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1 (10:00 A.M.)
 2 CHAIRMAN:
 3 Q. Thank you and good morning everybody. I was
 4 just sitting in my office at my desk enjoying
 5 the sunshine beating through the window and
 6 had the curtains open, so should probably open
 7 the curtains here. It was quite enjoyable.
 8 First time we've seen it in about three or
 9 four days. Maybe it's a good omen to the
 10 start of the hearing. I realize, as well, how
 11 important rain is to utilities as well, so
 12 never let me said that the Public Utilities
 13 Board was favouring one type of weather over
 14 the other.
 15 Anyway, good morning. I would like to
 16 welcome everybody here for the start of this
 17 hearing into what's now, I guess, Newfoundland
 18 Power's Revised 2008 Rate Application. To all
 19 participants, including the applicant,
 20 intervenors, respective counsels and their
 21 support staff, along with any public that
 22 might be here as well, I extend to each of you
 23 a warm welcome. I look forward to, indeed, a
 24 productive and fair public hearing.
 25 My name is Robert Noseworthy and I'm

Page 3

1 Senior Counsel at Newfoundland Power.
 2 CHAIRMAN:
 3 Q. Good morning and welcome.
 4 MR. JOHNSON:
 5 Q. Good morning, Chair and Vice-Chair. Tom
 6 Johnson, Consumer Advocate appointed to
 7 intervene in these proceedings and with me is
 8 my co-counsel, Stephen Willar.
 9 CHAIRMAN:
 10 Q. Good morning, Mr. Johnson, Mr. Willar.
 11 MR. YOUNG:
 12 Q. Good morning, Mr. Chair. Geoffrey Young on
 13 behalf of Newfoundland and Labrador Hydro.
 14 CHAIRMAN:
 15 Q. Thank you. Mr. Young, just for clarification
 16 purposes, I understand that you will only be
 17 here at certain times. Is that -
 18 MR. YOUNG:
 19 Q. I expect to be here throughout most of the
 20 week, but I may not be here throughout every
 21 single session.
 22 CHAIRMAN:
 23 Q. I wonder if you could just perhaps notify the
 24 Board Secretary when you don't -
 25 MR. YOUNG:

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1 chair and chief executive officer of the
 2 Public Utilities Board and for this public
 3 hearing, I'll serve as chair of the panel of,
 4 again, two souls, which have been delegated
 5 with the responsibility to hear this
 6 particular rate application. My colleague
 7 joining me on the panel is Commissioner
 8 Darlene Whalen and Darlene is also Vice-Chair
 9 of the Board. I'd also like to introduce to
 10 my immediate left, Cheryl Blundon, who's the
 11 Board secretary, and Dwanda Newman, who's the
 12 Board counsel, and I'd also like to ask, at
 13 this point, the persons seated at the table
 14 with name tags representing the applicant and
 15 each of the registered intervenors to please
 16 introduce yourself and indicate in what
 17 capacity you're here, and there will be an
 18 opportunity for opening statements. I'm just
 19 simply asking for an introduction at this
 20 point in time. We'll begin with the
 21 applicant, Newfoundland Power.
 22 KELLY, Q.C.:
 23 Q. Thank you, Mr. Chairman. My name is Ian
 24 Kelly. I'll be representing the company and
 25 with me at the counsel table is Gerard Hayes,

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1 Q. I sure will.
 2 CHAIRMAN:
 3 Q. - intend to come, so we won't -
 4 MR. YOUNG:
 5 Q. Be waiting for me
 6 CHAIRMAN:
 7 Q. - we won't delay proceedings in any event
 8 waiting for you.
 9 MR. YOUNG:
 10 Q. Understood.
 11 CHAIRMAN:
 12 Q. Thanks a million. I normally, at this point
 13 in time, review the Public Utilities Board and
 14 what we're all about. Is there anybody here
 15 that's not associated with the utilities?
 16 Because you'd know what you're here about this
 17 morning without having to listen to me. Okay,
 18 well, that's fair enough. I will provide,
 19 however, a little bit of a background from the
 20 Board's perspective on the receipt of the
 21 application and the process to date and I'll
 22 leave it in Newfoundland Power to specifically
 23 introduce the application itself.
 24 The original General Rate Application
 25 from Newfoundland Power was received by the

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1 CHAIRMAN:
 2 Board on May the 10th, 2007. The Board held a
 3 pre-hearing conference on June the 12th to
 4 identify registered intervenors and set the
 5 procedures and schedule for the public
 6 hearing. Following the pre-hearing
 7 conference, time was allowed for intervenors
 8 and the Board to request information from the
 9 applicant, allow the applicant sufficient time
 10 to respond to these requests and also for the
 11 parties to retain experts as appropriate to
 12 assist them. Also in advance of the hearing,
 13 the Board requested the parties to participate
 14 in a Board-facilitated settlement process and
 15 the purpose of this settlement process was to
 16 require parties to commence negotiations on
 17 the host of issues contained in Newfoundland
 18 Power's original application. The objective
 19 of the settlement process established by the
 20 Board was to reduce the length of the public
 21 hearing, in the hope of improving regulatory
 22 efficiency, and indeed, reducing hearing
 23 costs.
 24 This negotiation process began in August
 25 and a resulting Settlement Agreement was filed

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1 decision and order made by the Board.
 2 Before concluding my remarks--well,
 3 again, I think I normally deal with the
 4 process and what happens here over the next
 5 week or so and again, if everybody is here,
 6 I'm sure you know what you're here for and
 7 I'll dispense with that in the interest of
 8 time here this morning.
 9 There are, however, a number of
 10 housekeeping items and preliminary items which
 11 I normally go through and I will deal with
 12 these for purposes of record. In addition to
 13 the paper documentation filed in relation to
 14 this application, which is located on one or
 15 two trolleys, I'm not sure which, over there
 16 next to Ms. Blundon, the Board secretary, the
 17 Board has also posted the entire set of
 18 documentation on the web site and other
 19 documentation which may be presented during
 20 the public hearing, including daily
 21 transcripts, will also be posted on the
 22 Board's web site, and in addition, I'd like to
 23 welcome back Mr. Chris Wells, an employee of
 24 Newfoundland Power, who will be assisting
 25 during the hearing with our electronic

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1 with the Board on October the 12th, 2007 and
 2 both Newfoundland Power and the Consumer
 3 Advocate announced the results of the
 4 agreement publicly around that time, and a
 5 presentation on the agreement itself will, I
 6 understand, be the first order of business
 7 later on here this morning.
 8 We have arrived at this point in the
 9 process with significant work therefore
 10 already completed by the utility and
 11 intervenors in reaching agreement on many of
 12 the issues contained in the original
 13 application. There are, however, several
 14 issues which remain outstanding and upon which
 15 agreement has not been reached. This public
 16 hearing will now focus on the amended
 17 application containing both issues agreed
 18 upon, as well as submission of evidence on
 19 issues unresolved. I would observe, however,
 20 that the Board is not bound by any or all of
 21 the Settlement Agreement, but I will indicate
 22 the Board is not--if the Board does not concur
 23 on a particular issue, we will have indeed our
 24 precise reasons for not doing so and these
 25 will be clearly stated in the eventual

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1 retrieving of evidence referenced by counsel,
 2 and this will be displayed on the table
 3 monitors and indeed the larger monitors on the
 4 side, so that all in the room will be able to
 5 follow the evidence and I'll thank Mr. Wells
 6 again for agreeing to this assignment. I
 7 think this is your second time, is it? Mr.
 8 Wells, thanks.
 9 The binders you see next to Ms. Blundon
 10 contain the official version of the evidence
 11 for this hearing. These will be used for
 12 reference purposes as need throughout the
 13 hearing, in the event evidence cannot be
 14 displayed electronically or some discrepancy
 15 exists between the electronic and the paper
 16 record.
 17 Parties who have any particular concerns
 18 or issues about the creature comforts in this
 19 room, or indeed require any type of assistance
 20 with anything, just please advise Ms. Blundon
 21 and we'll try to do what we can to assist you.
 22 These proceedings, once again, are being
 23 recorded by Discoveries Unlimited. Good
 24 morning, Ms. Judy Moss is here with
 25 Discoveries Unlimited, and this will be done

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1 CHAIRMAN:
 2 under the supervision of the Board secretary,
 3 Ms. Blundon, and we will have the proceedings
 4 transcribed throughout the afternoon and the
 5 evening and these transcriptions will be e-
 6 mailed to the parties immediately upon
 7 completion, with a paper copy available by the
 8 commencement of the hearing on the following
 9 day. So in this way, we'll be able to
 10 maintain some continuity indeed up-to-date and
 11 current record of the proceedings as they
 12 unfold.
 13 Persons addressing the panel may, for the
 14 benefit of the transcription again, simply
 15 refer to Commissioner Whalen, and myself as
 16 the Chair. With the exception of today, I
 17 think our normal daily sitting time will be
 18 from nine to 1:30, with a half hour break from
 19 11 to 11:30, and I think this morning or
 20 today, that will be changed by virtue of our
 21 10:00 start. We'll be looking at opening
 22 statements in a short while and it looks like
 23 they might conclude for a noon time break, and
 24 then we'll be looking at testimony from 1:30
 25 to four this afternoon. So we'll try to

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1 into the record. I appreciate the need to
 2 recite certain evidence during cross-
 3 examination for clarity or emphasis, but I
 4 would ask for your cooperation in keeping that
 5 to a minimum.
 6 In summary, I'd ask that the parties
 7 throughout these proceedings adhere to the
 8 rules and procedures as established, and I
 9 want to acknowledge all parties for the
 10 tremendous amount of work indeed you have all
 11 expended in reaching this stage of the
 12 proceeding here today, and I'm hopeful that
 13 this work will now position us to go forward
 14 in a productive, efficient and expeditious
 15 manner throughout the course of the week.
 16 I think that's the conclusion of my
 17 introductory remarks, shortened, I'm sure
 18 thankfully for most of you, but good morning,
 19 Ms. Newman, and I'll ask you to enter the
 20 matter and confirm the issuance of the public
 21 notice and any other preliminary items,
 22 please.
 23 MS. NEWMAN:
 24 Q. Good morning, Mr. Chairman, Madame Chairman,
 25 Madame Vice-Chairman and others in attendance.

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1 follow that as closely as we possibly can.
 2 Counsels and others representing the
 3 parties have designated seating arrangements
 4 and I'd ask the witnesses to take assigned
 5 seating to my right here unless making a
 6 presentation or indeed referring to a display.
 7 Board hearings are not Court trials, however
 8 evidence is given under oath and the
 9 procedures governing conduct are somewhat
 10 similar to the Court and the Board's main goal
 11 here is to get the facts on the record in a
 12 way that is convenient to the parties and in
 13 the public interest.
 14 A witness may swear an oath on the Bible
 15 or a solemn affirmation may be administered
 16 and I'd ask counsels introducing the witness
 17 to indicate the latter preference, where it
 18 may be applicable. Also some other non-
 19 Christian oath is appropriate and may be
 20 administered, but I'll again ask the counsel
 21 for advance notice so that necessary
 22 arrangements may be made in this particular
 23 instances.
 24 I would also ask counsel to refrain from
 25 reading long passages of pre-filed evidence

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1 Mr. Chairman, in line with your comments about
 2 the fact that we're dealing with a room full
 3 of individuals well informed about this
 4 matter, I will likely shorten my comments as
 5 well, especially given your comments with
 6 respect to what has happened to date.
 7 I can confirm that the Board did receive
 8 an application from Newfoundland Power on May
 9 10th, 2007 and notice of this application was
 10 published in newspapers throughout the
 11 Province, beginning May 19th, 2007. A revised
 12 application and Settlement Agreement was filed
 13 with the Board on October 11th, 2007, and
 14 notice of the start date of the hearing was
 15 published in newspapers throughout the
 16 Province beginning on October 10th, 2007. I
 17 can confirm that this application and the
 18 revised application is duly filed and the
 19 Board has authority to hear this application
 20 today.
 21 And there are no other preliminary
 22 matters that I've been made aware of.
 23 CHAIRMAN:
 24 Q. Thank you, Ms. Newman. Just briefly, the
 25 schedule that I have here calls for opening

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1 CHAIRMAN:
 2 statements now, with a presentation to follow,
 3 and then testimony to begin this afternoon.
 4 Is that still the agenda, the agreed upon
 5 agenda?
 6 MS. NEWMAN:
 7 Q. Yes, I believe that it would be convenient for
 8 the parties to make their opening statements
 9 and then to have a brief break before we start
 10 testimony.
 11 KELLY, Q.C.:
 12 Q. That's fine, Mr. Chairman. We can probably
 13 see where we are at that point in time, as to
 14 where the lunch break fits in.
 15 MS. NEWMAN:
 16 Q. Yes.
 17 CHAIRMAN:
 18 Q. Okay, thank you. That being the case, we'll
 19 start with the opening statements. Once
 20 again, good morning, Mr. Kelly.
 21 (10:12 A.M.)
 22 KELLY, Q.C.:
 23 Q. Thank you, Mr. Chairman. Mr. Chairman, Vice-
 24 Chair, I'm pleased to introduce Newfoundland
 25 Power's 2008 General Rate Application. As you

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1 efficiency of the regulatory process in this
 2 jurisdiction. The negotiated settlement
 3 process is in keeping with the process
 4 employed in other Canadian jurisdictions. Of
 5 course, negotiated settlements must be
 6 approved by the Board after due scrutiny and
 7 oversight.
 8 Newfoundland Power has filed an amended
 9 application and supplemental evidence to give
 10 effect to the Settlement Agreement and to
 11 incorporate updated forecasts for operating
 12 costs, finance charges and demand and energy
 13 requirements. The amended application
 14 provides for an average 2.8 percent rate
 15 increase with a differential application
 16 across the various rate classes as a result of
 17 the new Cost of Service Study. The rate
 18 change for the domestic class is, on average,
 19 approximately 3.9 percent. On average, rates
 20 will be approximately the same as rates in
 21 effect on January 1, 2007. Domestic rates
 22 will have increased by only one percent since
 23 January 1, 2007.
 24 The company witnesses who will testify in
 25 relation to the Amended Application will be as

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1 know, a Settlement Agreement has been reached
 2 with the Consumer Advocate with the assistance
 3 of the Board's facilitator, Mr. Kennedy. The
 4 Company has filed an amended application
 5 flowing from that agreement. I will review
 6 the terms of that Settlement Agreement with
 7 you in a few moments.
 8 First, I would like to thank the Consumer
 9 Advocate and Mr. Kennedy for their
 10 participation in the negotiation process. All
 11 parties were committed to constructive
 12 negotiation with a genuine desire to find
 13 solutions that fairly balance the interest of
 14 customers and the interests of the utility.
 15 The result has been an agreement that resolves
 16 virtually all of the monetary issues and
 17 provides for a complete review of Newfoundland
 18 Power's rate structures over the next several
 19 years. There are some remaining issues that
 20 have been raised by the Consumer Advocate. I
 21 will speak to those issues after I review the
 22 terms of the Settlement Agreement with you.
 23 The success of the negotiation process
 24 for Newfoundland Power's General Rate
 25 Application demonstrates the improved

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1 follows: Mr. Earl Ludlow, the President and
 2 Chief Executive Officer of Newfoundland Power
 3 will testify, along with Ms. Joselyn Perry,
 4 the VP Finance and Chief Financial Officer.
 5 They will testify as a panel together. They
 6 will be followed by Mr. Phonse Delaney, the
 7 Vice-President of Engineering and Operations,
 8 and then finally, you will hear from Mr. Lorne
 9 Henderson, the Director of Regulatory Affairs.
 10 Mr. Ludlow will provide you with an
 11 overview of the Company's operations, both
 12 currently and with a view to the future. Ms.
 13 Perry will address financial matters, in
 14 particular the Company's credit worthiness and
 15 the financial effects of the Settlement
 16 Agreement and the Amended Application. She
 17 will also address the issues relating to
 18 inter-corporate relationships raised by the
 19 Consumer Advocate, and finally, Ms. Perry will
 20 explain the developments with respect to the
 21 transition to International Financial
 22 Reportings standards and Newfoundland Power's
 23 plans to manage that transition, and let me
 24 say, Mr. Chairman, I'm glad Ms. Perry will be
 25 speaking to IFRS and it's not my

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1 KELLY, Q.C.:

2 responsibility.

3 Mr. Delaney will address customer

4 operations, including most of the other issues

5 raised by the Consumer Advocate. And finally,

6 Mr. Henderson, will deal with rate issues,

7 including the Retail Rate Study and the

8 Domestic Basic Customer Charge.

9 Mr. Chairman, before I turn to the

10 Settlement Agreement itself, let me briefly

11 comment on one other matter. The current cost

12 dynamics on the Island Interconnected System

13 have important implications both for the

14 Company and for the Board. In the past,

15 Newfoundland Power sold electricity to its

16 customers at a price which was higher than its

17 marginal cost of purchasing power from

18 Newfoundland Hydro. It's marginal revenue

19 exceeded its marginal purchase power expense.

20 That previous cost dynamic combined with Board

21 regulatory mechanisms such as the Automatic

22 Adjustment Formula permitted a three to four

23 year interval between General Rate

24 proceedings. That cost dynamic has changed.

25 The Company's marginal cost of purchase

Page 19

1 the parties that the new rates should be

2 effective January 1, 2008. Paragraph six then

3 contains a list of the various matters upon

4 which agreement has been reached. I won't go

5 down through it line by line with you, but a

6 quick review will indicate that the list

7 covers all of the key components at issue in

8 the GRA.

9 Paragraphs seven to 29 then provide the

10 terms of the agreement in relation to each

11 item. I will review each one with you,

12 focusing my comments on the most important

13 items.

14 Paragraphs seven to 11 deal with Cost of

15 Service Methodology and Rate Design. There is

16 agreement on all of these issues, with the

17 exception of the Domestic Basic Customer

18 Charge. For all of the other classes, the

19 rate changes will be determined as proposed in

20 the original application, with the exception

21 of the GS2.1 class. That class will now be

22 receiving approximately a 1.2 percent average

23 reduction in rates and this will be

24 implemented by holding the basic customer

25 charge at current levels and adjusting the

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1 power reflects the cost of Holyrood

2 production. However, electricity is sold to

3 customers at a price which reflects average

4 costs. The Company's marginal revenue is now

5 less than marginal cost. As a result, in the

6 absence of an adjustment mechanism, any

7 customer growth beyond the test year would

8 result in the Company not recovering its full

9 purchase power expense. That cost dynamic has

10 influenced both the content and the structure

11 of the Settlement Agreement.

12 Mr. Chairman, with that background, let's

13 now look at the Agreement itself, and Mr.

14 Wells has put it on the screen for us. You

15 will note from paragraph two and paragraph

16 three that the Settlement Agreement represents

17 a reasoned consensus of the parties and its

18 provisions are not intended to be severable.

19 In several important respects, compromises

20 were made by each of the parties, bearing in

21 mind concessions made by the others. The

22 whole represents an integrated agreement that

23 has resolved virtually all of the financial

24 issues in this proceeding.

25 Paragraph five reflects the intention of

Page 20

1 energy charge, and that change is reflected in

2 the Amended Application which has been filed.

3 With respect to the Domestic Basic

4 Customer Charge, the Company proposes to

5 maintain it at current levels and apply the

6 rate increase of approximately 3.9 percent to

7 the energy charge. The Consumer Advocate

8 proposes to reduce the basic customer charge

9 by one dollar and apply the amount of that

10 reduction plus the rate increase to the energy

11 charge. The Company believes that the

12 appropriate level of the basic customer charge

13 should be considered as part of the Rate

14 Design Study to be undertaken in 2008.

15 Paragraph 11 and the provisions of

16 Attachment A deal with that process for retail

17 rate review. Newfoundland Power believes that

18 the time is now right for a thorough review of

19 retail rate structures. The Marginal Cost

20 Study was completed in early 2007. If we just

21 go over to page 11, the Attachment A sets

22 forth the schedule of what the parties

23 contemplate. By the end of this year, the

24 Conservation Potential Study, which is being

25 undertaken jointly by Newfoundland Hydro and

Page 21

1 KELLY, Q.C.
 2 Newfoundland Power, will be completed. The
 3 Retail Rate Study will then be undertaken in
 4 2008 with a Rate Design Report to be prepared
 5 by Newfoundland Power. A Technical Conference
 6 will be held in 2009, then with the objective
 7 to have revised rate designs for the various
 8 rate classes for inclusion in Newfoundland
 9 Power's next general rate application.
 10 This study will entail a comprehensive
 11 examination of retail rate designs. We
 12 believe that rate structures should not be
 13 changed piece meal in advance of the Rate
 14 Design Report. That is an important
 15 consideration favouring maintaining the
 16 domestic basic customer charge at current
 17 levels at this time.
 18 Now if we go back to page three and go to
 19 paragraphs 12 to 15, start at paragraph 12.
 20 Paragraphs 12 through 14 deal with the Rate of
 21 Return on Common Equity for rate making
 22 purposes. The parties reached agreement on an
 23 ROE of 8.95 percent using a principled
 24 approach. Having due regard to all available
 25 financial information, including Long Canada

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1 use in the Automatic Adjustment Formula.
 2 You will note in paragraph 16 that it
 3 expressly provides that the Automatic
 4 Adjustment Formula will be used to set rates
 5 for not more than three years following the
 6 2008 Test Year. This gives the option, but
 7 not the requirement, to set rate using the
 8 Formula for 2009, 2010 and 2011. It's an
 9 option, not a requirement. This is in keeping
 10 with past Board orders and provides for timing
 11 flexibility for a general rate application in
 12 either 2010 or 2011, and I'll come back to
 13 that point a bit later as well.
 14 Paragraph 17 deals with asset rate base
 15 matters. This application completes the full
 16 implementation of the Asset Rate Base
 17 Methodology. The parties are agreed with
 18 Newfoundland Power's implementation of the
 19 asset rate base method as set forth in the
 20 application.
 21 Go to page five, paragraphs 18 and 19
 22 deal with the various regulatory deferrals and
 23 reserves. The treatment of the various
 24 deferrals and reserves has been modified
 25 somewhat from the initial proposals contained

Page 22

1 Bond Yields and the Consensus Forecasts, the
 2 parties reached a reasoned consensus on the
 3 risk free rate first of 4.60 percent for 2008.
 4 Then as we go to page four, you'll see
 5 that using the parameters as established in
 6 Order P.U. 19 (2003), the equity risk premium
 7 was calculated at 4.35 percent at a risk free
 8 rate of 4.60 percent, and that gave an ROE of
 9 8.95 percent. So the same principles as used
 10 in Order P.U. 19 (2003) were used to establish
 11 the equity risk premium.
 12 At paragraph 15, you'll note that the
 13 parties have agree that Newfoundland Power's
 14 capital structure should be approved as
 15 proposed in the application. That is
 16 consistent with the capital structure as
 17 previously approved by the Board.
 18 Paragraph 16 deals with the Automatic
 19 Adjustment Formula. It will continue to apply
 20 for years after the 2008 Test Year in
 21 accordance with the Board's existing
 22 methodology, but reflecting the adoption of
 23 the asset rate base method as proposed in the
 24 application. This maintains the Board's
 25 previously approved 10-day methodology for the

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1 in the original application. The reserves
 2 will now be amortized over three years, with
 3 the exception of the balance attributable to
 4 the degree day component of the Weather
 5 Normalization Reserve. The three-year
 6 amortization helps minimize customer rate
 7 impacts. The degree day component of the
 8 Weather Normalization Reserve will be
 9 amortized over five years.
 10 Paragraphs 20 to 23 deal with other post-
 11 employment benefits or OPEBs and pension
 12 costs. In its initial application,
 13 Newfoundland Power brought forward a proposal
 14 to begin the movement to the accrual
 15 accounting methodology for OPEBs, in
 16 accordance with P.U. 19 (2003). However, the
 17 parties have agreed to maintain the cash
 18 accounting treatment for OPEBs until the next
 19 general rate application, considering the rate
 20 impacts arising from this application, as well
 21 as the rate impacts of previous increases
 22 driven primarily by the high price of oil for
 23 Holyrood.
 24 This matter will be further considered by
 25 the Board at the next general rate

Page 25

1 KELLY, Q.C.:

2 application. Ms. Perry will explain to you

3 the effect of deferring consideration of the

4 matter to the next general rate application.

5 I will say that Newfoundland Power is

6 satisfied that the deferral of this item to

7 the next general rate application will not

8 impair its credit worthiness, assuming that

9 the Amended Application is approved, giving

10 effect to the average 2.8 percent rate

11 increase.

12 (10:30 A.M.)

13 If we go to page six, you will see, at

14 paragraph 23, that Newfoundland Power will

15 commence the tax effect with respect to

16 pension costs commencing in 2008, as set forth

17 in the Application. That's in fact a small

18 step forward at this time, and Ms. Perry will

19 explain that to you in more detail.

20 Paragraph 24 deals with depreciation.

21 The parties have agreed that depreciation

22 rates, depreciation expense for the test year,

23 and the amortization of the depreciation

24 variance should be approved as filed in the

25 Application.

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1 provides the timing flexibility for a GRA in

2 either 2010 or 2011, but an application would

3 have to come back for that clause to be

4 extended.

5 Next to the rule amendments in paragraph

6 29, I'll simply say the parties have agreed to

7 the various rule amendments as requested in

8 the Application.

9 Mr. Chairman, you'll note that there is

10 no paragraph 30, due to a numbering error, and

11 counsel collectively have to take

12 responsibility for that glitch.

13 Paragraph 31 are the matters that are

14 unresolved. Some matters raised by the

15 Consumer Advocate are matters on which the

16 parties simply respectfully agree to differ.

17 These are dealt with in paragraph 31 and the

18 language used reflects the statement of the

19 principle or the issue by the Consumer

20 Advocate. While there are 14 items on the

21 list, some can usefully be grouped together.

22 The first four items, A to D, all deal

23 with Inter-corporate transactions.

24 Newfoundland Power has followed and applied

25 the policies and guidelines with respect to

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1 Paragraph 25 deals with the purchase

2 power unit cost variance reserve and the

3 parties have agreed that that reserve should

4 be replaced with the new Demand Management

5 Incentive Account as proposed in the

6 Application.

7 Paragraphs 26 to 28 deal with the Energy

8 Supply Cost Variance clause. The parties have

9 agreed that the Energy Supply Cost Variance

10 clause should be added to the Rate

11 Stabilization clause as proposed in the

12 Application. This clause will ensure that

13 Newfoundland Power recovers its actual

14 purchase power expense in years beyond the

15 test year.

16 Mr. Chairman, you'll note in paragraph 27

17 that this clause will apply to energy supply

18 costs incurred through to the end of 2010.

19 Paragraph 28 requires that a Board order is

20 required to extend the operation of the clause

21 beyond 2010. It specifically contemplates

22 that this can be done either at the next

23 general rate application or on an application

24 to the Board. Can be at the GRA or on a

25 separate application, and that provision

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1 inter-corporate transactions contained in the

2 report on inter-corporate charges filed with

3 the Board on March 31st, 2004. Newfoundland

4 Power's relationships with Fortis and its

5 affiliated companies result in demonstrable

6 and tangible benefits for Newfoundland Power's

7 customers. The benefits to Newfoundland

8 Power's customers are difficult to quantify

9 with absolute precision, but are clearly

10 substantial. The savings from group insurance

11 alone, one item, is approximately \$600,000

12 annually.

13 Many of these issues deal with the charge

14 out rate for Newfoundland Power's executives

15 and senior management. The charge out rate

16 for Newfoundland Power's executives and senior

17 management represents fully loaded costs plus

18 a 20 percent mark up. This is the highest

19 charge out rate for a utility in Canada. That

20 approach is in accordance with accepted, sound

21 public utility practice.

22 You will hear in the evidence that the

23 level of inter-corporate activity by

24 executives and senior management has been

25 significantly reduced and is expected to be

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1 KELLY, Q.C:
 2 less than \$100,000 inclusive of the mark up in
 3 both 2007 and 2008.
 4 You will note in paragraph A that the
 5 Consumer Advocate proposes a standby charge.
 6 The standby charge proposed by the Consumer
 7 Advocate for Fortis and its affiliates is not
 8 in accordance with sound public utility
 9 practice. The corollary of a standby charge
 10 is that Newfoundland Power’s executives and
 11 senior managers must have an obligation to
 12 provide service to Fortis when called upon.
 13 To date, any services which have been provided
 14 have been on a discretionary basis, subject
 15 first to the fulfilment of all of Newfoundland
 16 Power’s needs and requirements. An obligation
 17 to serve Fortis on request is at variance with
 18 the stand-alone status of Newfoundland Power.
 19 Item D deals with a proposed Inter-
 20 Affiliate Code of Conduct for Newfoundland
 21 Power. The report on inter-corporate charges
 22 filed in March 2004 contains the policies and
 23 guidelines relating to inter-corporate
 24 transactions. Newfoundland Power has no
 25 objection to those policies and guidelines

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1 expectations.
 2 Creating and maintaining reliability
 3 standards raises many questions. Let me just
 4 give you some by way of example. What
 5 standard would be used? Would the standard be
 6 a requirement or a target? Is it a minimum
 7 service standard or a maximum service
 8 standard? Is the reliability standard an
 9 overall system standard or a standard that
 10 applies to individual feeders? Will different
 11 standards apply to rural feeders versus urban
 12 feeders? Will a different standard apply if a
 13 line has a sensitive installation, such as a
 14 hospital, a fish plant, an industrial plant,
 15 an old age home, a residential customer with
 16 an electrically powered medical device? On
 17 what policy grounds will different standards
 18 be justified for customers paying the same
 19 electricity rates? What consequences will
 20 apply if a standard is not met? And what
 21 capital and operational expenditures will be
 22 required to administer the standards and to
 23 ensure compliance with the standards?
 24 Maintenance practices and capital
 25 expenditure requirements are not driven simply

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1 being formatted in such manner as the Board
 2 deems most appropriate.
 3 Item E relates to reliability standards,
 4 and I think we will hear much of this during
 5 the next few days. Newfoundland Power does
 6 not believe that there is any need for
 7 Distribution Reliability and Service
 8 Standards, nor any benefit to customers from
 9 creating and maintaining such standards.
 10 Reliability standards have been implemented in
 11 some jurisdictions where the utility’s
 12 performance and existing regulatory mechanisms
 13 have not met customers service requirements
 14 and expectations, usually flowing from
 15 deregulation or a movement to performance-
 16 based regulation or PBR. In those cases, the
 17 standards have been implemented to address the
 18 problem of under investment in those
 19 electrical systems, and that is simply not the
 20 Newfoundland experience.
 21 Newfoundland Power’s current capital
 22 expenditure and maintenance practices,
 23 together with the current Board oversight and
 24 regulatory mechanisms, have been effective in
 25 ensuring reliable service and meeting customer

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1 by reliability performance, but by a
 2 consideration of many factors, primarily
 3 involving the assessment of asset condition
 4 and the exercise of engineering judgment.
 5 Mr. Chairman, Vice-Chair, in considering
 6 this issue, the Board should ask itself
 7 whether there is a real problem which requires
 8 fixing. Complex and potentially costly
 9 regulatory mechanisms should not be
 10 implemented if customers requirements are
 11 already being reasonably fulfilled, and the
 12 evidence is clear that customers requirements
 13 are being met. Put very simply, Mr. Chairman,
 14 if there isn’t a problem, you don’t need to
 15 find a solution.
 16 I move next, Mr. Chairman, to Item F,
 17 which is the Basic Customer Charge for
 18 domestic customers. You may recall that the
 19 parameters for the Basic Customer Charge were
 20 established by the mediated agreement at the
 21 2003 General Rate Application and approved by
 22 the Board in Order P.U. 7 (2003). The maximum
 23 basic customer charge under the mediated
 24 agreement recovers customer specific costs and
 25 50 percent of allocated distribution costs.

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1 KELLY, Q.C.:

2 The current basic customer charge is below the

3 maximum and recovers approximately 75 percent

4 of those costs.

5 Newfoundland Power does not believe that

6 the Basic Customer Charge should be reduced.

7 Rather, we propose applying the 3.9 percent

8 domestic increase to the energy charge,

9 leaving the Basic Customer Charge unchanged.

10 And as I said earlier, the rate design

11 for all of the classes will be studied in

12 2008. The Domestic Basic Customer Charge will

13 be considered as part of that overall Rate

14 Design process. The Basic Customer Charge

15 should not be dealt with in isolation, but

16 should be considered as part of that study.

17 And Mr. Henderson will address this issue

18 further in his evidence.

19 Now, Item G deals with electronic

20 billing. Newfoundland Power currently has the

21 highest electronic billing usage in Canada,

22 the highest in Canada. The current practice

23 results in cost savings which accrue to the

24 benefit of all customers. There are

25 administrative and cost considerations

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1 estimate of 2008 operating expenses. This is

2 explained in CA-NP-47 and will be further

3 addressed by Mr. Delaney when he testifies.

4 In addition, Newfoundland Power's customers

5 will benefit from productivity gains achieved

6 by the Company since the last General Rate

7 Application. The Board has adopted a policy

8 of incenting (sic.) Newfoundland Power to seek

9 efficiencies between rate hearings which can

10 then be passed on to customers at the next

11 General Rate Application. The Board's policy

12 is explained in P. U. 19 (2003) at page 76,

13 and that policy is in accordance with practice

14 elsewhere. Productivity allowances are not

15 imposed unless there is demonstrated poor

16 performance by the utility, and that is not

17 the case with Newfoundland Power, which has

18 demonstrated a strong record of operating

19 efficiency over the past decade. Regulatory

20 boards do not impose a productivity allowance

21 in an attempt to capture, in advance,

22 productivity gains that have not yet been

23 achieved. To do so would be to deny

24 Newfoundland Power recovery of its just and

25 reasonable operating expenses, contrary to the

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1 involved in implementing financial incentives

2 that don't apply to all customers across the

3 board. In addition, there are policy issues

4 which arise if some customers receive

5 discounts for electronic billing which would

6 be unavailable to customers without that

7 necessary technology. Newfoundland Power does

8 not believe that it is appropriate to provide

9 financial incentives for electronic billing.

10 (10:45 A.M.)

11 Item H deals with the productivity

12 allowance. And I note, Mr. Chairman, this

13 points to the success of the negotiation

14 process, the proposed productivity allowance

15 is the only challenge to Newfoundland Power's

16 2008 operating. Mr. Todd, a witness who will

17 be called by the Consumer Advocate, has

18 proposed that the Board approve a level of

19 2008 operating costs for rate setting purposes

20 that is equal to the 2007 forecast of

21 operating costs. That would amount to an

22 operating cost reduction of \$284,000 based

23 upon the amended Application. Newfoundland

24 Power has already included forecast efficiency

25 gains of \$531,000 in preparing its best

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1 Public Utilities Act, and it would not be in

2 accordance with generally accepted sound

3 public utility practice.

4 Item I deals with vacancies.

5 Newfoundland Power does not have a fixed

6 organizational structure. Rather, it uses a

7 flexible approach, matching its workforce to

8 the work requirements. It manages employees,

9 not positions. Its labour requirements are

10 forecast based on full-time equivalents or

11 FTEs, not in a forecast of employment

12 positions with vacancy deductions.

13 Newfoundland Power moved to its existing

14 flexible work system years ago to capture

15 efficiencies and productivity gains. These

16 efficiencies and productivity gains have

17 resulted in substantial savings to customers

18 over the past decade.

19 Item J relates to safety communications.

20 Newfoundland Power and Newfoundland Hydro

21 already coordinate their efforts with respect

22 to safety communications. However, the

23 purpose, the purpose of coordination is better

24 communication of safety messaging, not the

25 realization of cost savings. Safety concerns

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1 KELLY, Q.C.
 2 are a high priority for both utilities.
 3 Newfoundland Power does not intend to reduce
 4 its expenditures on safety messaging.
 5 Item K deals with used poles. Used pole
 6 repurchasing is one component of an integrated
 7 approach to pole management. The Pole
 8 Management System has resulted in material
 9 cost savings which have benefitted customers
 10 while at the same time addressing
 11 environmental concerns by reusing existing
 12 pole assets wherever feasible. Mr. Delaney
 13 will explain this in more detail when he
 14 testifies.
 15 With respect to Item L, the Conservation
 16 Potential Study being conducted by
 17 Newfoundland Power and Newfoundland Hydro will
 18 be completed later this year. Newfoundland
 19 Power and Newfoundland Hydro will continue
 20 their efforts to determine the most cost
 21 effective approaches to conservation and
 22 conservation messaging should be addressed as
 23 one component of a cost effective conservation
 24 program. So at this point in time
 25 Newfoundland Power does not believe that its

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1 Workforce Management System and electronic
 2 billing in the Customer Billing System. With
 3 respect, operating systems cannot simply be
 4 broken down into individual components.
 5 Efficiencies are gained by management
 6 practices and procedures that create overall
 7 system savings. The current systems have
 8 achieved demonstrable and tangible benefits
 9 for customers. And the second point is this,
 10 the Consumer Advocate is asking this Board to
 11 examine various management decisions.
 12 Newfoundland Power is a well-run company. It
 13 manages its overall costs well. For the past
 14 decade it has improved customer service while
 15 maintaining stable operating costs. The
 16 Company has a proven record of cost-effective
 17 operations that have materially benefitted its
 18 customers. No cause has been demonstrated by
 19 the Consumer Advocate to require the Board to
 20 intervene in the management of the Company to
 21 ensure cost-effective service for Newfoundland
 22 Power's customers.
 23 Mr. Chairman, Vice-Chair, those are my
 24 opening comments, unless you have any
 25 questions.

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1 operating expenses should be increased to
 2 provide for additional conservation
 3 communications. The first step is getting the
 4 Conservation Potential Study.
 5 And, Mr. Chairman, that deals with 12 of
 6 the 14 points. The last two points, Items M
 7 and N, we understand that those were inserted
 8 so that to give the Consumer Advocate the
 9 opportunity to review the amended Application.
 10 Newfoundland Power is not aware of any issues
 11 specifically arising from the amended
 12 Application. So there are 12 issues in total,
 13 the first four deal with intercorporate, and
 14 then we have eight other issues which will
 15 have to be addressed during the hearing.
 16 Mr. Chairman and Vice-Chair, with respect
 17 to the Consumer Advocate's issues generally,
 18 let me make two final observations which you
 19 may wish to keep in mind as you listen to the
 20 evidence in this proceeding. First, in many
 21 of these cases Ms. Johnson is asking you to
 22 examine one small component of an integrated
 23 system or integrated systems. Let me give you
 24 some examples. The Pole Management System,
 25 when you look at used poles, vacancies in the

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1 CHAIRMAN:
 2 Q. Commissioner Whalen, do you have any
 3 questions?
 4 VICE-CHAIR WHALEN:
 5 Q. No, thank you.
 6 CHAIRMAN:
 7 Q. No, I have no questions. Thank you, very
 8 much, Mr. Kelly. Good morning.
 9 (10:54 A.M.)
 10 MR. JOHNSON:
 11 Q. Good morning. I thought for a moment we were
 12 in closing argument. But, let me--I won't,
 13 perhaps, get into all the minutia this
 14 morning. There'll be time for that. I would
 15 like to provide this opening statement to you,
 16 obviously despite the fact that there remain a
 17 number of important contested issues that will
 18 be put forward by ourselves in this hearing
 19 for your determination, which I will address
 20 briefly, shortly, I would first wish to make
 21 some comments to the Board in relation to the
 22 amended Application filed by Newfoundland
 23 Power on October 11th.
 24 The revised Application, as Mr. Kelly
 25 noted, is instead of the original General Rate

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1 MR. JOHNSON:
 2 Application filed by Newfoundland Power on May
 3 10th and reflects certain issues that were
 4 agreed upon in the Settlement Agreement which
 5 is before you for your consideration. Mr.
 6 Kelly has already brought the Board through
 7 the Settlement Agreement in detail so I only
 8 intend to address a few matters.
 9 The Settlement Agreement was reached, of
 10 course, as a result of a Board facilitated
 11 negotiation process. And I wish to
 12 acknowledge both the Board's and Mr. Mark
 13 Kennedy's very valuable support to the
 14 process. Though important contested issues
 15 remain which were not resolved and where you
 16 could say we agreed to disagree, the process
 17 did lead to the resolution of several issues
 18 which are reflected in the revised Application
 19 and the reduced rate request contained
 20 therein. I should say that negotiations in
 21 such matters are never easy, but they were
 22 quite useful in this instance, as they
 23 provided a means for the Parties to get at the
 24 heart of several key issues after the file
 25 record was on the table so that they could be

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1 agreed upon in the Settlement Agreement the
 2 proposed overall average increase to current
 3 rates is 2.8 percent across all rate classes.
 4 Of course, that is an average, so for
 5 instance, 2.1 general service and 2.2 general
 6 service customers will see slight decreases
 7 again on average on the basis of the amended
 8 Application. On average, domestic customers
 9 will see a rate increase of 3.9 percent
 10 compared to current rates should the Board
 11 grant the revised Application as filed.
 12 Though there are certain issues that
 13 affect revenue requirement that must be
 14 resolved by the Board and which may bear upon
 15 the rates which the Board approves, I would
 16 observe that due to the rate decrease of July
 17 1st and the provisions of the Settlement
 18 Agreement, Newfoundland Power's revised
 19 Application as compared to the original
 20 Application does mark a considerable
 21 improvement vis-a-vis where consumers rates
 22 will be come January a matter of obvious
 23 significance as we head into another winter.
 24 Newfoundland Power's original rate
 25 request, leaving aside the updates, would have

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1 thoroughly discussed and where possible
 2 resolved on mutually acceptable terms in the
 3 context of an overall agreement. It is only
 4 appropriate that I too acknowledge
 5 Newfoundland Power's commitment to partaking
 6 in these negotiations in a constructive
 7 manner.
 8 As the Board is aware, the original
 9 application filed in May sought an overall
 10 average rate increase of 5.3 percent on the
 11 rates that were in then in effect. Of course,
 12 as is stated in Newfoundland Power's
 13 supplemental evidence, as of July 1st, 2007
 14 customer rates were reduced by 2.9 percent by
 15 reason of the operation of the RSP mechanism.
 16 Therefore, in order to raise the same revenue
 17 as the proposed 5.3 percent increase on the
 18 old rates would have yielded, a 5.5 percent
 19 increase would have been needed on the rates
 20 that we have today. On top of that, updated
 21 forecast costs and sales revisions would have
 22 required another .3 percent so as to pay for
 23 forecast higher finance charges and higher
 24 purchase power expense. Even with the revised
 25 application that reflects the issues that were

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1 meant that the rates customers would pay
 2 starting in January, '08 would be on average
 3 2.4 percent higher than they paid last winter
 4 with domestic customers on average paying
 5 three and a half percent more, again,
 6 forgetting the updates. The revised
 7 Application proposes rates in January of 2008
 8 that will be on average comparable with those
 9 in January, '07, actually on average a . 1
 10 percent decrease with certain commercial
 11 customers seeing modest decreases to
 12 residential customers on average seeing a one
 13 percent net change over last January's rates.
 14 For consumers, in my judgment, it is
 15 necessary to place the originally filed
 16 Application and the Settlement Agreement and
 17 indeed the revised Application in a larger
 18 context. Part of that larger context is that
 19 Newfoundland Power's original Application had
 20 the proposed rates been approved as filed,
 21 again, forgetting the updates, would have
 22 meant that customer rates would have increased
 23 29 percent since 2002 as of January 1st, 2008.
 24 The reference for that would be CA-NP-16.
 25 That's on a compound basis. Indeed, Table 11

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1 MR. JOHNSON:
 2 of Newfoundland Power’s supplemental evidence
 3 shows that even with the revised Application
 4 and its significantly lower proposed increase,
 5 customer rates will have increased by
 6 approximately 26 percent on a compound basis
 7 over a six-year period, principally because of
 8 the significant increase in the price of fuel
 9 burned at Holyrood. It is staggering to
 10 consider that the 2004 revenue requirement of
 11 Newfoundland Power, as approved by this Board
 12 flowing out of Newfoundland Power’s last
 13 General Rate Application, was about \$382
 14 million to come from customer rates. The
 15 power purchase expense was then forecast to be
 16 \$230 million, approximately. In the revised
 17 Application of Newfoundland Power, this is
 18 borne out at Table 15, Newfoundland Power
 19 proposes for 2008 a revenue requirement from
 20 rates of \$498 million with a power supply cost
 21 alone of \$337 million. Expressed another way,
 22 2008’s power supply cost alone of \$337 million
 23 is only \$40 million less than Newfoundland
 24 Power’s total revenue requirement in 2004. In
 25 the current context even a Consumer Advocate

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1 by consumers over the past six years have
 2 indeed influenced the consensus regarding
 3 continued recognition of OPEBs on a cash basis
 4 as reflected in the Settlement Agreement. I
 5 regard that consensus as a principal one,
 6 moreover, the use of either the cash method or
 7 the accrual method is currently consistent
 8 with Canadian Generally Accepted Accounting
 9 Principles and both methods are reasonably
 10 consistent with current Canadian regulatory
 11 practice, particularly for investor-owned
 12 utilities such as Newfoundland Power.
 13 Finally, should the Board accept the
 14 Parties joint recommendation at this time as
 15 regards OPEBs, the matter will be further
 16 considered at Newfoundland Power’s next
 17 General Rate Application which is expected to
 18 be filed in 2010 to establish rates for 2011
 19 when the actuarial assumptions and all other
 20 matters related to OPEBs can be fully
 21 canvassed before the Board.
 22 As regards to Parties consensus on Cost
 23 of Capital, which is part of the Settlement
 24 Agreement, as well, this agreement lead to a
 25 decrease in the rate request as proposed in

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1 might be permitted to look upon a \$230 million
 2 approved power purchase expense, as was the
 3 case only three years ago, as being of happy
 4 memory. Thanks to dramatically increased oil
 5 costs which are now at record highs, consumers
 6 have not had much rate stability over the past
 7 few years within increases in electricity
 8 rates well ahead of the rate of inflation.
 9 This context, in my assessment, provided a
 10 compelling case for attempting to achieve a
 11 measure of rate stability at this time. This
 12 context certainly had relevance to the OPEBs
 13 issue which, if dealt with as originally
 14 proposed, would have added a further \$7.2
 15 million to Newfoundland Power’s revenue
 16 requirement in the test year.
 17 I concur with Newfoundland Power and
 18 indeed with the evidence filed in this regard
 19 by my expert consultant, John Todd, that in
 20 the context of the regulatory principles of
 21 inter-generational equity and rate stability,
 22 the choice of accounting methods for OPEBs
 23 requires consideration of the appropriate
 24 weight to be applied to each principle at a
 25 point in time. The rate increases experienced

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1 the original application. As Newfoundland
 2 Power’s supplemental evidence at page 4
 3 states, the return on common equity of 8.95
 4 percent compared to the 10.25 percent sought
 5 in the original application results in an
 6 approximate 1.5 percent revenue decrease or
 7 about \$7.3 million in 2008 compared to that
 8 sought in the original application. The
 9 Parties, in reaching this consensus, as noted
 10 by Mr. Kelly, and this was a consensus reached
 11 in the context of the matters both resolved
 12 and indeed unresolved by the Settlement
 13 Agreement, drew upon the Board’s adjustment
 14 mechanism in the Automatic Adjustment Formula
 15 established and confirmed by the Board in
 16 previous orders. It is obviously for the
 17 Board to satisfy itself that this Settlement
 18 Agreement taken as a whole meets with the
 19 legislative requirement for Newfoundland Power
 20 to earn a just and reasonable return as
 21 construed under the Public Utilities Act so
 22 that it is able to achieve and maintain a
 23 sound credit rating in the world as is
 24 required by this province’s Electrical Power
 25 Control Act.

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1 MR. JOHNSON:
 2 Given Mr. Kelly’s thorough presentation,
 3 I won’t here deal with all of the other
 4 agreements reached in the Settlement Agreement
 5 except one and that is the Parties agreement
 6 on a process for the review of Newfoundland
 7 Power’s domestic and general service rates as
 8 set out in Attachment A to the Agreement. As
 9 Consumer Advocate, I’m very, very pleased by
 10 this.
 11 The high cost of fuel at Holyrood, the
 12 public’s increased focus on energy
 13 conservation and the other foreseeable issues
 14 that may affect the future energy supply to
 15 the interconnected power system on the island
 16 portion of the province all support the need
 17 for a review of Newfoundland Power’s rate
 18 designs. This is not a review for the sake of
 19 a review. The Parties have made it a purpose
 20 of the review to develop a detailed action
 21 plan for implementation of rate designs which
 22 arise out of the review which will look at
 23 existing rate designs, potential alternative
 24 rate designs and mandatory or optional rate
 25 offerings. The objective of the process is to

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1 customers of the monopoly service that
 2 Newfoundland Power has been given the licence
 3 to provide us. We as consumers should not be
 4 mere observers to the level of service that
 5 Newfoundland Power chooses to provide us. We
 6 want a role in what those standards will look
 7 like, it’s just as simple as that.
 8 Now, Newfoundland Power’s executives will
 9 try to convince you not to exceed to this
 10 request. All the while you’re hearing their
 11 evidence and arguments I would respectfully
 12 invite you to keep in mind that Fortis Alberta
 13 reports under a formal service quality and
 14 reliability performance monitoring and
 15 reporting plan which will be put in evidence
 16 before the Board and that’s pursuant to an
 17 AEUB directive applicable to electric
 18 distribution system owners. And Fortis
 19 Ontario is subject to performance standards
 20 included in the OEB’s Electricity Distribution
 21 Rate Handbook. But more than that, I would
 22 urge the Board to keep remembering that the
 23 very executives who are telling you not to
 24 exceed to our request, in fact, receive part
 25 of their own compensation for performance in

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1 resolve the issue of the appropriate rate
 2 designs for Newfoundland Power’s customers for
 3 inclusion at the next GRA.
 4 Despite the fact that the Parties were
 5 able to resolve a number of issues in the
 6 Settlement Agreement, a number of issues, as I
 7 indicated earlier, must be resolved by the
 8 Board. I won’t touch on all of them, that can
 9 wait until we’ve heard more evidence at the
 10 end of the day, but I would like to touch on a
 11 few.
 12 Firstly, we advocate that a distribution
 13 and reliability service standard be developed
 14 for Newfoundland Power similar in principle to
 15 those that many other utilities, including
 16 other Fortis utilities operate under. A
 17 distribution and reliability service standard
 18 establishes performance standards and
 19 performance monitoring and reporting for
 20 electricity distribution and supply services
 21 provided by a distribution company, something
 22 of great importance if there’s going to be a
 23 lapse of time between GRAS. Consumers foot
 24 the bills for everything that Newfoundland
 25 Power does in providing service. We are the

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1 relation to targets which they set themselves
 2 internally in relation to reliability and
 3 customer satisfaction over Newfoundland
 4 Power’s service. To put it mildly, it is
 5 incongruous that the compensation of
 6 Newfoundland Power’s executives and managers
 7 is based on defined performance measures and
 8 targets when the Company itself makes no such
 9 commitment to customers who pay for it. It is
 10 also out of step, we would contend, with a
 11 trend towards quality of service regulation
 12 which is characterized as a regulatory regime
 13 with reliability and/or quality of service
 14 targets set by the regulator and that trend is
 15 not only being seen in jurisdictions with PBR
 16 and restructuring.
 17 On behalf of consumers I also take issue
 18 with several matters pertaining to
 19 intercorporate transactions. First, the
 20 Fortis family has continued to grow since the
 21 last hearing and Newfoundland Power has become
 22 an even smaller proportion of the Fortis Group
 23 of Companies. Yet, Newfoundland Power’s
 24 executives and managers have played extremely
 25 significant roles in that growth and

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1 MR. JOHNSON:
 2 development. That is a fact. And
 3 realistically it would strain credibility to
 4 suggest that Newfoundland Power’s expertise
 5 won’t be tapped again in the future when
 6 needed. I take issue with what Newfoundland
 7 Power proposes that it should be paid for its
 8 executives and managers when they are called
 9 upon to assist an affiliate for the benefit of
 10 Fortis. Consider that in 2003 alone Fortis
 11 executives spent 3000 hours just in relation
 12 to the acquisition of Fortis West. Very
 13 recently they assisted with the Terasen Gas
 14 acquisition. Vis-a-vis its affiliates,
 15 Newfoundland Power is a seller of services, it
 16 buys little. I reject the contention that in
 17 the particular circumstances of Newfoundland
 18 Power’s relationship with its affiliates in
 19 that particular circumstance and with its
 20 parent that a 20 percent mark up on executive
 21 and management costs is a sufficient proxy for
 22 fair market value. Take for an instance the
 23 role of the legal work that was done
 24 internally at Newfoundland Power for these
 25 Fortis acquisitions, I don’t-I think the

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1 exception to the rule that charges for non-
 2 utility services should be based on fair
 3 market value. We do not believe there is any
 4 justification for such an exception.
 5 Moreover, we believe that the present
 6 arrangement is not in keeping with this
 7 Board’s well-expressed position in P.U. 19
 8 that with regard to the provision of staff and
 9 other services benefits should not only be
 10 transparent and demonstrable, but they should
 11 be maximized to the advantage of ratepayers.
 12 Further, we respectfully urge that the Board
 13 undertake a process aimed at codifying an
 14 appropriate and comprehensive inter-affiliate
 15 code of conduct for Newfoundland Power which
 16 will build upon the Board’s previous work and
 17 orders in tackling the intercorporate
 18 transaction issue which has been quite thorny.
 19 Besides the problems with the charge-out
 20 situation, another problem is that the whole
 21 focus of Newfoundland Power’s policy on
 22 intercorporate transactions is limited to the
 23 rules that apply in determining charges from
 24 or to related companies. That’s it, it
 25 determines the charges. But that’s only one

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1 evidence may actually disclose that there was
 2 no mark up applied to that at all, and no one
 3 can mean to tell me that you can’t find out
 4 what the market rate for a lawyer is in terms
 5 of those transactions. But more--in addition
 6 to a more reasonable mark up where it’s
 7 appropriate, there should also be a standby
 8 charge for the use of this talent. And it’s
 9 clear, as well, that Fortis recognizes more
 10 value in the work done by Fortis executives
 11 than it pays to Newfoundland Power because on
 12 top of what Fortis pays to Newfoundland Power,
 13 Fortis pays bonuses to Newfoundland Power’s
 14 executives on a personal basis in respect of
 15 the same services, for bringing these
 16 acquisitions to success and assisting with
 17 Fortis’ corporate development.
 18 There are also issues around the fact
 19 that Newfoundland Power has considerable in-
 20 house insurance expertise which it makes
 21 available to affiliates and there’s no fair
 22 market value or even a proxy mark up attached
 23 to the rendering of those valuable services.
 24 Newfoundland Power treats its services in
 25 respect of insurance administration as an

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1 piece of the inter-affiliate relationship.
 2 There should be other matters addressed
 3 besides determining charges. In fact, Fortis
 4 Alberta operates under an inter-affiliate code
 5 of conduct which addresses a number of issues
 6 besides charges, such as the sharing of
 7 information, rules respecting governs,
 8 etcetera.
 9 We also believe that the Board should,
 10 indeed, recognize a productivity allowance for
 11 Newfoundland Power in this case because it’s
 12 realistic. Newfoundland Power itself
 13 recognizes that a productivity allowance is
 14 appropriate because it states that it has, in
 15 putting forward its forecast labour costs,
 16 projected a labour productivity of \$531,000 in
 17 the test year. Newfoundland Power has
 18 demonstrated its ability to achieve ongoing
 19 productivity improvements. We believe
 20 particularly given Newfoundland Power’s
 21 approach to pursuing productivity initiatives
 22 as itself has described it in the evidence,
 23 there is a quite reasonable expectation that
 24 the opportunities to achieve productivity
 25 gains are not fully reflected in Newfoundland

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1 MR. JOHNSON:
 2 Power's operating cost forecast.
 3 We also maintain that the Board should,
 4 in fact, at this point, never mind waiting for
 5 conservation studies, devote additional
 6 resources to develop and promote conservation
 7 communications for radio and television
 8 outreach to its consumers. The fact is that
 9 Newfoundland Power does not spend a red cent
 10 on radio and television ads on conservation.
 11 They spend 90,000 bucks on paid public
 12 advertising all in print media. And you have
 13 no trouble seeing their safety ads on
 14 television and listening to their safety ads
 15 on radio and safety is important. But it is
 16 perplexing, to put it mildly, when oil is
 17 going through the roof, Holyrod is spewing
 18 out greenhouses gasses by the tonne, to hear
 19 Newfoundland Power speak of the commitment to
 20 conservation when they literally spend more on
 21 promotional items such as mugs and t-shirts
 22 bearing the Newfoundland Power logo than they
 23 do on paid advertising for conservation. This
 24 Board must order Newfoundland Power to do
 25 something in this regard, because if you

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1 And finally, I would wish to acknowledge,
 2 as the Board's financial consultants, Grant
 3 Thornton, have acknowledged, that Newfoundland
 4 Power has in the revised application revised
 5 its 2008 customer energy and demand forecast
 6 and without changing the methodology has
 7 updated, used updated inputs based on more
 8 recent information. We take no issue with the
 9 revised energy and demand forecast.
 10 Newfoundland Power has also, in its
 11 revised Application, as noted by Grant
 12 Thornton, updated its operating costs and
 13 other revenue and finance charges. These
 14 charges have been reviewed and we note that
 15 Grant Thornton has stated that these changes
 16 have been appropriately incorporated into the
 17 revised Forecast Revenue Requirement Forecast
 18 Rate Base and Return on Rate Base. We take no
 19 issue with the math in respect of these
 20 revisions, but we note, as we referenced
 21 earlier, that certain of our issues impact
 22 upon the Board's determination of Newfoundland
 23 Power's test year revenue requirement.
 24 So that's a precis. I thank you for your
 25 attention and I look forward to the hearing.

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1 don't, they won't.
 2 We're also concerned by the fact that
 3 Newfoundland Power does not have a tracking
 4 system for vacancies. Surely vacancies at
 5 Newfoundland Power arise. But we are denied
 6 as intervenors to know the extent of the
 7 vacancies. The question we pose to the Board
 8 is how should it be ensured that any savings
 9 related to vacancies which may occur are
 10 reflected in the rates of Newfoundland Power's
 11 customers. It is interesting to note again
 12 that Fortis Alberta tracks vacancy rates by
 13 department and it also adjusts its FTEs for
 14 actual and forecast vacancies and date of
 15 hire. Moreover, Newfoundland and Labrador
 16 Hydro also tracks vacancies and where
 17 appropriate makes vacancy allowances.
 18 (11:15 A.M.)
 19 And finally, because I won't touch on
 20 everything that is unresolved, I do want to
 21 say that we are in support of reducing the
 22 Basic Customer Charge for domestic customers
 23 by \$1 from that proposed by Newfoundland
 24 Power. And Mr. Bowman will speak to that when
 25 he appears.

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1 CHAIRMAN:
 2 Q. Thank you, Mr. Johnson. Commissioner Whalen,
 3 any questions?
 4 VICE-CHAIR WHALEN:
 5 Q. No. Thank you, Mr. Johnson.
 6 CHAIRMAN:
 7 Q. No, I have none. Mr. Young.
 8 MR. YOUNG:
 9 Q. Thank you, Mr. Chair. I'll be very brief.
 10 Since Newfoundland and Labrador Hydro provides
 11 most of the power and energy and the majority
 12 of the bulk transmission services in the
 13 province, and most of our rural customers
 14 rates are the same as or are largely based
 15 upon the rate that will be set in this
 16 hearing, and so we intervened to ensure that
 17 we could receive all the documentation and we
 18 reserve the right to appear on any of the
 19 issues that arose that were contentious and
 20 important to us. However, we should advise
 21 that in this instance we did not judge it
 22 necessary or appropriate to intervene in a
 23 thorough way as is typical for intervenors and
 24 we didn't pick any particular perspective in
 25 that. For instance, we did not ask any

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1 MR. YOUNG:
 2 requests for information, we didn't file any
 3 of those, and we did not take an active role
 4 in the negotiations. We did ask the Applicant
 5 and the Consumer Advocate to advise us if a
 6 matter arose in the negotiations that would
 7 benefit from Hydro's participation or where it
 8 could impact Hydro in some important way. And
 9 I can advise the Board that we were contacted
 10 and consulted with a few times, only on a few
 11 occasions. And I can also advise the Board
 12 that we are comfortable and assured that our
 13 participation was not necessary to further the
 14 progress of the negotiations. And we applaud
 15 the Parties for the success in that. It
 16 reminds me of the last hearing, we spent a
 17 considerable amount of time applauding
 18 ourselves on the success of the negotiations
 19 and it's become very business as usual, which
 20 I think is the way things ought to become
 21 here. So we weren't at the table, but we wish
 22 to advise the Board that we take no objection
 23 whatsoever to its contents. We did review the
 24 negotiation Settlement Agreements. It's
 25 unlikely that I will be cross-examining

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1 think, as Mr. Young just referred to, it is
 2 becoming a part of our process and it's
 3 business as usual and an integrated and
 4 important part of the rate application
 5 process. And I would acknowledge that while
 6 the Commissioners spend less time in this room
 7 as a result, I want to acknowledge the
 8 considerable work of the Parties that go into
 9 this negotiation process and we fully
 10 understand that that's why, while we do see
 11 fewer days, it is work for a great number of
 12 people with the utilities and, indeed, the
 13 counsels to put this agreement together and to
 14 go through the various issues and a lot of
 15 work that, indeed, we don't see. And you're
 16 to be commended for that. The success of, I
 17 think, the negotiation, is always sort of
 18 uncertain as we--as you embark upon it, I'm
 19 sure, and it's quite surprising to see what
 20 issues can be agreed to through the process.
 21 I know I've sat through a week of cost of
 22 capital experts and testimony and it was quite
 23 surprising to see the agreement on the return
 24 on common equity and other issues associated
 25 with that in the Agreement, recognizing that

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1 witnesses to any great degree. Something may
 2 arise and if you sit here long enough,
 3 sometimes you have an outburst on the
 4 question. But I don't intend to take any
 5 particular perspective on the matters that
 6 I've heard this morning. And I probably
 7 finally should add that I take no blame for
 8 missing No. 30 in the Settlement Agreement
 9 because I wasn't consulted on that. Thank
 10 you.
 11 CHAIRMAN:
 12 Q. Thank you, Mr. Young. Commissioner Whalen?
 13 VICE-CHAIR WHALEN:
 14 Q. No.
 15 CHAIRMAN:
 16 Q. No. Thank you, very much. I'd just like to
 17 make a few very brief comments, and it's
 18 really just, you know, commend the work of
 19 the, all the parties, I think, and including
 20 Mr. Kennedy certainly in facilitating this
 21 process on behalf of the Board. Again, as
 22 with the last Hydro hearing, there's been
 23 significant progress in reaching an agreement
 24 on a myriad of issues that would have been
 25 contained in the original application. I

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1 there's, I'm sure, other testimony to come,
 2 but the agreement, at least, on some of the
 3 items in relation to that. I wouldn't have
 4 forecast that, to tell you the truth, going
 5 in. You know, and I'm not sure to what extent
 6 the media or the public appreciates the
 7 distinctions in the process with regard to the
 8 mediation process and the agreement which is
 9 actually, which is actually reached at the end
 10 of the day, but certainly I think if you look
 11 at the last Newfoundland Power hearing, we
 12 were talking about 25 days over eight weeks,
 13 versus, I think we have a schedule for this
 14 week and hopefully we'll conclude and then
 15 possibly with oral argument later. So those
 16 numbers are pretty clear in their own right
 17 and certainly that translates into savings in
 18 terms of public hearing costs, there's no
 19 doubt about that, which inevitably will be
 20 passed on to consumers and should be the
 21 objective of certainly everybody in this room.
 22 So I think all parties are to be commended and
 23 hopefully in future GRAs we can see similar
 24 progress. But inevitably we can't be sure of
 25 these things, in any case. Anyway, thank you

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1 CHAIRMAN:
 2 and thank you for your opening statements and
 3 presentations. It is 25 after 11.
 4 (11:25 A.M.)
 5 The schedule that I have, in actual fact,
 6 called for testimony to begin at 1:30. We
 7 will take a break. If we're coming--I'm going
 8 to leave this to Dwanda to work out in terms
 9 of schedule. I'm quite prepared to start the
 10 testimony after 15 minute break. If we wish
 11 to start at 1 or 1:30, we can do that, as
 12 well. So, Ms. Newman, if you would consult
 13 with the parties and let me know?
 14 MS. NEWMAN:
 15 Q. Are you planning on a short break now then or
 16 do you want -
 17 CHAIRMAN:
 18 Q. Short, yeah. Well, we can do this -
 19 MS. NEWMAN:
 20 Q. Or perhaps -
 21 CHAIRMAN:
 22 Q. We can do this, a 15 minute break now and
 23 start, if that's okay, or we can begin at 1 or
 24 1:30 this afternoon.
 25 KELLY, Q.C.:

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1 quarter to one to quarter to two or so, we'll
 2 take a break and then return in the afternoon
 3 for continued testimony. You'll also find
 4 some documents which I believe are going to be
 5 entered as consent documents by counsel for
 6 Newfoundland Power in due course, just in case
 7 you're wondering what that's all about.
 8 CHAIRMAN:
 9 Q. Okay. Mr. Kelly, are you going to address
 10 these, please?
 11 KELLY, Q.C.:
 12 Q. Thank you, Chairman. The parties have agreed
 13 to consensus as to how we will proceed;
 14 another settlement item. We will start with
 15 Mr. Ludlow and then we'll start Ms. Perry's
 16 testimony and then we'll break at an
 17 appropriate spot, about an hour, perhaps in
 18 total before we break.
 19 The first item of business, Mr. Chairman,
 20 is to mark four consent items. The first
 21 consent document is a document which has at
 22 the top, Financial Performance, 2002 - 2008
 23 and that's Consent No. 1. And that's not new
 24 material, it simply puts on one page, certain
 25 of the information on Exhibit 5 and Exhibit

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1 Q. Perhaps we'll begin at the 1:00 time or 1:30
 2 time, we'll -
 3 CHAIRMAN:
 4 Q. Sure, that's fine, yeah, 1:00 is good.
 5 KELLY, Q.C.:
 6 Q. If we take a break, we can consult and advise
 7 Ms. Newman.
 8 CHAIRMAN:
 9 Q. Yeah. And if there's any change in that, just
 10 let us know right there and we can come in and
 11 begin in 15 minutes, if you wish, or we can
 12 commence at 1:30. I'll let that be the
 13 subject of discussion, I guess, over the
 14 break. Thanks, very much.
 15 (RECESS)
 16 (RESUME)
 17 CHAIRMAN:
 18 Q. Thank you. Ms. Newman, what's been decided in
 19 terms of our schedule for the rest of the day?
 20 MS. NEWMAN:
 21 Q. Mr. Chairman, I guess we have been advised by
 22 Newfoundland Power that they are prepared to
 23 start some testimony, some direct testimony
 24 for perhaps an hour. And then we'll take
 25 about an hour long break. So, say, from about

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1 5.1, First Revision, so it's in an easy format
 2 for all of us to follow.
 3 EXHIBIT ENTERED AT HEARING AND MARKED CONSENT NO. 1
 4 Q. The second document, Consent 2, is the
 5 Moody's Investor Services document marked
 6 October 12, 2007, that's Consent 2.
 7 EXHIBIT ENTERED AT HEARING AND MARKED CONSENT NO. 2
 8 Q. Consent 3 is the document headed Accounting
 9 Standards Development Rate Regulated
 10 Enterprises.
 11 EXHIBIT ENTERED AT HEARING AND MARKED CONSENT NO. 3
 12 Q. And finally Consent 4 is the document headed
 13 IFRS Transition plan 2008.
 14 EXHIBIT ENTERED AT HEARING AND MARKED CONSENT NO. 4
 15 Q. And Ms. Perry will speak to those four
 16 documents when she gives her testimony.
 17 CHAIRMAN:
 18 Q. Thank you Mr. Kelly. The remainder of the
 19 schedule is fine with the Board, whatever
 20 works for everybody is good. So, if you will
 21 just let me know when to break for lunch, it
 22 will be fine.
 23 KELLY, Q.C.:
 24 Q. Thank you, Mr. Chairman.

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1 CHAIRMAN:
2 Q. Okay, thank you. Good morning, Mr. Ludlow,
3 how are you this morning.
4 MR. LUDLOW:
5 Q. Good morning, Mr. Chairman.
6 CHAIRMAN:
7 Q. Welcome back.
8 MR. LUDLOW:
9 Q. It's good to be back, sir.
10 CHAIRMAN:
11 Q. It's your second time, I guess, me seeing you
12 here, in any event, but you weren't quite in
13 the same position you are, I think the last
14 time. So, congratulations on your
15 appointment. I know it's been a while, but I
16 don't think we had the chance to see one
17 another on an informal basis since then.
18 MR. LUDLOW:
19 Q. Thank you.
20 CHAIRMAN:
21 Q. Good morning, Ms. Perry, how are you?
22 MS. PERRY:
23 Q. Good morning, Mr. Chairman.
24 CHAIRMAN:
25 Q. This is your first time, I guess.

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1 Q. And Ms. Perry, you are the Vice-President of
2 Finance and the Chief Financial Officer of
3 Newfoundland Power.
4 MS. PERRY:
5 A. Yes, that's correct.
6 Q. Mr. Ludlow, you have introduced the amended
7 application on behalf of Newfoundland Power.
8 Do you adopt Section 1, the introduction of
9 that original evidence as modified by the
10 supplemental evidence as your testimony in
11 this matter?
12 MR. LUDLOW:
13 A. Yes, I do.
14 Q. And Ms. Perry, you will speak to the finance
15 section. Do you adopt Section 3 Finance of
16 the original evidence as modified by the
17 supplemental evidence as your testimony in
18 this matter?
19 MS. PERRY:
20 A. I do.
21 Q. Are there any changes that either of you wish
22 to make to the pre-filed testimony and
23 exhibits at this time?
24 MR. LUDLOW:
25 A. No, there are none.

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1 MS. PERRY:
2 Q. First time.
3 CHAIRMAN:
4 Q. Newfoundland Power seem to have an infinity
5 for having financial people named Perry, I
6 guess. I think -
7 MS. PERRY:
8 Q. No relation.
9 CHAIRMAN:
10 Q. No relation. Anyway, welcome to you both. If
11 you could, either one of you, in the first
12 instance, take the Bible in your right hand,
13 please.
14 (11:52 A.M.)
15 MR. EARL LUDLOW (SWORN)
16 MS. JOSELYN PERRY (SWORN)
17 CHAIRMAN:
18 Q. Thank you. Mr. Kelly, I'll pass it over to
19 you.
20 KELLY, Q.C.:
21 Q. Thank you, Mr. Chairman. Mr. Ludlow, you are
22 the President and Chief Executive Officer of
23 Newfoundland Power?
24 MR. LUDLOW:
25 A. Yes, that's correct.

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1 MS. PERRY:
2 A. No.
3 Q. Mr. Ludlow, would you begin by providing us
4 with an overview of the Company's recent
5 performance?
6 MR. LUDLOW:
7 A. Good morning, Mr. Chairman, Commissioner
8 Whalen. Newfoundland Power is primarily an
9 electricity delivery and customer service
10 company. That's what we do. I took some time
11 and reviewed some of our key indicators of
12 past performance; Newfoundland Power has a
13 good track record. Customer satisfaction is
14 hovering around 88 to 90 percent. That's a
15 good indicator of how our customers see us.
16 Electrical service reliability has improved.
17 Operating costs are essentially flat and the
18 Company has achieved reasonable returns. The
19 Company is operating well and I think that our
20 performance is the result of being focused on
21 the right priorities.
22 Q. Mr. Ludlow, what do you mean by "the right
23 priorities"?
24 MR. LUDLOW:
25 A. Well, in this business, the key customer

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1 MR. LUDLOW:
 2 expectations tend to be related to cost and
 3 reliability of service. This is certainly
 4 consistent with what our customers continue to
 5 tell us. Newfoundland Power focuses the
 6 management of its business on these two
 7 things. On the cost side, our customers have
 8 seen their rates increase by approximately 26
 9 percent since 2002. This price increase is
 10 largely the result of market-driven fuel
 11 increases at Holyrood. We can't do a lot
 12 about that. The price of oil is not something
 13 we can control. However, we can and have done
 14 things on the cost side that have helped our
 15 customer.
 16 First, we've held the line on our
 17 operating costs. This has a direct impact on
 18 the rates that our customers pay, which is
 19 very important obviously to them. Second, we
 20 have increased the amount of energy efficiency
 21 information that we provide to our customers,
 22 and this was in recognition of the rising cost
 23 of electricity. This information assists
 24 customers in making choices that can help
 25 reduce their monthly electricity bills.

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1 must be managed to reasonable levels. Over
 2 the past decade or so, we have been able to
 3 achieve a good record on cost control.
 4 However, this, in and of itself, is not
 5 enough. Maintaining a reasonable level of
 6 customer satisfaction with the service we
 7 provide requires us to take a balanced view
 8 when responding to evolving customer
 9 expectations.
 10 For example, for the past number of
 11 years, the number of customers who choose to
 12 interact with us through the internet has
 13 increased dramatically. On the other hand,
 14 customers' use of our company's cashier
 15 services has dropped dramatically, and to
 16 respond to these evolving patterns in customer
 17 interaction, we've taken a couple of steps.
 18 We increased our focus on providing electronic
 19 ways for our customers to interact with us.
 20 This tends to increase our costs. We also
 21 decided to contract out cashier services.
 22 This decreased our cost, but still allowed us
 23 to maintain cashier service for our customers,
 24 albeit by different means.
 25 Now the cost associated with our

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1 On the reliability side, we have improved
 2 performance since 2002. Our customers, and
 3 indeed the provincial economy, depend upon a
 4 reliable and stable power supply. This
 5 includes fish plants in places like Arnold's
 6 Cove and New-West-Valley, as much as it
 7 includes the fast growing offshore support
 8 industries on the Northeast Avalon.
 9 Maintaining a reasonable balance between the
 10 cost of service we provide and the reliability
 11 and quality of that service is always top of
 12 mind, remains a critical focus for
 13 Newfoundland Power.
 14 KELLY, Q.C.:
 15 Q. How do you go about maintaining that balance
 16 between the cost on the one hand and
 17 reliability and service on the other hand?
 18 MR. LUDLOW:
 19 A. To be successful in managing a reasonable
 20 balance of service and costs requires an
 21 awareness of customer expectations. It also
 22 requires judgment in how we best meet--or to
 23 best meet these expectations in a cost
 24 effective way. At Newfoundland Power, we
 25 start with the fact that our overall costs

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1 decisions to increase electronic interactions
 2 with customers and to contract out cashier
 3 services did not increase our overall costs,
 4 but it did allow us to provide an overall
 5 level of service to our customers which was
 6 more responsive to their expectations. It is
 7 this type of thinking that has enabled
 8 Newfoundland Power to control costs while
 9 improving service.
 10 KELLY, Q.C.:
 11 Q. You talked about managing cost and service.
 12 One of the Consumer Advocate's issues is
 13 whether the Board should adopt reliability and
 14 service standards for Newfoundland Power.
 15 Would you give us your views on that issue?
 16 MR. LUDLOW:
 17 A. Mr. Delaney is going to address the Consumer
 18 Advocate's submission regarding the
 19 reliability and service standard for
 20 Newfoundland Power in some detail. However, I
 21 do have a few observations that may be helpful
 22 to the Board when it do consider this issue.
 23 In 2001, as part of the restructuring of
 24 the electricity industry, Alberta deregulated
 25 its retail electricity sector. In last 2003,

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1 MR. LUDLOW:
 2 the Alberta Energy and Utilities Board adopted
 3 a service quality plan for regulated
 4 utilities. I happened to be working there at
 5 that point, Mr. Chairman, and by late 2003,
 6 when I arrived in Alberta, industry
 7 restructuring was well under way, but the
 8 Province was just getting around to addressing
 9 basic customer service issues. Customers'
 10 electricity bills had pretty much doubled.
 11 Basic services such as meter reading, billing
 12 and basic customer responsiveness were
 13 creating a great deal of customer frustration
 14 and the utilities which were responsible for
 15 these tasks during this restructuring period
 16 were generally perceived as under performing.
 17 It was in this environment of widespread
 18 customer dissatisfaction that the Alberta
 19 Energy and Utility Board issued its draft
 20 service quality plan. That plan ultimately
 21 resulted in the service quality plans that
 22 exist in Alberta today. The adoption of the
 23 service quality plans in Alberta was a clear
 24 regulatory response to customer
 25 dissatisfaction. It had a cost, Mr. Chairman,

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1 Q. Next, would you give us the benefit of your
 2 views on inter-corporate relationships?
 3 MR. LUDLOW:
 4 A. In our last general rate order, the Board gave
 5 Newfoundland Power some specific directions
 6 with respect to inter-corporate relationships.
 7 Ms. Perry is going to provide you with our
 8 specific responses to your directions shortly.
 9 However, there are a few observations I'd like
 10 to make.
 11 Without question, Newfoundland Power
 12 agrees with the principle that there should be
 13 customer benefits from any inter-corporate
 14 transaction, and we also agree that the
 15 accounting for inter-corporate transactions
 16 must be fully transparent. Inter-corporate
 17 relationships are a fact of life for utilities
 18 in this country. So there is a fair amount of
 19 developed regulatory practice around pricing
 20 and reporting for inter-corporate
 21 transactions, and these practices have guided
 22 our pricing and reporting of inter-corporate
 23 transactions.
 24 A second observation I would make is that
 25 there are intangible but real benefits to

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1 but service levels had reached unacceptable
 2 levels, so some action was deemed necessary.
 3 It's my understanding that customer
 4 service levels have responded and today are
 5 improving in that jurisdiction, and when I
 6 look back on the Alberta situation, in context
 7 of Newfoundland Power, I do not see anything
 8 remotely similar in terms of customer service
 9 issues or customer dissatisfaction. In fact,
 10 I see the opposite. Customer satisfaction
 11 with Newfoundland Power's service is
 12 reasonably stable. Customer service
 13 satisfaction for residential customers has
 14 recently been assessed by an independent
 15 agency to be the highest in the country for
 16 electric utilities of our size. Currently,
 17 Newfoundland Power's regulatory reporting for
 18 service quality and reliability is reasonably
 19 comprehensive and cost effective.
 20 Given where we are currently in this
 21 province, I do not see that developing a
 22 regulated service quality and reliable
 23 standard is going to benefit our customers.
 24 But it will clearly add costs, and perhaps
 25 complexity to the regulation of this company.

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1 inter-corporate relationships for our
 2 customers, and I wouldn't want the Board to
 3 lose sight of that. Exposure to different
 4 utility operations and practice help in the
 5 development of a skilled work force. Put
 6 simply, experience matters.
 7 For me personally, I've had the privilege
 8 of working in operating roles in three
 9 regulated Fortis utilities other than
 10 Newfoundland Power. I have experience with
 11 different work methods, electrical system
 12 service standards, as well as a variety of
 13 approaches to customer service and the use of
 14 various technologies. I've seen things that
 15 work well and conversely, I've seen things
 16 that have worked not so well in a variety of
 17 circumstances. This experience informs my
 18 judgment at Newfoundland Power.
 19 I don't think it makes a lot of sense to
 20 waste time and effort trying to place a dollar
 21 value on an intangible like experience. As a
 22 person responsible for managing a utility, I
 23 do believe that there is real value in it for
 24 our customers.
 25 Q. Mr. Ludlow, how do you see Newfoundland

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1 KELLY, Q.C.:

2 Power's future operations and what challenges

3 do you see ahead?

4 MR. LUDLOW:

5 A. In certain ways, Newfoundland Power's future

6 will look like its recent past. In other

7 ways, the future will present challenges quite

8 different from those of the recent past. The

9 biggest way the future will be similar to the

10 past is in our approach to managing the

11 business. The key focus for Newfoundland

12 Power will be maintaining a reasonable balance

13 between the costs we incur and the service we

14 provide. Safety performance will remain a

15 critical aspect of how we run this business.

16 We deal with a lethal commodity and this

17 requires us to remain focused on the safety of

18 our customers, our employees and our

19 contractors. As well, the Company's role in

20 environmental stewardship will remain a

21 priority.

22 The long-standing challenges of operating

23 the electrical system in areas with a harsh

24 climate will also remain. So will the cost

25 pressures presented by the population

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1 we expect this trend to continue, largely as a

2 result of supply costs.

3 The Provincial Government's recently

4 released Energy Plan indicates that the future

5 of power supply for the island of Newfoundland

6 will be decided by approximately 2009, and

7 this will bring some clarity to what we have

8 to deal with regarding supply cost pressures.

9 In the meantime, because of the rising

10 electricity costs, conservation and energy

11 efficiency will become even more prominent in

12 the Provincial electricity industry as we go

13 forward.

14 Newfoundland Power and Newfoundland and

15 Labrador Hydro jointly commissioned a study of

16 Provincial Conservation and Demand Management

17 Potential which will be completed later this

18 year, and recently, the Provincial Government

19 established the Energy Conservation and

20 Efficiency Partnership, which will develop a

21 detailed plan for conservation and energy

22 efficiency early in 2008.

23 The Company believes that this approach

24 to Provincial conservation planning is a

25 sensible one. This will permit Newfoundland

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1 demographics of our service territory. We

2 expect we will continue to see the population

3 shifting from rural areas to the more urban

4 areas, and the Company is still required to

5 maintain reasonable service levels in all

6 areas.

7 As well, our aging work force, combined

8 with the declining availability of skilled

9 labour is becoming a larger focus for

10 Newfoundland Power. This is not unlike the

11 challenge facing most North American

12 businesses and utilities. The challenge

13 presented by work force demographics is in

14 ensuring that the necessary skills are

15 maintained in our organization to provide

16 reasonable service to our customers over the

17 long term. The relatively large early

18 retirement programs we have undertaken in the

19 past may not be cost justified into the future

20 or in the future. However, there will be

21 opportunities in terms of cost control,

22 including achieving efficiencies through

23 normal attrition.

24 Electricity costs for our customers have

25 been rising for the past number of years and

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1 Power to contribute meaningfully and cost

2 effectively to the overall effort and

3 Newfoundland Power will participate fully in

4 this partnership.

5 Finally, a comprehensive review of

6 Newfoundland Power's retail rates was agreed

7 to as part of the negotiated settlement. This

8 review, which is aimed at improving the

9 efficiency of Newfoundland Power's customer

10 rates, will be completed in 2009. Its results

11 should complement the conservation initiatives

12 already underway.

13 Q. Mr. Ludlow, is there anything else that you'd

14 like to comment on?

15 MR. LUDLOW:

16 A. Mr. Chairman, this is the third time I've

17 testified at a general rate proceeding for

18 Newfoundland Power, and of those that I have

19 participated in, this application contains

20 some of the most complicated issues. The

21 Consumer Advocate, Mr. Johnson, the Company,

22 with the assistance of the Board's

23 facilitator, Mr. Kennedy, that we've been able

24 to agree on so many complicated issues speaks

25 volumes about this process. I think that the

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1 MR. LUDLOW:
 2 regulatory process is clearly on the right
 3 track in this province, Mr. Chairman, and the
 4 Board can expect that Newfoundland Power will
 5 continue to support and encourage more
 6 negotiated settlements in the future.
 7 Q. Thank you, Mr. Ludlow. Ms. Perry, let's turn
 8 to you next. When did you become Vice-
 9 President Finance and Chief Financial Officer
 10 at Newfoundland Power?
 11 MS. PERRY:
 12 A. I joined Newfoundland Power and assumed the
 13 position in July 2005.
 14 Q. Would you please explain your qualifications
 15 and the experience that you bring to
 16 Newfoundland Power?
 17 MS. PERRY:
 18 A. I graduated from Memorial University with a
 19 Bachelor of Commerce (Honours) in 1993. I
 20 became a member of the Institute of Chartered
 21 Accountants of Newfoundland and Labrador in
 22 1995. From 1998 to 2002, I worked with Aliant
 23 as Director of Finance. I then worked with
 24 Fortis Inc. as Manager of Finance until I
 25 assumed my current position with Newfoundland

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1 Amended Application from the original
 2 application. Those changes flow from
 3 revisions to forecast and from provisions of
 4 the Settlement Agreement.
 5 Q. Let's start by looking at Newfoundland Power's
 6 financial position leading up to this general
 7 rate application, to begin there.
 8 MS. PERRY:
 9 A. Essentially, since the Company filed its last
 10 general rate application in 2003, Newfoundland
 11 Power has been able to earn within its
 12 approved range of return each year, and we are
 13 forecasting to earn within our approved range
 14 of return for 2007 as well. Maintaining our
 15 operating costs essentially at 2003 levels has
 16 helped us with this, as did the use of
 17 regulatory deferrals in 2006 and 2007.
 18 A concern for me, however, relates to our
 19 declining credit metrics. Our key interest
 20 coverage and cash flow credit metrics have
 21 been declining. Credit metrics play a key
 22 role in determining how credit rating agencies
 23 assess our credit worthiness and ultimately
 24 our credit rating. So understandably, we keep
 25 a very close watch on these metrics.

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1 Power. Both these positions had
 2 responsibilities associated with financial
 3 reporting, cash management, capital markets
 4 and investor relations.
 5 Q. Ms. Perry, you're now going to take us through
 6 the financial matters relating to the Company?
 7 MS. PERRY:
 8 A. Yes, that's correct. Mr. Chairman, as Chief
 9 Financial Officer, the most important thing to
 10 me is the financial integrity of Newfoundland
 11 Power. Maintaining our financial integrity
 12 and specifically the Company's investment
 13 grade credit ratings is essential to providing
 14 least cost service to our customers.
 15 I thought it would be helpful if I began
 16 by reviewing the Company's financial
 17 performance since the last general rate
 18 application and show where we are today as it
 19 relates to our financial integrity.
 20 I will then review for you the impact of
 21 the Amended Application on the Company's
 22 credit worthiness and show how it allows us to
 23 sustain our credit worthiness and continue to
 24 provide least cost service to our customers.
 25 Finally, I will review the changes in the

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1 We currently have two investment grade
 2 credit ratings, one from DBRS and one from
 3 Moody's. Having two ratings is necessary to
 4 have financial market access and to have
 5 access at reasonable terms. Again, this is a
 6 big part of providing least cost service.
 7 Q. What are the key drivers that are affecting
 8 the credit metrics?
 9 MS. PERRY:
 10 A. There are a couple of items impacting our
 11 credit metrics. First, our allowed returns
 12 have declined over the past few years,
 13 reflecting Long Canada Bond Yields and the
 14 operation of the Automatic Adjustment Formula.
 15 The more significant item impacting our credit
 16 metrics relates to a number of specific costs,
 17 particularly depreciation, that have not been
 18 reflected in customer rates.
 19 In 2006 and 2007, the Board approved
 20 various costs and revenue deferrals which
 21 provided the Company with an opportunity to
 22 earn its permitted returns. However, the use
 23 of regulatory deferrals, as opposed to receipt
 24 of cash revenue, impacts the Company's credit
 25 metrics.

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1 KELLY, Q.C:
 2 Q. Can you please take the Board through the
 3 actual and forecasted credit metrics of the
 4 Company leading up to 2008?
 5 MS. PERRY:
 6 A. Yes. If we could go to Exhibit 5, Chris,
 7 please, in the Supplemental Evidence? This is
 8 the exhibit titled Financial Performance 2002
 9 to 2008 and I'll be referring to the first
 10 page of this exhibit. This exhibit shows the
 11 Statement of Incomes of Newfoundland Power for
 12 2002 to 2006 and includes forecast statement
 13 of income for 2007 and a proforma statement of
 14 income for 2008 under existing rates. So in
 15 other words, without the effects of any
 16 proposals currently before the Board.
 17 Lines 34 to 38 show the Company's actual
 18 credit metrics from 2002 to 2006 and the
 19 forecast credit metrics for 2007 and 2008.
 20 Line 34 shows the Company's Return on
 21 Rate Base, which for 2002 to 2007 is in line
 22 with the allowed returns approved by the
 23 Board. You will notice the decline in the
 24 Return on Rate Base over this period, and as
 25 shown in the last column, the 2008 Return on

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1 metrics have been given more and more emphasis
 2 by credit rating agencies, particularly for
 3 regulated entities like Newfoundland Power.
 4 Regulated earnings do not always mirror cash
 5 flows. A good example of this can be seen in
 6 the regulatory deferrals used in 2006 and
 7 2007. Recovery of these costs is not provided
 8 for in customer rates. This impacts our cash
 9 flow and in turn, impacts our cash flow
 10 metrics.
 11 So looking at lines 37 and 38 of the
 12 exhibit, the Company's cash flow metrics have
 13 deteriorated. The cash flow interest coverage
 14 declines from 3.2 times in 2002 to 2.8 times
 15 in 2007. The cash flow to debt coverage
 16 declines from 17.6 percent to 13.6 percent.
 17 Again, part of the erosion of the cash flow
 18 metrics is due to declining returns and part
 19 is due to the use of regulatory deferrals.
 20 Under existing rates, as shown in the
 21 last column, the cash flow interest coverage
 22 would fall to 2.7 times in 2008 and the cash
 23 flow to debt coverage would fall to 12.6
 24 percent.
 25 (12:20 P.M.)

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1 Rate Base under existing rates would fall to
 2 6.64 percent.
 3 Line 35 shows the decline in the Return
 4 on Equity over the same period. The Return on
 5 Equity has declined from 10.65 percent in 2002
 6 to a forecasted Return on Equity of 8.8
 7 percent in 2007. Under existing rates, Return
 8 on Equity would fall to 5.56 percent.
 9 Return on Equity plays a key role in the
 10 next metric. Line 36 shows Newfoundland
 11 Power's interest coverage ratio. Interest
 12 coverage measures the Company's ability to
 13 meet interest obligations through reported
 14 earnings. Our interest coverage ratio has
 15 gone from 2.6 times in 2002 to 2.2 times in
 16 2007. The decline in Return on Equity is the
 17 main reason for this decrease and under
 18 existing rates, interest coverage would fall
 19 to 1.9 times.
 20 Now moving on to the Company's cash flow
 21 metrics, I'd first like to take a few minutes
 22 to discuss what these metrics are. Cash flow
 23 metrics simply measure the ability to service
 24 debt obligations with cash as opposed to
 25 earnings. Over the past few years, cash flow

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1 Q. Explain next how those credit metrics relate
 2 to your credit rating.
 3 MS. PERRY:
 4 A. The declining credit metrics is a concern for
 5 both rating agencies. Moody's, in particular,
 6 have placed more emphasis on the cash flow
 7 metrics, as addressed in their last credit
 8 ratings report for Newfoundland Power. If we
 9 can refer to Exhibit 6, titled Credit Ratings
 10 Report from DBRS and Moody's, and if we could
 11 please go to the Moody's report, Chris? Thank
 12 you.
 13 This is the latest credit report from
 14 Moody's. It was issued March 2007. I'd like
 15 to take you to two sections in this report.
 16 First, on the second page of the report, under
 17 the title "rating outlook". The Rating
 18 Outlook, it states "the rating outlook is
 19 stable based on the expectation that
 20 Newfoundland Power's 2007 GRA will result in a
 21 strengthening of the Company's cash flow
 22 credit metrics beginning in 2008." Then if we
 23 could go to the last page of the report, to
 24 the section, "What could change the rating
 25 down?" Moody's indicate that Newfoundland

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1 MS. PERRY:
 2 Power's current investment grade credit rating
 3 could be negatively impacted if, by 2008,
 4 these cash flow interest coverage has not met
 5 or exceeded three times and its cash flow to
 6 debt ratio has not met or exceeded 15 percent.
 7 And Mr. Chairman, we are currently below both
 8 of these values.
 9 Q. How then does the Amended Application affect
 10 the Company's credit worthiness?
 11 MS. PERRY:
 12 A. The Amended Application provides for customer
 13 rate increases of approximately 2.8 percent.
 14 This will provide the company with additional
 15 revenue from rates of approximately 14
 16 million. This additional revenue will improve
 17 our cash flow, improve our credit metrics, and
 18 I believe sustain our credit worthiness.
 19 To help the Board review the impact of
 20 the Amended Application on our credit metrics,
 21 I've taken information from both Exhibit 5 and
 22 Exhibit 5.1 and combined them into one
 23 document, which I believe is Consent No. 1.
 24 Q. Consent 1, Mr. Chairman.
 25 MS. PERRY:

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1 its purchase power expense. In fact, Moody's
 2 issued a press release on October 12th
 3 regarding the impact of the Amended
 4 Application on the Company's credit rating,
 5 and I believe this is Consent No. 2.
 6 Q. Correct. Consent 2, Mr. Chairman.
 7 MS. PERRY:
 8 A. This release states "Moody's Investor Services
 9 believes that if approved by the Newfoundland
 10 and Labrador Board of Public Commissioners,
 11 the revised GRA will not in and of itself
 12 result in a change in either the rating or
 13 outlook of Newfoundland Power."
 14 Q. That's in the first paragraph, Ms. Perry?
 15 MS. PERRY:
 16 A. Yes, it is.
 17 Q. Thank you. Please continue.
 18 MS. PERRY:
 19 A. This release confirms my view, Mr. Chairman,
 20 that the proposals in the Amended Application,
 21 if approved by this Board, will enable the
 22 Company to maintain its investment grade
 23 credit ratings.
 24 Q. Thank you, Ms. Perry. Mr. Chairman, this
 25 would be a good place for the lunch break.

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1 A. The first three columns refer to the Company's
 2 actual and forecast financial performance for
 3 2005, 2006 and 2007, and the last two columns
 4 refer to the Company's 2008 financial
 5 performance under existing rates and under the
 6 Amended Application. I would like to take you
 7 to lines 39 to 41 and in the last column, we
 8 see the forecast 2008 credit metrics, based on
 9 the Amended Application, and they are 25
 10 times for interest coverage, 2.9 times for
 11 cash flow interest coverage, and 14.9 percent
 12 for cash flow to debt.
 13 So you can see that the credit metrics
 14 resulting from the Amended Application are
 15 significantly improved over the 2007
 16 forecasted credit metrics and the 2008 credit
 17 metrics under existing rates. These metrics
 18 will now be at or just slightly below the
 19 bottom of the range recommended by Moody's.
 20 I also believe the rating agencies'
 21 assessment of the Company's credit worthiness
 22 will be positively influenced by other
 23 proposals in the Amended Application. In
 24 particular, the Energy Supply Cost Variance
 25 Clause will ensure that the Company recovers

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1 CHAIRMAN:
 2 Q. Okay, thank you. We will reconvene at 1:30.
 3 Is that okay? Take an hour. Thank you very
 4 much.
 5 (LUNCH BREAK)
 6 (RESUME 1:33 P.M.)
 7 CHAIRMAN:
 8 Q. Thank you. Good afternoon. Ms. Newman,
 9 anything before we begin?
 10 MS. NEWMAN:
 11 Q. Nothing arising.
 12 CHAIRMAN:
 13 Q. Mr. Ludlow and Ms. Perry, ready to go. Good
 14 afternoon. Mr. Kelly, when you're ready
 15 please.
 16 KELLY, Q.C.:
 17 Q. Thank you, Mr. Chairman. Ms. Perry, before we
 18 broke for lunch, we had looked at the
 19 Company's credit worthiness. I want to turn
 20 next now and have you describe for us the
 21 differences between the Amended Application
 22 and the original application. So if you go at
 23 that next.
 24 MS. PERRY:
 25 A. Yes. In the original application,

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1 MS. PERRY:
 2 Newfoundland Power proposed a customer rate
 3 increase of approximately 5.3 percent. One of
 4 the main drivers of this proposed rate
 5 increase was the need to provide for full
 6 recovery of depreciation. The Application
 7 also proposed an increase in the rate of
 8 return on common equity and adoption of the
 9 accrual method of accounting for other post-
 10 employment benefits or as we call them, OPEBs.
 11 In the Amended Application, the proposed
 12 average increase is approximately 2.8 percent.
 13 These changes are summarized in Table 1 on
 14 page three of the Supplemental Evidence, if we
 15 could go to Table 1?
 16 You'll note on the first line in this
 17 table, the proposed rate increase of 5. 3
 18 percent in the original application is now
 19 shown here as 5.5 percent. This adjustment
 20 reflects the fact that the customer rate
 21 impact in the original application was based
 22 on rates in effect on May 10th, the date of
 23 filing. However, subsequent to the filing, on
 24 July 1st, customer rates decreased 2. 9
 25 percent.

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1 111,000 which relates to a change in the
 2 wheeling rates charged to Newfoundland and
 3 Labrador Hydro, and a third item in the table
 4 is an increase in forecast finance charges of
 5 approximately 900,000. This reflects an
 6 increase in both long term and short term
 7 interest rates since the original filing.
 8 The total of these forecast cost changes
 9 increases the 2008 Test Year revenue
 10 requirement by approximately 599,000.
 11 Q. Let's go next to the sales forecast.
 12 MS. PERRY:
 13 A. The comparison of the original sales forecast
 14 to the revised forecast is provided in Table 3
 15 on page seven of the Supplemental Evidence.
 16 As you can see, customer growth as increased
 17 from .9 to 1.1 percent. The energy sales
 18 growth has increased from 1.3 to 2 percent and
 19 the demand growth has increased from 1.1 to
 20 1.7 percent.
 21 The higher sales forecast translates into
 22 both higher revenue and higher purchase power
 23 cost. The current supply cost dynamics has an
 24 impact here. Because the Company's marginal
 25 supply costs exceed marginal revenue from

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1 The next item in Table 1 relates to
 2 changes in the Company's 2008 cost and sales
 3 forecast. The updated forecast is based on
 4 the most recent information we have available
 5 and increased the proposed rate request by . 3
 6 percent.
 7 The last item is the Settlement Agreement
 8 revisions. The Settlement Agreement addresses
 9 most of the key financial issues in the
 10 Application and reduces the requested rate
 11 increase by three percent.
 12 Q. Can you take us through the cost and sales
 13 forecast revisions for 2008? Let's start with
 14 the cost revisions.
 15 MS. PERRY:
 16 A. Certainly. If we could go to Table 2, on page
 17 six of the Supplemental Evidence? Table 2
 18 shows a summary of the revisions to the
 19 Company's 2008 cost forecast. The first item
 20 is a reduction in our insurance cost of
 21 190,000. This reduction reflects the renewal
 22 of our insurance policies at lower premiums
 23 than we originally forecasted.
 24 The next item in the table relates to a
 25 reduction in the revenue requirement of

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1 customers, higher sales actually reduce the
 2 revenue we have available to cover the
 3 Company's other costs. So with the increase
 4 in the revised sales forecast, the revenue
 5 requirement increases by \$876,000.
 6 If we could go to Table 8 on page ten of
 7 the Supplemental Evidence? As Table 8 shows,
 8 the net impact of forecast changes increases
 9 the 2008 revenue requirement by 1.475 million
 10 or .3 percent from the original filing.
 11 Q. You indicated the biggest change from the
 12 original application relates to the Settlement
 13 Agreement. Would you please explain the
 14 effect of the Settlement Agreement?
 15 MS. PERRY:
 16 A. Yes. The major components of the Settlement
 17 Agreement relate to employee future benefit
 18 costs, the Company's cost of capital and the
 19 amortization of regulatory deferrals and
 20 reserves. The impact of these items is
 21 summarized in Table 14 on page 20 of the
 22 Supplemental Evidence.
 23 Referring to Table 14, the Settlement
 24 Agreement has the effect of reducing the
 25 proposed rate increase by approximately 14.6

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1 MS. PERRY:
 2 million or three percent.
 3 Q. Now the first item in Table 14 is OPEBs.
 4 Would you please review the effect of the
 5 Settlement Agreement with respect to OPEBs?
 6 MS. PERRY:
 7 A. The Settlement Agreement provision on OPEBs
 8 reduces the 2008 proposed revenue requirement
 9 by about 6.4 million. The original
 10 application contained a proposal to move to
 11 the accrual method of accounting for OPEBs.
 12 It also proposed to tax effect employee future
 13 benefits, which includes both OPEBs and
 14 pension costs. In the Settlement Agreement,
 15 the parties have agreed that the Company will
 16 continue with the cash method of accounting
 17 for OPEBs and will tax effect pension costs
 18 only. If we can go to Table 9 on page 12,
 19 I'll explain how this works.
 20 The first column of Table 9 shows that
 21 the adoption of the accrual method of
 22 accounting for OPEBs would increase OPEBs
 23 costs and the 2008 revenue requirement by 94
 24 million. The table then shows that tax
 25 effecting OPEBs would decrease the 2008

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1 ought to pay for current costs and this is
 2 effectively what the accrual method achieves.
 3 However, the rate impact on our customers must
 4 be considered. The adoption of the accrual
 5 method, as we just saw, would increase the
 6 2008 Test Year revenue requirement by 6.4
 7 million. Customers have already experienced
 8 significant rate increases associated with
 9 rising fuel cost. In addition, an increase of
 10 2.8 percent is required at this time to
 11 recover depreciation and other costs.
 12 So in these circumstances, we agreed that
 13 the appropriate balance favoured rate
 14 stability. Continuing with the cash method of
 15 accounting for OPEBs at this time strikes a
 16 reasonable balance for our customers.
 17 Q. And next I'd like you to explain what is going
 18 to be the effect of delaying the transition to
 19 the accrual method of accounting for OPEBs.
 20 MS. PERRY:
 21 A. A proposal to move to the accrual method will
 22 likely be included in the next general rate
 23 application, which I expect to be filed in
 24 2010 to set rates for 2011, and looking out,
 25 the impact of adopting the accrual method of

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1 revenue requirement by about three million and
 2 tax effecting pension costs would increase
 3 revenue requirement by .8 million. So in
 4 total, the original proposal increased the
 5 2008 revenue requirement by 7.2 million.
 6 As the second column in the table shows,
 7 the only item remaining under the revised
 8 proposal is the .8 million increase in revenue
 9 requirement relating to the tax effecting of
 10 pension cost. The difference between these
 11 two proposals, the 7.2 and the .8, is
 12 approximately 6.4 million or 1.3 percent
 13 reduction in the 2008 proposed rate request.
 14 Q. Why is it appropriate to continue with the
 15 cash method of accounting for OPEBs at this
 16 time?
 17 MS. PERRY:
 18 A. The accounting treatment for OPEBs is really
 19 an issue of timing, of when the cost ought to
 20 be recognized and reflected in customer rates.
 21 Both methods of accounting for OPEBs are
 22 acceptable for financial reporting and
 23 regulatory rate setting purposes. On the one
 24 hand, the principle of inter-generational
 25 equity would suggest that current customers

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1 accounting for OPEBs with tax effecting would
 2 not be materially different from what it is
 3 today. It's about a 1.3 percent rate impact.
 4 The principal impact of the delay relates
 5 to the growth in the transitional obligation.
 6 We estimate that the transitional obligation
 7 will increase by approximately 6.3 million per
 8 year and will be approximately 52.9 million in
 9 2011. The impact that this transitional
 10 obligation will have on customers will depend
 11 on the period over which the amount is
 12 recovered.
 13 If we could go to the table at the bottom
 14 of page 14 of the Supplemental Evidence? This
 15 table shows the percentage increase that would
 16 be required in 2011 to deal with the
 17 amortization of the transitional obligation
 18 over various time periods. A ten-year
 19 amortization period would increase customer
 20 rates by approximately one percent. So if we
 21 were to move to the accrual accounting for
 22 OPEBs and deal with the transitional
 23 obligation all at the one time, that would
 24 require a 2.3 percent increase on a pro forma
 25 basis. 1.3 to move to the accrual accounting

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1 MS. PERRY:
 2 and one percent to deal with the transitional
 3 obligation over ten years.
 4 Of course, these two components could be
 5 dealt with a different times, in order to
 6 reduce the rate impact on customers as we
 7 proposed in the original application. So as
 8 you can see, Mr. Chairman, the impact on
 9 customers of dealing with OPEBS in 2011 will
 10 not be materially different from what it is
 11 today.
 12 Q. Why is it appropriate to tax effect pensions
 13 at this time?
 14 MS. PERRY:
 15 A. Newfoundland Power's pension costs are already
 16 being accounted for on an accrual basis. The
 17 proposal to tax effect pensions really means
 18 we are going to account for the income tax
 19 effects relating to pensions on an accrual
 20 basis as well. Tax effecting pension costs
 21 provides a better matching of current costs
 22 and revenues. It is a small step forward at
 23 this time in dealing with employee future
 24 benefits and also helps improve the Company's
 25 cash flow, and hence, our financial integrity.

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1 of regulatory judgment. These types of items
 2 have usually been amortized over a three to
 3 five-year period. We originally proposed a
 4 five-year amortization period for a number of
 5 regulatory deferrals and the balance in the
 6 purchase power unit cost variance reserve.
 7 The Settlement Agreement provides for a three-
 8 year amortization period. This change results
 9 in a reduction in the revenue requirement of
 10 approximately one million. It reduces the
 11 rate impact on customers by .2 percent.
 12 As well, with a three-year amortization
 13 period, these amounts should be fully
 14 amortized before the next GRA.
 15 Q. Are there any other matters in the Settlement
 16 Agreement that you'd like to address?
 17 MS. PERRY:
 18 A. Yes. I would like to address changes to the
 19 Automatic Adjustment Formula, as well as the
 20 use of the Energy Supply Cost Variance Clause.
 21 It has been agreed that the formula will
 22 continue to apply beyond the 2008 Test Year in
 23 accordance with the Board's existing
 24 methodology except the formula will be changed
 25 to reflect the final transition to the asset

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1 Q. The Settlement Agreement also contains
 2 provisions dealing with Newfoundland Power's
 3 cost of capital. Could you please review
 4 those provisions?
 5 MS. PERRY:
 6 A. The Settlement Agreement provides for a rate
 7 of return on common equity for rate making
 8 purposes of 8.95 percent in 2008. As we saw
 9 on Table 14--Chris, if we could go back to
 10 Table 14? This reduces the revenue
 11 requirement by approximately 7.3 million or
 12 1.5 percent. The negotiated return on equity
 13 is based on a risk free rate of 4.6 percent,
 14 and based on the current methodology of the
 15 Automatic Adjustment Formula, a risk free rate
 16 of 4.6 percent implies a risk premium of 4.35,
 17 yielding a total rate of return on equity for
 18 rate setting purposes of 8.95 percent.
 19 Q. And the last settlement item you mentioned was
 20 the amortization of revenue and cost
 21 deferrals. Could you please explain the
 22 agreement with respect to those items?
 23 MS. PERRY:
 24 A. The amortization period to be applied to the
 25 various revenue and cost deferrals is a matter

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1 rate base method, as proposed in the
 2 Application.
 3 The Settlement Agreement also provides
 4 that the methodology for establishing the risk
 5 free rate in the formula will remain
 6 unchanged. The formula will operate for not
 7 more than three years following the 2008 Test
 8 Year and that the proposed Energy Supply Cost
 9 Variance Clause will apply to energy costs
 10 incurred through to the end of 2010.
 11 With these provisions in place, I believe
 12 that Newfoundland Power should have a
 13 reasonable opportunity to earn its allowed
 14 returns until at least 2010.
 15 Q. Let's look then at the 2008 revenue
 16 requirement. Just take us to that.
 17 MS. PERRY:
 18 A. Yes, if we could go to Table 15 on page 22?
 19 Table 15 shows Newfoundland Power's proposed
 20 revenue requirement from rates is
 21 approximately 498 million. This translates
 22 into an average increase in customer rates of
 23 approximately 2.8 percent.
 24 Q. Now that we've looked at the Settlement
 25 Agreement, I'd like to turn next to a number

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1 KELLY, Q.C.:

2 of issues that the Consumer Advocate has

3 addressed. One of those relates to inter-

4 corporate charges. Can I ask you to please

5 comment first on the transparency of the

6 Company's accounting for inter-corporate

7 transactions?

8 MS. PERRY:

9 A. Yes. Let me say that Newfoundland Power

10 recognizes that inter-corporate transactions

11 are unique in nature and that they must be

12 fully transparent. For this reason, we have

13 accounting systems established which ensure we

14 capture all of these costs and treat them in

15 accordance with Board orders. We provide all

16 the detail of these matters to the Board in

17 the Company's quarterly regulatory reports and

18 I observe that the Board's financial advisors

19 review inter-corporate transactions each year

20 to assess compliance with Board orders.

21 Since our last general rate case in 2003,

22 Grant Thornton has not identified any non-

23 compliance with Board orders in any of its

24 annual reviews. Mr. Chairman, Newfoundland

25 Power's accounting for inter-corporate

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1 executive and managers, was approximately

2 650,000 per year in 2001 and '02,

3 approximately 1.3 million in 2003, and

4 approximately 300,000 in 2004.

5 To give the Board some idea of where we

6 are today, in 2007, I expect the total charges

7 to our affiliates by our senior management to

8 total less than 100,000. So the total charges

9 for senior management to affiliates in 2007 is

10 at or about 15 percent of the levels in 2001

11 and 2002 and less than ten percent of the

12 amount in 2003, and we have forecasted this

13 same level for 2008.

14 Q. How did the Company develop its current charge

15 out practice for senior management time?

16 MS. PERRY:

17 A. In the Company's last general rate order, the

18 Board specifically required the Company to

19 investigate this. The results of the

20 Company's investigation can be found on

21 Schedule 3 to Attachment A of RFI CA-NP-156.

22 This report, entitled "Report on Intercompany

23 Charges," was filed with the Board on March

24 31st, 2004 in response to directions contained

25 in our last general rate order. The broad

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1 transactions is fully transparent.

2 Q. Now, charge out rates for executive and

3 management time is a specific issue raised by

4 the Consumer Advocate in this case. Can you

5 walk us through the development of

6 Newfoundland Power's current practice for

7 charging out executive and management time?

8 MS. PERRY:

9 A. Yes, I can. This was a matter considered by

10 the Board in our last general rate case, so

11 I'd like to start by reviewing what has

12 happened since that time. If we could go to

13 CA-NP-147, Chris, Attachment B?

14 This is a report entitled a Supplementary

15 Report on the stand-alone credit of

16 Newfoundland Power. It was filed with the

17 Board on April 15th, 2005 in response to

18 directions contained in our last general rate

19 order. Now if we could go to Table 2 on page

20 three of this report?

21 Table 2 on page three of this report

22 contains a summary of annual senior management

23 staff charges to related companies. Table 2

24 shows the total staff charges on account of

25 the Company's senior management, which are

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1 results of our investigation were simple. No

2 utility charged an affiliate for senior

3 management time based upon an ascertainable

4 market rate. All used a cost recovery

5 methodology. The results of our survey of

6 public utility practice is found in Schedule

7 3, Table 1. The only utilities which were

8 charging a rate which included a premium above

9 cost recovery were Terasen Gas and Aquila BC,

10 both located in British Columbia.

11 Terasen Gas was charging a premium of 20

12 percent on cost recovery. Aquila BC was

13 charging a premium of ten percent on cost

14 recovery. This was public utility practice in

15 2004. In preparation for my testimony, we

16 checked for changes. Mr. Chairman, I can

17 confirm that the results of our 2004 study

18 also reflect current public utility practice.

19 In the 2003 general rate order, the Board

20 clearly directed the Company to propose an

21 appropriate mark up for cost based rates in

22 the event that market rates were not

23 practical. Accordingly, Newfoundland Power

24 implemented a mark up of 20 percent on all

25 senior management time charges, and this was

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1 MS. PERRY:
 2 implemented as of the second quarter of 2004.
 3 Q. Do you believe that a 20 percent mark up
 4 adequately protects the interest of
 5 Newfoundland Power’s customers?
 6 MS. PERRY:
 7 A. Yes, I do. This mark up provides a 20 percent
 8 return, in addition to actual cost on senior
 9 management charges. It is currently the
 10 highest mark up in Canadian public utility
 11 practice for senior management time.
 12 Q. The Consumer Advocate has proposed that Fortis
 13 and its affiliates should pay a stand-by fee
 14 to Newfoundland Power. What do you think of
 15 that proposal?
 16 MS. PERRY:
 17 A. What concerns me as the CFO of Newfoundland
 18 Power is that to date we have made senior
 19 management and executive available to Fortis
 20 and our sister companies on a discretionary
 21 basis, after we have met our own needs first.
 22 The concept of a stand-by fee implies the
 23 existence of an obligation on Newfoundland
 24 Power to provide service to Fortis when they
 25 call on us, and in my view, having such an

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1 relationships benefit customers is by helping
 2 Newfoundland Power reduce its operating costs.
 3 The single largest type of intercorporate
 4 charge to affiliates relates to support
 5 structure work. They account for
 6 approximately 450,000 or almost half of the
 7 staff charges to affiliates in each of 2007
 8 and 2008. Currently, Newfoundland Power
 9 effectively manages all utility poles in its
 10 service territory for all interested parties,
 11 including telecommunications and cable
 12 operators. Fortis owns some non-joint use
 13 poles and Newfoundland Power performs work for
 14 Fortis under contract, at market rates,
 15 similar to that charged for work performed for
 16 arms-length telecommunications and cable
 17 companies. Newfoundland Power is able to
 18 achieve economies of scale in its costs by
 19 managing all the poles in its service
 20 territory. The revenues that the Company
 21 receives from third parties, including Fortis,
 22 exceeds its cost. This effectively reduces
 23 Newfoundland Power’s revenue requirement from
 24 its customers.
 25 Other benefits are derived from

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1 obligation is not in our customers interests.
 2 Q. Executives at Newfoundland Power have received
 3 bonuses in respect of work performed for
 4 affiliates. Can you comment on the
 5 appropriate regulatory response to this?
 6 MS. PERRY:
 7 A. All bonuses paid to executives of Newfoundland
 8 Power on account of work performed for other
 9 companies are treated as non-regulated
 10 expenses. Newfoundland Power’s customers do
 11 not pay for such bonuses. This is appropriate
 12 for regulatory purposes.
 13 Q. Now so far, Ms. Perry, you’ve only discussed
 14 the charge out rate for senior management.
 15 I’d now like to take a broader look at
 16 Newfoundland Power’s inter-corporate
 17 relationships. Do Newfoundland Power’s inter-
 18 corporate relationships benefit customers, and
 19 explain why?
 20 (2:00 P.M.)
 21 MS. PERRY:
 22 A. Yes. Newfoundland Power’s intercorporate
 23 relationships provide a real and substantial
 24 benefit to its customers. Let me give you
 25 some examples. One way that intercorporate

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1 leveraging buying power for the group. For
 2 example, current cost associated with
 3 Newfoundland Power’s participation in the
 4 Fortis Group insurance program is over 600,000
 5 less than they would be if the Company insured
 6 itself on a stand-alone basis. And this is
 7 dealt with in CA-NP-170, first revision. The
 8 benefit associated with this single item
 9 represents over one percent of the Company’s
 10 total 2008 operating cost forecast.
 11 Another way that intercorporate
 12 relationships benefit customers is by helping
 13 Newfoundland Power reduce its capital cost.
 14 Newfoundland Power and three affiliated
 15 utilities negotiated an approximately five
 16 percent volume discount for 2007 transformer
 17 purchases. This reduced the Company’s capital
 18 costs by approximately 230,000, which benefits
 19 customers over the long term.
 20 In summary, it is plain that Newfoundland
 21 Power’s intercorporate relationships provide
 22 clear benefits for its customers.
 23 Q. The Consumer Advocate also suggests that there
 24 should be an inter-affiliate code of conduct
 25 for Newfoundland Power. Would you comment on

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1 KELLY, Q.C.:
 2 that proposal?
 3 MS. PERRY:
 4 A. As I mentioned earlier, the policies and
 5 guidelines for intercompany transactions are
 6 contained in the report filed with the Board
 7 in March, 2004. The Company believes that the
 8 current policies and guidelines are
 9 appropriate, but we are certainly not opposed
 10 to formalizing the policies and guidelines in
 11 any other format that can then be made
 12 available to customers in whatever manner the
 13 Board directs.
 14 Q. Now, Ms. Perry, that concludes our discussion
 15 of intercorporate relationships. And now I
 16 want to turn to another matter, International
 17 Financial Reporting Standards or IFRS. In its
 18 October 17, 2007 report to the Board, Grant
 19 Thornton referred to developments relating to
 20 the transition to IFRS. We can see the
 21 reference if we go to page 5, lines 24 to 29
 22 of the Grant Thornton reports. I'm going to
 23 start by taking you there. Just get Chris to
 24 bring this up for us. You'll see lines 24 to
 25 29 on the screen. Have you reviewed the Grant

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1 regulated business the timing of recognition
 2 of certain revenue and expenses may differ
 3 from what is otherwise expected under
 4 Generally Accepted Accounting Principles or
 5 GAAP. Regulated assets and liabilities are
 6 simply an accounting means of capturing such
 7 timing differences. An example of this is the
 8 cash basis of accounting for OPEBs.
 9 Newfoundland Power's actual cash cost of OPEBs
 10 in a year is less than the value of the
 11 obligations that would be normally recognized
 12 under GAAP. This difference is currently
 13 reflected as a regulatory asset in
 14 Newfoundland Power's external financial
 15 statements. This regulatory asset essentially
 16 reflects OPEB costs that have already accrued
 17 but are expected to be recovered in future
 18 customer rates. Under GAAP costs are
 19 generally required to be recognized as an
 20 expense in the period they arise or accrue.
 21 However, current Canadian GAAP effectively
 22 permits rate-regulated enterprises to
 23 recognize expenses as they are recovered in
 24 rates. And this is consistent with the
 25 economic impacts of regulatory decision

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1 Thornton report with respect to this issue?
 2 MS. PERRY:
 3 A. Yes, I have. And Newfoundland Power has also
 4 been examining this issue. And let me say at
 5 the outset that I believe Grant Thornton has
 6 accurately described the accounting standards
 7 for strategic plan to transition to
 8 International Financial Reporting Standards or
 9 IFRS.
 10 Q. Now, if we get Chris to scroll down there a
 11 little bit, at 35, lines 35 and 36 we see
 12 there that Grant Thornton refers to the use of
 13 deferral accounts and regulatory assets.
 14 Would you explain to us what a regulatory
 15 asset is?
 16 MS. PERRY:
 17 A. Fundamentally financial reporting attempts to
 18 reflect the economic realities of the
 19 reporting entity. For a rate-regulated
 20 enterprise, regulatory decision making clearly
 21 has economic impacts on an enterprise.
 22 Essentially, the regulator determines the
 23 recognition of an economic cost as an
 24 accounting expense in a manner that reflects
 25 the recovery of those costs in rates. In a

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1 making.
 2 Q. What are Newfoundland Power's principal
 3 regulatory assets and liabilities?
 4 MS. PERRY:
 5 A. Currently Newfoundland Power has four
 6 principal types of regulatory assets. The
 7 first is the unrecorded future tax obligation
 8 which totalled approximately 78 million at the
 9 end of 2006. We have the OPEBs transitional
 10 obligation, which totalled approximately 28
 11 million at the end of 2006, and we expect this
 12 obligation to be approximately 34 million at
 13 the end of 2007. We have unrecovered reserve
 14 balances such as those in the Weather
 15 Normalization Reserve and the Rate
 16 Stabilization Account which totalled
 17 approximately 15 million at the end of 2006.
 18 And finally, we have cost recovery deferrals
 19 for depreciation and replacement energy which
 20 together total approximately 13 million.
 21 Newfoundland Power's regulatory liabilities
 22 include the 2005 un-billed revenue, the
 23 municipal tax liability and the purchase power
 24 unit cost reserve, and these total
 25 approximately 22 million.

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1 KELLY, Q.C.:

2 Q. Now, next can you comment generally on the

3 recent evolution of accounting standards for

4 rate-regulated utilities?

5 MS. PERRY:

6 A. Yes, I will. Accounting standards for rate-

7 regulated entities have been under much

8 scrutiny for the past several years.

9 Newfoundland Power is following all

10 developments coming from the Accounting

11 Standards Board. The Accounting Standards

12 Board is a committee of the Canadian Institute

13 of Chartered Accountants or the CICA, and this

14 board is responsible for establishing Canadian

15 GAAP. If we could go to, I believe it's

16 Consent No. 3?

17 Q. Three.

18 MS. PERRY:

19 A. This exhibit on the screen outlines the

20 Accounting Standards Board's actions regarding

21 rate-regulated enterprises since 1999. I

22 believe a review of this will help the Board

23 understand where we are today and why. In

24 1999 the Accounting Standards Board commenced

25 review of accounting standards for rate-

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1 accounting for rate-regulated operations. And

2 this exposure draft is also referred to by

3 Grant Thornton. The exposure draft was a

4 primary catalyst for the current uncertainty

5 as to how long Canadian GAAP will permit rate-

6 regulated enterprises to recognize regulatory

7 assets and liabilities in their external

8 financial statements.

9 Q. And before we go on to talk about the exposure

10 draft, did Newfoundland Power respond to the

11 March, 2007 draft?

12 MS. PERRY:

13 A. Yes, we did. And our response is Attachment A

14 to RFI PUB-NP1.

15 Q. Okay. Now, let's pick it up then, can you

16 please explain how this exposure draft and the

17 proposed transition to IFRS have created

18 uncertainty regarding future reporting of

19 regulatory assets and liabilities?

20 MS. PERRY:

21 A. As a result of this exposure draft the

22 Accounting Standards Board announced in August

23 of this year that it will remove from Canadian

24 GAAP the guidance that permits the recognition

25 of regulatory assets and liabilities. This

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1 regulated enterprises like Newfoundland Power.

2 This project attempted to assess how the

3 unique economic circumstances of rate-

4 regulated entities should be reflected in

5 Canadian GAAP. In 2002 the results of the

6 review were reported to the Accounting

7 Standards Board. It then commenced a rate-

8 regulation project to determine how those

9 results should be incorporated into Canadian

10 GAAP. Then in 2003 the Accounting Standards

11 Board approved the continued recognition of

12 regulatory assets and liabilities until the

13 completion of this project. In 2005 the rate-

14 regulation project lead to the issuance of

15 accounting guideline, ACG-19. It provided

16 guidance on how regulatory assets and

17 liabilities should be disclosed in external

18 financial statements. Then in 2006 the

19 Accounting Standards Board announced its

20 strategic plan to replace Canadian GAAP with

21 international financial reporting standards by

22 2011. So in light of this strategic plan the

23 Accounting Standards Board discontinued its

24 rate-regulation project. Instead, in March,

25 2007 it released an exposure draft on

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1 decision is effective for 2009. The purpose

2 of this decision is to harmonize Canadian GAAP

3 with IFRS, which also provides no guidance on

4 recognizing regulatory assets and liabilities.

5 The effect of this decision in the near term

6 is that Canadian utilities will have to look

7 to US GAAP for guidance during 2009 and 2010.

8 This is expected to have no effect on

9 Newfoundland Power because a preliminary

10 review indicates that our regulatory assets

11 and liabilities already comply with US GAAP.

12 So the short-term effects of the exposure

13 draft appear reasonably certain. However, if

14 IFR Standards are implemented in 2011, the

15 ability to recognize regulatory assets and

16 liabilities will have to be evaluated in the

17 context of IFRS. Currently, as I said, IFRS

18 are silent on regulatory assets and

19 liabilities, so it is not clear that IFRS

20 adoption will permit the recognition of

21 regulatory assets and liabilities by Canadian

22 rate-regulated enterprises. It is also

23 uncertain whether, following IFRS adoption,

24 Canadian utilities will still be able to look

25 to US GAAP for guidance. The Accounting

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1 KELLY, Q.C.:

2 Standards Board itself has indicated it is too

3 early to tell whether following implementation

4 IFRS will be interpreted in a way that

5 produces results consistent with US GAAP. So

6 it is this lack of clarity for 2011 which is

7 the central aspect of current uncertainty for

8 rate-regulated enterprises, including

9 Newfoundland Power.

10 (2:15 P.M.)

11 Q. What is the current status if IFRS adoption?

12 MS. PERRY:

13 A. IFRS adoption is currently proposed for

14 January 1, 2011. The Accounting Standards

15 Board has committed to issue a progress report

16 in March, 2008. This report may impact the

17 January 1, 2011 date. In the meantime, in

18 late August, 2007 the Accounting Standards

19 Board indicated that it had brought the issue

20 of rate-regulated accounting to the

21 International Accounting Standards Board which

22 governs IFRS. At the same time the Accounting

23 Standards Board indicated that it had also

24 brought the issue to the attention of Canadian

25 Securities Regulators. The referrals to these

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1 for all of this, some basic steps have been

2 undertaken. First, the Company is monitoring

3 Accounting Standards Board activity and

4 pronouncement on an ongoing basis. Second,

5 the Company is conducting preliminary

6 assessments of differences between current

7 Canadian accounting standards and IFRS which

8 are likely to impact Newfoundland Power. We

9 have actually consulted with accounting

10 advisors and experts on IFRS transition and we

11 will continue to do so. Finally, Newfoundland

12 Power will be working with industry

13 associations such as the Canadian Electricity

14 Association and the Fortis regulated utilities

15 to share information and assess impacts.

16 Q. Does Newfoundland Power have a specific plan

17 regarding IFRS?

18 MS. PERRY:

19 A. Yes. If we could first go to the Grant

20 Thornton report of October 17th, Appendix A?

21 Appendix A to Grant Thornton's report outlines

22 the Accounting Standards Board's tentative

23 time line for IFRS adoption. As you can see,

24 Mr. Chairman, the tentative time line has a

25 2008 objective of possible disclosure of an

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1 agencies were in response to regulated utility

2 comments, including Newfoundland Power,

3 regarding the exposure draft. If and how the

4 International Accounting Standards Board and

5 Canadian Securities Regulators will respond to

6 these matters is currently uncertain.

7 Q. How has Newfoundland Power addressed planning

8 for IFRS transition?

9 MS. PERRY:

10 A. The transition to IFRS may be a fairly complex

11 matter. It represents the most fundamental

12 change in accounting standards in Canadian

13 history. It will affect approximately 4500

14 publicly reporting entities of which

15 Newfoundland Power is one. While the future

16 treatment of regulatory assets and liabilities

17 is a central concern for Newfoundland Power,

18 the IFRS transition involves a review of all

19 of the current Canadian accounting standards

20 that affect the Company. The Accounting

21 Standards Board will issue further exposure

22 drafts during the transition process as it

23 modifies Canadian accounting standards to

24 conform to IFRS. So this process is expected

25 to be ongoing through 2001. So to be ready

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1 enterprises plan for convergence and what

2 effects the enterprise anticipates will arise

3 with the changes to IFRS. We expect to meet

4 this tentative time line, notwithstanding the

5 current uncertainty surrounding how the

6 transition to IFRS will affect accounting for

7 rate-regulated enterprises. Newfoundland

8 Power has already developed its own plan to

9 meet the December 31st, 2008 objective. If we

10 could show the final consent, which I believe

11 is -

12 Q. Consent 4.

13 MS. PERRY:

14 A. - Consent 4? So on this screen before you,

15 you can see Newfoundland Power's IFRS

16 transition plan for 2008. The internal

17 milestones in the plan are arranged on a

18 quarterly basis. This enables timely

19 reporting on progress to the Company's Audit

20 and Risk Committee and Board of Directors.

21 For 2008 the milestone is the year-end

22 disclosure of the Company's IFRS convergence

23 plan. This plan is expected to disclose broad

24 anticipated enterprise effects and the

25 corresponding approach to address those

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1 KELLY, Q.C.:

2 effects. The Company does not expect to have

3 sufficient clarity in overall accounting

4 standards to be available at that time to

5 enable disclosure of more detailed effects.

6 For 2009 year-end disclosure will be expected

7 to be more detailed with the focus in 2010

8 being the collection of reliable comparative

9 information for use in our 2011 financial

10 statements.

11 Q. Are there risks to the Company's financial

12 integrity of the proposed transition to IFRS

13 for external financial statements?

14 MS. PERRY:

15 A. Given the scope of the possible changes to the

16 Company's external financial statements there

17 is potential risk to the Company's financial

18 integrity prescribed by IFRS transition.

19 However, due to the current uncertainty

20 surrounding IFRS transition, particularly for

21 rate-regulated enterprises, any assessment at

22 this point is both conceptual and tentative.

23 From a conceptual perspective it is important

24 to remember that IFRS applies to the Company's

25 external financial statements. Changes to the

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1 risk to our financial integrity. The ability

2 of capital markets to see through the

3 differences between external financial

4 statements subject to IFRS and the regulatory

5 statements will play a critical role in the

6 maintenance of the Company's prospective

7 financial integrity. It will be at least

8 three years before IFRS transition occurs for

9 Newfoundland Power. It would therefore be

10 speculative for me to attempt to assess that

11 here today. Continued reliance on US GAAP for

12 rate-regulated enterprises within the IFRS

13 framework is a possibility. If this were to

14 transpire, the risk associated with IFRS

15 transition may be relative immaterial. I say

16 may purposefully. The changes created by the

17 IFRS transition will be comprehensive and

18 while today the Company perceives the

19 treatment of regulatory assets and liabilities

20 as a central concern, further review and

21 developments may give rise to other material

22 issues. Finally, it is worth observing that

23 the potential risks to financial integrity

24 prescribed by IFRS transition are not unique

25 to Newfoundland Power. Similar risks present

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1 Company's external financial statements do not

2 directly impact the Company's regulatory

3 financial statements, so changes to external

4 financial reporting will not alter the basis

5 of cost of service regulation for Newfoundland

6 Power. This Board will continue to determine

7 when and how prudent costs are to be recovered

8 from customers in rates. Rate revenue

9 obviously determines the Company's cash flow,

10 and the Company's cash flows are the

11 cornerstone of financial integrity. And

12 again, in recent years credit rating agencies

13 have placed increasing emphasis on this fact.

14 The important question is how the credit

15 rating agencies and the capital markets

16 perceive and respond to the changes in the

17 standards applied to our external financial

18 statements. External financial reporting is a

19 cornerstone of capital markets, which are the

20 source of the financing necessary to fund the

21 Company's obligation to serve its customers,

22 so it is reasonable to expect that the

23 reaction of those markets to material changes

24 in GAAP Financial Reporting will be an

25 important consideration in the assessment of

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1 themselves to other rate-regulated enterprises

2 and some element of risk likely presents

3 itself to approximately 4500 publicly-

4 reporting entities that will be required to

5 transition to IFRS.

6 Q. Thank you, Ms. Perry. Does that conclude your

7 testimony?

8 MS. PERRY:

9 A. Yes, it does.

10 Q. Thank you, Mr. Chairman.

11 CHAIRMAN:

12 Q. Thank you, Mr. Kelly. Afternoon, Mr. Johnson.

13 Are you ready to continue?

14 MR. JOHNSON:

15 Q. Yes.

16 CHAIRMAN:

17 Q. On your cross.

18 KELLY, Q.C.:

19 Q. Do you wish to take a short break before we

20 begin cross-examination, Mr. Chairman?

21 CHAIRMAN:

22 Q. Like to do that? Sure. Okay, we'll take 15

23 minutes.

24 (2:26 P.M.)

25 (RECESS)

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1 (2:46 p.m.)
 2 CHAIRMAN:
 3 Q. I understand there's some problem with the
 4 heat here in the room and we kept the door
 5 open, I think Mike has checked with the
 6 landlord too to see if there is any issue with
 7 the heating system in the room. Beyond that,
 8 feel free to take off your jackets, you know--
 9 no, no, seriously if you're feeling that warm,
 10 go right ahead and we'll manage the
 11 informality, I'm sure we'll live through it.
 12 Beyond that, if anybody would like an
 13 additional break between now, we're going to
 14 try and push through to 4:00 now, just let us
 15 know if anybody is really suffering and we'll
 16 take a five-minute break or something like
 17 that as well. There are others that are cold
 18 I understand, Ms. Blundon, so I can only
 19 suggest that you wrap up. I think Cheryl is
 20 coming down with a bit of a flu, but anyway,
 21 do what you have to do. Thank you, Mr.
 22 Johnson, when you're ready please.
 23 MR. JOHNSON:
 24 Q. Mr. Chairman, if you tell me to wrap up at
 25 some point, I won't take it -

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1 MR. JOHNSON:
 2 Q. Thank you very much, Ms. Newman. Ms. Perry,
 3 it's not that I will be ignoring you now or
 4 anything, but 'm going to start off with your
 5 colleague, Mr. Ludlow. I'm sure you don't
 6 mind after the accounting aspects. Mr.
 7 Ludlow, I take it your appointment by the
 8 Board of Directors of Newfoundland Power was
 9 made April 30th, 2007, so pretty recently.
 10 Did you play any role as to the contents of
 11 the General Rate Application which was filed
 12 on May 10th or was that ship largely sailed by
 13 the time you took the helm?
 14 MR. LUDLOW:
 15 A. Well Mr. Chairman, the filing on the 10th,
 16 needless to say has taken multiple months and
 17 months of work. I did certainly review it
 18 before we filed on the 10th and I can't say I
 19 had any major constructive changes at that
 20 point, but I was well aware of what was filed.
 21 Q. And just to go back a bit from 2005, some
 22 point in 2005 to 30th of April, 2007, you were
 23 the president and CEO of Fortis Properties,
 24 but before that, I take it from '03 to '05,
 25 you served as senior vice-president at

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1 MS. NEWMAN:
 2 Q. Excuse me, before you proceed, perhaps we'll -
 3 CHAIRMAN:
 4 Q. I'm sorry, I was aware of that, Ms. Newman,
 5 yes, go ahead.
 6 MS. NEWMAN:
 7 Q. Yes, the Consumer Advocate had filed on
 8 October 18th a package of material. I believe
 9 there's a number of items in this package to
 10 which he intends to refer through testimony,
 11 both to this panel and perhaps subsequent
 12 witnesses, so I think the easiest thing to do
 13 is just label it here now, label it to the
 14 documents as information items and that way,
 15 they can be referred to throughout. So I'm
 16 referring to an October 18th letter where
 17 there is 12 items there and I would propose
 18 that they be numbered consecutively from 1 to
 19 12 and I don't think there's any need to run
 20 through each individual one now, just they'll
 21 follow the numbering in that particular letter
 22 so that everybody is clear. There's no
 23 questions?
 24 CHAIRMAN:
 25 Q. Thank you, Ms. Newman.

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1 FortisBC and vice-president of operations at
 2 FortisAlberta. What month in '03 would you
 3 have taken on that role, Mr. Ludlow--or those
 4 roles?
 5 MR. LUDLOW:
 6 A. The time at which I moved to the Western
 7 Utilities would have been officially the 1st
 8 of January, at which time I did leave
 9 Newfoundland Power. I was seconded on work
 10 during some due diligence work we were doing
 11 during the fall. I actually left Newfoundland
 12 Power and become effective with Fortis West,
 13 actually, as an executive at that point in
 14 time.
 15 Q. In January of '03.
 16 MR. LUDLOW:
 17 A. No, sorry, January that would be '04.
 18 Q. January '04, I'm sorry. So am I missing
 19 something? Where were you in '03 then?
 20 MR. LUDLOW:
 21 A. In the summer, probably in June of '03, Mr.
 22 Chairman, I worked with, seconded or--not
 23 seconded, I guess I was working with Fortis on
 24 an acquisition in Western Canada which later
 25 became known as the Aquila purchase and at

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1 MR. LUDLOW:
 2 that point I was working there from June
 3 through to August and subsequently again from
 4 September onwards, but it was on a--I was
 5 still an employee of Newfoundland Power.
 6 Q. And these roles that you eventually took up as
 7 senior vice-president at FortisBC and vice-
 8 president of operations at FortisAlberta, did
 9 you hold these roles at the same time or was
 10 there--or did you hold them at separate times?
 11 MR. LUDLOW:
 12 A. These positions, if I may to inform the Board,
 13 when we purchased, when Fortis purchased the
 14 Aquila assets, it was one company and one
 15 company operating with offices in Alberta and
 16 BC, and as such, the role became very--what's
 17 the word I'd use, my terminology would be
 18 "mixed up", so the intent was to then separate
 19 the companies and then the president that was
 20 appointed was Philip Hughes as president of
 21 the company that arced both provinces and I
 22 went into the role of vice-president of
 23 operations, engineering, transportation,
 24 aboriginal services, purchasing, contracts for
 25 Alberta and a senior vice-president role at

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1 MR. LUDLOW:
 2 A. Just bear with me one second.
 3 Q. That's not a problem.
 4 MR. LUDLOW:
 5 A. The flavour of that can be found in CA-NP-402.
 6 And here you can see the executive members
 7 that would have been involved in 2003. This
 8 would be Philip Hughes; myself; Barry Perry;
 9 and Peter Alteen; as well--that would be the
 10 list of the executive members, Mr. Chairman,
 11 that would have been involved.
 12 Q. Okay, we can perhaps revisit that transaction
 13 a little later. I think you'll like this next
 14 question. On the occasion of your
 15 announcement, he must be your friend, Mr.
 16 David Norris who is the chair of the Board of
 17 Newfoundland Power, stated or words were put
 18 in his mouth or something, that you have a
 19 proven track record in delivering results
 20 through significant improvements in
 21 reliability, safety and operational
 22 efficiencies for the benefit of customers, and
 23 that will be instrumental on building on the
 24 solid foundation of success of Newfoundland
 25 Power. I guess we can start off easy, it

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1 the same time for British Columbia which
 2 basically sat between the executive team in
 3 British Columbia which was appointed and the
 4 president. Now these actually became
 5 effective in around mid year when the
 6 acquisition closed, so I should go back, I
 7 guess, Mr. Johnson if I may, in that I
 8 actually went to work for Fortis West, which
 9 was the acquisition team in January when I
 10 left Newfoundland Power. We closed the deal
 11 May 31st, at which time I became the officer
 12 in both companies. I hope I haven't got you
 13 confused, but it's--that was the chronology of
 14 the way it worked.
 15 Q. And who assisted you when you were on
 16 secondment, were there other people from
 17 Newfoundland Power assisting at that time?
 18 MR. LUDLOW:
 19 A. The secondment time period of 2003, from June
 20 to year end that I was working there, there
 21 would have been, I would think three or four
 22 others that would have been working out there
 23 at that time, yes.
 24 Q. And the three or four others, who would they
 25 have been?

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1 would be fair to say that you would agree with
 2 Mr. Norris' assessment of you?
 3 MR. LUDLOW:
 4 A. Well, sir, he is the chair of my Board.
 5 (3:00 p.m.)
 6 Q. I guess in light of that, just to start off at
 7 sort of a high level and to some extent you
 8 addressed it on direct with my friend, Mr.
 9 Kelly. Tell us about your priorities as the
 10 CEO, your objectives as a CEO of Newfoundland
 11 Power? What sort of stamp do you plan to put
 12 on the organization?
 13 MR. LUDLOW:
 14 A. Well, you are correct, I did address several
 15 of the topics as I spoke this morning. I will
 16 open my answer on that probably in an area
 17 that will surprise some and not others, and
 18 it's in the area of safety. And one of the
 19 areas of concern to me--not that we're
 20 underperforming, but one that we have to stay
 21 on our game, Mr. Chair. We are handling one
 22 of the worse commodities, it's--I get on my
 23 platform too much when I talk about this
 24 sometimes, but it's an area that can never
 25 ever, ever by let go, both internal from a

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1 MR. LUDLOW:
 2 training tool, focus, complacency, it's one
 3 we've got to stay on our game. So that's one
 4 key area; environment being a second. So
 5 those are the two operating issues that I did
 6 touch base on as I moved through my chief this
 7 morning--or this afternoon. There's no
 8 question regarding cost control. Cost
 9 management, I would care to differ with the
 10 use of cost cutting, it is management of costs
 11 that we deliver a product to our customer at
 12 the most cost-effective manner. And by that,
 13 there's times we will spend money to be
 14 effective, but I will also go so far to say
 15 that every single dollar spent, we will look
 16 at and look at it very closely. We will
 17 manage those, be that in deployment, be it in
 18 people, be it in forecasting the future
 19 demographics. So I look at that from the
 20 operation's side. But I would also say that
 21 in reviewing the case put before this Board, a
 22 very solid track record there. That track
 23 record dates back to 1998, Exhibit 2, firmly
 24 confirms what we have done and been able to
 25 achieve in the area of cost control and

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1 area of--I wouldn't say focused, but an area
 2 that should be dealt with was the area of
 3 reliability on our feeders and we've been at
 4 that now for ten years. Will we continue?
 5 Yes, we will. We've come a long ways in that
 6 end as well with substantive double digit
 7 decreases for improvement and reliability.
 8 Our focus there of reporting and managing the
 9 system through maintenance, responsiveness and
 10 deployment speaks for itself. And another
 11 area I would address is that of the
 12 demographics on two fronts, one being our
 13 customer base and how they are changing
 14 through their use of technology and the
 15 requirements as I gave you the example this
 16 morning of using the Internet for different
 17 purposes and Internet billing or use of e-
 18 bills, the same thing with the use of Internet
 19 banking. So that's one area of expectation.
 20 The other in demographics that we will have to
 21 deal with and as a focus of mine, is our
 22 employees. I still look at myself, Mr.
 23 Chairman, as one of the new people with the
 24 company. I think my mind is starting to slip,
 25 but that was 27 years ago, and you know, that

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1 particularly in the operating expense line.
 2 Chris, could you bring up Exhibit 2 please?
 3 And without boring the Board with minutia
 4 here, the record speaks for itself. You go
 5 right to the line, line 28 in particular and
 6 follow that line from an operation expense
 7 perspective, there's a solid record in place.
 8 My objective is to keep that line solid. Now
 9 will it increase? There's a slight increase
 10 here now. Can we hold the line at zero
 11 increase? Highly doubtful in areas of
 12 inflation, fuel prices alone have climbed
 13 almost to the point of doubling. So there's a
 14 whole lot of those types of things we would
 15 build on. Reliability, not that long ago and
 16 Mr. Chairman, as you opened this morning, you
 17 mentioned that I was here on a different role.
 18 I've spent many a night in front of many town
 19 councils in front of this province ranging
 20 from Old Perlican to St. Lawrence to Port aux
 21 Basques, taking the brunt of an under
 22 performing system. We've been working on that
 23 solid since it's been brought--and there was
 24 an independent audit completed by Mr. Dan
 25 Brown in 1998 that did draw some focus to an

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1 age bubble that's moving through, we've taken
 2 solid steps through apprenticeships, through
 3 engineering programs, through Co-op students
 4 and Mr. Delaney will speak to the details of
 5 how many we've got, where we've got them and
 6 how we're training them. But it is a concern,
 7 it's not a concern just about numbers, it's a
 8 concern about information transfer. On the
 9 books it takes four years to turn an
 10 apprentice to a fully qualified line person.
 11 My reality it's more like six or seven years
 12 and by that, you have the book learning,
 13 combine it with the practical experience.
 14 It's a long-winded answer, Mr. Johnson, but at
 15 the same point, I'll give you a flavour of
 16 where I see the major challenges within the
 17 company and I've probably missed one or two,
 18 but those would be the types of things. The
 19 cost dynamics on the system speak for
 20 themselves. We've all spoken to it, it is a
 21 concern. The price of oil, drill in oil, will
 22 I do it? I can't. But you know, that's an
 23 area that is always of concern to us.
 24 Q. Where would the idea of conservation and that
 25 sort of notion fit within your head space on

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1 MR. JOHNSON:
 2 the priority for Newfoundland Power?
 3 MR. LUDLOW:
 4 A. Fit in my head space in two areas, actually.
 5 Number one is the cost to our customer and
 6 that cost is on the actual bill and total
 7 volume that the customer pays; and secondly,
 8 efficiency or is it CDM or whatever word we're
 9 using these days, the wise and efficient use
 10 of energy, conservation. It's also about the
 11 next incremental capacity requirement for this
 12 Island. So anything we can do to work with
 13 Newfoundland Hydro to bring that or delay the
 14 next incremental capacity addition, would be
 15 substantive. From the customer side, it deals
 16 with the cost of the bill, plus the wise and
 17 efficient use and in fact the value of what
 18 our customer would see, Mr. Johnson.
 19 Q. With respect to the reliability piece, what's
 20 your assessment of the current state of play
 21 on the reliability scene for your company,
 22 SAIDI, SAIFI?
 23 MR. LUDLOW:
 24 A. Well, just bear with me one second. As I
 25 said, Mr. Chairman, earlier, the mid nineties

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1 would see. Again, that's after reducing by
 2 about 34 percent. We've come a long ways, but
 3 even with this there are locations, again,
 4 I'll leave it to Mr. Delaney to speak to the
 5 detail, where we have customers that are
 6 experiencing two and three times these average
 7 numbers across our system in particular
 8 pockets, and that's been the focus to address
 9 this. On the duration side, we're approaching
 10 national average, we're at or slightly better
 11 which is a great little story for a climate
 12 such as we operate in, of which I'm sure we're
 13 all no strangers to. So, from my end, we've
 14 seen improvement. On a global basis, we're
 15 getting where we want to go, there's still
 16 room. On an individual feeder basis, there is
 17 still feeders as we assess our top under
 18 performing feeders and we'll continue to
 19 select.
 20 Q. In terms of your reference that time, Mr.
 21 Ludlow, national statistics in terms of the
 22 reliability issue on the overall system basis,
 23 where do those national figures figure into
 24 your expectations of what Newfoundland Power
 25 should have for reliability?

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1 was a time when there was no question and we
 2 were told and we've addressed it at this
 3 Board, that our performance was not near what
 4 it should have been. And we were basically
 5 given some instructions to move ahead and we
 6 have moved ahead. I'm going to look at
 7 numbers that we've been able to achieve since
 8 2002. I'll take you to the evidence of Page
 9 24, Graph 4, if you would, Chris please. This
 10 story that you see in front of you on the
 11 graph here, and in particular Graph 4, SAIFI,
 12 represents the frequency of outages across our
 13 entire system and if you look at where we were
 14 in 2002, 2003, typically it was roughly about
 15 five, five outages per customer. That's now
 16 sub 3. This is measured on a total system
 17 basis. This is not by household or any one
 18 particular feed, this is what we've been able
 19 to achieve. Substantive improvement, it's
 20 down by about 39 percent and if you go further
 21 down the page, Chris, if you would please, in
 22 our SAIDI chart, see correspondingly we've
 23 been able to bring down our duration index
 24 which is represented here, which is the length
 25 of time that our customers, a typical customer

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1 MR. LUDLOW:
 2 A. I guess where I would look at the national
 3 scene versus the local environment we work in,
 4 versus the individual feeder and I think
 5 that's where I would take my response there,
 6 Mr. Johnson. Having worked for the past, I
 7 don't know how long, but maybe 15 years on
 8 average with the Canadian Electricity
 9 Association, there's annual reports produced
 10 by size of company, it's more of a--I would
 11 call it a sore thumb, Mr. Chair, where I can
 12 look to see how our utility is probably sizing
 13 up against--I'm not looking at downtown
 14 Toronto, I would be looking at rural and those
 15 type of areas. To say that it is a goal, no,
 16 it is not a goal, it is something that we
 17 watch and we tend towards. There are areas of
 18 our system that should be performing much
 19 better than the Canadian Electricity
 20 Association overall average. So I would use
 21 it as a guideline type of an approach.
 22 Q. Your comment that we tend to--I think your
 23 words were "we would tend towards it". We
 24 watched it, it's not a goal, but we tend
 25 towards it. How do you tend towards if it

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1 MR. JOHNSON:
 2 that's not the goal, just by improving at the
 3 feeder level?
 4 MR. LUDLOW:
 5 A. I think to take the assessment of reliability
 6 of a company and then to look at your
 7 comparators, I would say the CEA, the Canadian
 8 Electricity Association is one comparator. I
 9 take inputs from multiple sources and to give
 10 you a flavour, if I may, we take it from a
 11 call centre, from our feed back points, we
 12 take it from the town councils, we'll take it
 13 from our larger customer basis and there are
 14 some face-to-face conversations that are held.
 15 I've only been back six months, I haven't had
 16 a chance to have many yet, but I've had some,
 17 I can assure you and many of them haven't been
 18 positive on some fronts. So, to say that I've
 19 got a long-term goal to be 50 percent of the
 20 Canadian Electricity duration index, is not my
 21 goal. I managed this company through using a
 22 whole series of inputs. Today I have a
 23 challenge on a feeder from residences and a
 24 fish plant in particular, the name I'll leave
 25 out here right now for the sake of discussion,

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1 Basically, and I won't go through that whole
 2 story there now, but what had happened, and
 3 our company no different, although when I went
 4 there first, it wasn't my company, but it
 5 later became such, the focus was not on items
 6 such as reliability, safety, billing,
 7 disconnects, billing accuracy, meter reading.
 8 Matter of fact, there were meters not being
 9 read well in excess of 60 to 80 days. We
 10 couldn't find customers. Billing databases
 11 weren't lined up, and also what was happening
 12 was the billing and the meter reading was not
 13 aligning between the companies.
 14 So to say that there was room for
 15 improvement and there was confusion existing
 16 in the marketplace, to put it in my terms
 17 would be a bit of an under statement, and I'll
 18 give you the story, Mr. Johnson and Mr.
 19 Chairman. I can distinctly recall sitting in
 20 the kitchen of a farmhouse in Beau City with
 21 five farmers, and these aren't your half-acre
 22 farmers, these are big conglomerates, asking
 23 me to explain their bill, and after three
 24 hours, I had to look at them and say "sir, I
 25 cannot do this," and I had to walk away and

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1 but it's one we have to deal with that is not
 2 performing on a total basis that we're--it's
 3 on the screen now, I'm sorry. To take that,
 4 that reliability index is an extremely high
 5 level, that's a summary of all our feeders,
 6 substations, transmissions rolled up and
 7 that's a very high level number. If you
 8 follow down through the reliability indices
 9 and watch the performance, our lowest level we
 10 can get to is at the feeder level. So, Mr.
 11 Johnson, where I'm going with my answer, it is
 12 one of many. I use many inputs and there are
 13 many outputs that come out of this as well.
 14 Q. You referenced in direct the situation that
 15 you indicate was experienced in Alberta some
 16 years ago, which I take from the evidence has
 17 improved. What was the state of play that you
 18 found in Alberta when it came to the
 19 reliability issue when you went out there?
 20 MR. LUDLOW:
 21 A. Alberta, I will keep my terminology to try to
 22 be a little succinct on this, if I may, but
 23 2000-2001, the market broke up or was
 24 deregulated and created many companies. By
 25 2003, the focus was not on the customer.

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1 then come back later because of the
 2 complexities that had gone into the system.
 3 That's what has transpired.
 4 (3:15 P.M.)
 5 Q. And is it your sense that this unsatisfactory
 6 portrait that you've laid out here was solely
 7 a consequence of the changes to the
 8 restructuring in Alberta or had this been
 9 afoot for a while?
 10 MR. LUDLOW:
 11 A. Well, let me back up a little bit. In 2000,
 12 the market deregulated in Alberta, because it
 13 is not the same situation as we're dealing
 14 with here in Newfoundland. Here we're dealing
 15 with two companies that work together,
 16 cooperate together and have effectively
 17 vertical structures. In 2000, the Alberta
 18 electricity industry deregulated, and there
 19 was a generation business created that was for
 20 the competitive market. We had a transmission
 21 business which was run by the system operator.
 22 It wasn't run, it was coordinated by them,
 23 that was AltaLink. Then there was the cost of
 24 service distributor companies. I will come
 25 back and you'll see the tie in here in one

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1 MR. LUDLOW:
 2 second. And finally, there was a group called
 3 the electricity retail sector. So, and they
 4 were in a competitive business environment.
 5 So prior to the break up, you had
 6 TransAlta, fully integrated company.
 7 TransAlta became a generating company. Their
 8 transmission assets were sold to AltaLink,
 9 which was then governed by AESO. Aquila
 10 bought the distribution assets, subsequently
 11 bought by us. Aquila then sold the retail or
 12 the billing to Epcor. So now I'm having
 13 difficulty, having worked in this for three
 14 years, explaining it, let alone having a
 15 customer take a bill with four utility names
 16 on it and try and understand all the pieces.
 17 I'm not suggesting it was wrong. I'm saying
 18 it's complex. That's what happened.
 19 You had companies breaking up, TransAlta.
 20 Atco was another. You had Enmax, Epcor,
 21 Direct Energy, and there's a mirage of
 22 companies out there that were working. Our
 23 job was to run the poles and wires of a
 24 distribution company, no substations. We'd
 25 read the bill, but we'd never issue the bill.

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1 heard. In the 80s and 90s, Alberta was
 2 growing. It went through economic cycles. It
 3 was periods of growth. Their plant was aging,
 4 and whether or not the reinvestment was
 5 substantial or substantive enough is not an
 6 area that I can comment on. But there had been
 7 a decline.
 8 Q. What role, Mr. Ludlow, do you see for the
 9 consumers of Newfoundland Power in terms of
 10 their having any input into, you know, the
 11 various indicia of customer service, whether
 12 it be billing or complaint resolution or any
 13 of those panoply of issues that would fall
 14 under that, and on the reliability piece, is
 15 there any role for us, except to review the
 16 reports and come before you in GRAs and ask
 17 questions or do you see a role for us in
 18 having a say in what is a satisfactory level
 19 of service? What are some benchmarks that we
 20 could be arriving at? I'll be honest with
 21 you, and I'll get you to address it, as I'm
 22 sure you will fully. It seems a bit
 23 incongruous to be the person paying the bill,
 24 but when you ask for some role in what these
 25 standards are, just what the standards are,

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1 We'd read the bill and transport the readings
 2 to Epcor who was the retailer. We couldn't
 3 talk to the retailer. We couldn't refer
 4 customers to the retailer.
 5 So now you start to see how complex this
 6 became. Reliability in rural Alberta was not
 7 where it should be, and that was one item of a
 8 multitude of areas that was being addressed as
 9 this code came in. So you get that flavour.
 10 There was a deterioration in reliability,
 11 which would be my assessment, but from a
 12 customer service perspective and the customer
 13 interactions, there had been a steady decline
 14 to 2003 when the Code of Conduct, Utility Code
 15 of Conduct was raised and brought in place.
 16 Q. And I guess my question was whether there were
 17 difficulties with reliability, to your
 18 knowledge, prior to the restructuring?
 19 MR. LUDLOW:
 20 A. With reliability?
 21 Q. Reliability, customer service in Alberta, was
 22 that a -
 23 MR. LUDLOW:
 24 A. This would be anecdotal and again, I can't
 25 back that up, other than what I would have

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1 how you reach them, you sort of seem like a
 2 bystander. Can you address that? It's more
 3 of a comment than a question.
 4 MR. LUDLOW:
 5 A. I look to this process, Mr. Chairman, as--
 6 well, I look to the whole regulatory process
 7 to ensure that there is a balance maintained,
 8 service, cost and reliability, and through
 9 that regulatory process, our reporting goes
 10 without saying. We report here on a--I won't
 11 list them all, but there's about a half a
 12 dozen areas and types of things that we do
 13 through our quarterly reports, not only in
 14 reliability but in other areas. We report at
 15 the capital budget time. Any expenditure in
 16 that budget should be defensible and defended
 17 and that, in itself, is again reporting
 18 expected benefits that our customers would
 19 see. So that's that side. That's the open
 20 and transparency side.
 21 Then we look at our inputs from our
 22 customers. We continuously survey, on the
 23 quarter, our customers, and that's not saying
 24 that's a perfect area or anything else. It's
 25 a barometer. It's up, it's down, it's over.

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1 MR. LUDLOW:
 2 It can be impacted--I'm sure this quarter it
 3 will be impacted by today's proceedings. But
 4 we will still survey, and we ask and they
 5 tell. We have our call centres for inputs.
 6 We have direct communications with our meter
 7 readers and our line crews at the front and
 8 there's feedback mechanisms. I go before our
 9 employees, been back six months, I've now done
 10 it twice--actually, Mr. Johnson, I forgot to
 11 mention in response to you first question, on
 12 the 10th of May, after nine days in, I
 13 addressed every single person in our company
 14 basically about the GRA, about feedback, about
 15 areas of focus, and that is a regular
 16 occurrence, not only by me, but by the
 17 executives and management of this company, and
 18 drawing the information back from our front
 19 lines and our customers.
 20 So major reporting, that's also in place.
 21 So I feel there are lots of areas for impact.
 22 I think it's happening. I would be very
 23 surprised to come into a GRA and not be
 24 grilled, is the word I would use, can't come
 25 up with any long ten-dollar words today, but

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1 group of metrics and they are management
 2 metrics. They'll be dealing with things such
 3 as misreads, accuracy of reads. We should be
 4 able to tell Mr. Johnson when his meter will
 5 be read. If he has two meters, one in St.
 6 John's and one out, which I don't know if
 7 you've got ten or not, we should be able to
 8 tie that down. That's basically the type of
 9 record we have. And by the way, I get calls.
 10 5363 is a well-used number in Newfoundland, I
 11 can tell you.
 12 Q. These metrics, you refer to them as management
 13 metrics. Just define management metrics.
 14 MR. LUDLOW:
 15 A. Well, we run a company of--put it in
 16 perspective, what have we got? About 300
 17 feeders, 150 substations, 30 odd generating
 18 plants, 230,000 customers. We're always
 19 monitoring and watching our performances in
 20 certain areas. Take the call centre. We've
 21 set a--I use a management metric of the 80/40,
 22 answering our calls, speed of answering,
 23 quality of answering, and that's used as much
 24 for sizing, staffing, and driving performance.
 25 I'd look at a feeder. As I said to you

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1 grilled on the topics of reliability,
 2 performance and costs, and that's what this
 3 forum gives us.
 4 Q. A consumer calls you up, "Mr. Ludlow, I've
 5 talked to your people, but I want to talk to
 6 the president now." That's what he'll say,
 7 and you know, "I've got a difficulty with, you
 8 know, meter reading," for instance. Are you
 9 able to say to the customer "well, look,
 10 here's the established standard. This is the
 11 target that we have for this, Mr. Jones, and
 12 when did you say you should have had your
 13 meter read? When is it now? That's not
 14 right. That's not in accordance with our
 15 standards." I take it you're not able to say
 16 that today, in the sense that there's nothing
 17 for sure as to what the target is. Would that
 18 be truthful or am I -
 19 MR. LUDLOW:
 20 A. I think you're being presumptuous there. If
 21 you take the case of meter reading, we have--
 22 again, I'll call on some back history, either
 23 19 or 21 billing days a month. My memory is
 24 subject to check. It's in those ranges. We
 25 basically manage within this company by a

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1 earlier, we'll look at our worst performing
 2 feeders on a regular basis and if they're in
 3 there on an average of five years, to me,
 4 we've got to do something, and that's been the
 5 way we've worked. Our deployment of
 6 resources, we set to respond to trouble calls
 7 on two hours. Do we hold the two hours? No,
 8 because I can tell you, there's a good many
 9 we're there for 45 minutes or we're there
 10 early, and some we're a little later, but that
 11 is the way we deploy our people, set our
 12 trucks, manage the systems, and that's what I
 13 mean. These are management metrics, and
 14 there's dozens of them.
 15 Q. So would it be a fair characterization to say
 16 that these are your internal standards?
 17 MR. LUDLOW:
 18 A. No, these are our management metrics that we
 19 operate and run our company by, and when I say
 20 metrics, they're subject to change. They're
 21 flexible. If I have a major snow storm, I'm
 22 going to drop one of those metrics from two
 23 hours to maybe it'll be four hours because the
 24 road is closed. It's that style. We manage
 25 and they will differ by department. They will

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1 MR. LUDLOW:
 2 differ by focus, and whether it's customer
 3 service or safety or maintenance. So to say
 4 that they're a standard is, no, it is not an
 5 appropriate analogy.
 6 Q. Is there--these management matrix that you're--
 7 --not matrix, metrics, I take it, metrics?
 8 MR. LUDLOW:
 9 A. Metrics, I'm sorry. That's my -
 10 Q. Mine is no better than yours. Are these--I
 11 mean, are these written down somewhere? I
 12 mean, is there a list of these? What -
 13 MR. LUDLOW:
 14 A. We have -
 15 Q. Because I haven't seen that type of
 16 terminology before.
 17 MR. LUDLOW:
 18 A. Well, I can give you some here. On our
 19 intranet, tranet, our internal, we use injury
 20 frequency rate, number of calls to the call
 21 centre per customer, customer satisfaction
 22 rating, and there's a list that goes on and
 23 these are updated monthly, quarterly, as the
 24 data comes in. Environment, the volume of
 25 spills and cause of spills.

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1 this in recent past, and when we spoke about
 2 the break up of the industry, I'm not sure
 3 whether it's now in place overall. I'd be
 4 amazed if it wasn't. Standards or whatever
 5 they put into to bring up the deteriorated
 6 performance, I just don't know. I can speak
 7 to Newfoundland, but where that was, I left
 8 there 2005, I guess. I would think it is.
 9 Q. Pardon me?
 10 MR. LUDLOW:
 11 A. I would think it is, but I don't know.
 12 (3:30 P.M.)
 13 Q. Okay. We can pass on that for the moment. I
 14 took the tenure of your comments were that we
 15 ought not entertain setting any targets,
 16 external targets that customers can have at
 17 their disposal, the Board ought not to
 18 entertain any reliability targets or customer
 19 service targets because we're not in a
 20 deteriorated state in this jurisdiction, and
 21 for that reason, you drew a big red line
 22 distinction between what was happening in
 23 Alberta. Is that your thinking that -
 24 MR. LUDLOW:
 25 A. Close. My point that I made in my chief was

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1 Q. And just in terms of touching on another issue
 2 you raised this morning, in concert with your
 3 commentary on Alberta, you talked about the
 4 deterioration that had happened, etcetera, and
 5 then the Alberta regulatory set some rules. I
 6 take it these rules, they apply to all
 7 utilities in Alberta that were existing in
 8 Alberta?
 9 MR. LUDLOW:
 10 A. Yes.
 11 Q. The Alberta Board didn't single out one
 12 utility over another, in terms of imposition
 13 of these rules?
 14 MR. LUDLOW:
 15 A. Two things happened. The code of conduct, is
 16 that what you're referring to?
 17 Q. No, I'm not referring to that. I'm -
 18 MR. LUDLOW:
 19 A. Which one are you referring to?
 20 Q. I'm referring to the meeting of reliability,
 21 meeting of customer satisfaction indicia,
 22 etcetera, that the EUB responded to.
 23 MR. LUDLOW:
 24 A. To be quite honest, the points that I referred
 25 to, and I know I've gone back and looked at

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1 that we monitor customer service, we monitor
 2 performance, and we monitor costs and striking
 3 the balance between those three, I was
 4 debating whether I'd use the three-legged
 5 stool analogy here, but I don't think I will.
 6 Already have, haven't I? And keeping those
 7 three in balance is the key, and I guess the
 8 piece where my mind goes on this very topic is
 9 that we see our customer satisfaction 88 to
 10 90, we see our cost flat for the last five to
 11 ten years on operating expense, and we see our
 12 reliability and performance, multiple metrics,
 13 not in any form of deterioration. As a matter
 14 of fact, in a positive mode. To move now to
 15 implement standards will cost substantive IT
 16 infrastructure, and that's also actually
 17 referenced in one of the handouts, I do
 18 believe, by the Consumer Advocate. I can
 19 point you to that, if you wish, but it's
 20 there. We can speak to that later. And just
 21 the cost and the complexity, so I don't see
 22 the problem, so why fix one if it does not
 23 exist? And that's my point.
 24 Q. So you would have a completely different tune
 25 on what we're proposing by way of these

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1 MR. JOHNSON:
 2 standards if we were in a deteriorated state?
 3 Would that be a correct summary?
 4 MR. LUDLOW:
 5 A. If we were in a state of under performance, I
 6 would suggest to you, Mr. Chairman, that our
 7 bells would have been ringing long before I
 8 sat in this chair because of the reporting
 9 relationships we have and your ability to
 10 forecast and see. Reliability does not turn
 11 down in one day or one week or one month. Our
 12 customer service, if we take our eye off the
 13 ball through our regulatory reports, there's
 14 opportunity and we are--I feel quite certain
 15 that we will have our hands on it and I'm sure
 16 that this Board will make sure that we're onto
 17 it too. So if, as in 1998, when Mr. Dan Brown
 18 spoke and gave us the heads up and gave this
 19 Board the heads up regarding reliability that
 20 there's some work required. I don't know the
 21 exact words, I don't have them with me. It
 22 wasn't broken, but further attention is
 23 required. I would be that type of statement.
 24 That to me is a heads up and call to action,
 25 and that's what we took.

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1 A. I think it's a superfluous series of
 2 requirements at this point in the maturity of
 3 this company.
 4 Q. I'll come back to this, but I wanted to get a
 5 sense of where you were on some of it, but in
 6 terms of the conservation piece, if I just
 7 could turn there with you, Mr. Ludlow. You've
 8 indicated that that's certainly an important
 9 aspect for your customers in terms of their
 10 billing packs, etcetera, as they look to save
 11 energy costs, etcetera, you agree?
 12 MR. LUDLOW:
 13 A. Yes.
 14 Q. And do we have to really wait, Mr. Ludlow, for
 15 the outcome of this conservation study that's
 16 going to be happening, and then there'll be a
 17 period of time presumably where that will be
 18 looked at and then decisions will be made as
 19 to, well, what do we do, etcetera. Do we
 20 really have to wait on all that for
 21 Newfoundland Power to start looking at asking
 22 itself, "hey, could we be reaching our
 23 customers beyond how we're reaching them now?"
 24 in terms of print media and mail outs? I
 25 mean, I just find it a bit astonishing that

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1 Q. And is there any--do you have any sense that--
 2 I sort of gather from you that such standards
 3 really would bear no use in terms of
 4 preserving what reliability and customer
 5 service indicia that you already have. It's
 6 only meant to be remedial.
 7 MR. LUDLOW:
 8 A. I think we report anything that's requested of
 9 us, sometimes over and above, to this Board,
 10 and it's not necessarily in a corrective mode,
 11 but more in an information mode. Remedial
 12 sounds like something is broken. All the
 13 reporting that's provided, right down to
 14 absenteeism, doesn't mean something is broken,
 15 and what, I guess, my concern comes is when
 16 something is put in, it will either carry a
 17 remedial or a problem or a minimum standard
 18 or, and the benefit I fail to recognize, Mr.
 19 Chairman, and that was the point I made in my
 20 chair or in my chief this morning.
 21 Q. So you see it as having no role to preserve a
 22 satisfactory reliability situation or to
 23 preserve what is considered to be a
 24 satisfactory service situation?
 25 MR. LUDLOW:

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1 there's nothing on the radio. You don't spend
 2 a cent on radio, nothing on TV. It's
 3 certainly in sharp contrast to the money that
 4 Newfoundland Power used to spend on radio and
 5 certainly television when it used to depict
 6 dollar bills going into furnaces, and the
 7 juxtaposition to me is sort of staggering. Do
 8 we have to wait for the study to spend some
 9 money on that initiative?
 10 MR. LUDLOW:
 11 A. Mr. Chairman, there's a--from my perspective,
 12 we've never stopped speaking to our customers
 13 regarding the wise and efficient use of
 14 energy. One of the longest standing programs
 15 in this Province is, in the colloquial term,
 16 is WUFS, Wrap Up for Savings Program. It
 17 started in 1992 and has been consistent ever
 18 since. We made a conscious decision in
 19 1996/97 to stop competing with oil companies,
 20 and that's the reference, I do believe, that
 21 the Consumer Advocate is referring to. We
 22 take an approach as we look at our media
 23 means, be it bills, be it Power Connection,
 24 and there's a list that continues to go, like
 25 newspaper ads, the Transcontinental or the

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1 MR. LUDLOW:
 2 Evening Telegram or whatever. We have not
 3 used the more expensive media because we felt
 4 that the balance between cost and
 5 effectiveness wasn't working for us. We have,
 6 however, picked up in the areas, in particular
 7 in the last two years, of booths. The Home
 8 Show is an example, exhibits. Rough estimates
 9 last year, there was approximately 50,000
 10 people were exposed to those types of areas.
 11 So that's a change.
 12 Can we spend more money? Yes. Do we see
 13 the value right now? No. We have worked with
 14 Hydro, Newfoundland and Labrador Hydro.
 15 Actually, this is Energy Efficiency Week.
 16 This past weekend and this week, there's a
 17 joint ad campaign running. It so happens that
 18 one do have some radio into it. But it's not
 19 a key driver from our perspective. We have
 20 brought up our customer account
 21 representatives with the latest of technology
 22 in advice on how to insulate, tips for energy
 23 savings, through Bright Ideas programs,
 24 insulation, ground source heat, and the list
 25 goes on.

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1 that at this point would be premature to just
 2 go out with what we have in play with the CDM
 3 Study that's jointly planned and currently
 4 under way and nearing finalization with
 5 Newfoundland Hydro, and the announcement of
 6 the partnership with Newfoundland Hydro,
 7 Provincial Government, ourselves and other
 8 groups, it would be extremely premature to
 9 just go without that plan in hand.
 10 Q. Now, could we turn to CA-NP-76? Referring now
 11 to the energy advertising line. Mr. Ludlow, I
 12 take it you confirm that from '05 we've
 13 actually seen a drop in energy advertising.
 14 Do you accept that, from '05 to '06 dropped,
 15 '07 dropped again, '08 dropped? Meanwhile,
 16 through that period of time the oil prices
 17 have been increasing. Just seems to me that
 18 it would be an odd time to drop energy
 19 advertising. Do you have any comment on that?
 20 MR. LUDLOW:
 21 A. The observation you make regarding
 22 advertising, I'm just watching it going
 23 through here, we've held the line on where we
 24 were on this, but this is not the only route
 25 by which the message is getting to our

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1 So I think, Mr. Johnson, it's--to say
 2 that that would be all cured by going to
 3 television and radio, I'm very concerned with
 4 the upward pressure on the cost line that you
 5 would see in Exhibit 2 that I had on the
 6 screen a little earlier.
 7 Q. What sort of upward pressure, what are you
 8 assuming?
 9 MR. LUDLOW:
 10 A. Pardon me?
 11 Q. What are you assuming in terms of the upward
 12 pressure that would come from doing a bit of
 13 radio and television on the energy
 14 conservation message?
 15 MR. LUDLOW:
 16 A. Well, I do know that when I completed my
 17 master's in business administration with a
 18 focus on marketing that you had to balance off
 19 your reach with the media at hand. And the
 20 television production and placement costs,
 21 same thing with radio, far outweigh, from our
 22 perspective and our judgment, the
 23 effectiveness of the message we were getting
 24 out. The quantification of that number, I do
 25 not have with me. And I would suggest its one

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1 customers. If you go to our web site, if you
 2 go to our call centre, and if anyone were to
 3 make these calls and the level of improvement
 4 that's been made has been quite substantial in
 5 our ability to get that message out. And, Mr.
 6 Chairman, one point here, as well, is that we
 7 run a program called Envirofest, and it's ten
 8 years this year, and this is my first year
 9 back since 2003. It was interesting to see
 10 the booths showing the CFLs and the
 11 incandescence and Hydro and Newfoundland Power
 12 working together on energy efficiency in Grand
 13 Falls, as an example, so times have changed a
 14 lot. And I agree the fact that we have not
 15 increased, your observation is correct.
 16 Should it have increased? In our opinion, no.
 17 Where we are is where we strike the best
 18 balance. This is one component of a full
 19 program.
 20 Q. And likewise, Wrap Up For Savings that you
 21 spoke about, that has been relatively flat
 22 from '05, as well?
 23 MR. LUDLOW:
 24 A. But it's actually almost six times since 2002.
 25 Q. Yes, and it's multiples of that from '03.

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1 MR. LUDLOW:
 2 A. Agree.
 3 Q. When it was \$6000. But in any event, can you
 4 confirm that I did not mis-speak this morning
 5 in my opening, Mr. Ludlow, that Newfoundland
 6 Power does, in fact, spend more on promotional
 7 items such as t-shirts and mugs bearing the
 8 Newfoundland Power logo than the amount that
 9 it spends on paid energy advertising and paid
 10 media, can you--would that be a true statement
 11 on my part?
 12 MR. LUDLOW:
 13 A. I have no idea, Mr. Johnson, what we spend on
 14 that material.
 15 Q. Just if we could refer to CA-NP-88? I think
 16 we have to come down a little further. You
 17 see promotional materials there in Table 1?
 18 MR. LUDLOW:
 19 A. Yes.
 20 Q. And it shows in '06 you spent 119,000; 2007,
 21 125; and forecasting for 2008, 125 on
 22 promotional materials. And you obviously
 23 accept that?
 24 MR. LUDLOW:
 25 A. I'll accept the numbers as posted in the RFI,

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1 are, sorry, are treated, while most, I'll use
 2 the right word because I'll be corrected here
 3 shortly, are a non-regulated expense. I would
 4 also, Mr. Chair, this is the level of detail
 5 that I'm going to have to defer to Mr.
 6 Delaney. But the difference between the non-
 7 regulated and the regulated expenses are
 8 clearly brought out in this answer to your
 9 RFI.
 10 Q. Yes, but so the 125, that's a regulated
 11 expense, though, is it not? Or do you want to
 12 defer on that?
 13 MR. LUDLOW:
 14 A. No, it's not.
 15 MS. PERRY:
 16 A. No, that includes both regulated and non-
 17 regulated.
 18 Q. Okay. And again, just putting the advertising
 19 expense on conservation in another context,
 20 which in 2008 is supposed to be \$90,000, I
 21 understand and perhaps you could confirm that
 22 Newfoundland Power spends fully \$65,000 a
 23 year, which is regulated expenses, on an
 24 employee personal computer purchase plan? I
 25 mean, would that be correct in terms of

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1 yes.
 2 Q. And do you also accept my assertion that
 3 promotional items are, include and are defined
 4 as mugs, t-shirts bearing Newfoundland Power
 5 logo, things of that sort?
 6 MR. LUDLOW:
 7 A. Is that in the RFI?
 8 (3:45 P.M.)
 9 Q. If we could turn--it's not there. Could we
 10 turn to CA-NP-374? Keep on going. I think
 11 you have to go up. Yes, E at line 36.
 12 "Promotional materials are items such t-shirts
 13 and mugs bearing Newfoundland Power logo.
 14 While most promotional materials are treated
 15 as a non-regulated expense, some promotional
 16 materials are used in employee-recognition
 17 initiatives and are therefore appropriately
 18 charged to regulated expense." So I take it
 19 we are in agreement that you spend more on
 20 mugs and t-shirts than you do on paid energy
 21 advertising, correct?
 22 MR. LUDLOW:
 23 A. I would agree on what you're saying, but I
 24 will also draw the Board's attention to a very
 25 large difference here in that the majority

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1 putting some of these numbers in context?
 2 MR. LUDLOW:
 3 A. Probably is, I just don't have the number in
 4 front of me. If you can take me there, I'd
 5 appreciate it. But again, the level of detail
 6 that you're going to, Mr. Johnson, is one that
 7 we have our witness prepared, Mr. Delaney, in
 8 particular, in the areas of expenses.
 9 Q. Okay. Just for the record, that expense is
 10 detailed at CA-NP-88. Could I turn to
 11 Information No. 6?
 12 MS. NEWMAN:
 13 Q. That's the media release dated September 21st?
 14 MR. JOHNSON:
 15 Q. Yes, it is.
 16 MS. NEWMAN:
 17 Q. 2007, Newfoundland Power Helping Customers.
 18 Up on the screen now, Mr. Johnson, is that
 19 correct?
 20 MR. JOHNSON:
 21 Q. Yes. This media release dated September 21st,
 22 2007, are you familiar with this, Mr. Ludlow?
 23 MR. LUDLOW:
 24 A. Yes, I am.
 25 Q. And it states in this line, in the top line,

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1 MR. JOHNSON:
 2 "Newfoundland Power is offering customers
 3 double rebates for insulation upgrades during
 4 September and October, '07 through its Wrap Up
 5 For Savings Program." And can I take it that
 6 that's not something that normally occurs,
 7 double rebates? That's a special, if you
 8 will?
 9 MR. LUDLOW:
 10 A. That's, well, it's been, I think it was last
 11 year and this year, as I understand.
 12 Q. And again, it just, it mystifies me, to be
 13 honest, why if Newfoundland Power was offering
 14 this that there wouldn't even be a word about
 15 it on the radio. I mean, this is almost a
 16 special, in a sense, September and October
 17 only, you know, here's what we're offering,
 18 get in touch with us. I mean, and that--have
 19 you done an assessment to see that if you put
 20 that on radio, that that wouldn't be
 21 effective?
 22 MR. LUDLOW:
 23 A. No, I have not.
 24 Q. Do you think it would be effective?
 25 MR. LUDLOW:

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1 A. 79.
 2 Q. 79, sir.
 3 MR. LUDLOW:
 4 A. Here we go. It's my understanding this has
 5 been built into the test year.
 6 Q. Yeah. And so for spending on Wrap Up For
 7 Savings, I think we touched on that earlier,
 8 under CA-NP-76, the spending for Wrap Up For
 9 Savings in 2008 was 85,000 bucks, and we're
 10 talking about a return for 2008 of \$1. 1
 11 million savings? Am I getting that right?
 12 MR. LUDLOW:
 13 A. I'm not sure there's a direct -
 14 MS. PERRY:
 15 A. If I could just provide--this here is just a
 16 reduction in the energy that we expect to
 17 sell, so those costs associated with that.
 18 Q. Okay, so that little bit of Wrap Up For
 19 Savings reduces the amount of energy you'd
 20 expect to sell by over a million bucks, \$1. 2
 21 million?
 22 MR. LUDLOW:
 23 A. That's correct.
 24 Q. I mean, you know, can there be any real debate
 25 about the value of, say, running some ads on

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1 A. I think these packages of Wrap Up For Savings,
 2 the internet, all our CARs and people--CARs,
 3 sorry, customer account representatives, are
 4 well armed and actually in positions to
 5 describe this. Whether it would draw more
 6 people, I mean, I'm not in a position to say
 7 yes or no. On the surface we went with the
 8 route of the print media. It is possible it
 9 could have improved our coverage, I just don't
 10 know.
 11 Q. Could we put up CA-NP-79? At Table 1 the
 12 Company reports on the annual savings
 13 resulting from CDM initiatives. And the top
 14 line there is Wrap Up For Savings and it shows
 15 the cost savings of, what is it, 1.163--
 16 \$1,163,0000, that's an annual savings that's
 17 reflected in the test year, I take it, that
 18 results from that Wrap Up For Savings Program?
 19 MR. LUDLOW:
 20 A. I would assume so. Just bear with me one
 21 second here. I just need to go to it to make
 22 sure that we're reading from the same book
 23 here now. Bear wit me one second. What is
 24 the 76--79?
 25 MS. PERRY:

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1 TV, for instance, just on this little campaign
 2 we're talking alone, September, October,
 3 double the rebate, I mean, can there be any
 4 real debate as to whether it would be worth
 5 our while to spend some money on TV and radio
 6 to tell people about this as opposed to just
 7 shoving it in their bills with the rest of the
 8 junk mail that they consider junk mail every
 9 month?
 10 MR. LUDLOW:
 11 A. I never look at our e-bills or our bills as
 12 junk mail, but that's up to yourself, I guess.
 13 I'm not clear, I'm not clear we've got this
 14 circumstance highlighted the way you're
 15 describing it. So I would like to, if I may,
 16 take some time to just check this a little
 17 further, Mr. Chairman.
 18 KELLY, Q.C.:
 19 Q. And in fairness, the witness has said two or
 20 three times that this would be a better series
 21 of questions for Mr. Delaney, which would be
 22 the appropriate witness to deal with the issue
 23 and answer Mr. Johnson's questions.
 24 MR. JOHNSON:
 25 Q. If you--I obviously can't object if the

1 MR. JOHNSON:
 2 witness wants to look at it further. I mean,
 3 that's fair play.
 4 CHAIRMAN:
 5 Q. I guess it's on a question-by-question basis.
 6 And, Mr. Ludlow, if you feel that this is a
 7 level of detail as the questions come forward,
 8 just indicate and we'll defer those to Mr.
 9 Delaney or whoever the case may be. And on
 10 your point of getting the--having some time to
 11 get this information and an answer, that's
 12 fine, I guess. We'll be coming back tomorrow
 13 morning, in any event, if that's sufficient
 14 time.
 15 MR. LUDLOW:
 16 A. Mr. Chairman, to be helpful to the Board, the
 17 level of detail that we're getting into here
 18 about reach and costs of ads and so on is
 19 something I certainly am not in a position to
 20 speak to. But I do know that we have people
 21 prepared on that topic.
 22 Q. If you could bear that in mind, Mr. Johnson,
 23 in your questioning, I'd appreciate it.
 24 MR. JOHNSON:
 25 Q. I think we're now close to 4:00 anyway, Mr.

1 Chairman.
 2 CHAIRMAN:
 3 Q. Sure. Okay, thank you, very much, Mr. Ludlow,
 4 Ms. Perry and Mr. Johnson. And we'll conclude
 5 if there's nothing else, Ms. Newman, and we'll
 6 see you at 9:00 tomorrow morning.
 7 Concluded.
 8 (3:56 P.M.)

1 CERTIFICATE
 2 I, Paulette Murphy, do hereby certify that the
 3 foregoing is a true and correct transcript of a
 4 hearing heard before the Commissioners of the
 5 Public Utilities Board on Newfoundland Power Inc.'s
 6 2008 General Rate Application, heard on the 22nd
 7 day of October, 2007 and was transcribed by me to
 8 the best of my ability by means of a sound
 9 apparatus.
 10 Dated at St. John's, Newfoundland and Labrador
 11 this 22nd day of October, A.D., 2007
 12 Paulette Murphy