUSSELL:</p> <p>11 A. So I think we found the RFI.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. Okay.</p> <p>14 MS. RUSSELL:</p> <p>15 A. I'm not sure if this is the RFI, NP-NLH-386,</p> <p>16 that indicates the amount of overtime.</p> <p>17 MS. LUTZ:</p> <p>18 A. For the outage.</p> <p>19 MS. RUSSELL:</p> <p>20 A. For the outage.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. Okay. So you got .2 million in overtime in</p> <p>23 the January outage of 2013 and .3 million in</p> <p>24 overtime associated with the '14 and '15 test</p> <p>25 years.</p>
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<p>1 the difference between -- maybe I'll ask you</p> <p>2 to check the difference between the test year</p> <p>3 2014 and the actual of 2014. It may be on the</p> <p>4 record, but just to confirm. The test year</p> <p>5 2014 of 12 million, that would have been based</p> <p>6 on five months actual, seven months?</p> <p>7 MS. LUTZ:</p> <p>8 A. That's correct.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Seven months forecast. Would you have known</p> <p>11 that there was additional overtime required in</p> <p>12 that particular year due to the outages or any</p> <p>13 other reasons, more than expected?</p> <p>14 MS. LUTZ:</p> <p>15 A. The numbers that resulted in that 12 million</p> <p>16 came from the forecast from the regions as</p> <p>17 well.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. Okay, all right.</p> <p>20 MS. LUTZ:</p> <p>21 A. So I wouldn't have visibility into what their</p> <p>22 forecast -- what their requirements were, but</p> <p>23 the process would have required them to give</p> <p>24 us their best forecast of what their costs</p> <p>25 would have been.</p>	<p>1 MS. LUTZ:</p> <p>2 A. That's specifically outage related.</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. That is specifically outage related?</p> <p>5 MS. LUTZ:</p> <p>6 A. Right.</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. What's the reason for such an increase in the</p> <p>9 overtime to 16 million in 2014?</p> <p>10 MS. LUTZ:</p> <p>11 A. I would have to -- I couldn't -- I would have</p> <p>12 to get that information for you.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. Could you undertake to provide that?</p> <p>15 MS. LUTZ:</p> <p>16 A. Yes.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Because we do see a significant difference</p> <p>19 from 2013 to 2014.</p> <p>20 MS. GLYNN:</p> <p>21 Q. Mr. O'Brien, we'll note that undertaking on</p> <p>22 the record.</p> <p>23 MR. O'BRIEN:</p> <p>24 Q. Thank you.</p> <p>25 MS. GLYNN:</p>

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<p>1 Q. Could we confirm the prior undertaking of the 2 difference between the 2014 test year and 3 actuals? I don't know if that was actually 4 accepted. 5 MR. O'BRIEN: 6 Q. Was that accepted? 7 MR. CASS: 8 Q. Yes, Mr. Chair. 9 MR. O'BRIEN: 10 Q. Okay, thank you. 11 MS. GLYNN: 12 Q. Thank you. 13 MR. O'BRIEN: 14 Q. And apart from the -- maybe we can go back to 15 NP-NLH-384 just to make sure we've covered off 16 what other efficiencies may have been built in 17 from a budgetary perspective. Sorry, Ms. 18 Gray, NP-NLH-384. I just wanted to be clear 19 that we've covered off what efficiencies would 20 have been built into a budget. Maybe we can 21 scroll down through there. Is there any other 22 that you can tell us about, apart from the 23 overtime? 24 (12:15 p.m.) 25 MS. LUTZ:</p>	<p>1 MS. RUSSELL: 2 A. And that would be something that they would, 3 you know, have to speak to as well if there 4 was any build ins of things where there were 5 offsets to costs. 6 MR. O'BRIEN: 7 Q. So we'd have to speak to each unit owner to 8 determine if they built in any productivity 9 improvements into their budgeting methodology? 10 MS. RUSSELL: 11 A. Yes. I think Mr. Henderson did speak about 12 that in his testimony. 13 MR. O'BRIEN: 14 Q. And are there any guidelines that -- is there 15 anything in the guidelines that tell you how 16 to build in productivity improvements in the 17 annual budgetary process? 18 MS. LUTZ: 19 A. I don't think specifically. I think it's part 20 of managing their costs and their budgets. 21 MR. O'BRIEN: 22 Q. I wonder if we could turn -- before I get into 23 the operating costs, I did want to talk about 24 the revenue, 2014 revenue deficiency. Can we 25 bring up Table 3.1? It's page 3.7 of the rate</p>
<p>Page 158</p> <p>1 A. No, I wouldn't be able to speak to what 2 productivity enhancements like that are in the 3 divisions. I wouldn't. 4 MR. O'BRIEN: 5 Q. But in terms of the budgetary aspect of it, 6 can you speak to that? 7 MS. LUTZ: 8 A. In? 9 MR. O'BRIEN: 10 Q. Was there anything built into the budget 11 process? The beginning of this answer is 12 "Hydro's budgeting methodology incorporates 13 productivity improvements." Is it just the 14 overtime that's the productivity improvement 15 built into the budgeting process? 16 MS. LUTZ: 17 A. Well, that would have come from the budget 18 that was presented from operations. So when 19 they say the budgeting process, it doesn't 20 mean as determined by finance. It means when 21 you're presenting your information, you should 22 build in all productivity allowances that you 23 can, in terms of controlling costs. 24 MR. O'BRIEN: 25 Q. Okay.</p>	<p>Page 160</p> <p>1 case application. I'm sorry, Table -- I think 2 it's -- yeah, there we go. 3 So that's the calculation of the 2014 4 revenue deficiency. Is that correct? 5 MS. RUSSELL: 6 A. Yes. 7 MR. O'BRIEN: 8 Q. And can someone tell me who prepared that 9 particular table? 10 MS. RUSSELL: 11 A. So there was a lot of people that gave input 12 into that, both between the finance and the 13 regulatory groups, but I guess it would have 14 been done under my direction, but I didn't 15 actually prepare the table, but it was done 16 between the finance and regulatory folks. 17 MR. O'BRIEN: 18 Q. Okay. So it would have been overseen by you, 19 I take it? 20 MS. RUSSELL: 21 A. Well, Mr. Fagan, I think, oversaw like a lot 22 of the details, but this was all part of the 23 calculation for the revenue deficiency. 24 MR. O'BRIEN: 25 Q. And when this particular filing, I guess, and</p>



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<p>1 this calculation was done, this was included 2 as part of the initial filing, not a separate 3 application? Is that right? 4 MS. RUSSELL: 5 A. I believe so, yeah. 6 MR. O'BRIEN: 7 Q. Okay. And I understand Hydro was asked to 8 prepare a separate application later in 9 November of 2014 to address the revenue 10 deficiency requirement. Is that right? 11 MS. RUSSELL: 12 A. Um-hm. Yes. 13 MR. O'BRIEN: 14 Q. Okay. And would you have been part of the 15 preparation of that application, Ms. Russell? 16 MS. RUSSELL: 17 A. I would have reviewed that after it was 18 prepared. 19 MR. O'BRIEN: 20 Q. And I take it from the application, there was 21 no -- the application was for approval to 22 transfer an amount of 44.9, so that's separate 23 from the supply costs revenue deficiency, an 24 amount of 45.9 from the RSP hydraulic 25 variation. Is that correct?</p>	<p>1 reasonable opportunity to test the proposals 2 of Hydro in that application. Is that fair to 3 say? 4 MS. RUSSELL: 5 A. At what date would you be referencing? 6 MR. O'BRIEN: 7 Q. When the application was filed, the end of 8 November, the Board issued an order before the 9 end of the year, but indicated in the order 10 that there wasn't a reasonable time to test 11 the proposals of Hydro in that application. 12 Is that fair? 13 MS. RUSSELL: 14 A. Yes, I believe it was filed in November, so it 15 would have been -- they would have been tested 16 through the RFI process after the amended 17 application was filed. 18 MR. O'BRIEN: 19 Q. And there was no -- and at that point in time, 20 Hydro had no interim order for interim rates? 21 MS. RUSSELL: 22 A. No. 23 MR. O'BRIEN: 24 Q. What was Hydro's main concern about this 25 application? Was it the recovery of the rate</p>
<p>Page 162</p> <p>1 MS. RUSSELL: 2 A. Yes. 3 MR. O'BRIEN: 4 Q. Okay. And it was never intended to be 5 specifically put in for rates, to be recovered 6 through rates? 7 MS. RUSSELL: 8 A. No, that was what Hydro proposed was through 9 the RSP. 10 MR. O'BRIEN: 11 Q. And the Board hasn't approved -- at this point 12 in time, the Board has merely set up a 13 deferral account to deal with this amount and 14 there's been no approval of any amount? 15 MS. RUSSELL: 16 A. No. 17 MR. O'BRIEN: 18 Q. Apart from setting the figure. 19 MS. RUSSELL: 20 A. Correct. 21 MR. O'BRIEN: 22 Q. Okay. I wonder whether or not you would agree 23 -- and we can go to the Order if we have to, 24 but it appears the Board noted that at the 25 time, in the end of November, there was no</p>	<p>Page 164</p> <p>1 of return? Was that the focus for 2014? 2 MS. RUSSELL: 3 A. It was the -- the main part was for Hydro to 4 be able to earn a reasonable return for 2014. 5 MR. O'BRIEN: 6 Q. Because we see going across on the return of 7 equity, there's the increase from 2007 - 2014 8 is 22.5 million. That makes up about half of 9 the revenue deficiency. Is that fair? 10 MS. RUSSELL: 11 A. Which line are you looking at? 12 MR. O'BRIEN: 13 Q. Sorry, the lines aren't numbered, but if you 14 go down, return on equity. 15 MS. RUSSELL: 16 A. Return on equity, yes. 17 MR. O'BRIEN: 18 Q. So under existing rates, the return is 19 calculated at eight and then 2014 test year, 20 30.5 and the difference was 22.5 million. 21 MS. RUSSELL: 22 A. Yes. 23 MR. O'BRIEN: 24 Q. So that's roughly half of what the revenue 25 deficiency was at the time.</p>

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<p>1 MS. RUSSELL: 2 A. Yes. 3 MR. O'BRIEN: 4 Q. And these costs again were based on a five- 5 month actual and seven-month forecast. I 6 understood from Mr. Conway's testimony in the 7 prudence review that the actual figures that 8 Hydro relied on to calculate the revenue 9 deficiency would have been available in around 10 June of that year. Is that fair? 11 MS. RUSSELL: 12 A. Yes. 13 MR. O'BRIEN: 14 Q. And can you advise us as to why they weren't 15 updated in November? 16 MS. RUSSELL: 17 A. So it has to do with -- and Mr. Henderson 18 spoke to this -- the timing when we would have 19 put forward this. It does take -- you have to 20 lock down the numbers at a certain point in 21 time. So that was the month that we -- that 22 the numbers were ready to lock down and then 23 once you -- because once you have the numbers, 24 that's one part of it. You have to update the 25 whole -- we had to do the amended application</p>	<p>1 that it's still subject to the testing of the 2 costs for 2014 as to whether they're 3 reasonable or not? 4 MS. RUSSELL: 5 A. Yes. 6 MR. O'BRIEN: 7 Q. And the fact that certain costs get incurred 8 doesn't necessarily mean they're reasonable? 9 MS. RUSSELL: 10 A. Correct. 11 MR. O'BRIEN: 12 Q. Or that they're forecasted to incur doesn't 13 necessarily mean they're reasonable? 14 MS. RUSSELL: 15 A. Correct, and I think as you indicated, our 16 actuals were higher than this. 17 MR. O'BRIEN: 18 Q. In some areas, yeah. And it's ultimately 19 Hydro's burden to establish the reasonableness 20 of this request and the costs that are asked 21 for here? 22 MS. RUSSELL: 23 A. Correct. 24 MR. O'BRIEN: 25 Q. The recovery.</p>
<p>Page 166</p> <p>1 and on each section we speak to the variances 2 for 2014 and '15. So all the evidence had to 3 be written and so it took a lot of time to get 4 through all that and that's why we had to -- 5 that was the cutoff point that we had to stop 6 at in order to be able to file that date. 7 MR. O'BRIEN: 8 Q. And would you have known by the time you filed 9 that your costs were off from an actual 10 perspective? 11 MS. RUSSELL: 12 A. We would have had more actual -- we would have 13 had more actual information at that point in 14 time. 15 MR. O'BRIEN: 16 Q. And is it Hydro's position -- and I'm asking 17 this because Mr. Fagan said he'd ask that it 18 be confirmed by the Finance Panel, Hydro 19 doesn't intend to update these costs for this 20 particular request, do they? 21 MS. RUSSELL: 22 A. No. 23 MR. O'BRIEN: 24 Q. No. And you would agree with me, I guess, 25 while there's a deferral account established</p>	<p>Page 168</p> <p>1 MS. RUSSELL: 2 A. And we're not adjusting. 3 MR. O'BRIEN: 4 Q. When Hydro filed the November, late November 5 application for the revenue deficiency, were 6 there concerns at that time that an amount had 7 to be booked for that year, from an accounting 8 perspective? 9 MS. RUSSELL: 10 A. Yes, there were concerns because we were 11 reaching the end of our year end, our annual 12 financial statements for the year. 13 MR. O'BRIEN: 14 Q. Just explain to me what the concern is in that 15 regard. 16 MS. RUSSELL: 17 A. So our year end is December 31st and we were 18 coming upon that and we would have -- had we 19 not had this, obviously you can back off the 20 amount, we would have -- Hydro would have 21 incurred a huge -- would have had to report a 22 huge loss on its 2014 income statement. 23 MR. O'BRIEN: 24 Q. And I guess keeping in mind that the costs are 25 subject to testing, I guess it's possible and</p>

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<p>1 it's possible that the Board doesn't order 2 that total 45.9 to go into that deferral 3 account for recovery for Hydro? Is that 4 right? 5 MS. RUSSELL: 6 A. Correct. It would be up to the Board, when we 7 get our Board -- our order at the end of this 8 GRA. 9 MR. O'BRIEN: 10 Q. And you'd agree with me that certain portions 11 of that amount have been disputed, certain 12 capital expenditures included in there and 13 prudence issues, that kind of thing? 14 MS. RUSSELL: 15 A. Well, the items that would be dealt with 16 through prudence would all form part of the 17 final order as well. 18 MR. O'BRIEN: 19 Q. Right, okay. And there'll be -- if there are 20 issues with control -- with the O&amp;M costs that 21 are included in here, that could have an 22 effect on how much the Board ultimately orders 23 to be included into that deferral account? 24 MS. RUSSELL: 25 A. As I've indicated, yes, the Board will make a</p>	<p>1 Q. In a deferral account, okay. 2 MS. RUSSELL: 3 A. Yes. 4 MR. O'BRIEN: 5 Q. So what would happen with that? Does the 6 balance then become impaired from an 7 accounting perspective? What happens? 8 MS. RUSSELL: 9 A. Once you get an order? 10 MR. O'BRIEN: 11 Q. Yes. 12 MS. RUSSELL: 13 A. Well, once you get an order, you know what 14 that amount is then and you would record it 15 based on whatever the order says. It depends 16 on what the order would say. 17 MR. O'BRIEN: 18 Q. Do you have to - 19 MS. RUSSELL: 20 A. As to how to recover as well. 21 MR. O'BRIEN: 22 Q. Do you have to adjust your books for 2014? 23 MS. RUSSELL: 24 A. I don't -- we would have to look into that 25 more specifically, but as to whether or not</p>
<p>Page 170</p> <p>1 -- will have an order at the end of the day 2 which will speak to this deferral as well as 3 the rates for 2016. 4 MR. O'BRIEN: 5 Q. Okay. And what would happen if there is a 6 significant amount of the 45.9 that the Board 7 ordered or disallowed or didn't include in 8 that? What would happen with respect to -- 9 from an accounting perspective for Hydro, what 10 impact would that have? 11 MS. RUSSELL: 12 A. Well, we would have to record that in the year 13 that we would get the order. 14 MR. O'BRIEN: 15 Q. So if we have -- if we go into 2016 to get the 16 order, you'd have to record that in 2016? 17 MS. RUSSELL: 18 A. I believe, yes. 19 MR. O'BRIEN: 20 Q. And what would happen to the amount that is -- 21 I presume there's 45.9 million that's recorded 22 on Hydro's books for 2014. Is that right? 23 MS. RUSSELL: 24 A. In a deferral account on the balance sheet. 25 MR. O'BRIEN:</p>	<p>Page 172</p> <p>1 you'd go back or just take the -- incur 2 whatever the difference might be in the 3 current year. I believe it would be a current 4 year and Carol Ann can jump in if she - 5 MS. LUTZ: 6 A. Yes, we'd recognize the difference in 2016. 7 MR. O'BRIEN: 8 Q. You'd recognize that - 9 MS. RUSSELL: 10 A. In the year that you get the order. 11 MR. O'BRIEN: 12 Q. Okay. So you would still have on your 2014 13 statements a 45.9 deferral account? 14 MS. RUSSELL: 15 A. Yes. 16 MR. O'BRIEN: 17 Q. You wouldn't adjust those? 18 MS. LUTZ: 19 A. Could you say that again? 20 MR. O'BRIEN: 21 Q. You would still have on your statements for 22 2014 a 45.9 deferral account asset? 23 MS. LUTZ: 24 A. For 2014 we would. 25 MR. O'BRIEN:</p>

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<p>1 Q. Yes.</p> <p>2 MS. LUTZ:</p> <p>3 A. But in 2016, we would have to recognize the</p> <p>4 results of the Board order.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. Okay. And would that have any impact on</p> <p>7 Hydro, apart from losing the balance?</p> <p>8 MS. LUTZ:</p> <p>9 A. Yes, our net income would be affected.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. Okay.</p> <p>12 MS. RUSSELL:</p> <p>13 A. Any amounts differing from the amount that was</p> <p>14 proposed would impact net income for 2015.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Would that have an effect on Hydro's ability</p> <p>17 to earn a reasonable rate of return in any</p> <p>18 future test -- like in 2016 or anything like</p> <p>19 that?</p> <p>20 (12:30 p.m.)</p> <p>21 MS. RUSSELL:</p> <p>22 A. Well, for that particular year, it would</p> <p>23 impact that year's. It would impact that</p> <p>24 year's return.</p> <p>25 MR. O'BRIEN:</p>	<p>1 MR. O'BRIEN:</p> <p>2 Q. The cost deferral amended application and</p> <p>3 related evidence for 2015.</p> <p>4 MS. GLYNN:</p> <p>5 Q. And that does form part of the GRA record.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. Yes, yeah.</p> <p>8 MS. GLYNN:</p> <p>9 Q. It doesn't need to be entered. It's already</p> <p>10 part of the GRA.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Oh, it doesn't? It's already part. Okay,</p> <p>13 good.</p> <p>14 MS. GLYNN:</p> <p>15 Q. We won't enter it as an exhibit, because it's</p> <p>16 already -</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. No, that's fine, yeah. I just couldn't see it</p> <p>19 on the website on Friday.</p> <p>20 MS. GLYNN:</p> <p>21 Q. Absolutely.</p> <p>22 MR. O'BRIEN:</p> <p>23 Q. So I wasn't sure.</p> <p>24 MS. GLYNN:</p> <p>25 Q. We fixed that.</p>
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<p>1 Q. Okay. And I wonder if I can ask you about the</p> <p>2 2015 cost deferral application. Hydro filed,</p> <p>3 I guess, a similar application in 2015</p> <p>4 following an order on interim rates in July of</p> <p>5 this year. And that application was amended</p> <p>6 last week? Is that right?</p> <p>7 MS. RUSSELL:</p> <p>8 A. Yes.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Okay. And in terms of that particular</p> <p>11 application, was there an accounting concern -</p> <p>12 - the amended, I guess, was there an</p> <p>13 accounting concern similar to the 2014 year</p> <p>14 that it had to be booked by the end of the</p> <p>15 year or you'd take a loss?</p> <p>16 MS. RUSSELL:</p> <p>17 A. Correct.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. I wonder if we could turn to -- I think, well</p> <p>20 it's a new document. It's not on the record.</p> <p>21 I think we've provided it, the evidence --</p> <p>22 what's the copy here?</p> <p>23 MS. GLYNN:</p> <p>24 Q. So this is the application that was filed on</p> <p>25 Thursday?</p>	<p>1 MR. O'BRIEN:</p> <p>2 Q. If we could turn to the evidence portion of</p> <p>3 that document? I'm sorry, Ms. Gray, I'm not</p> <p>4 sure what page it is, but we're in the</p> <p>5 application there now. Page 16 of the</p> <p>6 evidence. There you go. Okay. I just want</p> <p>7 to look at the first paragraph there.</p> <p>8 So this application was filed after</p> <p>9 interim rates were received by Hydro earlier</p> <p>10 in the year. Is that right?</p> <p>11 MS. RUSSELL:</p> <p>12 A. Correct.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. And the application indicates here, the</p> <p>15 evidence indicates "approval of all of Hydro's</p> <p>16 proposals in the 2015 cost deferral</p> <p>17 application would result in a forecast net</p> <p>18 income of 29.7 million in 2015. This net</p> <p>19 income for 2015 would provide a forecast</p> <p>20 return on rate base of 6.62 percent, which is</p> <p>21 at the bottom of the proposed range of return</p> <p>22 on rate base of 6.2 percent to 7.02 percent in</p> <p>23 the 2015 test year. As shown in Table 7,</p> <p>24 approval of a recovery percentage below 100</p> <p>25 percent would not provide Hydro with the</p>

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1 opportunity to earn a reasonable return on  
 2 rate base in 2015." And maybe we can scroll  
 3 up to Table 7? Here it is. Okay.  
 4 So you presented a number of scenarios  
 5 here about approval of the proposals in this  
 6 application and I will talk about the  
 7 proposals a little later, but why is it that  
 8 Hydro determined it was necessary to receive  
 9 100 percent recovery by the end of the year  
 10 here?  
 11 MS. RUSSELL:  
 12 A. The basis of this was based on the return on  
 13 rate base that would occur from the -- so, the  
 14 100 percent would give you 6.62, which is at  
 15 the bottom of the range, and Hydro felt that  
 16 that was a fair amount to put forward in a  
 17 proposal.  
 18 MR. O'BRIEN:  
 19 Q. I guess my question is you've got interim  
 20 rates and the Board has the jurisdiction then  
 21 to go ahead later on to -- based on its order,  
 22 to change those rates. Why is it necessary  
 23 for Hydro to book that 100 percent here? Is  
 24 it just a matter of accounting and what shows  
 25 up on the books?

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1 MS. RUSSELL:  
 2 A. It has to do with the timing. Like when the  
 3 first amended -- well, when the first  
 4 application for the 2015 cost deferral went  
 5 forward, at that point in time we had  
 6 anticipated that we would have had a final  
 7 order. So any amounts we would know by the  
 8 end of the year and we wouldn't be in the  
 9 position where we would be crossing over  
 10 another year end again. So as this hearing  
 11 has progressed and we've seen it's been a bit  
 12 longer than anticipated and an order won't be  
 13 obviously out before the end of the year, we  
 14 needed to update this application in order to  
 15 provide a number that would give Hydro an  
 16 opportunity to earn a reasonable rate of  
 17 return for 2015.  
 18 MR. O'BRIEN:  
 19 Q. Okay. But you're really -- the 100 percent  
 20 recovery is based on all of your proposals  
 21 being accepted by the Board. Is that right?  
 22 MS. RUSSELL:  
 23 A. Correct.  
 24 MR. O'BRIEN:  
 25 Q. And again, for 2015 there are issues in

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1 contention in terms of what should be in the  
 2 rate base and O&M figures and that sort of  
 3 thing and I wonder why it was necessary for  
 4 Hydro to have that 100 percent recovery? What  
 5 is the main concern?  
 6 MS. RUSSELL:  
 7 A. So I think, as I said, it goes back to the  
 8 6.62 which is at the low end of the rate of  
 9 return on rate base. Hydro feels that, you  
 10 know, it should earn in that -- within the  
 11 range and that amount gets you to the bottom  
 12 end of the range.  
 13 MR. O'BRIEN:  
 14 Q. Is Hydro concerned it won't have access to  
 15 funds or to credit agencies, that kind of  
 16 thing? What is the true concern there? Maybe  
 17 Mr. Pelley, you can answer that?  
 18 MR. PELLEY:  
 19 A. Yes, I can chime in. And it goes back to a  
 20 comment I made earlier, and for the purposes  
 21 of what I'm about to say, let's assume all the  
 22 costs were reasonable. Hydro has a mandate to  
 23 provide safe, reliable, least cost power, but  
 24 Hydro also has to post some kind of profit.  
 25 You know, that's an expectation. You can't

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1 have a situation where the utility is  
 2 continuing to lose money on a year-over-year  
 3 basis, because I think as I said before,  
 4 eventually you erode your equity base and you  
 5 get to a point where you're a 100 percent  
 6 debt-financed entity.  
 7 And going back to our earlier discussion  
 8 on the connection between the credit standing  
 9 of Hydro and the credit standing of the  
 10 province, that's what happened in New  
 11 Brunswick in the late '90s. New Brunswick  
 12 Power ended up through successive losses and  
 13 taking a significant write-off, ended up 100  
 14 percent debt-financed and as a consequence, as  
 15 I recall, there was a downgrade to the  
 16 Province of New Brunswick.  
 17 So, you know, to address your question,  
 18 what's Hydro's concern, and it really is  
 19 earning a reasonable return, again under --  
 20 putting aside -- under the presumption that  
 21 those costs -- I'm answering from the  
 22 perspective that those costs are all  
 23 considered reasonable, you know. Part of our  
 24 job as a management team is to earn within  
 25 that range. Because if we're below that, if

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<p>1 we're below that range, something has to 2 change, and if we're above it, it goes back to 3 rate payers. That's the whole premise of that 4 range. So, you know, it does have 5 implications.</p> <p>6 MR. O'BRIEN: 7 Q. Is there an immediate concern that if this 8 doesn't get booked in 2015 that Hydro is going 9 to be in a position that NB Power would be?</p> <p>10 MR. PELLEY: 11 A. No, I would -- I have to concede that no, it's 12 not -- I don't think that that's going -- it's 13 going to push us into that position.</p> <p>14 MR. O'BRIEN: 15 Q. No.</p> <p>16 MR. PELLEY: 17 A. But what I'm talking about is looking at -- 18 you have to look at it -- what I will say is 19 it's a -- wouldn't you agree that it's a step 20 in that direction? You know, you have a 21 utility that's posting losses or profits that 22 are not within that reasonable range on a 23 year-over-year basis, it is a step in that 24 direction. But I would agree with your 25 assessment that no, it doesn't create an</p>	<p>1 A. Yes.</p> <p>2 MR. O'BRIEN: 3 Q. - from this GRA by the end of the year?</p> <p>4 MS. RUSSELL: 5 A. Yes.</p> <p>6 MR. O'BRIEN: 7 Q. We were in the middle of July. There were 8 settlement discussions. Are you suggesting 9 that at that point in time, Hydro didn't 10 expect a lengthy hearing?</p> <p>11 MS. RUSSELL: 12 A. I think Hydro -- at the point in time we had 13 to -- there was a -- you know, the hope was 14 that to get through all that, that maybe there 15 was possible to get a -- possible to actually 16 get an order by the end of the year. That was 17 back further, you know, that was many months 18 ago. So hence why this application has -- 19 we've amended it.</p> <p>20 MR. O'BRIEN: 21 Q. And Hydro understood that there was going to 22 be prudency review as part of this hearing? 23 Is that right?</p> <p>24 MS. RUSSELL: 25 A. Yes.</p>
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<p>1 immediate -</p> <p>2 MR. O'BRIEN: 3 Q. There's no urgency here with respect to that?</p> <p>4 MR. PELLEY: 5 A. Not with respect to the way I just laid things 6 out, no.</p> <p>7 MR. O'BRIEN: 8 Q. No. And in terms of the timing of the 9 application, the initial application for 2015 10 cost recovery came right on the heels of the 11 interim rates order. Is that fair?</p> <p>12 MS. RUSSELL: 13 A. The initial cost recovery?</p> <p>14 MR. O'BRIEN: 15 Q. Yes. Wasn't much longer after?</p> <p>16 MS. RUSSELL: 17 A. Subject to check, yes.</p> <p>18 MR. O'BRIEN: 19 Q. Okay. Initial one was in July of 2015.</p> <p>20 MS. RUSSELL: 21 A. Yes.</p> <p>22 MR. O'BRIEN: 23 Q. At that time, did Hydro understand that -- or 24 expect to have an order -</p> <p>25 MS. RUSSELL:</p>	<p>1 MR. O'BRIEN: 2 Q. Okay. I'm just trying to get a flavour -</p> <p>3 MS. RUSSELL: 4 A. I don't think the length of time -- yes, there 5 was a prudency hearing. I'm not sure if the 6 whole set schedule on all the dates had been 7 put out there, but at the point in time, back 8 in time, yes, that's what we had anticipated 9 that, you know, perhaps we could get an order 10 by the end of the year and then as we went 11 along and realized that that wasn't going to 12 happen, then we amended the application.</p> <p>13 MR. O'BRIEN: 14 Q. And when did you realize that? How long into 15 the hearing were you when you realized that?</p> <p>16 MS. RUSSELL: 17 A. I can't recall the exact, and the point in 18 time that you realize it and then the amount 19 of work that goes into pulling together the 20 application, it doesn't happen 21 instantaneously.</p> <p>22 MR. O'BRIEN: 23 Q. In terms of the 2015, that particular 24 application, the accounting concern, again I 25 take it would that be passed over into -- the</p>

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<p>1 2015 loss is passed over into 2016, again 2 booked in 2016? 3 MS. RUSSELL: 4 A. When the order - 5 MR. O'BRIEN: 6 Q. If there's a 2015 loss? 7 MS. RUSSELL: 8 A. When you get the final order from the GRA on 9 2014 and '15 - 10 MR. O'BRIEN: 11 Q. Both would be booked? 12 MS. RUSSELL: 13 A. - I would anticipate all of those adjust -- 14 any adjustments would be made in 2016. 15 MR. O'BRIEN: 16 Q. Okay. So if both 2014 and 2015 result in -- 17 the Board's order results in a reduction in 18 the revenue requirement for both, Hydro would 19 book all of that loss in 2016? 20 MS. RUSSELL: 21 A. I believe, yes. 22 MR. O'BRIEN: 23 Q. And would that have an effect on the return 24 for 2016, the ability to earn a return? 25 MS. RUSSELL:</p>	<p>1 turn to the bottom of page five, I just want 2 to get some clarification. "The adjustment to 3 revenue requirement to reflect a lower opening 4 balance in rate base for 2015 test year is 5 made because these assets were not in service 6 at the end of the 2014. However, this rate 7 base adjustment is appropriate for the 2015 8 cost deferral only and not for the purpose of 9 determining revenue requirement for 2016." So 10 if we could scroll up a bit, we can see a 11 table there. There's a rate base adjustment 12 of five million dollars. That adjustment, 13 does that relate largely to the CT or is it 14 made up of more rate base adjustments? 15 (12:45 p.m.) 16 MS. RUSSELL: 17 A. It's more than just the CT. It is -- the 18 majority of it is the CT, but then it would be 19 any other capital that was not in service at 20 the end of 2014. 21 MR. O'BRIEN: 22 Q. Okay. And the suggestion that Hydro be 23 required to earn on, I guess, the CT for 2016, 24 that's one of the adjustments, and are there 25 other adjustments as well -- other assets that</p>
<p>Page 186</p> <p>1 A. Yes, it would. Any adjustments to -- if 2 there's any downward adjustments to what's 3 been proposed, then that will absolutely 4 impact the 2016 return. 5 MR. PELLEY: 6 A. At which point you'd be looking at what I 7 would view as potentially a significant 8 adverse write-off that impacts net income in a 9 single year. And then again, going back to 10 that construct that rating agencies use to 11 look at a utility and whether or not it's 12 self-supporting, at that point you'll have had 13 deferrals that are on the balance sheet for 14 three years, some of which end up getting 15 write off and speaks to potential regulatory 16 risks that Hydro faces. As well, at that 17 point, it could be a significant financial 18 impact. So while we can't say with certainty 19 it would have an impact on that relationship 20 between the province, the province's 21 creditworthiness and Hydro's, can't say with 22 any certainty that it couldn't either. 23 MR. O'BRIEN: 24 Q. I wonder if we could -- just on a couple of 25 the points in this application, if we could</p>	<p>Page 188</p> <p>1 Hydro would want to earn on in 2016? 2 MS. RUSSELL: 3 A. The assets that can -- the only adjustment is 4 the one -- the assets that make up this five 5 million dollar amount. 6 MR. O'BRIEN: 7 Q. Okay. 8 MS. RUSSELL: 9 A. So for the purposes of the cost deferral, they 10 were not in service for 2015, so we believe, 11 you know, it makes sense to reduce -- to take 12 it out of 2015 cost deferral, but they are in 13 -- the CT, for example, is in service now and 14 I believe the majority of those other assets 15 would be in service by the end of the year. 16 So when we go to set rates for 2016, that 17 should not be taken out because those assets 18 are in service. 19 MR. O'BRIEN: 20 Q. And what's the basis for doing that? They 21 wouldn't be included in the rate base for 22 2015, would they, on a normal regulatory -- if 23 they're not in service at the beginning of the 24 year, they wouldn't -- they're not included in 25 the test year, are they?</p>

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<p>1 MS. RUSSELL:  2 A. If they're not in service -  3 MR. O'BRIEN:  4 Q. Right.  5 MS. RUSSELL:  6 A. Can you repeat your question? If they're not  7 -  8 MR. O'BRIEN:  9 Q. If there's an asset like the CT that's not in  10 service for 2015 and 2015 is your test year,  11 you wouldn't include the full asset in your  12 rate base, would you?  13 MS. RUSSELL:  14 A. Correct, it's not it and for 2015 we're saying  15 for that portion of 2015, to remove those.  16 MR. O'BRIEN:  17 Q. Right.  18 MS. RUSSELL:  19 A. To remove that out of the cost deferral, but  20 where rates have not been set, where the order  21 is still pending and we're going forward where  22 the rates will be in 2016, these will be in  23 service then.  24 MR. O'BRIEN:  25 Q. What's the basis then for putting them into</p>	<p>1 Q. Okay. Hydro doesn't intend to file a 2016  2 test year, I take it?  3 MS. RUSSELL:  4 A. No.  5 MR. O'BRIEN:  6 Q. And do you intend to present any evidence to  7 say this proposed approach is consistent with  8 regulatory practice?  9 MS. RUSSELL:  10 A. This application?  11 MR. O'BRIEN:  12 Q. Uh-hm.  13 MS. RUSSELL:  14 A. Well we can undertake or I know this -  15 MR. O'BRIEN:  16 Q. Oh no, I'm not asking for an undertaking, I'm  17 just asking whether or not that's an  18 intention.  19 MS. RUSSELL:  20 A. If that's a?  21 MR. O'BRIEN:  22 Q. An intention on Hydro's part.  23 MS. RUSSELL:  24 A. To provide?  25 MR. O'BRIEN:</p>
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<p>1 the rates in 2016 if they're not in the test  2 year that sets the rates for 2016?  3 MS. RUSSELL:  4 A. They were in the test year for 2015 originally  5 and where we're doing--and I think this has to  6 do with the length of time and where we're  7 going over into, that the rates aren't  8 actually going to be in place until 2016, so  9 when we're looking back at--and you have the  10 benefit of going back now on 2015, those  11 amounts weren't in service, so it is just  12 those particular assets, so we felt it was an  13 adjustment to 2015, but should be left in as  14 they are in the test year for--so we're only  15 asking for an adjustment on the cost deferral,  16 not to actually take it out of the test year  17 for setting rates.  18 MR. O'BRIEN:  19 Q. Is that normal--do you know if that's normal  20 regulatory process to set a test year like  21 that?  22 MS. RUSSELL:  23 A. I would have to check that with Mr.--we'll  24 have to discuss that with Mr. Fagan.  25 MR. O'BRIEN:</p>	<p>1 Q. Expert evidence.  2 MS. RUSSELL:  3 A. On this?  4 MR. O'BRIEN:  5 Q. Yeah.  6 MS. RUSSELL:  7 A. So we filed this application and it would be  8 subject to RFIs and reviews and so if anybody  9 had, that's a question, you know, we can  10 answer it through the RFI process or -  11 MR. O'BRIEN:  12 Q. Okay, well what's the process that you  13 envisioned to happen in this particular  14 application? Do you envision a complete  15 reassessment of 2015 costs or what is it you  16 envision in terms of this application?  17 MS. RUSSELL:  18 A. Well I wouldn't be able to speak to what the  19 actual process will be, I guess that would be  20 up to the Board.  21 MR. O'BRIEN:  22 Q. Okay, because I guess as part of this process  23 we're testing 2015 costs. You don't  24 anticipate that the, this application, 2015  25 cost recover application is going to involve</p>



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<p>1 retesting of 2015 costs, I take it?</p> <p>2 MS. RUSSELL:</p> <p>3 A. No.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. So are you, is it part of Hydro's</p> <p>6 understanding that the costs tested in this</p> <p>7 particular application will be used then for</p> <p>8 that further application?</p> <p>9 MS. RUSSELL:</p> <p>10 A. Yes, for this one?</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Yes.</p> <p>13 MS. RUSSELL:</p> <p>14 A. Yes.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Would there be another process above and</p> <p>17 beyond this GRA, following the GRA to deal</p> <p>18 with the 2015 revenue recovery request?</p> <p>19 MS. RUSSELL:</p> <p>20 A. To deal with their recovery of this?</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. Yeah.</p> <p>23 MS. RUSSELL:</p> <p>24 A. Yes, it could also form part of the Board's</p> <p>25 final order on Hydro's GRA.</p>	<p>1 MS. LUTZ:</p> <p>2 A. Right now, because we haven't, we don't have a</p> <p>3 final order on 2015, we are still using the</p> <p>4 2007 cost of service estimates in the RSP.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. Right.</p> <p>7 MS. LUTZ:</p> <p>8 A. So unless we do have some kind of an order, as</p> <p>9 we've outlined here, the balances that are</p> <p>10 accruing in the RSP are different because the</p> <p>11 bases are different, it's not the 2015 base,</p> <p>12 so if you do the comparison between what the</p> <p>13 2007 date, the balance in the RSP is based on</p> <p>14 the 2007 inputs versus the 2015. You get a</p> <p>15 different balance and therefore, there is a</p> <p>16 different amount of interest that accrues in</p> <p>17 the RSP.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. So this particular interest accrual relates to</p> <p>20 balances in the RSP, would they normally be</p> <p>21 dealt with in the confines of the RSP rules,</p> <p>22 interest?</p> <p>23 MS. LUTZ:</p> <p>24 A. Yes, that's correct, so it's the normal</p> <p>25 interest that accrues in the RSP based on the</p>
<p style="text-align: right;">Page 194</p> <p>1 MR. O'BRIEN:</p> <p>2 Q. How would it form part of the final order?</p> <p>3 MS. RUSSELL:</p> <p>4 A. Or it could be a separate order on this</p> <p>5 application.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. Yeah, if you're envisioning RFIs and that sort</p> <p>8 of thing.</p> <p>9 MS. RUSSELL:</p> <p>10 A. Yes, and then we could, you know, depending on</p> <p>11 what happens for the recovery would be dealt</p> <p>12 with then afterwards.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. I wonder if we could turn to page 6 there?</p> <p>15 This is sort of the last area I wanted to ask</p> <p>16 on this application for now. The interest on</p> <p>17 the RSP, so it's page 6 and if you scroll</p> <p>18 down--sorry, scroll up a bit, middle of the</p> <p>19 first paragraph, under the RSP test year.</p> <p>20 Just explain to me what's being requested here</p> <p>21 in terms of the interest request for the RSP?</p> <p>22 MS. LUTZ:</p> <p>23 A. I think I could probably help now.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Okay, thank you.</p>	<p style="text-align: right;">Page 196</p> <p>1 balances that are outstanding and the balances</p> <p>2 that are outstanding are determined in</p> <p>3 comparison, the actual results or forecast</p> <p>4 results in comparison to the base which right</p> <p>5 now is the 2007 base.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. And this amount here that's accruing, the 7.6</p> <p>8 million, that's not an interest that's</p> <p>9 included in any of the calculations for the, I</p> <p>10 guess the calculation of interest within the</p> <p>11 rate base calculation?</p> <p>12 MS. LUTZ:</p> <p>13 A. No, this is within the RSP.</p> <p>14 MR. O'BRIEN:</p> <p>15 Q. This is separate and apart.</p> <p>16 MS. LUTZ:</p> <p>17 A. Yes.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. So it's not something in the test year, in</p> <p>20 either test year, it's apart from the RSP</p> <p>21 rules?</p> <p>22 MS. LUTZ:</p> <p>23 A. No, it's part of the RSP rules.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Okay. And that would be dealt with as part of</p>

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<p>1 the RSP rules, no matter what happened in any 2 year, wouldn't it?</p> <p>3 MS. LUTZ:</p> <p>4 A. So right now if--because until we get a final 5 order on 2015, we can't establish 2015 as the 6 cost of service base in the RSP, so right now 7 we're still using 2007.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. No, I understand that, I'm just, in terms of 10 the RSP itself, though, it has certain rules 11 that will deal with how that interest balance 12 gets dealt with, is that right?</p> <p>13 MS. LUTZ:</p> <p>14 A. That's true, but in this particular case here, 15 unless we deal with this particular fact that 16 for 2015 reporting, we have to use the 2007 17 base unless we get relief in this application-- 18 -from this application.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. Would you have to amend the RSP rules to do 21 that?</p> <p>22 MS. LUTZ:</p> <p>23 A. No, because once the 2015 year, which is the 24 test year, is approved, then the 2007 base-- 25 sorry, the 2015 base will be used in the RSP.</p>	<p>1 one hundred and six. I did some of my own 2 calculations, but it looks to be about 8.8, 3 close to 9 million dollar difference over that 4 period, is that fair?</p> <p>5 MS. LUTZ:</p> <p>6 A. 2013 you said?</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. No, the 2012.</p> <p>9 MS. LUTZ:</p> <p>10 A. Oh, sorry. Yes.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Okay. So over that six-year period would you 13 take it, subject to check, that that's about a 14 9 percent increase in that period?</p> <p>15 MS. LUTZ:</p> <p>16 A. Okay, subject to check, yeah.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Well if we go to, between 2012 and 2013, so 19 we've got 106 million up to 111, so we're into 20 the 5 million dollar range, 5.3 million dollar 21 range, would it take it, subject to check, 22 that that's about 5 percent on a year over 23 year basis?</p> <p>24 MS. LUTZ:</p> <p>25 A. Okay.</p>
<p style="text-align: right;">Page 198</p> <p>1 MR. O'BRIEN:</p> <p>2 Q. Okay, so that would go back into 2015 and 3 you'd get a recovery in 2015.</p> <p>4 MS. LUTZ:</p> <p>5 A. So essentially if, let's just say we had an 6 order today, we would re-run the RSP as if we 7 had been using 2015 all year, so it's a timing 8 issue, essentially.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Okay, I wonder if we could turn to the total 11 operating costs, let's have a look at--can we 12 bring up NP-NLH-307, attachment 1, page 9. 13 And Ms. Gray, I'll be looking at Undertaking 14 55 as well, as we go through, but let's start 15 with this one here. So if we can have a look 16 at line 36 here, the total operating costs by 17 type. So these are the figures that the 18 finance panel has sponsored, I take it, in the 19 context of this GRA, is that right?</p> <p>20 MS. LUTZ:</p> <p>21 A. That's correct.</p> <p>22 MR. O'BRIEN:</p> <p>23 Q. The total operating expenses, going across 24 line 36, if we look at 2007, the ninety-seven 25 million and change and going across to 2012,</p>	<p style="text-align: right;">Page 200</p> <p>1 MR. O'BRIEN:</p> <p>2 Q. Does that sound like a reasonable increase in 3 a one year, given what the increases were 4 prior, 9 percent over 6 years?</p> <p>5 MS. RUSSELL:</p> <p>6 A. For the?</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. 2013 to 2013, a 5 percent increase, total 9 operating expenses.</p> <p>10 MS. RUSSELL:</p> <p>11 A. Right, so in our evidence, like Hydro has put 12 forward the operating costs and explained 13 throughout the drivers that were driving those 14 changes and the operations' panel has, I 15 think, explained a lot of the larger 16 variances, like that have been driving those 17 O&amp;M costs.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. But is this something that the finance group 20 and the CFO and yourself would be considering 21 on an annual basis, increases in operating 22 expenses?</p> <p>23 MS. RUSSELL:</p> <p>24 A. Yes, they would be looked at, as we said, it's 25 one of the indicators.</p>

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<p>1 MR. O'BRIEN: 2 Q. Okay, and would that raise a concern, a 5 3 percent increase on a year over year basis, 4 given in the previous 6 years there was a 9 5 percent increase in total? 6 MS. RUSSELL: 7 A. For the test year? 8 MR. O'BRIEN: 9 Q. No, no, in 2012 to 2013, there's a 5 percent 10 increase and there was a 9 percent increase 11 between 2007 and 2012. 12 MS. RUSSELL: 13 A. So management would have looked at what the 14 drivers were for those, for those cost 15 increases. 16 MR. O'BRIEN: 17 Q. Okay. And I understand you probably wouldn't 18 have been involved in any discussions back in 19 2012 on that. If we go from 2013 forward, 20 though, 2013 we have 111 million there. 2013 21 to the 2014 test year, that's 126, we've got a 22 14.3 million dollar increase there or about 13 23 percent, would you take that subject to check? 24 MS. RUSSELL: 25 A. Which years again?</p>	<p>1 when the numbers were compiled. 2 MR. O'BRIEN: 3 Q. And were there discussions about how can we be 4 more efficient with operating costs? 5 MS. RUSSELL: 6 A. Yes, there were discussions about that. There 7 were also discussions about the items that 8 were driving the increases, the aging assets 9 increased and increasing some of the workforce 10 to deal with some of those work plans, and 11 again operations would have explained what the 12 drivers were and in HR as well, the HR panel 13 for the salary piece of that. 14 MR. O'BRIEN: 15 Q. Okay, and I understand that there would have 16 been discussions about what's driving it, I'm 17 wondering whether there was discussions about 18 the fact that there's a 13 percent increase 19 here that we're going to be asking to pass on 20 to rate payers, what are we going to do going 21 forward in order to make sure we're efficient? 22 (1:00 p.m.) 23 MS. RUSSELL: 24 A. So all those costs were felt to be reasonable 25 and prudent in providing electricity service</p>
<p>Page 202</p> <p>1 MR. O'BRIEN: 2 Q. From 2013 to the test year, 2014. 3 MS. RUSSELL: 4 A. Okay. 5 MR. O'BRIEN: 6 Q. So in terms of preparation of the amended GRA, 7 you're looking at a 13 percent increase in 8 total operating costs. Was that something 9 discussed as being a reasonable increase to 10 pass on to rate payers? 11 MS. RUSSELL: 12 A. It would have been discussed in terms of what 13 the costs were that were driving the numbers 14 to increase with respect to providing the 15 service to customers. 16 MR. O'BRIEN: 17 Q. And do you recall any specific discussions 18 about that, about this size of an increase and 19 how to deal with it? 20 MS. RUSSELL: 21 A. 2013 to - 22 MR. O'BRIEN: 23 Q. 2013 to 2014 test year. 24 MS. RUSSELL: 25 A. 2013 to 2014. There were discussions, yes,</p>	<p>Page 204</p> <p>1 to customers and that's why they were put 2 forward. 3 MR. O'BRIEN: 4 Q. So you felt that that was a reasonable, 5 obviously a reasonable cost to put forward, a 6 reasonable group of costs. 7 MS. RUSSELL: 8 A. Correct. 9 MR. O'BRIEN: 10 Q. That figure, 13 percent was based on the 2014 11 test year, but your actuals for 2014 weren't 12 at, for total operating, were actually higher, 13 is that right, a fair bit higher? 14 MS. RUSSELL: 15 A. Yes. 16 MS. LUTZ: 17 A. Yes. 18 MS. RUSSELL: 19 A. Yes, Ms. Lutz probably has the details on 20 that. 21 MR. O'BRIEN: 22 Q. And we actually compared the 2013 to the 2014 23 actuals, there's a 20 million dollar 24 difference there, 111 to 132, we're looking at 25 now, subject to check, about 18 percent in the</p>

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<p>1 difference.</p> <p>2 MS. LUTZ:</p> <p>3 A. Yes.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. Is Hydro satisfied that that's an example of</p> <p>6 reasonable cost control from 2013 to 2014?</p> <p>7 MS. RUSSELL:</p> <p>8 A. For the actuals.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. For the actuals.</p> <p>11 MS. RUSSELL:</p> <p>12 A. So the actuals are higher than the test year.</p> <p>13 The test year we're not adjusting to the</p> <p>14 actuals and so we're not adjusting the test</p> <p>15 year back to the actuals.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. No, I understand that. My question is more</p> <p>18 focussed on cost control and steps towards</p> <p>19 cost control. Is Hydro satisfied that an</p> <p>20 increase in 18 percent from actual 2013 to</p> <p>21 actual 2014 is an example of reasonable cost</p> <p>22 control for the total operating cost.</p> <p>23 MS. RUSSELL:</p> <p>24 A. So I think we provided in the undertaking the</p> <p>25 variance explanations for the actual to the</p>	<p>1 MR. O'BRIEN:</p> <p>2 Q. Okay, so those appear to me and you can look</p> <p>3 down through the figures, but those appear to</p> <p>4 me to be the main drivers in the difference</p> <p>5 between or the big drivers between operating</p> <p>6 expenses from 2013 to 2014, is that fair?</p> <p>7 MS. LUTZ:</p> <p>8 A. And professional services as well.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. And professional services, okay, we can</p> <p>11 through that in there too, so professional</p> <p>12 services, line 20, and that goes from 5 to 12,</p> <p>13 so those are the three big pieces of that</p> <p>14 puzzle. How much of that is related to outage</p> <p>15 and repair requirements due to--sorry,</p> <p>16 bringing up to speed preventative maintenance</p> <p>17 and that sort of thing, how much of all of</p> <p>18 that is related to, I guess the 2014 outages,</p> <p>19 directly or indirectly.</p> <p>20 MS. LUTZ:</p> <p>21 A. So I think I mentioned earlier and I would get</p> <p>22 to check on the overtime, we do have RFIs that</p> <p>23 explain those cost categories. I believe also</p> <p>24 there was some activity related to maintenance</p> <p>25 backlog reductions that drove some of those</p>
<p>Page 206</p> <p>1 test year, so that would explain the reasons</p> <p>2 that were driving the actual cost up and above</p> <p>3 for those items.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. So you're satisfied that that is an example of</p> <p>6 reasonable cost control in that period.</p> <p>7 MS. RUSSELL:</p> <p>8 A. That is what the costs were for that period</p> <p>9 and we've provided the variance explanations</p> <p>10 for them.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. If we look at the 2013, 2014 test year, the</p> <p>13 overtime, if we could scroll over, Ms. Gray,</p> <p>14 to the left of it. So line 5, it looks like</p> <p>15 there's about a 4, 4.4 million dollar increase</p> <p>16 in overtime in that period, in the actuals.</p> <p>17 And the system equipment maintenance, line 11,</p> <p>18 seems like there's about a 6 million dollar</p> <p>19 increase, is that fair?</p> <p>20 MS. LUTZ:</p> <p>21 A. 14 actual you're looking at?</p> <p>22 MR. O'BRIEN:</p> <p>23 Q. Yes.</p> <p>24 MS. LUTZ:</p> <p>25 A. Yeah.</p>	<p>Page 208</p> <p>1 costs.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Right, yes. And I think that that's fair,</p> <p>4 there's some RFIs that deal with that and also</p> <p>5 with the professional services. Would that,</p> <p>6 to you, put 2014 as an outlier in terms of</p> <p>7 actuals?</p> <p>8 MS. RUSSELL:</p> <p>9 A. From the actuals' perspective?</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. Yeah.</p> <p>12 MS. RUSSELL:</p> <p>13 A. There were some items in the actual, like, for</p> <p>14 example, the professional services that were a</p> <p>15 lot higher due to the outage inquiry and the</p> <p>16 length of time and the hearing, so there was,</p> <p>17 you know, that's why those costs were up on</p> <p>18 the professional services' side, as an</p> <p>19 example.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. I guess my question is more would you expect</p> <p>22 that 2014, which has those three particular</p> <p>23 areas as being the big pieces, to continue to</p> <p>24 have those particular areas increased or the</p> <p>25 operating expenses increase going forward, or</p>

<p style="text-align: right;">Page 209</p> <p>1 would you expect the 2014, the actuals, to be 2 an outlier. 3 MS. RUSSELL: 4 A. So 2015, I think 2015 is the year we're 5 putting forward for rates. 6 MR. O'BRIEN: 7 Q. No, I understand, yeah. 8 MS. RUSSELL: 9 A. So I think there were certain things probably 10 and again I think the operations' panel would 11 have to--or has explained like the variances 12 or nuances that occurred in 2014 for the 13 costs, but from the perspective of going 14 forward, we have put forward the 2015 test 15 year for setting rates and the 2014 is a cost 16 recovery. 17 MR. O'BRIEN: 18 Q. Well let's look at the 2015, the 2014, if we 19 went from 2014 test year to the 2015 test 20 year, that was in the last two lines, you're 21 126 to 138, so when you put together the rate 22 case and put together these two test years, 23 you saw a 12 million dollar increase, is that 24 fair? About a 10 percent increase from 2014 25 test year to 2015 test year.</p>	<p style="text-align: right;">Page 211</p> <p>1 MR. O'BRIEN: 2 Q. With the O&amp;M, yeah. 3 MS. RUSSELL: 4 A. So we looked at the reason, and that's part of 5 the reason for the amendments, like as we 6 talked about the 2013 because the costs were, 7 there were changes within the organization 8 that were creating costs that were higher than 9 the 2013 test year, which is why, if rates had 10 been set on 2013, they would not have been 11 able to cover the costs that were forecasted 12 for 2015. 13 MR. O'BRIEN: 14 Q. Okay. 15 MS. RUSSELL: 16 A. And again, the discussion of those costs, I 17 think has been discussed with Mr. Henderson 18 and his operations' panel as to why, what was 19 driving the increases in the O&amp;M. 20 MR. O'BRIEN: 21 Q. And your recollections as to what was driving 22 the increase in O&amp;M had to do with the 23 Holyrood conversion factor was it or Holyrood 24 efficiencies? 25 MS. RUSSELL:</p>
<p style="text-align: right;">Page 210</p> <p>1 MS. RUSSELL: 2 A. Yeah. 3 MR. O'BRIEN: 4 Q. Was that a concern at the time that this may 5 not be reasonable, a 10 percent increase on a 6 year over year basis? 7 MS. RUSSELL: 8 A. Well the costs were reasonable from the 9 perspective of what went into the cost and the 10 cost of providing--that was the cost of 11 providing the level of service to customers. 12 MR. O'BRIEN: 13 Q. Okay, well I guess my question is is when 14 you're looking at this filing and you've got 15 2014 and 2015, you're looking at a significant 16 increase from 2013 to 2014 and now you're 17 looking at this filing and you're seeing, at 18 least on the test year basis another 10 19 percent on a year over year basis that we're 20 asking to pass on to customers, did you look 21 at whether or not there was some productivity 22 efficiencies or something we could bill into 23 2015 so it's not such a big increase? 24 MS. RUSSELL: 25 A. So 10 percent with respect to the O&amp;M.</p>	<p style="text-align: right;">Page 212</p> <p>1 A. Well there's different, this is just the O&amp;M 2 line here, right. 3 MR. O'BRIEN: 4 Q. Okay, well what are your recollections as to 5 the concern raised when you were filing for 6 2015? 7 MS. RUSSELL: 8 A. That was part of it, the Holyrood CT and then 9 there were some workforce adjustments that 10 were required, which I believe Mr. Henderson 11 discussed as well. 12 MR. O'BRIEN: 13 Q. That would have been at Mr. Henderson's level 14 then, would it, in terms of the workforce 15 requirements? Do you recall any discussions 16 as to what that involved? 17 MS. RUSSELL: 18 A. I wouldn't be able to specifically, I believe 19 him and his panel would have testified to 20 those - 21 MR. O'BRIEN: 22 Q. Okay. I wonder if we could go to Undertaking 23 55, sorry, just before we leave that one, just 24 to get the figure. The operating for the test 25 year 2015, we have 138,179. I believe it's in</p>

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<p>1 Undertaking 55 as well. If we pull up 2 Undertaking 55, this is a recent document we 3 received, this is 2015 forecast and if we 4 scroll to page 2 of--page 1 of attachment 2, 5 sorry. So these are some recent--a recent 6 forecast we received from Hydro, last week, 7 and this was based on actuals to August, 2015, 8 is that right? 9 MS. RUSSELL: 10 A. Correct. 11 MR. O'BRIEN: 12 Q. Is that month-end August or month-end July? 13 MS. LUTZ: 14 A. Month-end August. 15 MS. RUSSELL: 16 A. Month-end August. 17 MR. O'BRIEN: 18 Q. Month-end August, okay. And there's some 19 comparators here, in terms of expenses and 20 revenue to the actual 2015 test year. The 21 operating expenses, net operating expenses are 22 line 17 there. So the test year had in 138.2 23 and now you're forecasting 144.2. I wonder 24 whether you can tell me, are you satisfied 25 that Hydro has been managing its operation</p>	<p>1 Q. No, I understand that, but I guess Mr. 2 Henderson has already testified - 3 MS. RUSSELL: 4 A. We can undertake to ask him, but he is the 5 person who is responsible for the operations' 6 piece of this, so I wouldn't be able to speak 7 to the specifics of the individual expenses. 8 MR. O'BRIEN: 9 Q. And in terms of, well in terms of managing the 10 operating expenses, is that just Mr. 11 Henderson's obligation or are you part of 12 that? 13 MS. RUSSELL: 14 A. We pull together the information and provide 15 him with, okay, the numbers, the test year 16 numbers, but ultimately it would be, if we 17 have a difference or he's the one who actually 18 approves or would authorize the - 19 MR. O'BRIEN: 20 Q. The expenditures. 21 MS. RUSSELL: 22 A. Well if they related to, sort of SEM or, you 23 know, system equipment maintenance work, those 24 would be areas that would be in, you know, 25 it's ultimately his responsibility to decide</p>
<p>1 cost if the 2015 test year was at 138, which 2 was significantly higher than the previous 3 year and now it's going up to 144. What 4 thoughts do you have on that? 5 MS. RUSSELL: 6 A. For the forecasted amounts, those amounts 7 relate to, again, the actuals to August and 8 any forward forecast for the last remaining 9 months of the year and any adjustments to 10 this, Mr. Henderson would have approved, had 11 to--they would have had to go through, and 12 again, the operations' panel would be the ones 13 to discuss the increases that were over or the 14 reasons for the increases over. 15 MR. O'BRIEN: 16 Q. So you have no comment on whether or not this 17 is reflective of reasonable cost management 18 for 2015? 19 MS. RUSSELL: 20 A. Well these are the costs that have been--these 21 were the costs that have been approved and 22 there are, we have the explanations beside 23 that to explain the reasons for the variances, 24 behind. 25 MR. O'BRIEN:</p>	<p>1 whether or not an expenditure gets made. 2 MR. O'BRIEN: 3 Q. So I guess going back to the finance 4 department's role and your role, I guess, Ms. 5 Russell, and monthly meetings and looking at 6 variances, would you have been involved in 7 looking at variances in January of 2015 and 8 February of 2015 and that sort of thing? 9 Would you have been involved in that regard? 10 MS. RUSSELL: 11 A. Yes. 12 MR. O'BRIEN: 13 Q. And would you have noticed an increase in 14 operating expenses for 2015, as compared to 15 the 2015 test year? 16 MS. RUSSELL: 17 A. Well the actuals, as they come in, you would 18 have to look at, compare to your forecast 19 because the actuals could come in, there could 20 be timing differences, like you could see 21 something that was under, but really it's 22 expected to, it's just the timing of when the 23 expenditure is going to occur, so looking at 24 actuals itself won't really tell you whether 25 or not you are going to be on track. You</p>

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1 would have to look at the forecast, which we  
 2 do quarterly, and again, we do have quarterly  
 3 meetings on the forecast where we would roll  
 4 the actuals and the remaining forecast  
 5 together and have the meetings and then  
 6 discuss whether or not the managers were on  
 7 track for that or if they were over or under  
 8 and then they would have to provide--they  
 9 would have to provide any adjustments if they  
 10 wanted any and they would have to be approved.  
 11 MR. O'BRIEN:  
 12 Q. Let me ask you for 2015 then, what would your  
 13 budget have been based on for 2015, for  
 14 operating? Would it have been based on the  
 15 test year?  
 16 MS. RUSSELL:  
 17 A. The test year.  
 18 MR. O'BRIEN:  
 19 Q. It would have, okay, so you would have had  
 20 that as your baseline going forward.  
 21 MS. RUSSELL:  
 22 A. Yes.  
 23 MR. O'BRIEN:  
 24 Q. And we know that by August you're forecasting  
 25 an increase from 138 million to 144, which is

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1 another, you can take it subject to check,  
 2 almost 9 percent in that area, is that fair?  
 3 MS. RUSSELL:  
 4 A. Subject to check.  
 5 MR. O'BRIEN:  
 6 Q. Okay, so you know that there's an increase in  
 7 that period. What discussions did you have  
 8 about how are we going to manage those costs?  
 9 MS. RUSSELL:  
 10 A. So there were discussions, like in the  
 11 meetings that Mr. Henderson had, there would  
 12 have been discussions with any managers for  
 13 the costs that were, why the cost of certain  
 14 ones were increasing. For example, one is  
 15 professional services and one of the main  
 16 drivers of that is the costs associated with  
 17 the outage inquiry and the PUB costs, the GRA  
 18 costs, that's just one that I -  
 19 MR. O'BRIEN:  
 20 Q. Okay, and we see a difference there of between  
 21 9.5 and 11.9.  
 22 MS. RUSSELL:  
 23 A. Correct.  
 24 MR. O'BRIEN:  
 25 Q. All right. We see salaries and benefits

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1 increasing and I know there's an explanation  
 2 on that. Maybe we can scroll down to Note 2,  
 3 increase of benefit expense of 1.1 million and  
 4 an increase of .7 million associated with the  
 5 new union agreement. The increase in benefit  
 6 expense of 1.1, what's that related to?  
 7 MS. RUSSELL:  
 8 A. That's related to the, I'll let -  
 9 MS. LUTZ:  
 10 A. The employee future benefit expense, which  
 11 comes from our actuary report.  
 12 MR. O'BRIEN:  
 13 Q. Okay. If we could go back then to the  
 14 previous page, I take it in terms of the cost  
 15 recovery application for 2015, Hydro is not  
 16 intending to request a change in the revenue  
 17 requirement to reflect actuals for 2015?  
 18 MS. RUSSELL:  
 19 A. No.  
 20 MR. O'BRIEN:  
 21 Q. Not for operating. So you're sticking with  
 22 the 2015 test year.  
 23 MS. RUSSELL:  
 24 A. Yes.  
 25 MR. O'BRIEN:

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1 Q. Okay. And Hydro doesn't have a detailed 2016  
 2 forecast on the record, does it?  
 3 MS. RUSSELL:  
 4 A. The 2016 budget is currently being finalized  
 5 and once that is finalized, it will be  
 6 provided.  
 7 MR. O'BRIEN:  
 8 Q. And that budget, is that geared towards the  
 9 2015 test year?  
 10 MS. RUSSELL:  
 11 A. It will be--it's not finalized it, so I can't  
 12 comment on any of the numbers because we are  
 13 finalizing it, but it should be done within  
 14 the next couple of weeks, I would think.  
 15 MR. O'BRIEN:  
 16 Q. I wonder if we could bring up NP-NLH-20,  
 17 Revision 1. And I understand, if we could go  
 18 to--sorry, attachment 1, widen it out a little  
 19 bit so we can see. I understand that 2016 and  
 20 2017 figures here in this document are sort of  
 21 high level figures based on long-term--maybe  
 22 we can go back to page 1 there for a second.  
 23 Long-term financial planning used at that  
 24 point, so it's not a detailed level forecast,  
 25 is that fair?

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<p>1 MS. RUSSELL: 2 A. Correct. 3 MR. O'BRIEN: 4 Q. Okay, and if we go back then to page one here, 5 the expenses, the operating expenses here have 6 2016 at 140.8 and 2017 at 144.0, is it fair to 7 say that that 140.8 is not going to be 8 accurate, not likely to be accurate? 9 MS. RUSSELL: 10 A. Just one second. The 140? No, that's not 11 fair to say. 12 MR. O'BRIEN: 13 Q. It's not fair to say that? 14 MS. RUSSELL: 15 A. That that number isn't accurate or is 16 accurate? 17 MR. O'BRIEN: 18 Q. I guess, maybe I'll rephrase the question. 19 MS. RUSSELL: 20 A. This was done awhile ago. 21 MR. O'BRIEN: 22 Q. Yes, so right now you're forecasting 144 for 23 the end of 2015, so 2016, if you're going to 24 based that on 2015, is it forecast to 2015 or 25 the actuals of 2015 that you would come up</p>	<p>1 that we provided. 2 MR. O'BRIEN: 3 Q. Got the cross-examination documents here, 4 Jenny? Here it is, okay. I just wanted to 5 ask, just for some clarification, Mr. Young 6 writes the Board here to say in a letter dated 7 July 10th, "The Board requests that Hydro 8 provide the date when responses to 9 Newfoundland Power's RFIs, which Hydro 10 contested, can be provided to include 2016 11 detailed forecast information. Hydro's 2016 12 budgeting process is currently underway. The 13 current budget process would indicate that 14 approval of Hydro's board of directors is 15 anticipated to occur on November 12th. Hydro 16 confirms it will provide a requested RFI 17 update shortly after receipt of the approval 18 of the 2016 budget." I understand the actual 19 RFIs have been updated, is there any 20 intention--and they were updated prior to 21 that, is there intention to provide any 22 further 2016 forecast information at this 23 stage? 24 MS. RUSSELL: 25 A. Once we get our budget finalized, like for the</p>
<p>1 with 2016's? 2 MS. RUSSELL: 3 A. 2016 we will go through, we will go through 4 the 2015 and we will look at that, the test 5 year, and come up with the operating, the O&amp;M 6 number for that. 7 MR. O'BRIEN: 8 Q. Okay. Is it more likely it will look like the 9 2015 actuals than the 2015 - 10 MS. RUSSELL: 11 A. No, I would not say that. 12 MR. O'BRIEN: 13 Q. No? Okay. There was a letter, I wonder if we 14 could pull up, there's a letter we provided 15 for an Information. 16 MS. GLYNN: 17 Q. Information No. 45. 18 MR. O'BRIEN: 19 Q. Okay, thank you. And this is a letter from 20 Mr. Young to the Board, September 4th letter. 21 I just wanted to get some clarification, more 22 than anything, on that. Is that there? I'm 23 sorry. 24 MR. HAYES: 25 Q. It's part of the cross-examination documents</p>	<p>1 end of November, we can provide that, yes. 2 MR. O'BRIEN: 3 Q. Okay, all right, great, thank you. So that 4 would be the budget for 2016 or forecast for 5 2016? 6 MS. RUSSELL: 7 A. No, the budget. 8 MR. O'BRIEN: 9 Q. Budget, okay. 10 MS. GLYNN: 11 Q. It's an undertaking noted on the record. 12 MR. O'BRIEN: 13 Q. All right. I wonder if we could go back to-- 14 Mr. Chair, I'm starting to get into another 15 line of questioning here, I wonder if it might 16 be a good idea to stop for today. 17 CHAIRMAN: 18 Q. Great idea. 19 MR. O'BRIEN: 20 Q. Great idea, thank you. 21 Upon conclusion at 1:24 p.m.</p>



1 CERTIFICATE

2 I, Judy Moss, hereby certify that the foregoing is a true  
3 and correct transcript of a hearing in the matter of  
4 Newfoundland and Labrador Hydro's General Rate  
5 Application heard on the 16th day of November, A.D., 2015  
6 before the Commissioners of the Public Utilities Board,  
7 St. John's, Newfoundland and Labrador and was transcribed  
8 by me to the best of my ability by means of a sound  
9 apparatus.  
10 Dated at St. John's, Newfoundland and Labrador  
11 this 16th day of November, A.D., 2015  
12 Judy Moss

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