

Page 1

1 (9:03 a.m.)
 2 CHAIRMAN:
 3 Q. Good morning, everybody. Is there anything--
 4 good morning, Ms. Newman. Anything before we
 5 get started?
 6 MS. NEWMAN:
 7 Q. No preliminary matters, Mr. Chairman.
 8 CHAIRMAN:
 9 Q. Just like to introduce, I guess, Ms. Barbara
 10 Thistle. Barbara is, among other things,
 11 assistant Board secretary, I guess just
 12 filling in for Cheryl who's gone to confirm
 13 the diagnosis that I had yesterday of her. I
 14 think she seems to be coming down with
 15 something, so she may be gone for a couple of
 16 days or a few hours, I'm not sure.
 17 Anyway, good morning, Mr. Ludlow and Ms.
 18 Perry.
 19 MR. LUDLOW:
 20 A. Good morning.
 21 MS. PERRY:
 22 A. Good morning.
 23 CHAIRMAN:
 24 Q. Mr. Johnson, when you're ready, please.
 25 KELLY, Q.C.:

Page 3

1 program began in 1992.
 2 This is further explained in the evidence
 3 on page 38. Chris, if you could take us
 4 there, please? Particularly lines six and
 5 seven, "the annual energy savings achieved as
 6 a result of customer participation in this
 7 program since its launch in 1992 are estimated
 8 at over 11.3 gigawatt hours," and that's
 9 further explained in footnote 56 on the bottom
 10 of this page, and when a customer saves energy
 11 through the Wrap Up for Savings program, it's
 12 not a one time. The energy is saved every
 13 year, and the inference drawn in discussion on
 14 cross-examination yesterday that the \$85,000
 15 as per CA-NP-76, again I'll take you to the
 16 Wrap Up for Savings in Table 1, across to
 17 column 2007 forecast of \$85,000. The
 18 inference that this 85,000 directly provides
 19 the 1.163 million is incorrect. The total
 20 effect of the program since 1992 has
 21 contributed the savings as per the table that
 22 I put up earlier in CA-NP-79. This is an
 23 ongoing expenditure program and this program
 24 has been in place for 15 years.
 25 I also said yesterday, Mr. Chairman, that

Page 2

1 Q. Mr. Chairman, before Mr. Johnson begins, one
 2 matter of clarification from the transcript
 3 from yesterday that the witness undertook to
 4 come back on. This is in the transcript, page
 5 179 and 180, the Wrap Up for Savings Program,
 6 the relationship between the 2008 expenditures
 7 and the energy savings, and Mr. Ludlow can
 8 address that first, if you wish.
 9 CHAIRMAN:
 10 Q. Yes, that'll be fine. Is that satisfactory to
 11 you?
 12 MR. JOHNSON:
 13 Q. That's fine.
 14 MR. LUDLOW:
 15 A. Mr. Chairman, yesterday in cross-examination,
 16 the Consumer Advocate referred to CA-NP-79.
 17 Chris, if you could bring that up, please? Go
 18 down to Table 1, and there was specific
 19 reference in discussion regarding the cost
 20 savings of column three at the 1.163 million
 21 dollars. This savings of 1.163 million
 22 represents, as you come across to the second
 23 column of energy savings, 11 million 300
 24 thousand kilowatt hours of energy. This is an
 25 aggregate total since the Wrap Up for Savings

Page 4

1 any further details down into the costings and
 2 the details of the program, I'm going to be
 3 deferring to Mr. Delaney.
 4 CHAIRMAN:
 5 Q. That's fair enough.
 6 MR. JOHNSON:
 7 Q. Thank you, Mr. Ludlow. Perhaps you might
 8 undertake to provide us with the expenditures
 9 that your Company has made on the Wrap Up for
 10 Savings program since 1992, so we can compare
 11 the expenditure on the program to the 1.186.
 12 Would that be a fair undertaking for me to -
 13 KELLY, Q.C.:
 14 Q. I don't know how far--how much time it'll take
 15 to go all the way back to 1992, Mr. Chairman -
 16 MR. JOHNSON:
 17 Q. Well, we're already back -
 18 KELLY, Q.C.:
 19 Q. - but we'll look at it. Mr. Delaney will
 20 speak to the issue further in any event.
 21 MR. JOHNSON:
 22 Q. Well, is he going to have that information?
 23 KELLY, Q.C.:
 24 Q. I'll have a look at it and we'll see, and
 25 certainly question Mr. Delaney.

Page 5

1 MS. NEWMAN:
 2 Q. So we'll call that Undertaking No. 1 to the
 3 extent that the information is available.
 4 KELLY, Q.C.:
 5 Q. Satisfactory, Mr. Chairman.
 6 MR. JOHNSON:
 7 Q. Just on that point, if we could go back to
 8 that table? If you don't know the answer,
 9 that's fair play, but on Table 1, it shows
 10 that your Wrap Up for Savings expenditures in
 11 '02 were 15,000 bucks. In 2003, it was
 12 \$6,000. Would that have been an increase, to
 13 your knowledge, from previous years? Was that
 14 a ramped up spending in '02 and '03 relative
 15 to previous years or does that fall off? Do
 16 you know?
 17 MR. LUDLOW:
 18 A. Mr. Chairman, I've basically gone around this
 19 mulberry bush about four times yesterday. I'm
 20 here to speak as a policy witness on these
 21 topic areas. Mr. Delaney is well prepared in
 22 dealing with the Wrap Up for Savings, the
 23 various programs that are there, and the
 24 trendings, I haven't prepared to that level of
 25 detail for this hearing, but our witnesses are

Page 7

1 A. As a metric we use in our call centre for the
 2 ability to respond to incoming telephone
 3 calls.
 4 Q. What's the significance of the 80/40? What
 5 does it mean?
 6 MR. LUDLOW:
 7 A. It means, again, I will--to give you a flavour
 8 of where this is, from a policy side, it's the
 9 speed with which our ability to answer phone
 10 calls within 40 seconds.
 11 Q. And would one of the purposes of these various
 12 metricies that you all have developed, would
 13 that be to drive performance? I think that's
 14 one of the things you said yesterday.
 15 MR. LUDLOW:
 16 A. It would be to monitor performance, to ensure
 17 that the balance between cost and service is
 18 maintained, and the fact that we are focused
 19 on the important things in managing the
 20 utility, Mr. Chairman.
 21 Q. But yesterday, at page 159 of the transcript,
 22 line 124, you said "take the call centre."
 23 I'm reading from line 20. "Take the call
 24 centre. We've set a--I use a management
 25 metric of the 80/40 answering our calls, speed

Page 6

1 well prepared and he will speak to it
 2 accordingly.
 3 Q. Let me move on then. You spoke yesterday
 4 about internal metricies, Mr. Ludlow?
 5 MR. LUDLOW:
 6 A. Yes, I did.
 7 Q. And I'm still not clear what these internal--
 8 what sort of things these internal metricies
 9 address, what do they cover off?
 10 MR. LUDLOW:
 11 A. Mr. Chairman, we manage, through a series of
 12 metrics and the metrics can range from the
 13 speed with which we answer a telephone call to
 14 absenteeism, to safety, to reliability. I do
 15 not have an exhaustive list, but to give you a
 16 flavour, it can walk from one end of the
 17 corporation to the other, and these are
 18 management metrics that we have within the
 19 various departments that we use.
 20 Q. And you mentioned yesterday something about an
 21 80/40 metric, management metric of the 80/40,
 22 refer to answering our calls, speed of
 23 answering, quality of answering, etcetera.
 24 What was the 80/40 reference?
 25 MR. LUDLOW:

Page 8

1 of answering, quality of answering and that's
 2 used as much for sizing, staffing and driving
 3 performance." And what did you mean yesterday
 4 when you talked about used for driving
 5 performance?
 6 MR. LUDLOW:
 7 A. Our customers have told us, Mr. Chairman,
 8 through our quarterly reports, our quarterly
 9 surveys that they are very interested, and
 10 needless to say there's two, it's reliability
 11 and price, but there's also all of our
 12 customer service as well, and this stems back
 13 to the late 90s and further through the early
 14 70s-- or late 90s, early 2000, when we set up
 15 the call centre to be responding to areas that
 16 our customers were calling.
 17 Our customers have, from my perspective,
 18 given me the comfort that our current
 19 performance at the 80/40 is where we need to
 20 be. This gives us required resources,
 21 technology, staffing levels with which to meet
 22 the ability to answer those calls, and we
 23 monitor that daily.
 24 Q. So you monitor that daily? You collect it
 25 routinely?

Page 9

1 MR. LUDLOW:
 2 A. Yes, we do.
 3 Q. Yes, and now, in terms of--so your people who
 4 are working throughout Newfoundland Power,
 5 they would be well aware of these metrics?
 6 MR. LUDLOW:
 7 A. Our employees throughout Newfoundland Power
 8 would not necessarily be well aware of that
 9 metric. That's a management metric within the
 10 call centre. Now whether we post--we may post
 11 that on the internet, I'm not quite certain,
 12 but it's used to manage different groups
 13 within the customer service department,
 14 specifically the call centre.
 15 Q. And let's just take it a bit further. There's
 16 obviously people in your call centre
 17 responding to customer inquiries,
 18 difficulties, etcetera. Would they be aware
 19 of the presence of this, as you've termed it,
 20 management metric, this 80/40?
 21 MR. LUDLOW:
 22 A. Yes.
 23 Q. And why are they made aware of it?
 24 MR. LUDLOW:
 25 A. People within the customer service department,

Page 11

1 the manager within a department within
 2 Newfoundland Power. They manage their ability
 3 to respond. I would look at that metric
 4 probably on a month, on the quarter, and
 5 ensure that we are meeting what we set out to
 6 do, and there are times we will fall below.
 7 There are times we will exceed. So if we're
 8 consistently below, we will take action to
 9 pick it back up.
 10 Q. Could we--sort of speaking in a bit of a
 11 vacuum in a sense, because I haven't seen the
 12 metrics. It's the first time I've heard of
 13 the term in any of the evidence here. Would
 14 it be possible, Mr. Ludlow, to have those
 15 metrics provided, the ones that we're
 16 canvassing here this morning? So that I can
 17 get a sense of black and white, what it is
 18 you're talking about.
 19 MR. LUDLOW:
 20 A. I would suggest, again Mr. Chairman, that this
 21 whole area about the individual metrics and
 22 management areas, my idea here is to try and
 23 give you a flavour of how we manage the
 24 company, the flexibility of the company.
 25 Again, Mr. Delaney will be addressing these

Page 10

1 and again this is an area that Mr. Delaney
 2 will be speaking to, the customer service
 3 area, but it's used to staff, respond, and
 4 basically a call centre, to give you a
 5 flavour, Mr. Chair, if you think about the
 6 dynamics of the system, come the winter time,
 7 you have one dynamic. Come June, a lot of
 8 people are moving houses. Come September, we
 9 have students coming in, and basically we
 10 manage our department through resourcing,
 11 through staff, to try and keep that metric.
 12 Time of day, 8:00 in the morning versus noon
 13 time, there's a whole different series of
 14 shifts that occur, and that's what's used to
 15 try and ensure that our ability to respond to
 16 our customers is managed by the appropriate
 17 resources. That's the reason that's in place.
 18 (9:15 a.m.)
 19 Q. Well, let's come at it another way. If it
 20 became known to your people, to Mr. Delaney,
 21 to you, that this 80/40 metric, for instance,
 22 wasn't being achieved, what would be done
 23 about it?
 24 MR. LUDLOW:
 25 A. Mr. Chairman, this is a metric that's used by

Page 12

1 issues in detail and -
 2 Q. Well, I understand the witness' point, Mr.
 3 Chairman, and all I'm looking to get is a copy
 4 of them. I'll take it up with Mr. Delaney once
 5 I see them, but I thought I'd get the ball
 6 rolling in terms of actually starting the
 7 request process to get them -
 8 KELLY, Q.C.:
 9 Q. There's numerous RFIs -
 10 MR. JOHNSON:
 11 Q. - in anticipation of Mr. Delaney.
 12 KELLY, Q.C.:
 13 Q. Sorry. There's numerous RFIs on the record
 14 over these type of standards, whatever word
 15 you wish to use. In fact, I know through Mr.
 16 Bowman, they asked quite a number of them
 17 towards the tail end of the RFI process, and
 18 rather than go back and reinvent the wheel, in
 19 terms of providing this data, a lot of it is
 20 already there and we'll see if we can point
 21 Mr. Johnson to it at the break, if that's of
 22 assistance.
 23 MR. JOHNSON:
 24 Q. So all your metrics are within what you've
 25 provided Mr. Bowman, or can you speak to that

Page 13

1 MR. JOHNSON:
 2 or is that Mr. Delaney's area?
 3 MR. LUDLOW:
 4 A. That's Mr. Delaney's area.
 5 Q. Okay. Well, we can have a chat about it
 6 during the break to see if we can resolve it.
 7 CHAIRMAN:
 8 Q. Thank you.
 9 KELLY, Q.C.:
 10 Q. Particular, they begin at 452, kind of run
 11 through 456-57-58-59. There's a whole group of
 12 them there, Mr. Chairman.
 13 CHAIRMAN:
 14 Q. Okay.
 15 MR. JOHNSON:
 16 Q. And just again, I take it there would be a
 17 reluctance on your part to call those
 18 metrics standards, even if they were
 19 internal standards to Newfoundland Power on
 20 your part?
 21 MR. LUDLOW:
 22 A. Mr. Chairman, I answered that question
 23 yesterday. These are management metrics that
 24 we use to guide the way we direct and manage
 25 different resources and systems within our

Page 15

1 customers is considered to be acceptable,
 2 although lower than the average for Canadian
 3 utilities, and it is important that the
 4 utility maintain, and in fact seek to improve
 5 its performance in this regard." Was it
 6 following this report that there were steps to
 7 actually improve Newfoundland Power's
 8 performance vis-a-vis reliability, customer
 9 service? Is that your evidence?
 10 MR. LUDLOW:
 11 A. In 1998--that is my evidence, and in 1998,
 12 when Mr. Dan Brown, being the independent
 13 consultant brought in by the Board, did make
 14 that comment, there were observations of
 15 performance deteriorating, yes.
 16 Q. Okay, and in terms of--so would you have
 17 agreed with his assessment or would you have
 18 agreed that at that time, you did not have
 19 satisfactory reliability on Newfoundland Power
 20 system?
 21 MR. LUDLOW:
 22 A. Mr. Chairman, in 1998, after coming through
 23 the mid 90s, in a time of what I would call
 24 deteriorating performance, there was
 25 substantive room for improvement and that is

Page 14

1 company. These are not standards. There's a
 2 fundamental difference, as I explained
 3 yesterday.
 4 Q. Okay. Let me refer you to CA-NP-65, because
 5 you referred yesterday to this gentleman, Dan
 6 Brown, and in particular, I'm speaking of page
 7 three of six.
 8 MR. LUDLOW:
 9 A. Just one second, please. Page three of six?
 10 Q. Yes.
 11 MR. LUDLOW:
 12 A. Yes, I have it.
 13 Q. Okay, and this is the Dan Brown that you were
 14 making reference to that's quoted in this
 15 response to this RFI from the Consumer
 16 Advocate?
 17 MR. LUDLOW:
 18 A. That's correct.
 19 Q. Okay, and I'm just focusing on the quote
 20 starting at line 17. "It is noted that the
 21 Company's emphasis, now that there is
 22 practically no load growth on the system, is
 23 directed more towards customer service than
 24 construction of new facilities." Then he says
 25 "the reliability of supply to Company

Page 16

1 also highlighted in RFI, and the number
 2 escapes me here right now. In particular,
 3 there's evidence of, I mentioned yesterday,
 4 the frequency of complaints were ever
 5 increasing. We were seeing a deteriorated
 6 performance in our feeders, and overall, we
 7 weren't performing to the level that was being
 8 required, and this further solidified that
 9 comment.
 10 Q. So today, would you be performing vis-a-vis
 11 reliability, in your assessment, to a level
 12 that's required?
 13 MR. LUDLOW:
 14 A. I think there's been substantive improvement,
 15 as I highlighted yesterday by our performance
 16 and as highlighted in the evidence. As I said
 17 yesterday as well, our performance in SAIDI
 18 and SAIFI is monitored at a corporate level.
 19 There is still room for improvement at some of
 20 the individual feeder levels, and that's been
 21 the approach that has been used, and again
 22 will be addressed by Mr. Delaney later,
 23 hopefully today or tomorrow.
 24 Q. But in terms, you know, of the high level, I
 25 think it's fair for me to ask you, how, in the

Page 17

1 MR. JOHNSON:
 2 absence of some standards, are you able to
 3 say, on an objective basis, "yeah, we're there
 4 on reliability" or "no, we're not there on
 5 reliability?"
 6 MR. LUDLOW:
 7 A. Running a utility, Mr. Chairman, is an
 8 interesting dynamic, and I'll start with that
 9 comment. I was asked yesterday if I get many
 10 phone calls or there was some phraseology of
 11 that. I am still in receipt of multiple
 12 concerns from different areas of this
 13 province. The number and the breadth has
 14 declined. The overall number has shown
 15 substantive improvement in the SAIDI and in
 16 the SAIFI format since 2002 and indeed, since
 17 1998. We are getting feedback from our
 18 customers through various means that I went
 19 through yesterday. I do not have a comfort
 20 that we are performing at a level in all areas
 21 of our Company where we need to be. I am more
 22 comfortable with the overall numbers, but when
 23 I look at some of the rural areas, they are
 24 still not where we require or are requiring,
 25 and they are in multiples of the system

Page 19

1 executive team speaks to them, and my staff
 2 speak to them. All that form part of the
 3 decision making metrics. It's not one times,
 4 two times or ten times. It is basically a
 5 management judgment that we apply and we
 6 counterbalance that with feedback from our
 7 customers and our reporting relationships
 8 through the Board.
 9 Q. You mentioned yesterday that there would be
 10 costs associated with development of standards
 11 and operation within a standard environment,
 12 you know, whether it be customer service, you
 13 know, reliability indicia, etcetera. Just can
 14 you elaborate on those, Mr. Ludlow?
 15 MR. LUDLOW:
 16 A. Well, the reference I made yesterday, Mr.
 17 Chairman, was actually--just bear with me one
 18 second, if I may. I actually took a quote
 19 from a document that was passed out by the
 20 Consumer Advocate. It was entitled The State
 21 of Reliability related Regulation, and the
 22 quote that's here says "tracking and reporting
 23 of these indicators may force utilities to
 24 undertake significant investments in
 25 information systems." Now can I quantify

Page 18

1 performance numbers.
 2 Q. Okay. Well, let me follow up on that then.
 3 So does this really all come down to your
 4 comfort level, that you and your leadership
 5 team have? I mean, is there a way for us to
 6 see what is the standard by which you achieve
 7 your comfort at those--in those individual
 8 pocket cases? For instance, if an individual
 9 area of the province is having more
 10 interruptions, you know, on a multiple basis
 11 as you've indicated compared to the average,
 12 well, what is it that triggers Earl Ludlow's
 13 concern? What is the multiple? Is it twice?
 14 Is it three times? What's the standard?
 15 MR. LUDLOW:
 16 A. Mr. Chairman, we report on a regular basis to
 17 this Board. We're as open and as transparent
 18 and whatever is required, we will report. We
 19 compare ourselves to national numbers, but we
 20 do not hold ourselves to national numbers.
 21 There is a series of judgment parameters that
 22 must be brought into play. We have field
 23 representatives and we listen to our
 24 customers, and those customers are talked to
 25 daily, quarterly. I speak to them. The

Page 20

1 that? No, I cannot. But that's one quote. I
 2 will be certain to say that as we start or if
 3 we go down this road, it opens a whole door of
 4 where do we start to track reliability? We
 5 currently track it at the feeder level. We're
 6 not at the house level. We are not at the
 7 business level. The cost associated with that
 8 has impacts in metering, in
 9 telecommunications, in IT infrastructure, in
 10 staffing, and in reporting. I can't quantify
 11 them. I don't have them, but I am certain
 12 that there are cost complexities involved, and
 13 again, Mr. Delaney can deal with that probably
 14 to a more finite level than I can at this
 15 point in time, Mr. Chair.
 16 (9:30 a.m.)
 17 Q. But seeing you've opined on those costs, Mr.
 18 Ludlow, I mean, you're already tracking, as
 19 you've indicated, a number of these indicia
 20 for your own purposes and your reporting. So
 21 if you're tracking them and reporting them
 22 because of a standard, that's not additional
 23 cost, is it, Mr. Ludlow?
 24 MR. LUDLOW:
 25 A. I am certain, Mr. Chairman, that the level and

Page 21

1 MR. LUDLOW:
 2 depth that we monitor our management metrics
 3 in our Company will not meet the scrutiny of
 4 being cross-examined in this hearing for days.
 5 I'm positive of it. As we start to move
 6 towards implementation of different processes,
 7 as we move towards--if we were to take
 8 reliability to the household level, we're not
 9 talking tens of thousands. We're talking
 10 multiple millions. So I'm being very conscious
 11 of the balance between output, costs, service
 12 and reliability and that basically is the
 13 premise under which we've been operating.
 14 Q. Mr. Ludlow, can I turn you to CA-NP-65, page
 15 five of six, and in particular lines 11 to 13?
 16 MR. LUDLOW:
 17 A. Just a second. Page five of six?
 18 Q. Yes.
 19 MR. LUDLOW:
 20 A. Yes, I have that.
 21 Q. Okay. Would you just read what it says there,
 22 from 11 to 13?
 23 MR. LUDLOW:
 24 A. Okay, just a minute please. "The current
 25 practice of Newfoundland Power includes

Page 23

1 benchmarks or standards in place. That seems
 2 to me to be the big difference.
 3 MR. LUDLOW:
 4 A. I'm going to qualify my answer and then put it
 5 out to Mr. Delaney to respond in detail.
 6 There was a time I would love to get into this
 7 debate. Mr. Chairman, there's a fundamental
 8 difference between Delaware and Newfoundland
 9 Power, as I understand it, and one was
 10 implemented as a result of an under investment
 11 or a perceived under investment, and I stand
 12 to be corrected, Mr. Johnson, on my detail on
 13 that end, but I do look at Newfoundland Power.
 14 I look at a company whose reliability
 15 statistics have improved substantially in the
 16 last five years. Customer service ratings are
 17 running 88 to 90 percent and our operating
 18 costs have declined, or at least stayed flat
 19 in the last five and extending it back ten
 20 years. The standards that Mr. Johnson is
 21 referring to, I'm going to leave to a person
 22 probably more attuned to it than I at this
 23 point in time. But from a policy side, the
 24 need is fundamentally different, and that
 25 becomes the challenge, I think, in this

Page 22

1 reliability assessment and reporting on a
 2 conceptually similar basis to that required by
 3 the Delaware Standard."
 4 Q. Right, and could I then turn you to--or is
 5 this again Mr. Delaney, you'd defer to?
 6 MR. LUDLOW:
 7 A. You can take me there, but there's a good
 8 chance it will be deferred to Mr. Delaney.
 9 Q. Okay. But I'll just get your observation
 10 then, as president, even though he'll speak to
 11 the details. The attachment to CA-NP-65 gives
 12 a comparison of the Delaware Standard and
 13 Newfoundland Power's practice.
 14 MR. LUDLOW:
 15 A. Yes.
 16 Q. And first of all, have you seen this before?
 17 MR. LUDLOW:
 18 A. Yes, I have.
 19 Q. Okay, and just to get your observation, Mr.
 20 Ludlow, but it seems to me that in keeping
 21 with the statement that you've just read about
 22 Newfoundland Power does conceptually similar
 23 to what Delaware does, in terms of reporting,
 24 etcetera, that the big difference that we're
 25 talking about is whether there's any

Page 24

1 debate.
 2 Q. Okay. Well, I'll ask Mr. Delaney more about
 3 it. Just finally on the Alberta reporting
 4 that it does, if you could bring up
 5 Information 10.
 6 MR. LUDLOW:
 7 A. 10?
 8 Q. Yes, Mr. Ludlow, I guess the cover page here
 9 is the--the cover page is a FortisAlberta
 10 Service Quality and Reliability Performance
 11 Monitoring Reporting Plan for the year ended
 12 2006. While you were at the company, I take
 13 it similar reports were filed with the
 14 regulator?
 15 MR. LUDLOW:
 16 A. I'm not certain when this actually came into
 17 play, Mr. Johnson. To say I've seen it
 18 before, I would have to say no, but I know
 19 there was a lot of changes occurring, as I
 20 explained yesterday, Mr. Chairman, around the
 21 2003 time frame.
 22 Q. Okay.
 23 MR. LUDLOW:
 24 A. This may have been in. I just don't know.
 25 Q. Okay, fair enough. This report, it's an

Page 25

1 MR. JOHNSON:
 2 annual report. Do you know whether--when you
 3 were there, for instance, was there quarterly
 4 reports done as well at FortisAlberta?
 5 MR. LUDLOW:
 6 A. Mr. Chairman, I just don't know.
 7 Q. Okay.
 8 MR. LUDLOW:
 9 A. I know we did a lot of work with the AEUB at
 10 that point in time, but the levels of
 11 documents, I just don't know.
 12 Q. Okay. Do you know how many pages this Service
 13 Quality and Reliability Performance Monitoring
 14 and Reporting Plan takes up, Mr. Ludlow?
 15 MR. LUDLOW:
 16 A. I have no idea. I guess if you want me to
 17 count them, I can do that for you.
 18 Q. It's 22, and then there's certain attachments
 19 to them, and it's just an annual report. Are
 20 you aware of any particular burden on
 21 FortisAlberta from providing this report, this
 22 information that it tracked and reporting it
 23 relative to certain standards?
 24 MR. LUDLOW:
 25 A. No.

Page 27

1 MR. LUDLOW:
 2 A. Okay, just one second now, I'll get these out.
 3 Okay.
 4 Q. And we have Table 3 here, which is a short
 5 term incentive plan, corporate targets for
 6 2007. Just -
 7 MR. LUDLOW:
 8 A. Sorry, what page was that again?
 9 Q. Table 3 of CA-NP-340.
 10 MR. LUDLOW:
 11 A. Yes.
 12 Q. Just explain to the Board what they're looking
 13 at on the screen here.
 14 MR. LUDLOW:
 15 A. Okay. The short term incentive plan of
 16 Newfoundland Power is comprised of a base
 17 salary, a short term incentive plan and other
 18 portions. It's that style of executive
 19 management that's been designed--executive
 20 compensation that's been designed by, we use
 21 actually Hay Consultants, the Hay system. And
 22 what you see on Table 3 are four categories,
 23 namely reliability, customer satisfaction,
 24 safety and financial. The measures within
 25 those categories then focus in specific areas,

Page 26

1 Q. Finally, I want to touch on, Mr. Ludlow, I
 2 guess a question that you probably would have
 3 anticipated from my opening, and that is why
 4 is it appropriate for executives of
 5 Newfoundland Power and managers of
 6 Newfoundland Power to be held accountable
 7 internally and indeed be paid on the basis of
 8 meeting targets when it comes to reliability
 9 and customer service, but it's not appropriate
 10 for there to be any external targets as we're
 11 proposing?
 12 MR. LUDLOW:
 13 A. Mr. Chairman, the compensation, STI I do
 14 believe is what Mr. Johnson is referring to,
 15 is about balance. It's about balance between
 16 customer service. It's about reliability.
 17 It's about cost and price, and that's what our
 18 customers have been telling us consistently
 19 for the past ten years. The management and
 20 executive of this Company are held accountable
 21 on those basis and that's the basis under
 22 which the STI and compensation at risk has
 23 been put in place.
 24 Q. Let me turn to CA-340, and in particular, page
 25 three of three.

Page 28

1 namely: SAIFI, which is the frequency of
 2 outage; percent customer satisfaction; an item
 3 called first call resolution, and what that
 4 is, Mr. Chairman, to give you a flavour, is
 5 that when you call the call centre, is your
 6 call answered and your query responded to on
 7 the first call rather than being subjected to
 8 five or six transfers; safety, as I spoke
 9 yesterday will continue to be a focus of this
 10 Company, deals with the all injury and illness
 11 frequency rate of our employees within our
 12 business; and finally, we have controllable
 13 operating costs, which I've spoken to, on a
 14 per customer basis; and finally, it's
 15 earnings, and the targets and the weightings,
 16 this can get down into minutia of detail here
 17 that the way it works is that the weights are
 18 given to specific areas and the targets to hit
 19 100 percent are the numbers that are
 20 calculated as shown.
 21 Q. So what's the consequence if you don't hit the
 22 reliability target on SAIFI of 2.63?
 23 MR. LUDLOW:
 24 A. It would be no different than if I don't hit
 25 the customer satisfaction target of 89

Page 29

1 MR. JOHNSON:
 2 percent. I will lose 15 percent of whatever
 3 the apportionate amount is of my short term
 4 incentive.
 5 Q. So it has some teeth, from that point of view?
 6 MR. LUDLOW:
 7 A. It has financial consequences to the executive
 8 and the managers of this Company.
 9 Q. And I understand that the idea or the
 10 principle behind the short term incentive is
 11 to focus attention, to drive results. Would
 12 that be a fair comment?
 13 MR. LUDLOW:
 14 A. I think it's to ensure that we not drive one
 15 particular area, but keep our eye on the ball,
 16 sorry, the four balls, as it were. To ensure
 17 that we just don't hit--let's say First Call
 18 Resolution, and I loaded up another 50 staff
 19 members on the phones, but my operating costs
 20 went out the window. This is about balance
 21 and this is about managing a company, and it
 22 is not about focusing on one. If there's one
 23 there that I would over focus on, it's the
 24 third one, it's safety.
 25 Q. Well, let's just look at the First Call

Page 31

1 can get towards. We get there, will we
 2 improve it? We'll listen to our customers
 3 again.
 4 Q. But my question, Mr. Ludlow, and I appreciate
 5 the background. Don't get me wrong. But my
 6 question was whether or not you strive to
 7 reach, at least these numbers. I mean, if
 8 these are your corporate targets, I mean,
 9 they're not targets for--they're not called
 10 targets for no reason.
 11 MR. LUDLOW:
 12 A. No, it is something that's been--Mr. Chairman,
 13 that has been thought about. It's been looked
 14 at. If the Consumer Advocate is by anyway
 15 indicating that there's a study underlying the
 16 87 percent, it's not there.
 17 Q. Okay.
 18 MR. LUDLOW:
 19 A. And I know that if I reach the 87 percent this
 20 year, don't be surprised if I can think about
 21 that one and notch it a little bit to improve
 22 our customers at little bit better again next
 23 year.
 24 Q. Now, in terms of your reliability, I take it
 25 you dropped SAIDI from 2007. Would that be

Page 30

1 Resolution, this 87 percent, which is a fairly
 2 high number. This is a number that you're not
 3 tending towards, as I think the phrase was
 4 used yesterday in the context of reliability.
 5 This is not a number you're tending towards.
 6 This is a number that you're striving for, 89
 7 percent, correct?
 8 MR. LUDLOW:
 9 A. If you're referring to First Call Resolution,
 10 it's 87 percent.
 11 Q. 87, I'm sorry.
 12 MR. LUDLOW:
 13 A. And this target is something that's been
 14 brought in, I do believe, this year for the
 15 first time. Because of the fact our customers
 16 were telling us we were not answering the
 17 calls as they were asking questions. We were
 18 answering the phone, but not responding to
 19 their query. So we then levered at another
 20 place. To say that that's an absolute number,
 21 that's a number that will move as our systems
 22 perfect. Perfect is a heavy word. I'm sorry,
 23 Mr. Johnson. I mean, to even get close to
 24 perfection in this. As we fine tune, that
 25 number is something that is a judgment that we

Page 32

1 correct?
 2 MR. LUDLOW:
 3 A. That is correct.
 4 Q. And why did you drop SAIDI?
 5 MR. LUDLOW:
 6 A. We dropped SAIDI because as we looked at where
 7 we were on a national basis, as I said
 8 yesterday, in comparison to this Canadian
 9 Electricity Association, we felt we were at
 10 where utilities of our size and say our
 11 geographic situation--I think we're unique in
 12 that front, but we were pretty much on where
 13 it was. I wouldn't say we're comfortable, but
 14 I will tell you, although it's not on here
 15 doesn't mean that the eye is off the ball on
 16 duration. Frequency is one that's still
 17 exceeding and one that require work. That's
 18 the reason.
 19 Q. Okay. So what--just so I can understand, and
 20 I'm not suggesting you're taking your eye off
 21 SAIDI, but it's not one of the express targets
 22 for 2007. You satisfied yourselves on SAIDI
 23 for the time being, I take it, and I'm
 24 interested in knowing what was it about SAIDI,
 25 what standard did you reach, what number did

Page 33

1 MR. JOHNSON:
 2 you reach where you say "guys, we can take the
 3 foot off the gas on SAIDI. Let's concentrate
 4 on other things?" That's all I'm asking you.
 5 MR. LUDLOW:
 6 A. Mr. Johnson, I think you're looking for
 7 absolutes and in this business, there are no
 8 absolutes. This is about managing many, many,
 9 many inputs. At this point, we felt, and
 10 through the group and my predecessor as well
 11 felt, predecessors, that the movement in other
 12 areas was equally important and more important
 13 to moving here now like the First Call
 14 Resolution. Rather than having a list of
 15 about 15 or 20, we've made substantive gains
 16 in SAIDI. We're hitting on the national
 17 average. Is that good enough? To us, it was
 18 a clear indicator. We've worked through
 19 deployment that Mr. Delaney again can go
 20 through, maintenance, capital investment and
 21 the whole area has been dealt with on those
 22 fronts. So we didn't take the foot off the
 23 gas and we certainly haven't got the foot on
 24 the brake. What we're saying is it is not
 25 where we want to be in these STIs for this

Page 35

1 MR. LUDLOW:
 2 A. Yes. That's not a problem. I will concede to
 3 that undertaking, Mr. Johnson.
 4 Q. Thank you, very much, Mr. Ludlow. Is
 5 Newfoundland Power in a position to determine
 6 an appropriate target for SAIFI on our
 7 interconnected system?
 8 MR. LUDLOW:
 9 A. You're going to have to explain that one a
 10 little further for me, Mr. Johnson.
 11 Q. You've indicated what the corporate target for
 12 2007 is on SAIFI of 2.63, okay. If we were to
 13 move towards setting some external targets,
 14 never mind just internal corporate targets
 15 like you've said, is your Company in a
 16 position to say that 2.63 is a reasonable
 17 number?
 18 MR. LUDLOW:
 19 A. I'm not indicating before this Board that I'm
 20 happy with 2.63, I want to make that point
 21 very clear. What I am also going to make
 22 clear is that again I will reflect to my past,
 23 Mr. Chairman, at the danger of going down too
 24 deep here. But I know I've also been held
 25 accountable for the entire system frequency on

Page 34

1 year, because we're moving another one in
 2 called First Call Resolution that our
 3 customers are telling us, "listen, answer our
 4 call when--when we call, answer and answer our
 5 query," and that's the style that we've been
 6 using.
 7 Q. Okay, and just to go to SAIFI for a second,
 8 the 2.63 being the target. How did you arrive
 9 at that target? I mean, it is a--it's a
 10 numerical expression, Mr. Ludlow, and I'm
 11 interested in how you arrived at the numerical
 12 expression as a corporate target for your
 13 Company.
 14 MR. LUDLOW:
 15 A. Mr. Chairman, 6:30 this morning I said "I'm
 16 going to be asked a question about 2.63," and
 17 I did not write it down. I apologize. I will
 18 give you an explanation of how it's arrived
 19 at, and I think, if that will be somewhat
 20 informative to the Board. It's looked at past
 21 history with an improvement factor built in,
 22 and I don't have the calculation in front of
 23 me. I'm sorry.
 24 Q. So is that something that you're undertaking
 25 to provide us so that we'd see it?

Page 36

1 a topic called Under Frequency Trips and
 2 Performance and our ability to work together
 3 with Newfoundland and Labrador Hydro and work
 4 with Mr. Haynes and others at that time. So
 5 this not just about me setting a target for
 6 the overall system. This is something we move
 7 towards and we manage accordingly, and that's
 8 what we're doing. We will provide you with
 9 the detail of the calculation, obviously, as I
 10 said.
 11 Q. And just finally on this point, I take it
 12 reliability is the single most important
 13 priority of the consumer, according to your
 14 surveys, followed closely by price, would I be
 15 having that correct?
 16 MR. LUDLOW:
 17 A. That's a fair assessment.
 18 Q. Okay, and just finally, just ask you, you're
 19 in the service business, how it could be that
 20 you would not have an external target for
 21 reliability given the very high value, the
 22 high priority that the consumer places on it,
 23 it's their number one priority that comes
 24 through in your surveys, and that you would
 25 not have any standard except for one for your

Page 37

1 MR. JOHNSON:
 2 own internal corporate targets and for your
 3 pay scheme?
 4 MR. LUDLOW:
 5 A. I'm missing your question here. I don't know
 6 if it was a comment or just -
 7 Q. Part comment. But I'm just asking how can you
 8 square the two, if the consumer places it as
 9 their biggest concern?
 10 MR. LUDLOW:
 11 A. There's no question that our customers tell us
 12 reliability and price, in that order, is of
 13 prime importance. We've been working on both
 14 fronts, and that's obvious. The reporting
 15 that's provided, again, I won't list them, I'm
 16 after listing them about eight to nine times,
 17 the open and transparency of the reporting
 18 relationships that we have with this Board,
 19 it's all on the record, we continue to put it
 20 on the record and we're only too happy to put
 21 it on the record. We then take that and
 22 compare ourselves to, as I said earlier,
 23 national utilities. I'm not sure that's an
 24 equal comparison because I don't think it's a
 25 fair playing field. We then take that and we

Page 39

1 east, I'll say it that way, Alberta, Maritime
 2 and Newfoundland, by the level playing field
 3 what I'm referring to is there are some places
 4 that have very good weather, some places that
 5 have very poor weather, some that have well-
 6 defined engineering standards and some that do
 7 not. Some will use bench marks as with
 8 exceptions built into them, so when you
 9 compare, you can't compare. You will get
 10 exceptions for storms, you will get exceptions
 11 for if there's a hurricane coming through. So
 12 when I talk about comparators, that's what I'm
 13 talking about. And when I talk about a
 14 playing field, there's one quote that I think
 15 I'd put to the record, and this is I'm going
 16 to refer again, Mr. Chairman, to my operations
 17 days, of all the major Canadian cities, St.
 18 John's is the foggiest, the snowiest, the
 19 wettest, the windiest and cloudiest, the least
 20 amount of sunshine and it has more days of
 21 freezing rain and wet weather than any other
 22 city in Canada. That, to me, sir, does not
 23 seem to have a level playing field. And
 24 that's the reference I was making. I'm not to
 25 work with tourism either, by the way, I might

Page 38

1 build back in the feedback mechanisms from our
 2 customers through quarterly satisfaction,
 3 through our discussions, through the call
 4 centre, through our line personnel, meter
 5 readers and actual customer visits. As I said
 6 yesterday, my phone has been well known to
 7 ring in the last six months. I don't know how
 8 the number is getting out, Mr. Chairman, but
 9 5363 is an active number, it rings. So when
 10 you balance all that up, the need for most
 11 cost and complexity is beyond me. And I'm
 12 going to leave Mr. Delaney to bring the fine
 13 points home on that discussion.
 14 Q. Mr. Ludlow, you've just announced your number
 15 again for the world-wide web, so -
 16 MR. LUDLOW:
 17 A. Might as well, sir.
 18 Q. - we could see your calls go down. But lastly
 19 on this topic, Mr. Ludlow, you mentioned that
 20 time about looking at national standards
 21 sometimes and not a level playing field.
 22 Could you just elaborate on what you meant by
 23 that?
 24 MR. LUDLOW:
 25 A. Having worked from British Columbia to points

Page 40

1 add. And that's a quote from Environment
 2 Canada, by the way.
 3 Q. I don't know how you're making our guests, Mr.
 4 Bowman and Mr. Todd, feel here this morning.
 5 But well then how, in your assessment, Mr.
 6 Ludlow, does that actually quite colourful
 7 description of the un-level playing field
 8 translate into your thinking about reliability
 9 expectations in this province? It must have a
 10 bearing.
 11 MR. LUDLOW:
 12 A. It means we have to work harder, we have to
 13 have better standards. I will say that our
 14 people and our industries and our customers
 15 should not require second-rate service and
 16 they're not getting it, Mr. Chairman. And
 17 that's the basis under which we design, we
 18 design by ice loading, by weather patterns and
 19 the list goes on. Mr. Delaney can take you
 20 down those areas as far as you wish to go.
 21 (10:00 a.m.)
 22 Q. Let's turn topics now to look at the issue of
 23 intercorporate. Ms. Perry, you referenced
 24 yesterday that intercorporate transactions
 25 have a uniqueness about them, they're special

Page 41

1 MR. JOHNSON:
 2 transactions. And just, would you elaborate
 3 on what you meant by that?
 4 MS. PERRY:
 5 A. Mr. Chairman, everyone is always interested in
 6 intercorporate transactions. When you're
 7 dealing with an arms-length party, fair value
 8 is obvious because you're dealing with an
 9 arms-length party. But when you deal with a
 10 non-arms-length party, it's obvious that we
 11 want to insure that it's very transparent,
 12 very clear how we record these transactions
 13 such that they do benefit our customers. So
 14 we respect that they are unique that way.
 15 Q. And what's the underlying principle as to why
 16 it's so important that a transaction be
 17 carried out at fair market value, or if we
 18 can't arrive at a fair market value, a proxy
 19 for it? What is the thinking behind it?
 20 MS. PERRY:
 21 A. I believe any transaction we engage in should
 22 be done on an economic basis and that if we're
 23 going to engage in a service, it should be
 24 done at fair value for our customers, should
 25 be a benefit there for our customers.

Page 43

1 high level, Ms. Perry, if in an intercorporate
 2 transactions between an affiliate and a parent
 3 or another company in the family a transaction
 4 is not appropriately charged at fair market
 5 value or the mark up is not right, what is the
 6 consequence to your customer?
 7 MS. PERRY:
 8 A. Mr. Chairman, we charge all of our
 9 transactions intercorporate charges in
 10 accordance with the guidelines that we've laid
 11 out before the Board. If there's no fair
 12 market value, we charge cost. So we do do--we
 13 do charge our customers or our intercorporate
 14 charges appropriately. There's no instances
 15 where we don't charge appropriately, so
 16 there's no disadvantage to customers.
 17 Q. But I take it if there were a circumstance
 18 where a transaction was not properly priced
 19 and fair market value was not achieved, that
 20 the customer would suffer a detriment,
 21 correct?
 22 MS. PERRY:
 23 A. If we charged it incorrectly, yes, I guess the
 24 customer would be disadvantaged.
 25 Q. And the contracting party that you're dealing

Page 42

1 Q. And what is the result to your customers if a
 2 transaction is not so valued at fair market
 3 value?
 4 MS. PERRY:
 5 A. All of our transactions, Mr. Chairman, are at
 6 fair market value, if we can fair value them.
 7 So if there is a market, we will charge
 8 market. If there's not a market by which to
 9 gage the transaction against, what we've done,
 10 particularly as it relates to intercorporate
 11 salary charges, we look to what others do. In
 12 2004 we did a study to look at what other
 13 Canadian regulated jurisdictions charge for
 14 salaries and it was determined, or from that
 15 study that not one utility that was included
 16 in our study could define market for charge
 17 out of certain salaries, that there was no
 18 market, we all agreed on that. So at that
 19 point in time the only basis upon which to
 20 charge them is what you know, which is the
 21 cost that you have. So we track all of our
 22 costs, we track all of the burdens and the
 23 benefits and that go with those costs and we
 24 charge it out accordingly.
 25 Q. But my question is what is--you know, on a

Page 44

1 with would get an advantage that they ought
 2 not to be getting, is that the underlying
 3 idea?
 4 MS. PERRY:
 5 A. If the transaction was recorded
 6 inappropriately -
 7 Q. That's right.
 8 MS. PERRY:
 9 A. - then, yes.
 10 Q. In that circumstance, okay. Now, just let's
 11 move to the particular for a little bit.
 12 Would you agree that Newfoundland Power has
 13 provided, over the past number of years, very
 14 significant human resources to its affiliates?
 15 MS. PERRY:
 16 A. I would agree, Mr. Chairman, that in 2002 and
 17 2003 there were some significant charges, yes.
 18 Q. But and I take it now that you're referring to
 19 just a breakdown of senior management time for
 20 in '02 and '03, is that what you're referring
 21 to?
 22 MS. PERRY:
 23 A. Yes. I'm excluding the provisioning of
 24 engineering services that we provide.
 25 Q. Okay, and just if we could just talk generally

Page 45

1 MR. JOHNSON:
 2 for a moment? If we could just look to CA-NP-
 3 158? And I'm just focusing now on your staff
 4 charges as we go along the breakdown of
 5 intercorporate charges to affiliates.
 6 MS. PERRY:
 7 A. Yes.
 8 Q. Okay, and these are overall staff charges, I
 9 take it, correct?
 10 MS. PERRY:
 11 A. They are.
 12 Q. But backed out of that number is the staff
 13 charge in respect of insurance?
 14 MS. PERRY:
 15 A. Yes, that's shown on the line directly in
 16 under.
 17 Q. Okay, now as I see we have staff charges in
 18 2002 of 1.6 million; 2003, 1.8 million, this
 19 is just rounding; 2004, nearly 1.5; 2005,
 20 three quarters of a million; 2006, a million;
 21 2007 forecast, 675; 2008, 698. Would these,
 22 would it be fair for me to say that
 23 Newfoundland Power is a fairly major seller of
 24 services to its, vis-a-vis, its affiliates?
 25 It's more of a seller than a buyer?

Page 47

1 just to refer you, Ms. Perry, to Table 46.
 2 This is an extract, this is found of page 130
 3 of FortisAlberta's 2008, 2009 Phase 1 Tariff
 4 Application. You've seen this document, I
 5 take it?
 6 MS. PERRY:
 7 A. I have.
 8 Q. Okay. And it just struck me that in terms of
 9 the affiliate transaction expenses that we
 10 certainly see that FortisAlberta doesn't
 11 provide very much to its affiliates at all by
 12 way of labour services, if you will. Would
 13 that be a correct statement?
 14 MS. PERRY:
 15 A. Excuse me, Mr. Johnson, are you referring to
 16 Table 47, because that's the affiliate -
 17 Q. Table 47 I should have referred to, I'm sorry,
 18 yes.
 19 MS. PERRY:
 20 A. Yes. Yeah, they're showing about 200,000.
 21 Q. In 2008?
 22 MS. PERRY:
 23 A. Yes.
 24 Q. And 100,000 in 2009?
 25 MS. PERRY:

Page 46

1 MS. PERRY:
 2 A. The staff charges that we're looking on the
 3 screen, Mr. Chairman, and just to bring you to
 4 2006, that million in 2006, half of that
 5 particular number relates to the provisioning
 6 of engineering, engineering provisioning
 7 services relating to the non-joint use poles
 8 that Fortis currently owns. So we are a big
 9 provider in the sense that we do provide those
 10 engineering provisioning service to Fortis as
 11 a part of that contract.
 12 Q. Okay, but on the whole, would my statement be
 13 correct that we're pretty, Newfoundland Power
 14 is a fairly significant supplier of labour
 15 services to affiliates? It sells more than it
 16 buys?
 17 MS. PERRY:
 18 A. If you include the engineering provisioning
 19 services, yes.
 20 Q. And now, you referenced yesterday the--
 21 actually, before going there, I just want to
 22 put these numbers that we have into some sort
 23 of context on the staff charges that we just
 24 looked at. Could we have--could we pull up
 25 Information 1? And in particular I'd like

Page 48

1 A. That's what it's showing, yes.
 2 Q. And then compared to that Table 46 would
 3 actually show their corporate charges from
 4 Fortis, right?
 5 MS. PERRY:
 6 A. Yes.
 7 Q. Okay, and if we just go back, for a moment,
 8 can you advise us as to what Newfoundland
 9 Power expects to be paying in 2008 by way of
 10 labour provided by other affiliates in 2008?
 11 MS. PERRY:
 12 A. Are you asking the amount of labour we expect?
 13 Q. What will you be paying in terms of labour
 14 being provided by other affiliates in 2008?
 15 MS. PERRY:
 16 A. Just bear with me a second, please?
 17 Q. Maybe CA-NP-160.
 18 MS. PERRY:
 19 A. Yes, if we could go to CA-NP-160?
 20 Q. Yes, thank you.
 21 MS. PERRY:
 22 A. You can see, Mr. Chairman, that on Table 1 of
 23 CA-NP-160 the total charges we expect to
 24 receive from Fortis in 2008 is 121,000 and
 25 well, there's no staff charges there that

Page 49

1 MS. PERRY:
 2 we've provided for.
 3 Q. So you're not--and, in fact, in '07--is
 4 Newfoundland Power--I see for 2006 it was
 5 \$21,000 in staff charges, less labour and
 6 travel, I think, according to the footnote.
 7 In 2007 there's nothing; 2008 there's nothing.
 8 So traditionally Newfoundland Power has not
 9 had to avail of other people's--other services
 10 provided by Fortis affiliates very much, I
 11 take it?
 12 MS. PERRY:
 13 A. That's is correct.
 14 Q. Yeah. And so now if I can just look to CA-NP-
 15 401? This was touched on a little yesterday
 16 in terms of this question asked for a
 17 breakdown of the personnel hours and travel
 18 included in the charges to affiliated
 19 companies referred to in response to CA-165,
 20 and that question had to do with the
 21 acquisitions of Terasen and FortisAlberta,
 22 FortisBC, correct?
 23 MS. PERRY:
 24 A. Correct.
 25 Q. And just in 2003, obviously it speaks for

Page 51

1 Board in March, 2004. Will we go back to
 2 those levels? There's no where in our
 3 foreseeable future we would go back there. I
 4 will say that back in 2001, 2, 3, Newfoundland
 5 Power was by far the largest component of
 6 Fortis. Today is it No. 4. Subsequent to the
 7 acquisition of Fortis West, namely,
 8 FortisAlberta, FortisBC and Terasen Gas. So
 9 there's no question, would we--you know, was
 10 it high? Yes, it was high. Is it
 11 sustainable? No, it's not. And I think it's
 12 fair that you can see in the subsequent years
 13 that the charge rates have dropped off, rigor
 14 has been brought in through Board direction
 15 and subsequent filings with the Board and we
 16 have been filing those and we do not see
 17 returning to those in the near future. So,
 18 Mr. Johnson, I offer that as an observation
 19 having been there. And I don't know if that's
 20 any help, Mr. Chairman.
 21 Q. You were on the stand in the last hearing, Mr.
 22 Ludlow, and that would have been obviously
 23 prior to your secondment out to attend to all
 24 of this work, would that be correct?
 25 MR. LUDLOW:

Page 50

1 itself, we had the executive of Newfoundland
 2 Power, who Mr. Ludlow identified yesterday as
 3 being himself, Mr. Alteen, Mr. Hughes, I think
 4 there was one other, in -
 5 MR. LUDLOW:
 6 A. Mr. Perry.
 7 Q. Mr. Perry, spending 3000 hours alone and on
 8 the Fortis West transaction in 2003 and two
 9 managers spent another 191 hours, support
 10 staff, ten of them spent another 1100 hours.
 11 (10:15 a.m.)
 12 Do you have any comment on the size of the
 13 Newfoundland Power effort that's reflected in
 14 that Fortis West '03 acquisition?
 15 MR. LUDLOW:
 16 A. Mr. Chairman, if I may just speak to this
 17 topic for a minute since I was part of it?
 18 Mr. Johnson, if you'd bear with me for this
 19 piece. It's more at a, I guess, a corporate
 20 level. There's no question that the charge
 21 rates in 2002, 2003 were high, and that's been
 22 brought out very clearly in the areas. And
 23 that was a subject, I do believe, of
 24 intercorporate guidelines in the 2003 hearing.
 25 Subsequently there were filings made to the

Page 52

1 A. I was on the stand in the spring of 2003, I do
 2 believe it was. I was not seconded in the
 3 summer, I made that point yesterday. I did
 4 leave in January of 2004.
 5 Q. And are you--I understand that you would not
 6 be at liberty, Mr. Ludlow, and nor would Ms.
 7 Perry, for that matter, owing to securities
 8 laws, to talk about pending transactions that
 9 the parent my be entertaining, would that be
 10 correct?
 11 MR. LUDLOW:
 12 A. That's correct.
 13 MS. PERRY:
 14 A. That's correct.
 15 Q. And I would take it that back at the last
 16 hearing, when you were before the Board, that
 17 Fortis West was an issue floating around at
 18 that time, would that be correct?
 19 MR. LUDLOW:
 20 A. Mr. Chairman, I have absolutely no idea what
 21 was on Fortis' plate when I was on the stand
 22 here. When I left here and then moved on to
 23 other work and I commended work in Alberta in,
 24 I would say, June, and that was not something
 25 that was contemplated during the first quarter

Page 53

1 MR. LUDLOW:
 2 or the second quarter or in my personal or
 3 family plans, I might add, too. So, no, I did
 4 not know what's on Fortis' plate and I don't
 5 know what's on it today.
 6 Q. Okay, and so if Fortis determines that we may
 7 be in acquisition mode again, I take it that
 8 they may come looking again for Newfoundland
 9 Power's expertise? It seems to me to have
 10 been well established that they certainly
 11 think something of you folks to involve you in
 12 these acquisitions and more recently in the
 13 Terasen acquisition.
 14 MR. LUDLOW:
 15 A. Mr. Chairman, it's an interesting piece
 16 because whether they come or whether they
 17 don't, we have the customers of this Company,
 18 I can assure you right now, as No. 1 priority.
 19 If they had come to us within the past three,
 20 four months, they would have been declined.
 21 We are currently into a General Rate
 22 Application, this is not a direct and you
 23 shall have type of an exercise. The only time
 24 that we would even entertain secondment of
 25 any--or secondment or a charge or occasional

Page 55

1 and basically where we are today, we're back
 2 more to a normal operating mode. The
 3 guidelines have changed, the charge outs have
 4 changed and we have been following those.
 5 Q. Well, 2003 you were involved in a GRA,
 6 correct, the Company was?
 7 MR. LUDLOW:
 8 A. We were involved in a GRA. I was personally
 9 involved in a GRA, but I was not involved in
 10 Fortis activities during or prior to the GRA.
 11 Q. Okay, but nevertheless, as part of 2003
 12 Newfoundland Power was involved in a general
 13 rate application before the Board. I guess
 14 that's some heavy duty work involved there,
 15 correct?
 16 MR. LUDLOW:
 17 A. That's correct. It was in the first--second
 18 quarter.
 19 Q. Yes, okay. And so all of these 3000 hours,
 20 when would the first hour have started on
 21 Fortis West, was it after the Board's
 22 decision?
 23 MR. LUDLOW:
 24 A. Mr. Chair, I have no idea the level of detail
 25 that we're being requested here. I do know

Page 54

1 service of that type would simply be if there
 2 is nothing on the books. And right now it's
 3 on the books. And we're working, well,
 4 needless to say, there's been a lot of long
 5 hours and long nights getting ready to come to
 6 this hearing. So to say that they ask and
 7 they receive is a false premise. I have
 8 declined.
 9 Q. Okay, well they asked and they received in
 10 '03, correct?
 11 MR. LUDLOW:
 12 A. I don't know what they asked for, but I do
 13 know that they did receive.
 14 Q. They received 3000 executive hours, 191
 15 management hours, 1100 support staff hours, 18
 16 trips by the executives. Now, they must have
 17 asked for it, correct?
 18 MR. LUDLOW:
 19 A. They did ask, but I'm not sure if they asked
 20 for more or not, I just don't know. I wasn't
 21 the president at that point.
 22 Q. Was -
 23 MR. LUDLOW:
 24 A. I will say and I have said earlier that the
 25 2003 experience, the 2004 it started to drop,

Page 56

1 that I can speak to my experience with dealing
 2 with Fortis West and the dealings that we went
 3 through at the Board and the subsequent
 4 filings that took place.
 5 Q. Do you have any recollection that things were
 6 sort of slack at Newfoundland Power during
 7 2003 to allow 3000 executive hours to be
 8 provided to this affiliate transaction?
 9 MR. LUDLOW:
 10 A. Slack in Newfoundland Power, Mr. Chairman, is
 11 not a term I'd use in the same sentence. I
 12 will tell you that I take a little bit of
 13 exception to it. There was not--I'll use
 14 slack from business principles, slack in the
 15 system, I'll used it that way. And from my
 16 perspective part of my job was to have a well
 17 trained individual to replace me in the
 18 future, the person happens to be in this room
 19 today. My job today is to do the same thing,
 20 is to have a plan B as part of the development
 21 of our organization. If we felt or if I felt
 22 personally that the operations in Newfoundland
 23 Power would founder or would, in fact,
 24 deteriorate as a result of my leaving, then I
 25 would not be gone. And I did have the right

Page 57

1 MR. LUDLOW:
 2 to make that decision.
 3 Q. So there's nothing in terms of, I take there's
 4 nothing in terms of the, what was happening at
 5 Newfoundland Power in 2003 that allowed 3000
 6 executive hours or there was nothing about
 7 that year that would be any materially
 8 different from 2008, for that matter, is that
 9 pretty much correct?
 10 MR. LUDLOW:
 11 A. No, that's not correct. In 2008 and 2007 we
 12 have a full new executive team on board here.
 13 Although I've been with this utility for, I'm
 14 going to say 25 years, in the utility business
 15 for 27, 28, everybody is in new roles. My CFO
 16 here today is her first time testifying before
 17 this Commission. The preparation work and
 18 getting ready and getting ready for year ends
 19 and board meetings, this is a new experience.
 20 My operations vice-president, same thing.
 21 Consistent would probably be Mr. Peter Alteen,
 22 our general counsel, vice-president
 23 regulatory. But to say that the water is the
 24 same today as it was in 2003 is not the case.
 25 You had a well-experienced team in place at

Page 59

1 Assess the assets and assess future, and that
 2 was my job, Mr. Chairman.
 3 Q. And were there others working on that function
 4 besides you, that engineering due diligence,
 5 the asset assessment?
 6 MR. LUDLOW:
 7 A. I'm a little bit leery about getting into the
 8 detail working of an acquisition process that
 9 we go through in front of this Board. I would
 10 go so far to say that I would have had help.
 11 To survey two utilities about one and a half
 12 billion dollars in assets or value is a bit of
 13 an undertaking for one person. So, yes, I did
 14 use individuals, I had people from
 15 FortisOntario and others. What their specific
 16 roles were, I would prefer not to go into the
 17 detail, Mr. Johnson.
 18 Q. I can respect that to a degree, but I've got
 19 to ask a bit further. You indicated you had
 20 people from FortisOntario assisting and
 21 others. Were there other arms-length
 22 individuals assisting with that enterprise?
 23 MR. LUDLOW:
 24 A. I'm sure there were and I do believe they have
 25 been--not with respect to the due diligence,

Page 58

1 that point in time and a well-experienced
 2 second level.
 3 Q. And just give me some insight as to the sorts
 4 of expertise that were provided by
 5 Newfoundland Power's executive group in '03
 6 and '04, in particular, Mr. Ludlow?
 7 MR. LUDLOW:
 8 A. Well, can I use myself as an example in that,
 9 would that be helpful to you?
 10 Q. Certainly.
 11 MR. LUDLOW:
 12 A. My job was to perform due diligence on an
 13 acquisition. And it's not whether or not
 14 they're using a pre-engineered specific type
 15 of product. It was purely about utility
 16 systems, be that HR systems, be that
 17 engineering systems, customer service systems,
 18 whole new territories, age of plant, type of
 19 plant, replacement, Cap X, growth, and I can
 20 keep going, but that was the style--that was
 21 the task under which I took. It was a very
 22 general utilitarian--utility driven experience
 23 based type of expertise. Or I don't know if
 24 you could use the term expertise, but
 25 management style that I was asked to bring.

Page 60

1 per se, of the utility. I may, and again,
 2 subject to check, I just can't remember, but I
 3 do know that if I came up against something in
 4 the Alberta environment that was unique to me,
 5 I would have gone and gotten help, be that
 6 through other businesses there, we would have
 7 used, me personally, I would have engaged, I
 8 don't know, legal firms or whatever I needed
 9 out in the market place.
 10 Q. And you know, arms-length consultants were
 11 used, as well?
 12 MR. LUDLOW:
 13 A. Not a lot, though.
 14 Q. Because most of it was done in house?
 15 MR. LUDLOW:
 16 A. Well, most of it was done because of the
 17 experience that was brought to the team.
 18 Q. In terms of the arms-length consultants that
 19 were used, what--you mentioned law, for
 20 instance, and how about any other disciplines?
 21 MR. LUDLOW:
 22 A. I reflect back in thinking about asset, there
 23 may have been an accounting group, I'm not
 24 certain. There's no engineering firm that
 25 would stand out in that.

Page 61

1 (10:30 a.m.)
 2 MR. JOHNSON:
 3 Q. And would you, Mr. Ludlow, characterize these
 4 acquisitions as being, and I'm speaking now of
 5 the Fortis West and the more recent Terasen
 6 acquisitions, would you characterize those as
 7 being successfully carried out and executed?
 8 MR. LUDLOW:
 9 A. Yes.
 10 Q. And is there--if another acquisition were to
 11 come on the horizon, if an opportunity were to
 12 arise, would there be any reason to think that
 13 these previous acquisition people who were
 14 involved in this acquisition could be used
 15 again because of the success that they had in
 16 the previous experience?
 17 MR. LUDLOW:
 18 A. I just went through that a minute ago in that,
 19 you know, the last detailed acquisition of any
 20 size that I've personally been involved in,
 21 other than my last job which acquisitions
 22 were part of my job, I was more in real
 23 estate, that, you know, we're running here now
 24 with a full new executive team, we have
 25 developed expertise within the Fortis Group

Page 63

1 who worked on what within Fortis is a matter
 2 that this Board can or should have particular
 3 involvement in. It's really not a matter that
 4 relates to Newfoundland Power.
 5 MR. JOHNSON:
 6 Q. I won't make a big deal over the question,
 7 frankly. I'll just move on. Now, after the
 8 Board's decision in P.U. 19 (2003), I take it
 9 that your evidence yesterday, Ms. Perry, was
 10 that you did a report to the Board, you did
 11 some sort of survey, etcetera, on management
 12 executive time charges. Would that be
 13 correct?
 14 MS. PERRY:
 15 A. That is correct.
 16 Q. Okay, and when was it that Newfoundland Power
 17 commenced to actually charge a mark up on
 18 executive and management time?
 19 MS. PERRY:
 20 A. We started charging the mark up in the second
 21 quarter, first part of the second quarter of
 22 2004.
 23 Q. So April, '04?
 24 MS. PERRY:
 25 A. Just give me a second, please? Yes, that's

Page 62

1 that will run and carry and that's the sense I
 2 get. I have not, to any great level, maximum
 3 maybe week, two weeks in the last four years
 4 been involved in any external work. So I
 5 would go so far to say, Mr. Johnson, that
 6 that's not a logical extension of what you're
 7 reading on that page.
 8 Q. And in terms of like Fortis' own people, like
 9 who are actual employees of Fortis. Who did
 10 they have working on these acquisitions, Mr.
 11 Ludlow?
 12 MR. LUDLOW:
 13 A. Mr. Chairman, I'm getting a little bit on the
 14 edge here of how far I should be going with
 15 discussing Fortis' acquisition strategies and
 16 size and how they work, and particularly the
 17 who. And at the--there's a balance here
 18 between trying to be helpful and trying to go
 19 over the top with this. I'm not comfortable
 20 discussing that. If you wish, I defer to my
 21 counsel and possibly over break we can have a
 22 discussion as to how far this road I should be
 23 going.
 24 KELLY, Q.C.:
 25 Q. And I'm not sure, at all, Mr. Chairman, that

Page 64

1 correct.
 2 Q. No, just a question on that, because I read
 3 P.U. 19 and I note that it was released on the
 4 20th of June. And it seemed pretty clear to
 5 me that the Board was saying in its reasons
 6 for decision that it was not content that it
 7 was appropriate to just charge out executive
 8 and management time on the basis of a cost,
 9 whether it be fully distributed or whatever.
 10 And it just seems odd to me that, you know, in
 11 light of that there was no mark up at all
 12 applied, right on up until April of 2004, you
 13 know, months after the release of P.U. 19.
 14 Can you comment on that?
 15 MS. PERRY:
 16 A. The time period between the P.U. order 19 and
 17 April, 2004, you know, during that time the
 18 Company did take note of what the Board's
 19 concerns were with respect to the complexity
 20 and the amount of intercorporate charges,
 21 particularly as it related to senior
 22 management time. So then they took a process
 23 to look at other Canadian regulated utilities,
 24 at the same time from directions from P.U. 19
 25 they looked at the centralized insurance

Page 65

1 MS. PERRY:
 2 program and they looked at their whole
 3 intercorporate charges as a whole, so that
 4 stuff takes a bit of time to do. And so by
 5 the time they got all the results of the
 6 survey back specifically relating to the
 7 senior management time and the results were
 8 in, then they implemented shortly thereafter.
 9 Q. Well, would it have not been known as of the
 10 20th of June in 2003, if you read that
 11 decision, that would it not be known to
 12 Newfoundland Power, look, guys, we've got to
 13 do something on this executive and management
 14 time. It's clearly not on to keep charging at
 15 cost recovery. The Board has said that. Now,
 16 I know we got to do this report, but, you
 17 know, we've got to do something here. Did
 18 that discussion take place or discussions like
 19 that?
 20 MS. PERRY:
 21 A. I'm not sure as to actual conversations, Mr.
 22 Chairman, I wasn't actually with Newfoundland
 23 Power at the time, so I really can't comment.
 24 KELLY, Q.C.:
 25 Q. With respect, Mr. Chairman, the question is

Page 67

1 management" "other than executive management",
 2 "is being recorded and charged out to Fortis
 3 and affiliated companies at market rates or
 4 other appropriate rates. In the Board's
 5 views, this should also be the case for
 6 executive and management rather than using a
 7 cost plus overhead basis. This approach, in
 8 the Board's view, recognizes the value of the
 9 service being provided by Newfoundland Power.
 10 If a market rate is not ascertainable, as
 11 seems to be the case, Newfoundland Power
 12 should add an appropriate premium to its cost-
 13 based rates." That's also part of P.U. 19,
 14 correct?
 15 KELLY, Q.C.:
 16 Q. The order is at the end, then at the end of
 17 the page, that we will be required to
 18 investigate the utilization, etcetera.
 19 CHAIRMAN:
 20 Q. I think the order was there and complied to,
 21 Mr. Johnson. You know, certainly the
 22 commentary in the preceding paragraph
 23 indicated the, I guess, you know, some of the
 24 conclusions that the Board reached at the time
 25 is certainly germane, but the order was

Page 66

1 not really fair. One will find the order of
 2 the Board at CA-NP-161, and the Board's order
 3 at the top of page 58 specifically required
 4 that "Newfoundland Power will be required to
 5 undertake a review and update its operating
 6 practices relating to any and all
 7 intercorporate transactions to ensure that the
 8 principle as set out above are reflected. The
 9 results of such a review shall be reported to
 10 the Board no later than March 31st, 20004."
 11 So contrary to the suggestion in the question
 12 that there was some implication something
 13 should be done right away, the mandate from
 14 the Board was to, in fact, investigate the
 15 matter properly and thoroughly, which the
 16 Company did, and the reports are filed at Tab-
 17 -Information Request 156.
 18 MR. JOHNSON:
 19 Q. Well, that's one way of reading it. But I
 20 would refer the witness to page 60 of the
 21 Board's reasons where in the second-last
 22 paragraph before what's bolded the Board
 23 wrote, "Based on the evidence, the Board is
 24 satisfied that the time for Newfoundland
 25 Power's employees, other than executive

Page 68

1 adhered to, I think that's fair to say.
 2 MR. JOHNSON:
 3 Q. When was the survey of other utilities done in
 4 terms of this charge up, mark up issue?
 5 MS. PERRY:
 6 A. I'm not sure of the exact date, Mr. Johnson.
 7 Q. Can I just refer you to CA-156, Schedule 3 and
 8 page 2 of 4, under the topic, "Overview"?
 9 Actually, I should have referred you to page 1
 10 of 4 first. I'm having difficulty, I'm sorry,
 11 reading it off the screen, which is a bit away
 12 from me. Yeah, in that paragraph, "Overview
 13 2.1" "A review of the Canadian regulatory
 14 jurisdictions reveals that executive charges
 15 to affiliated corporations typically involve
 16 charges to a regulated subsidiary from a
 17 parent company. This typically occurs where
 18 the provision of corporate services for parent
 19 subsidiary companies is integrated or
 20 centralized. For example, there may be a
 21 single executive group, a single Human
 22 Resources Department and a single Accounting
 23 Department serving more than one company." Is
 24 the configuration, in your judgment, or the
 25 amount of services or the relationship between

Page 69

1 MR. JOHNSON:
 2 parent and affiliate in terms of Newfoundland
 3 Power, Fortis context, does that follow that
 4 typical model where it's usually charged back
 5 the affiliate from the parent, or are we sort
 6 of the other way around?
 7 MS. PERRY:
 8 A. Newfoundland Power is standalone and the
 9 charges that we see at Newfoundland Power are
 10 charges to Fortis Inc. We do not see charges
 11 from Fortis Inc.
 12 Q. Yes.
 13 MS. PERRY:
 14 A. There's no shares services at Fortis Inc. like
 15 a human resource function that is allocated
 16 down through to Newfoundland Power.
 17 Q. And so I guess to that degree we would be
 18 somewhat, I'm saying "we", but Newfoundland
 19 Power would be somewhat atypical of a lot of
 20 other utilities in that regard? Would that be
 21 a fair statement?
 22 MS. PERRY:
 23 A. I'm just really not sure in terms of how many
 24 are exactly like us or not like us.
 25 Q. Well, if you look down to the survey of the

Page 71

1 our study prior to this proceeding. We had a
 2 review with these companies that do engage in
 3 intercorporate transactions, regardless of
 4 which way they're flowing, and the consensus
 5 or the majority of regulated utilities charge
 6 cost recovery for senior management time.
 7 There were only two exceptions back in 2004,
 8 and today there are three exceptions because
 9 Newfoundland Power started to charge the 20
 10 percent mark up, as well, on cost. So this
 11 study was done with a review of how their
 12 intercorporate staff charges are completed,
 13 regardless of the--regardless of which way
 14 that the transaction was flowing.
 15 Q. So we know, I take it, as you've said, that
 16 the charges from Fortis to Newfoundland Power
 17 are not a material issue, correct?
 18 MS. PERRY:
 19 A. Absolutely.
 20 Q. And I guess you're not able to tell us whether
 21 any of these utilities on Table 1, you know,
 22 whether they have material charge outs from
 23 the parent to the affiliate or not, we don't
 24 know how comparable they are to Newfoundland
 25 Power, would that be your evidence?

Page 70

1 companies that you looked at in Table 1 where
 2 you did a survey of senior management time
 3 charges, do you know--who was the person who
 4 generated this report and did the research
 5 necessary for the report?
 6 MS. PERRY:
 7 A. This report was done internally at
 8 Newfoundland Power.
 9 Q. Okay. Someone under your auspices?
 10 MS. PERRY:
 11 A. Again, I wasn't there at the time but I'm -
 12 Q. Okay, sorry.
 13 MS. PERRY:
 14 A. It was done under Mr. Perry.
 15 (10:45 a.m.)
 16 Q. It was done under Mr. Perry, okay. Do you
 17 know how much they looked at, you know, what
 18 the relative balance sheet looked like in
 19 terms of transactions to the affiliate versus
 20 transactions--you know, where the affiliate is
 21 buying something versus the parent buying
 22 something, if you get my drift?
 23 MS. PERRY:
 24 A. This study that was done in 2004, and as I
 25 mentioned yesterday, Mr. Chairman, we updated

Page 72

1 MS. PERRY:
 2 A. I don't have the data in front of me as to the
 3 volumes of their intercorporate transactions,
 4 no, I don't.
 5 Q. And to your knowledge was an inquiry made as
 6 to, you know, whether we're actually judging
 7 apples to apples in terms of Newfoundland
 8 Power's historic relationship with its parent
 9 and its affiliates in terms of providing
 10 management and executive time, you know, vis-
 11 a-vis maybe some of these? I don't know
 12 because, you know, have historically not
 13 provided really anything to their parent or
 14 other affiliates, so it's not really a
 15 material issue for them. Are you able to say
 16 whether that was taken into account?
 17 MS. PERRY:
 18 A. I'm just not sure in terms of the data. I do
 19 know when I look at some of the companies on
 20 the list here, because again, I'm not going to
 21 cross this line of when I worked with Fortis,
 22 but I know of Maritime Electric,
 23 FortisOntario, even the Aquila assets, I'm
 24 familiar with Terasen, you know, these
 25 companies have transactions with Fortis the

Page 73

1 MS. PERRY:
 2 same as Newfoundland Power.
 3 Q. But, you know, we've seen, you know, a track
 4 history, you know, frankly, you know, since
 5 the last hearing of, you know, like I say,
 6 3000 hours of executive time, etcetera, you
 7 know, fairly significant contribution of
 8 executive and management time to the Fortis
 9 affiliates, the Fortis Family. And do you
 10 think it's material or relevant to, when
 11 conducting a survey such a this, to ask the
 12 question, well, look, you know, should we
 13 really be comparing ourselves to utilities
 14 that really don't do much for other, for their
 15 other sister utilities or for their parent, is
 16 that even a material consideration in your
 17 regard?
 18 MS. PERRY:
 19 A. Mr. Chairman, I'm not sure if the amount of
 20 the transaction is really that significant. I
 21 think it's about what is the appropriate rate
 22 to charge for senior management time.
 23 Utilities across this country have agreed that
 24 there is no market up for senior management
 25 time. And in that event, that their

Page 75

1 amount that was charged for senior management
 2 time. So in the absence of market the right
 3 thing to do is to review what was public
 4 utility practice across Canada, so that's what
 5 Newfoundland Power done in 2004, we've updated
 6 again for this proceeding. We found in that
 7 study, and again, with respect to this
 8 proceeding, that there were only two
 9 exceptions that provided a premium on the cost
 10 recovery as a proxy for market. The highest
 11 was Terasen Gas and that was 20 percent. So
 12 in 2004 Newfoundland Power implemented a 20
 13 percent premium on costs. It was the highest
 14 in the country at the time, it's still the
 15 highest in the country and choosing that is
 16 just a matter of judgment.
 17 Q. I guess obviously it's only Fortis and Fortis
 18 affiliates who get to buy these valuable
 19 services from Newfoundland Power, the use of
 20 its executives, correct? They're not for sale
 21 to anybody else?
 22 MS. PERRY:
 23 A. No, they're not for sale.
 24 Q. Now, does any--in terms of trying to come up
 25 with a proxy for this market value, I take it

Page 74

1 intercorporate guideline or policy on senior
 2 management charges is a cost-recovery
 3 mechanism. That's how they charge. So I'm
 4 not sure if the dollar amount of the
 5 transaction would really apply.
 6 Q. Do we--do you know whether or not any of these
 7 other utilities who, for instance, just use a
 8 cost recovery, do you know whether that's
 9 their rule for all, for all charges for
 10 employees, it's across the board rule, whether
 11 it's management, executive or just regular
 12 employees?
 13 MS. PERRY:
 14 A. I believe it's for all, but that's subject to
 15 check.
 16 Q. And in any event, I take it that the 20
 17 percent mark up, which is what Newfoundland
 18 Power has proposed, would that be Newfoundland
 19 Power's assessment of the fair market value of
 20 its managers and executives or a proxy for
 21 that fair market value?
 22 MS. PERRY:
 23 A. Mr. Chairman, coming out of the last General
 24 Rate Order, again, Newfoundland Power heard
 25 the Board's concerns with respect to the

Page 76

1 what we're trying to replicate is what this
 2 fictitious arms-length buyer would pay,
 3 because they're not for sale, right. Would it
 4 not be--would it not be material to ask, well,
 5 we've certainly got to consider the fact that
 6 the parent, these other affiliates, they have
 7 availed of these services quite regularly in
 8 the past for major transactions. You know,
 9 these are not piddly transactions, these are
 10 billion dollar transactions, as a for
 11 instance. Would that not be part of the
 12 equation as to what a proxy would be in that
 13 circumstance?
 14 MS. PERRY:
 15 A. Mr. Chairman, when we tried to come up with a
 16 value for what we'd charge out staff charges
 17 for, it's clear there's no market for the
 18 executive. The only thing that I know is the
 19 cost that I'm paying for the staff that are
 20 working on Fortis. We make sure that we track
 21 all their costs, we track all the burdens and
 22 benefits that go with those costs, and we look
 23 to what is public utility practice, and that's
 24 how we gage what we charge for senior
 25 management time.

Page 77

1 MR. JOHNSON:
 2 Q. Why was the 20 percent mark up figure picked
 3 and not some other figure for a mark up?
 4 MS. PERRY:
 5 A. Again, Mr. Chairman, it was a judgment call
 6 that was made at the time. The highest in the
 7 country was 20 percent and Newfoundland Power
 8 chose 20 percent.
 9 Q. Was there any--I take it was there any
 10 consideration to a figure higher than 20
 11 percent or once you saw what Terasen was
 12 doing, they were the highest, we'll just tuck
 13 in with them, is that the--is that sort of
 14 close to the thought process?
 15 MS. PERRY:
 16 A. We prepared and did this study just to see
 17 what other Canadian regulated utilities do
 18 with respect to senior management time
 19 charges. The majority of those companies
 20 charge cost recovery, realizing there's no
 21 ascertainable market out there for senior
 22 management and executive time charges. There
 23 were two exceptions, we chose the highest.
 24 It's a judgment call.
 25 Q. In trying to arrive at this proxy does the

Page 79

1 And I take it that, you know, and I grant you,
 2 these are technologists, I understand the
 3 point. But Aliant and Persona are totally at
 4 arm's length to Newfoundland Power, right?
 5 MS. PERRY:
 6 A. Yes, they are.
 7 Q. And when you calculate your mark up on those
 8 technologists for Aliant, it's, you know, 1.58
 9 times cost, Persona, 1.97 times cost. And you
 10 know, and I know this may appear to be
 11 simplistic and pedestrian, but to me it sort
 12 of struck me that, my goodness, technologists
 13 even get charged out at 1.8, but the most
 14 valuable people in our organization who are
 15 quarter backing the strategic plans of the
 16 Company and are asked to quarter back other
 17 deals for other companies that we really don't
 18 get any benefit here in Newfoundland out of
 19 and you're proposing the 1.2 times cost.
 20 MS. PERRY:
 21 A. The technologists that you see in Table 1
 22 here, those are the staff that work on the
 23 non-joint-use poles.
 24 Q. Yes.
 25 MS. PERRY:

Page 78

1 effective mark up that you were applying on
 2 other service, on other personnel that you're
 3 selling to third parties, you know, arms-
 4 length third parties, okay, does that have any
 5 bearing upon, you know, what might be a decent
 6 mark up for an Executive and Manager? For
 7 instance, if you're selling services to an
 8 arms-length third party and you look at what
 9 that person would cost and all the fully
 10 distributed costs and then you ask yourself,
 11 well, what are we charging the person out at,
 12 you know, let's look at the mark up that falls
 13 out of that assessment, does that have any
 14 place within the management and executive
 15 search for a proxy?
 16 MS. PERRY:
 17 A. I'm not sure I understand your question.
 18 Q. Well, I guess let's put it this way, if we
 19 could turn to CA-NP-399 it might assist. Here
 20 I asked the question to compare the mark up
 21 rate using respective intercorporate charges
 22 for Managers and Executives, so the mark up
 23 applied to Newfoundland Power's personnel who
 24 provide services under contract with Aliant
 25 and Persona Communications, the arm's length.

Page 80

1 A. Or our pole-provisioning services, I should
 2 say, in our service territory. There's a
 3 clear market for this type of service, a clear
 4 market. In the absence of a market, which is
 5 what I see for Executive and Managers, to just
 6 draw the line between the two as if they're
 7 the same, I just don't see them as apples and
 8 apples.
 9 Q. Well, let's look at CA-NP-401, and let's look
 10 at the Terasen Gas deal for a moment. That
 11 involved--I think that was up to--if you could
 12 see the footnote there for a second, that
 13 includes labour recharged to Fortis up to May
 14 31st, 2007, and up to that point, we saw
 15 executives 379.5 hours and support staff of
 16 463.5 hours in support of that acquisition,
 17 and I understand that the total amount that
 18 was charged to the affiliated companies in
 19 relation to this acquisition was \$99,400.
 20 MS. PERRY:
 21 A. If you could bear with me, Mr. Johnson.
 22 Q. I think that 99,400 is borne out at CA-NP-165,
 23 Table 1.
 24 MS. PERRY:
 25 A. Yes, that's correct.

Page 81

1 MR. JOHNSON:
 2 Q. Do you know what the charge out rate was for
 3 that executive time and for that support staff
 4 time?
 5 MS. PERRY:
 6 A. I haven't done the exact math on the total
 7 charge for executive, no.
 8 Q. Could we--could you provide that information
 9 to us, in terms of what that--you know, does
 10 that rate involve your 20 percent mark up,
 11 right?
 12 MS. PERRY:
 13 A. It does.
 14 Q. And -
 15 MS. PERRY:
 16 A. The 99,000.
 17 Q. Yes, because that 99 is for both your
 18 executive who was involved, Mr. Alteen, and
 19 for someone who assisted him. So I'd like to
 20 see what the charge out rate was for both the
 21 executive on that file, as well as the support
 22 staff person who was provided to that file.
 23 Okay?
 24 MS. PERRY:
 25 A. Yes.

Page 83

1 Q. I'm thinking maybe another hour.
 2 CHAIRMAN:
 3 Q. Hour, okay. When you're ready please.
 4 MR. JOHNSON:
 5 Q. Could I turn your attention, Ms. Perry, to
 6 Information No. 2? This is an extract from a
 7 legal publication called Lexpert which, on a
 8 periodic basis, gives sort of an overview of
 9 big deals that have been happening and the
 10 lawyers involved with those big deals, and I'd
 11 just refer you to the bottom left-hand column
 12 of that publication where they're talking
 13 obviously about the Fortis acquisition of
 14 Terasen's natural gas distribution business.
 15 This is from the July/August 2007 extract, and
 16 it indicates, the bottom paragraph on that
 17 paragraph, that Fortis was represented in
 18 house by Ron McCabe, general counsel and
 19 corporate secretary, and Peter Alteen, Vice-
 20 President Regulatory Affairs and general
 21 counsel of Newfoundland Power, and then goes
 22 on to list the other teams of lawyers, Davies
 23 Ward Phillips and Vineberg, Harris Vaughan,
 24 Willis Wills and Murphy in B.C., McInnes
 25 Cooper here in St. John's, and then goes on to

Page 82

1 Q. Now -
 2 CHAIRMAN:
 3 Q. Excuse me, Mr. Johnson. It's a little after
 4 11. Could you indicate--I think the break is
 5 from 11 to 11:30.
 6 MR. JOHNSON:
 7 Q. That's fine.
 8 CHAIRMAN:
 9 Q. Would you like to break now?
 10 MR. JOHNSON:
 11 Q. I'd be happy to.
 12 CHAIRMAN:
 13 Q. Sure.
 14 MR. JOHNSON:
 15 Q. Thank you.
 16 CHAIRMAN:
 17 Q. That'd be fine. We'll take a half an hour now
 18 and we'll reconvene at 11:30. Thank you.
 19 (BREAK - 11:02 A.M.)
 20 (RESUME - 11:32 A.M.)
 21 CHAIRMAN:
 22 Q. Okay, Mr. Johnson, do you have any idea, for
 23 our benefit, how much longer you might be on
 24 cross?
 25 MR. JOHNSON:

Page 84

1 indicate the lawyers who were involved on the
 2 other side of the transaction, and you know, I
 3 guess there's no two ways about the fact that
 4 Mr. Alteen and Mr. McCabe were providing legal
 5 services. They were acting as lawyers on the
 6 transaction, right? That's what they're
 7 trained as, lawyers.
 8 MS. PERRY:
 9 A. Yes, I would say that's correct. That was a
 10 part of what Mr. Alteen was doing.
 11 Q. That's right, and now, I guess my question
 12 would be, surely it's not difficult to find
 13 out market rates for lawyers who are involved
 14 in, you know, corporate commercial
 15 transactions because Fortis hired a whole
 16 bunch of external counsel to assist it,
 17 correct?
 18 MS. PERRY:
 19 A. Mr. Chairman, I'm sure we could get market
 20 value for an external lawyer. I would say
 21 that the relevance of looking at the value of
 22 an external lawyer to that of in-house legal
 23 counsel, I'm not sure of the comparison there.
 24 Q. Well, you know, if you want to keep
 25 characterizing Mr. Alteen as no, no, he's an

Page 85

1 MR. JOHNSON:
 2 executive now, but in a sense, he is providing
 3 legal services like these other arm's length
 4 companies--these other arm's length firms are
 5 providing to Fortis. Fortis is represented in
 6 house by these two lawyers, Ron McCabe from
 7 Fortis and Peter Alteen, Vice-President.
 8 They're acting as lawyers. They're written up
 9 in the Lexpert magazine over it.

10 MS. PERRY:
 11 A. I understand what the magazine says, and it
 12 was a part of what Mr. Alteen was doing at
 13 Fortis. I'm not sure of the daily activities
 14 of Mr. Alteen while at Fortis, but I do know
 15 that that was a part of his role, and as Mr.
 16 Ludlow spoke of earlier, when you're involved
 17 in a transaction like this, Mr. Chairman, you
 18 can do a whole host of things from in-house
 19 legal to due diligence on the regulatory
 20 framework that these companies have, the
 21 employees that they have. It's just utility
 22 management experience being brought to these
 23 transactions.

24 Q. Well, I mean, this is the closest we've come
 25 to being able to find, you know, an example of

Page 87

1 breakdown of Mr. Alteen's charges on the
 2 Terasen deal, I appreciate that, but do you
 3 have--are you able to provide any information
 4 as to what were the rates of these other
 5 lawyers?

6 MS. PERRY:
 7 A. I have no idea what they were charged.

8 Q. Would that be difficult to find out?

9 KELLY, Q.C.:
 10 Q. Before the witness answers, Mr. Chairman,
 11 first of all, I have to take exception to it.
 12 It's asking information that is Fortis'
 13 proprietary information. It's not information
 14 that relates to Newfoundland Power. Secondly,
 15 what some lawyer in an external law firm
 16 charged out with all the overhead and expenses
 17 seems to me to be substantially a meaningless
 18 piece of information that cannot provide
 19 assistant to the Board. In fact, if I can use
 20 the analogy, it's like saying well, a mule and
 21 a race horse are all from the same horse
 22 family, so we should start drawing
 23 comparisons. The difference between these,
 24 between in-house counsel and outside counsel
 25 are markedly different. If you want a mule to

Page 86

1 legal services, legal counsel being brought to
 2 bear on the file in terms of what we can
 3 observe a market rate to me, and I'm--so you
 4 see no relevance to what the hourly rate of
 5 the other lawyers involved who acted for
 6 Fortis at arm's length would be?

7 MS. PERRY:
 8 A. I am in no way able to assess the value of an
 9 external law firm to that of Mr. Alteen. I
 10 certainly cannot provide that.

11 Q. And in fact, would you not agree with me that
 12 because of Mr. Alteen, you know, internal
 13 status in Newfoundland Power, in fact, that
 14 may assist him in actually providing more
 15 valuable counsel to the client, as opposed to
 16 a lawyer who's external and who's not embedded
 17 within the Fortis family. Could there be an
 18 extra value because of that?

19 MS. PERRY:
 20 A. Again, I'm certainly not able to assess the
 21 value that Fortis sees in Mr. Alteen, in
 22 comparison to--compared to other external law
 23 firms.

24 Q. And I take it you've not provided me with any
 25 comparison of the--you are working on the

Page 88

1 carry a heavy load, you get a mule. If you
 2 want a race horse to run a race, you get a
 3 race horse.

4 MR. JOHNSON:
 5 Q. I quite disagree. I think it's entirely
 6 relevant. I mean, we're trying to assess the
 7 validity, the appropriateness of a proxy that
 8 Newfoundland Power has ascribed to Mr. Alteen
 9 and the rest of its executive, and here's an
 10 example of where he's providing services,
 11 legal services, to his client. His client in
 12 this case being Newfoundland Power.
 13 Newfoundland--or his client in this case being
 14 Fortis. Now Fortis acquired the services of
 15 other arm's length lawyers and they have
 16 hourly rates. I mean, if we could have a
 17 situation where an executive had an hourly
 18 rate, well, we'd be quite interested in it.
 19 Now here's an example of an opportunity to
 20 find out an hourly rate for an external
 21 consultant, a lawyer, who is providing legal
 22 services and what, that's irrelevant? I think
 23 that's preposterous. It's entirely relevant,
 24 in my judgment.

Page 89

1 CHAIRMAN:
 2 Q. I would appreciate the fact that that's
 3 proprietary information in terms of the
 4 specific rates that Fortis may pay for an
 5 external lawyer. I'm not sure that that's
 6 something that I could order be brought into
 7 this particular hearing. I think, you know,
 8 the fact of the matter is, there may be
 9 ranges, I'm sure, depending on the expertise
 10 that's required, depending on whether a lawyer
 11 is involved in a particular tax area, whether
 12 that lawyer has expertise in that area versus,
 13 you know, another specialized area,
 14 essentially, and I'm not 100 percent sure of--
 15 and I'm sure there are ranges, Mr. Johnson,
 16 depending on what might be required of a
 17 lawyer that Fortis may be looking for and I'm
 18 not sure we're going to, you know, get to the--
 19 I understand and appreciate where you're
 20 coming from in terms of the sense of your
 21 question, but I'm not sure we're going to get
 22 any, you know, additional information in
 23 relation to what may be certainly a range,
 24 depending on the services that are required,
 25 but I'm not certain that we're going to be

Page 91

1 lawyers and explaining what the range was, in
 2 terms of the rates?
 3 (11:45 a.m.)
 4 KELLY, Q.C.:
 5 Q. That's Fortis information. It's not
 6 Newfoundland Power information, Mr. Chairman.
 7 CHAIRMAN:
 8 Q. I respect that.
 9 MR. JOHNSON:
 10 Q. If we could go to CA-NP-402? I take it there
 11 were incentives, bonuses related to the
 12 transactions that we spoke of in the past. In
 13 Table 1, it's referred to as Fortis
 14 development incentive. Could you explain what
 15 those Fortis development incentives are?
 16 What's that about?
 17 MS. PERRY:
 18 A. On CA-NP-402, the amount shown here in 2003,
 19 2004 and 2006 reflects bonuses that were
 20 either paid by Newfoundland Power and charged
 21 as a non-regulated expense. They were not
 22 charged to our customers. Or they were paid
 23 by Fortis and they were paid as bonuses for
 24 work done for Fortis related work, not
 25 Newfoundland Power related work.

Page 90

1 able to get that information necessarily.
 2 MR. JOHNSON:
 3 Q. Well, I would be quite content, Mr. Chairman,
 4 with the range that was paid by Fortis in this
 5 instance, because it gives an insight--it
 6 provides an insight and a comparator for the
 7 effective charge out rate of Mr. Alteen. Not
 8 to pick on Mr. Alteen, but you know, he was
 9 the person who provided the service. I
 10 certainly don't think he's a mule.
 11 CHAIRMAN:
 12 Q. You know, again, this is Fortis information.
 13 I mean, I think we're here to bear witness to
 14 evidence in relation to Newfoundland Power and
 15 I'm not sure that we could actually demand
 16 that information. So you know, I appreciate
 17 where you're coming from, but I'm not in a
 18 position to order that, you know, if that's
 19 what you're asking.
 20 MR. JOHNSON:
 21 Q. Well, if you're not in a position to order it,
 22 I wonder if, in the interest of bringing some
 23 clarity, some comparison, whether Newfoundland
 24 Power would be prepared to provide us some
 25 non-identifying information in terms of

Page 92

1 Q. And I take it that this is an embedded
 2 incentive scheme, I don't use the word
 3 "scheme" pejoratively at all, but an embedded
 4 incentive program to incent Newfoundland Power
 5 executives in terms of working on the
 6 corporate development of Fortis for non-
 7 Newfoundland Power related work?
 8 MS. PERRY:
 9 A. What I know about these bonuses, Mr. Chairman,
 10 is that they're paid to the respective people
 11 here in this exhibit for work done by Fortis.
 12 I don't know if it's some set scheme or plan.
 13 Q. So it would be anticipated if we had a
 14 Newfoundland Power executive--and it was only
 15 the executives who were entitled to this, not
 16 managers?
 17 MS. PERRY:
 18 A. I don't know.
 19 Q. And do you know whether these figures that
 20 were provided, in terms of bonuses, was that--
 21 were those numbers arrived at by looking at
 22 the success of the transactions that these
 23 people were involved in?
 24 MS. PERRY:
 25 A. Mr. Chairman, I have no idea how Fortis

Page 93

1 MS. PERRY:
 2 calculates their bonuses for work done at
 3 Fortis.
 4 Q. If this type of incentive is embedded, does
 5 that not have any implications for the stand-
 6 alone relationship of Newfoundland Power vis-
 7 a-vis Fortis? In other words, you basically
 8 got to do work that is non-regulated, not for
 9 the customers of Newfoundland Power, in order
 10 to get this--get yourself under this incentive
 11 scheme, do you not?
 12 MS. PERRY:
 13 A. I'm not sure I understand your question, Mr.
 14 Johnson.
 15 Q. These bonuses are paid in respect of work and
 16 services that are not tied to Newfoundland
 17 Power. It's tied to Fortis Development as a
 18 whole. It could be non-affiliated work.
 19 MS. PERRY:
 20 A. Yes.
 21 Q. Okay. Does that have any implications, in
 22 your view, in terms of stand-alone issue?
 23 MS. PERRY:
 24 A. Mr. Chairman, as Mr. Ludlow spoke of earlier,
 25 when Fortis should call, you know, an

Page 95

1 Q. Yes.
 2 MS. PERRY:
 3 A. Mr. Chairman, the staff charges associated
 4 with insurance, we charge it out at full cost,
 5 fully distributed costs. That's correct.
 6 Q. Okay, and so the provision of these insurance
 7 services, that would be an exception to the
 8 normal rule that that should attract fair
 9 market value. Would that be correct?
 10 MS. PERRY:
 11 A. No, I don't think that's correct. Again, when
 12 you assess what is fair market value for staff
 13 charges, the way to assess fair market value
 14 is looking at markets and to look at a
 15 Director of Risk Management and determine
 16 whether there's a market for a director of
 17 risk management, I would suggest that his
 18 salary is reflective of market, and we ensure
 19 that we track all time charged and we charge
 20 accordingly.
 21 Q. But I thought the normal rule is that if you
 22 were providing staff to an affiliate, you
 23 know, an engineer, a technician, that that
 24 would be--you'd look for market rates for
 25 that, right?

Page 94

1 assessment is made at that point whether or
 2 not executive, the requested executive are
 3 available to do work for Fortis, and there
 4 have been instances where the answer has been
 5 no. But if it is possible, and the executive
 6 should go to Fortis, we recover all costs. We
 7 track all time. We recover all costs plus 20
 8 percent. So I don't see it as an issue.
 9 These bonuses that are on the scene here
 10 reflect--it's really something between Fortis
 11 and the individual.
 12 Q. Let me turn to the issue of the insurance
 13 program. In particular, I'd refer you to the
 14 March 31st, 2004 report on inter-corporate
 15 charges at page four.
 16 KELLY, Q.C.:
 17 Q. CA-NP-156, Chris.
 18 MR. JOHNSON:
 19 Q. I can't find the exact reference here now, but
 20 I take it that this would be a transaction
 21 where fair market--providing the insurance
 22 services is a transaction where fair market
 23 value does not apply? Would that be correct?
 24 MS. PERRY:
 25 A. With respect to staff charges?

Page 96

1 MS. PERRY:
 2 A. Absolutely.
 3 Q. Okay, and I understand that Newfoundland Power
 4 has a lot of in-house expertise in the form of
 5 Mr. Knight. Is he still with the Company?
 6 MS. PERRY:
 7 A. Yes, he is.
 8 Q. Okay, and whoever assists him, they provide a
 9 lot of expertise, correct?
 10 MS. PERRY:
 11 A. I'm not sure I understand the question again.
 12 Q. Well, they're not simply administering. I
 13 mean, they play a pretty hands-on role with
 14 claims, advice, on the insurance file. Would
 15 that be correct?
 16 MS. PERRY:
 17 A. Yes, that's correct.
 18 Q. And if there's a claim in Belize, they'll go
 19 to Belize. If there's a claim with another
 20 affiliate, they may have to go there. They
 21 provide a lot of advice and counsel.
 22 MS. PERRY:
 23 A. Yes, that's correct.
 24 Q. Okay, and as a matter of fact, just in terms
 25 of the evidence of the last hearing of Mr.

Page 97

1 MR. JOHNSON:
 2 Hughes, Information No. 7 on that, we needn't
 3 turn to it, but he confirmed the type of--
 4 well, actually, we may well turn to it. On
 5 page 14, the question was asked "so is it fair
 6 to say that Newfoundland Power is in fact the
 7 plan administrator of the group insurance?
 8 Answer: Yes, but it does a little more than
 9 administering. Alex, he's got the expertise
 10 on what markets are likely to be open, what
 11 aren't, whether a deductible will make a
 12 difference or whether it won't, so he does a
 13 lot. It's not like say a benefits
 14 administrator. He actually has quite a lot of
 15 knowledge about insurance." Then he's asked
 16 "does he get involved in say Maritime Electric
 17 has a property damage claim? Absolutely, and
 18 he travels to Maritime or Belize or wherever,"
 19 and then on page 18, there's a question put to
 20 Mr. Hughes, and this is where they're talking
 21 about who should be administering it, whether
 22 it should be Fortis or whether it should be
 23 retained in house. The question is put "I
 24 guess I approached it on a more simplistic
 25 level. It seems to me that if it was the

Page 99

1 Knight does play a role in the Fortis Inc.
 2 group plan, and our policy for charging out
 3 Mr. Knight is at cost, as I say, plus fully
 4 loaded costs. There's a benefit, a big
 5 benefit to customers with this whole group
 6 insurance program. We've already put on
 7 record where the group insurance plan is
 8 saving us insurance premiums of over \$600,000
 9 annually, so it's pretty substantial, and the
 10 fact that Mr. Knight works at Newfoundland
 11 Power and we charge out about 80 percent of
 12 his time, we support that, because we like
 13 having Mr. Knight in our premise. In-house
 14 expertise, which is what Mr. Hughes spoke
 15 about during the last general rate case, is
 16 the same today. It's nice having Mr. Knight
 17 in our premise. We can go talk to him about
 18 where the insurance markets are. He's just
 19 closer, and it just helps with our insurance
 20 policy, Newfoundland Power's. We have a bit
 21 of an advantage of having him in house.
 22 Q. But am I right that other examples of where
 23 inter-corporate charges are based on costs, it
 24 would be IS charges. That's the cost of
 25 software licenses that's based on costs,

Page 98

1 other way around, if you--if Fortis or some
 2 other entity was administering the plan, the
 3 only cost to Newfoundland Power or the only
 4 effort would be to write an insurance cheque
 5 premium once a year. Answer: No, it
 6 wouldn't. Question: It wouldn't? No, it
 7 wouldn't, because you would still need--you
 8 still need somebody with insurance expertise.
 9 Now obviously you can either have the person
 10 in house, you could pay a tremendous amount of
 11 money if you tried to out source it because
 12 you have to have someone independent from the
 13 broker. That's just how it works on claims,
 14 on dealing with insurance, and deciding what
 15 you're going to have."
 16 Now it seems to me that with that type of
 17 repository of expertise that has this value,
 18 why is it sufficient that that should be just
 19 done on a cost basis, to be shared? I can
 20 understand the concept, you know, you're all
 21 with the one insurance pool and you know, how
 22 that pool goes is how your rates go, but this
 23 is a different issue.
 24 MS. PERRY:
 25 A. The group insurance plan, yes, Alex, Mr.

Page 100

1 correct?
 2 MS. PERRY:
 3 A. Yes.
 4 Q. And postage, you know, providing mail and
 5 courier services, that's provided on cost?
 6 MS. PERRY:
 7 A. All inclusive cost. It's equipment charges
 8 and -
 9 Q. And printing and stationary, that's another
 10 example of something that's provided on cost
 11 to affiliates?
 12 MS. PERRY:
 13 A. One second now, Mr. Johnson. You're referring
 14 to the labour charges associated with
 15 printing?
 16 Q. I am indeed, yes.
 17 MS. PERRY:
 18 A. Yes, that's correct.
 19 Q. That's correct, and on the IS charges, they're
 20 detailed at CA-NP-158, although there's no
 21 need to go to them, and do you not see a
 22 distinction between, you know, the labour
 23 associated with postage and printing
 24 stationary and that type of thing and what Mr.
 25 Knight is doing in terms of the appropriate

1 MR. JOHNSON:
 2 charge on it? There's not even a mark up on
 3 it.
 4 MS. PERRY:
 5 A. Again, for Mr. Knight, I look at what I know,
 6 which is the cost that we pay Mr. Knight,
 7 which is obviously his salary plus his
 8 benefits. In the absence of a market for
 9 director of risk management, that's about as
 10 good an estimate as we would have for Mr.
 11 Knight.
 12 (12:00 p.m.)
 13 Q. And who now is Mr. Knight administering for
 14 now? The number of Fortis Companies has grown
 15 since the last case. Has more been added to
 16 Mr. Knight?
 17 MS. PERRY:
 18 A. There's other utilities now under the group
 19 insurance program. There's also additional
 20 insurance people in the group as well that are
 21 offering assistance.
 22 Q. So would Terasen be part of this now?
 23 MS. PERRY:
 24 A. It is, yes.
 25 Q. And FortisAlberta, FortisBC?

1 time records. All direct charges to Mr.
 2 Knight are charged to Fortis, and our
 3 customers are benefitting from us being a part
 4 of this group insurance plan.
 5 Q. In terms of this concept of Demonstrable
 6 Benefit, again if we could just turn to CA-
 7 156, Appendix B, page one of four. If you
 8 could, I take it this Demonstrable Benefits
 9 definition that you propose, that flowed out
 10 of the Board's order that you got to show
 11 Demonstrable Benefits?
 12 MS. PERRY:
 13 A. Yes.
 14 Q. Okay, and you provide the definition there
 15 "demonstrable benefits occur when inter-
 16 corporate transactions with related companies
 17 provide benefits to the ratepayers of
 18 Newfoundland Power that exceed the incremental
 19 cost to be borne by ratepayers of Newfoundland
 20 Power." Just sort of walk us through an
 21 example of what you--of how this definition of
 22 demonstrable benefit would be met, for
 23 instance, if Newfoundland Power were to, as it
 24 has done in the past, send staff to assist in
 25 the Cayman Islands for an affiliate with

1 MS. PERRY:
 2 A. Yes.
 3 Q. Okay, and I take it that basically there's no-
 4 -I think you bill out something like \$150,000
 5 for insurance staff charges, according to CA-
 6 NP-158, correct?
 7 MS. PERRY:
 8 A. That's correct.
 9 Q. And I take it that number remained relatively
 10 flat, in fact it's actually gone down relative
 11 to '05, but it's a relatively flat figure
 12 right across the board for the staff insurance
 13 charge?
 14 MS. PERRY:
 15 A. Yes, that's what the numbers show here.
 16 Q. And I take it, is there any idea of looking
 17 into the idea of what other Fortis utilities
 18 or Fortis affiliates are avoiding, in terms of
 19 the cost, by having Mr. Knight provide this
 20 service as an employee of Newfoundland Power?
 21 MS. PERRY:
 22 A. I'm not sure I could assess what other
 23 companies are avoiding. What I know is that
 24 with Mr. Knight, any time that he spends on
 25 other Fortis Companies are tracked with daily

1 hurricane clean up or whatever. Walk us
 2 through how this would--how we'd get to the
 3 demonstrable benefit under that type of
 4 scenario.
 5 MS. PERRY:
 6 A. I can use Mr. Knight in this example.
 7 Q. No, just use mine if you don't mind, in terms
 8 of staff being brought down because--I notice
 9 that in the past, there were considerable
 10 charges arose by virtue of Cayman Islands
 11 relief, for instance, and so if we could just
 12 take it from that context, I'd appreciate it.
 13 MS. PERRY:
 14 A. When we provide staff charges for hurricane
 15 relief, we do charge out fully loaded costs,
 16 and from a review of the most utilities across
 17 Canada, that's pretty accepted practice. You
 18 help out when there's a hurricane. If we had
 19 to--I'm sure, as Mr. Ludlow talked about
 20 earlier, we're the windiest and foggiest and
 21 if we ever needed help, I'd really hope we can
 22 get it from Belize or FortisOntario or
 23 FortisAlberta. So at the end of the day, if
 24 we had to return the favour, should we have a
 25 hurricane, then that would be no doubt a

Page 105

1 MS. PERRY:
 2 benefit for customers, and it's good to have
 3 that support system in place because if we
 4 have an ice storm, we'll be wanting to have
 5 that support to get the power back on.
 6 Q. Well, let's just use something else. I take
 7 it that your definition of demonstrable
 8 benefit, it ties into the notion of
 9 incremental costs, correct?
 10 MS. PERRY:
 11 A. Yes.
 12 Q. Okay, and I take it that if there are--if in a
 13 transaction there is no incremental costs,
 14 would you still come up with a demonstrable
 15 benefit? I mean, do you need an incremental
 16 cost in order to have your demonstrable
 17 benefit established?
 18 MS. PERRY:
 19 A. I'm really not sure where you're going with
 20 the question.
 21 Q. Well, let's say that if Newfoundland Power, in
 22 providing an employee to assist an affiliate,
 23 doesn't incur an incremental cost at all, you
 24 know, the affiliate picks up the travel,
 25 accommodation costs, etcetera, and

1 MS. PERRY:
 2 A. Mr. Johnson, if I may, the only way I see
 3 answering that particular question is looking
 4 at the types of charges that we have for
 5 Newfoundland Power. I will use Alex Knight in
 6 this particular case. We charge Mr. Knight
 7 out, our policy states that we would charge
 8 him at market. In the absence of a market, we
 9 charge at fully loaded cost. That's what we
 10 do. When I look at a demonstrable benefit to
 11 customers, I see that a) we're sharing the
 12 cost of Mr. Knight, we're getting the benefit
 13 of a \$600,000.00 reduction in the premium and
 14 we're retaining the in-house expertise. And
 15 you can't quantify the last one, obviously,
 16 but that's demonstrable benefits to customers.
 17 Q. How about the concept that was raised in the
 18 Board's order last time that, you know, these
 19 transactions should be maximized to the

Page 106

1 Newfoundland Power were to pay his salary as
 2 usual, just as though the transaction--which
 3 they'd do even if the transaction didn't take
 4 place, would we get to having an incremental
 5 cost for Newfoundland Power in that
 6 circumstance?

Page 107

1 benefit of Newfoundland Power's customers? I
 2 mean, it seems to me that this definition of
 3 demonstrable benefit in your policy is sort of
 4 a minimalist approach to demonstrable benefit,
 5 you know, if it exceeds ours costs, it has
 6 demonstrable benefit, but where is the notion
 7 of maximizing the benefit to the customer come
 8 in--in the case of Mr. Knight, for instance,
 9 because there is no mark up on his services,
 10 for instance.
 11 MS. PERRY:
 12 A. Mr. Chairman, with respect Mr. Knight and the
 13 insurance program, to charge anything but
 14 fully loaded cost, I would have to assume some
 15 other rate, it would have to be market. In
 16 the absence of market, which is standard
 17 utility practice, fully loaded cost is
 18 charged. And with insurance in particular, we
 19 are getting the full benefit of the insurance
 20 premium reduction and the in-house expertise.
 21 Q. Let me just turn to your--turn to the topic of
 22 the codification question, Ms. Perry. Your
 23 policy on inter-corporate transactions is
 24 limited to, you know, the pricing of
 25 transactions, would that be a correct

Page 108

1 statement on my part, how you determine
 2 charges, vis-a-vis affiliate and Newfoundland
 3 Power?
 4 MS. POWER:
 5 A. Just bear with me, Mr. Johnson. That's
 6 correct.
 7 Q. And at the last hearing, I think you would
 8 agree with me that the Board stated at page
 9 56, actually, that Newfoundland Power's
 10 regulated and un-regulated inter-corporate
 11 transactions with Fortis and its sister
 12 companies have multiplied several times since
 13 1998, furthermore in the case of Central
 14 Newfoundland Energy, Board hearing counsel
 15 notes professional staff are provided by
 16 Newfoundland Power to a sister company fifty
 17 percent owned by Fortis, which may arguably be
 18 viewed as a competitor of Newfoundland Power
 19 since it produces energy and sells it to the
 20 Province. And I don't want to get right in
 21 the details now of Central Newfoundland
 22 Energy, but it just sort of struck with me
 23 that, you know, your proposed Code and policy
 24 on inter-corporate transactions and it doesn't
 25 speak at all as regards to any relationship

Page 110

1 Code.
 2 Q. And just if I could turn you to another
 3 information exhibit coming out of Alberta.
 4 Information Exhibit 4 being the Fortis Alberta
 5 Code of Conduct. Have you reviewed this
 6 document?
 7 MS. PERRY:
 8 A. I haven't been through it in detail, but yes,
 9 I've seen this document.
 10 Q. And I guess would you agree with me that it
 11 covers a whole host of items as between
 12 affiliates a lot more than just the charges as
 13 between affiliates and parent, et cetera,
 14 would that be correct?
 15 (12:15 p.m.)
 16 MR. LUDLOW:
 17 A. Mr. Chair, I may be able to step in and help a
 18 little bit on this one, if I may. I would
 19 agree, Mr. Johnson, fully that this Code has a
 20 whole block in governance, pricing and just
 21 general transactions. The reason for it is as
 22 I explained to the Court yesterday, this Code
 23 was brought in at a time when the electricity
 24 industry in Alberta was restructured and I
 25 went through the four pieces of the

Page 109

1 MR. JOHNSON:
 2 with a would-be competitor, do you think that
 3 it would be a good idea from the standalone,
 4 you know, standpoint that a policy address
 5 that type of issue for instance?
 6 MS. PERRY:
 7 A. Mr. Chairman, I don't have any great exception
 8 to looking at our policies and guidelines with
 9 a view for governance with respect to how we
 10 conduct our activities. I'm not sure that it
 11 would add a lot to Newfoundland Power's
 12 transactions that we have, but I don't take
 13 any exception to it.
 14 Q. And how about rules or codification of rules
 15 regarding, you know, the separation of
 16 executive groups, for instance, and the
 17 sharing of information and, you know,
 18 confidentiality of certain information as
 19 between affiliates. Would that be something
 20 worthwhile, do you think Ms. Perry?
 21 MS. PERRY:
 22 A. Again, we don't share confidential information
 23 today, but I don't take any exception to
 24 looking at the Code of Accounts and addressing
 25 some governance issues with respect to the

Page 111

1 generation, the transmission, the distribution
 2 and the retailers. Each of those underwent
 3 different governance perspectives. The
 4 generation was a totally competitive
 5 environment; the AltaLink or the transmission
 6 provider was governed through the Alberta
 7 Energy, the ISO, Alberta Electric Operator.
 8 The distribution companies was a fully cost of
 9 service regulated utility and again, the
 10 retailer was a competitive environment. The
 11 break up of the industry at one time and prior
 12 to the break up, TransAlta, Atco and other
 13 companies, such as Epcor, Enmax, would have
 14 had portions of their business that would be,
 15 I guess in terms here would be affiliates,
 16 that at one time being one company, now would
 17 be a generator, a distribution company and a
 18 retailer. And the governance contained in
 19 this Code was included to prevent transfer of
 20 confidential sensitive information, tactics
 21 and strategies between companies and to ensure
 22 that the difference between a regulated and a
 23 un-regulated company was treated with due
 24 concern. Likewise, an executive could not
 25 hold a position in a competitive environment

Page 112

1 and a non-regulated environment. Part of this
 2 Code prevented that unless the regulated
 3 utilities were governed by the Alberta Energy
 4 Utilities Board. In my case, when I was
 5 working in Alberta, there had to be an
 6 exception struck and it was actually an order
 7 basically identifying myself as an exemption
 8 to what was here, and there were four of us
 9 when we were working between Alberta and
 10 British Columbia and the fact that BC,
 11 FortisBC was not governed by the Alberta
 12 Energy Utility Board, basically caused a
 13 problem. There was an exemption and hence the
 14 reason for the governance that was put in
 15 place in the Code. So, Mr. Johnson, hopefully
 16 that's some help through the piece.
 17 Q. It is some help, but if I could turn you to
 18 page 1 of 17 of the FortisAlberta
 19 Interfiliated Code of Conduct, which is--
 20 actually you'd have to keep on going into the
 21 document because the Code of Conduct itself is
 22 an appendix to that AUB decision.
 23 CHAIRMAN:
 24 Q. Are you looking for the appendix, Mr. Johnson?

Page 114

1 follow, we'd agree to go. But I think it's
 2 important here to remember that when we talk
 3 in terms of shared services, we're talking in
 4 terms of an IT Department crossing between a
 5 competitive and a regulated business. We're
 6 talking in terms of HR, Engineering, not
 7 individuals for occasional services, so
 8 there's some very important distinctions that
 9 need to be drawn in your reading of that
 10 paragraph, Mr. Johnson.
 11 Q. Well let's look at the following the
 12 objectives of the Code. While the overall
 13 purpose of the Code is to establish the
 14 standards and parameters that prohibit
 15 inappropriate affiliate conduct, preference or
 16 advantages et cetera, the purpose reflects
 17 several important underlying objectives,
 18 including a) creating a clearly defined set of
 19 rules designed to enhance inter-affiliated
 20 transparency, fairness and senior management
 21 accountability with respect to inter-affiliate
 22 interactions; b) providing an environment in
 23 which inter-affiliate economies and
 24 efficiencies can legitimately occur for the
 25 mutual advantage of both Utility customers and

Page 113

1 MR. JOHNSON:
 2 Q. I am, yes. That's what I'm referring to. And
 3 if you could go down to the purpose of the
 4 Code, it indicates the purpose of the Code is
 5 to establish standards and conditions for
 6 interaction between each FortisAlberta Utility
 7 and its Utility and Non-Utility Affiliates.
 8 This Code attempts to anticipate and adjust
 9 for the potential misalignment of interest
 10 between the shareholders and Utility customers
 11 occasioned by Affiliate transactions through
 12 the establishment of parameters for
 13 transactions, information sharing and sharing
 14 of services and resources, while permitting
 15 economies of scale in operating efficiencies.
 16 Notwithstanding your commentary about the
 17 destructuring, et cetera that went on in
 18 Alberta, would not these types of purposes
 19 equally apply to this jurisdiction so that we
 20 could, you know, have a Code, transparent Code
 21 that covers more than just pricing issues?
 22 MR. LUDLOW:
 23 A. I certainly was not intending to suggest that
 24 the codification of this process is, you know,
 25 something that if so ordered we will certainly

Page 115

1 its shareholders; c) developing support and
 2 respect for the Code by the employees,
 3 officers and directors of FortisAlberta which
 4 will in turn promote ratepayer confidence in
 5 the application of the Code; and d) the
 6 creation of regulatory processes in cost
 7 efficiencies through the consistent
 8 application of a clear set of standards and
 9 reporting requirements to Utility inter-
 10 affiliate transactions. Again, it wouldn't
 11 seem to be much mischief involved with
 12 recognizing those sorts of objectives in
 13 Newfoundland and Labrador context, would there
 14 Mr. Ludlow?
 15 MR. LUDLOW:
 16 A. Mr. Chairman, there's one point I would like
 17 to make that was probably inadvertently
 18 omitted in your statement there, but it may
 19 adversely impact the customers of regulated
 20 businesses and I'm sure that was just an
 21 oversight and that's the key point in this
 22 discussion. I'm agreeing with Ms. Perry's
 23 statement earlier, but let's be careful of why
 24 this Code was put in place. This Code was put
 25 in place to ensure that there was not cross-

Page 116

1 subsidizing of for business--or for profit and
 2 regulated businesses, regulated and
 3 unregulated businesses. It was the retailers,
 4 the distributors, the transmitters and the
 5 gencos. And this Code was put in place to
 6 address the governance issues and the pricing
 7 parameters and for transfers between. And
 8 that's the basis behind it. So to assume that
 9 the FortisAlberta Code would apply in its
 10 entirety here is inappropriate. The
 11 codification of what we currently do, that's
 12 another issue and that's the point I'd make,
 13 Mr. Chairman.
 14 Q. And your point is well taken, there is
 15 certainly aspects to Alberta that may not
 16 apply here, but I guess I'm driving at the
 17 larger principle and it seems to me that, you
 18 know, what you've brought forward in terms of,
 19 you know, your policy on inter-corporate
 20 transactions just touches on one piece of the
 21 picture and I was inviting you to consider
 22 whether other aspects of the relationship it
 23 might be useful to codify, given the fact that
 24 this has been thorny for years. It's an issue
 25 in every hearing, et cetera, that would bring

Page 118

1 procedures we'll move to Ms. Newman's
 2 questions next.
 3 MS. NEWMAN:
 4 Q. Thank you, Mr. Chairman. Mr. Ludlow and Ms.
 5 Perry, I do have a few questions to ask you,
 6 probably ten to fifteen covering three basic
 7 areas. The first area is the convergence of
 8 Canadian GAAP with International Financial
 9 Reporting Standards and because that's a
 10 mouthful, I will call that IFRS and probably
 11 mix up those letters at times, you'll forgive
 12 me. The next area will be the proposal to
 13 stay on the cash basis of reporting other post
 14 employment benefits, again we'll call that
 15 OPEBS, and then the last issue will be the
 16 timing of the GRA, I just have a couple of
 17 questions on that. So we shouldn't be too
 18 long. I first want to say thank you very
 19 much, Ms. Perry, for your very complete and
 20 understandable presentation with respect to
 21 IFRS, us non-accountants in the room
 22 appreciate it and my apologies, but I probably
 23 missed some of the stuff you said and the
 24 questions I'll ask you now will be repeating
 25 or asking for clarification in respect of

Page 117

1 MR. JOHNSON:
 2 some further transparency, I would have
 3 thought, that's where I was coming from on it.
 4 MR. LUDLOW:
 5 A. Mr. Chairman, I think Ms. Perry has already
 6 addressed that issue.
 7 Q. Maybe if I could take five minutes, Mr.
 8 Chairman, I think I could have a better sense
 9 of whether I press on with anything further or
 10 if I just leave it to Mr. Delaney. I'd just
 11 like the chance to assess that, if you don't
 12 mind.
 13 CHAIRMAN:
 14 Q. Do you wish to take five minutes?
 15 MR. JOHNSON:
 16 Q. If I could, thank you.
 17 (RECESS)
 18 (12:31 p.m.)
 19 MR. JOHNSON:
 20 Q. Yes, Mr. Chairman, I think I can usefully
 21 canvass some other areas with Mr. Delaney, so
 22 I'm finished with the panel. Thank you very
 23 much.
 24 CHAIRMAN:
 25 Q. Thank you. I guess in accordance with

Page 119

1 probably much of that which you've already
 2 spoken to. So the first question I'd like to
 3 start by looking at Grant Thornton's Report,
 4 Appendix A, where they set out a summary of
 5 key dates for International Financial
 6 Reporting Standards, that's the supplemental
 7 Grant Thornton Report, Appendix A. So Grant
 8 Thornton sets out here a series of key dates
 9 starting on December 31, 2008 and I understood
 10 and I frankly can't tell you from where
 11 because I don't know where I picked up this
 12 information, but I understood that there might
 13 be a further announcement earlier in 2008
 14 expected from GAAP or the committee, the CSB
 15 in relation to this matter? I don't know if
 16 you're aware of that and if you could perhaps
 17 detail that for us?
 18 MS. PERRY:
 19 Q. Yes, the Account Standards Board committed
 20 when they issued their strategic plan that
 21 they would update where they are along the
 22 process, so there's a progress report coming
 23 out in March of 2008, I believe, and they're
 24 just taking in comments that they're getting,
 25 they are just going to update as to where they

Page 120

1 are, what has happened, if there's any major
 2 movements within IFRS transition. It is a
 3 possibility that the dates for implementation
 4 may change. They may not, but it is a
 5 possibility that as part of this progress
 6 report they will identify some change in
 7 dates. So we'll stay tune for that.

8 Q. Yeah, that seems like it might be a pretty
 9 critical date as well then.

10 MS. PERRY:
 11 A. It is, it is.

12 Q. Can I look at then the Consent No. 4 which is,
 13 I believe, Newfoundland Power's IFRS
 14 Transition Plan for 2008.

15 MS. PERRY:
 16 A. Yes.

17 Q. And there's some dates set out there for the
 18 Company throughout 2008. Do you think this
 19 March report from GAAP from the AcSB will
 20 influence this or could potentially influence
 21 this, the schedule that's here in the
 22 transition plan?

23 MS. PERRY:
 24 A. The Progress Report may, it depends on what
 25 comes out with the Progress Report. We have

Page 122

1 We're going to report to our Board of
 2 Directors and our Audit Committee on a
 3 quarterly basis and we can certainly supply
 4 the Board with updates along the way if they
 5 deem it appropriate.

6 Q. What sort of information do you see being able
 7 to provide the Board? Obviously you'll have
 8 less information in the beginning than you
 9 will have towards the end, but is there any
 10 sort of specific information that you would
 11 see being able to provide the Board, even as
 12 early as the end of 2008?

13 MS. PERRY:
 14 A. I don't think it would be meaningful to submit
 15 all of the literature that's going to come
 16 with this because there's going to be mounds
 17 of information on changes in accounting
 18 standards, so I probably would suggest that we
 19 would stick with the most relevant or the more
 20 material impacts to our financial statement,
 21 because there would be a lot of little things
 22 that would change with disclosures along the
 23 way, there's no doubt about that. But
 24 anything that impacts the Company materially,
 25 we can boil it down such that it's

Page 121

1 MS. PERRY:
 2 to go on the assumption that everything is
 3 going to stay on track, so we're going to try
 4 to adhere to these particular timelines and
 5 whatever information is out by that time,
 6 we're going to do our reviews on those
 7 standards.

8 Q. If the Board determines that it sees a benefit
 9 in Newfoundland Power reporting status key
 10 events, Newfoundland Power's steps that it's
 11 taking, anything else that might be of
 12 interest in relation to this issue, would you
 13 have any suggestion as to an appropriate
 14 timeline for reporting? Does it make sense to
 15 report semi-annually beginning in 2008 or do
 16 you see any merit in, you know, reporting as
 17 early as mid 2008, end of 2008, do you have
 18 any comment?

19 MS. PERRY:
 20 A. Depending on the flurry of activity, I
 21 suspect, in terms of the Progress Report and
 22 the clarity of where this is going with a lot
 23 of the, particularly with rate regulated
 24 assets and liabilities, we're going to be on
 25 top of this and we can report to the Board.

Page 123

1 understandable and provide to the Board.

2 Q. In reviewing the transcript from your
 3 testimony yesterday, which I had the benefit
 4 of, again as a non-accountant, I had
 5 referenced to, just point it out, 129, 130 and
 6 131 and it's really from mid 129 and it
 7 continues on right through to 132, actually
 8 and here's--the question that was put to you
 9 at the time was are there any risks to the
 10 Company's financial integrity and without
 11 having to read the long passage, I think it
 12 might be fair and you can correct me if I'm
 13 wrong to say that your comment is that it's
 14 fairly early in the process, that there's
 15 potential for impact, but no ability now to
 16 specify what that impact might be. And I
 17 appreciate that that's a correct statement of
 18 the way you see it right now.

19 MS. PERRY:
 20 A. It is early days with this.

21 Q. But for us non-accountants, I wonder if you
 22 could just give us a very simplified picture
 23 of what this means. I don't want to talk
 24 about worse case scenarios, because I don't
 25 want to be, you know, a chicken running around

Page 124

1 with their head running around, sort of thing,
 2 but just so that we understand what this means
 3 as non-accountants.
 4 MS. PERRY:
 5 A. I will try.
 6 Q. Okay, thank you.
 7 MS. PERRY:
 8 A. IFRS is impacting our external financial
 9 statements. External financial statements are
 10 used today for capital markets, so it's
 11 important that capital markets accept the
 12 statement that we put out there in the market.
 13 So any changes, any time there are changes
 14 with external financial reporting, we're
 15 sensitive to how the credit rating agencies
 16 and the capital markets will respond to the
 17 changes. I know just from speaking with some
 18 other accountants that in places where they
 19 have implemented IFRS, they're actually in a
 20 position where they have two sets of financial
 21 statements. One for financial statement
 22 purposes for the external markets; and one for
 23 rate setting, regulatory rate setting. We
 24 could end up there. I can't speculate today
 25 that that will be the case. The key is a)

Page 126

1 going to go, so you know, we're staying close
 2 to all of the other standards because we have
 3 to review all the standards, but the one
 4 that's most relevant for us right now is the
 5 regulatory assets and liabilities.
 6 Q. That kind of brings me to my next question
 7 which is, is there something we could be doing
 8 now to bring--to minimize the differences
 9 between the regulatory statements and the
 10 external statements, rather than sitting back
 11 and waiting for the next three years and
 12 letting this evolve, is there anything that
 13 could be done right now?
 14 MS. PERRY:
 15 A. It's an interesting question because we really
 16 don't know what is going to happen, so to
 17 actually do something today, is predicated off
 18 of a future event which may or may not happen
 19 is difficult. We've done things in the last
 20 couple of years that have brought our
 21 statements closer to GAAP. We've changed the
 22 way we recognize revenue, we're tax affecting
 23 pensions, we propose to tax affect pensions in
 24 this application. We're going to have the
 25 regulatory cost deferrals and revenue

Page 125

1 MS. PERRY:
 2 whether or not regulatory assets and
 3 liabilities will survive because that's the
 4 fundamental difference for Newfoundland Power.
 5 That's going to be what is going to determine
 6 how different our regulatory statements are
 7 from our external financial statement. And
 8 once we can understand that, we'll understand
 9 the impact that the capital markets or how the
 10 capital markets will be able to proceed. If I
 11 could simplify one aspect of this, there's no
 12 doubt that the less differences between the
 13 regulatory financial statements and the
 14 external financial statements, the better.
 15 That's what I predict, but again, this is not
 16 just a Newfoundland Power issue, this is a
 17 full international issue because other
 18 regulated utilities are out there with a lot
 19 of regulatory assets and liabilities sitting
 20 on their balance sheet, but I suspect the
 21 closer we are together between those two
 22 statements, the better it will be because it
 23 will be simpler for the credit markets to be
 24 able to absorb those changes. But it is early
 25 days and it's hard to predict where this is

Page 127

1 deferrals amortized by the time we get to
 2 2011, so we've done a number of things. We
 3 obviously have a couple of other variations
 4 with GAAP, OPEBs being one of them, but again,
 5 to make a decision today based on a future
 6 event is just a difficult call.
 7 Q. I wonder if it would be possible for you to
 8 undertake to provide the Board a copy of all
 9 key documents that would have been issued by
 10 Canadian GAAP and its committees relating to
 11 this issue.
 12 MS. PERRY:
 13 A. Oh certainly.
 14 Q. I understand there's a Strategic Plan and
 15 that's probably a really big document that we
 16 may not want all of and we'll leave it to
 17 Newfoundland Power to pick out the relevant
 18 portions, but exposure draft and basis for
 19 conclusions and the May 2007 Implementation
 20 Plan and those sorts of documents, if we could
 21 have that together in a package, that, I
 22 think, would be very helpful.
 23 MS. PERRY:
 24 A. That's no problem.
 25 Q. And one last question on this. You did make

Page 128

1 reference to the fact that Newfoundland Power
 2 had been working with CEA. Do you know if
 3 there's been any work done by this Industry
 4 Association in regard, any reports or any
 5 documents of which we could have reference to?
 6 MS. PERRY:
 7 A. There's a number of letters that the CEA
 8 collectively with Newfoundland Power and other
 9 utilities, we write letters to the Accounting
 10 Standards Board to voice our opinion with
 11 respect to accounting standards in the future,
 12 so there's a number of documents that the CEA
 13 releases with respect to that. I can have a
 14 review of what's out there specifically and
 15 consider those in that package.
 16 Q. Perfect, okay, thank you very much. Those are
 17 my questions on IFRS and now I have a few
 18 questions on Other Post Employment Benefits.
 19 Referring to the report on Employee Future
 20 Benefits dated May 2007, page 4.
 21 (12:45 p.m.)
 22 MR. HAYES:
 23 Q. Do you have the reference, Dwanda?
 24 MS. NEWMAN:
 25 Q. It's in a yellow file folder. It would be Tab

Page 130

1 information as to whether they're holding
 2 strong on the Cash Method or they're moving
 3 towards the Accrual Method, was any
 4 information gathered about that or have you
 5 gotten any updates recently on that?
 6 MS. PERRY:
 7 A. I actually don't have information on where
 8 they are. I do know that FortisAlberta just
 9 recently agreed to stay on the Cash basis, so
 10 I'm not where these jurisdictions or these
 11 regulated Utilities are going, but I suspect
 12 that's going to be a part of our next stage of
 13 this IFRS transitional review because a lot
 14 will depend on where the industry is going
 15 with this. As soon as we get more
 16 information, we'll look to see what industry
 17 is doing. So that will be a part of our
 18 review.
 19 Q. I wanted to look at Supplemental Evidence,
 20 page 13, Table 10 and that's the table setting
 21 out the transitional balance as a result of
 22 staying on the OPEBs cash basis. Again, my
 23 apologies, I'm a non-accountant. I'm just
 24 wondering if you could clarify for me the
 25 timing of these transitional obligation

Page 129

1 MS. NEWMAN:
 2 4, probably in your original evidence.
 3 MR. HAYES:
 4 Q. Exhibit 4, is it?
 5 MS. NEWMAN:
 6 Q. Volume 2 or 3, I guess.
 7 KELLY, Q.C.:
 8 Q. Exhibit 4.
 9 MR. JOHNSON:
 10 Q. Tab 4, Volume 2.
 11 MS. NEWMAN:
 12 Q. Volume 2, is it? I'm not as strong as you
 13 guys, I can't carry around all those binders
 14 all the time.
 15 KELLY, Q.C.:
 16 Q. It's Volume 2 of Tab 4. Sorry, Ms. Newman,
 17 the page reference again?
 18 MS. NEWMAN:
 19 Q. Four, page 4. Table, yes, there's a table of
 20 the survey results, I believe that
 21 Newfoundland Power did a survey on what other
 22 Canadian Utilities were doing in other
 23 jurisdictions and this table too shows that a
 24 number of the Utilities are still on the Cash
 25 Method. I wonder if you could provide any

Page 131

1 balances, is that the beginning of 2008, the
 2 end of 2008 and similarly for 2011?
 3 MS. PERRY:
 4 A. The 52.9 is for the year end 2010.
 5 Q. So that's what we start with in 2011?
 6 MS. PERRY:
 7 A. That's what we start with, yes.
 8 Q. Presumably then for the end of 2011, the
 9 balance would be up for 6.3 million,
 10 approximately?
 11 MS. PERRY:
 12 A. Approximately 6.3.
 13 Q. I'm going to make a general statement which I
 14 hope is correct. If it's not, then you can
 15 correct me, or if you can speak to it, then
 16 you can advise me, but I understand that the
 17 primary principled basis for the proposal to
 18 stay on the cash basis at this time is a
 19 balancing of two regulatory principles in
 20 favour of the principle of rate stability. So
 21 of the two principles; generational equity
 22 versus rate stability, there's a favouring in
 23 current circumstances for rate stability at
 24 this time. Is that fairly correct?
 25 MS. PERRY:

Page 132

1 A. That's a fair comment, yes.
 2 Q. Okay. Then I wonder if you would be able to
 3 provide any information to us as to what
 4 Newfoundland Power's view is of where -- I
 5 don't see a crystal ball up there, but I'm
 6 hoping that you can provide some information
 7 as to what's expected for rates in the next
 8 number of years, at least three years, perhaps
 9 even four or five years, so that the Board can
 10 assess then where rate stability is now in
 11 current circumstances versus where it may be
 12 in three years when we'll be facing this issue
 13 again? Do you have any comment as to rate
 14 pressures up or down or stability in general?
 15 MR. LUDLOW:
 16 A. I think the major rate pressure point has been
 17 and will continue to be oil. We've been
 18 pushing the \$100.00 mark, and personally I
 19 don't know how high it's going to go, and if I
 20 did, I guess I wouldn't be sitting here
 21 either. That, I guess, combined with the mix
 22 of generation and the use of Holyrood, so
 23 there's some unknowns that -- you know, the
 24 dynamics of the system. I will predict that
 25 if the oil continues to rise, obviously rates

Page 134

1 comment, either Ms. Perry or Mr. Ludlow, as to
 2 in what circumstances you might see the need
 3 for the Automatic Adjustment Formula to
 4 operate for 2011?
 5 MR. LUDLOW:
 6 A. I guess as we look out, I'm not foreseeing
 7 anything at this -- I just don't know what it
 8 would be at this point in time, Ms. Newman, or
 9 Mr. Chairman. I guess it's there if, in fact,
 10 we had to use it. At any point as we go along
 11 we're always subject to come back in here, and
 12 that's a given, but there's nothing that would
 13 stand out in my mind right now that would
 14 cause that. I just don't know what would
 15 trigger that point. Jocelyn, I don't know if
 16 there's anything you could add.
 17 MS. PERRY:
 18 A. The Automatic Adjustment Formula serves out to
 19 2011, and that just gives us the flexibility
 20 that if we should get to 2010 and we see our
 21 way through to 2011, it just gives us the
 22 flexibility to stay out an additional year
 23 without having to come back in.
 24 Q. So if the Board were to determine at this
 25 stage that it would like, in light of IFRS and

Page 133

1 MR. LUDLOW:
 2 will follow. Other than that, I'm not
 3 foreseeing anything of any substantive nature
 4 at this point in time. Jocelyn, from your
 5 end?
 6 MS. PERRY:
 7 A. No, I think that's a fair comment, and with
 8 respect to having clarity I think would help
 9 in three years time. The transition for IFRS
 10 is 2011. So looking at OPEBs in the contest
 11 of IFRS, with other standard changes that may
 12 or may not impact Newfoundland Power, I think
 13 would be a better time to assess the impact of
 14 OPEBs on customers.
 15 Q. Okay, thanks. Those are my questions on
 16 OPEBs, and I just have a couple of questions
 17 on the timing of Newfoundland Power's next
 18 GRA. I note, and I don't have references, but
 19 I think you'll accept that Newfoundland Power
 20 has indicated that it plans to file a GRA in
 21 2010, with a test year of 2011, and that's
 22 just anticipated, but looking at the proposed
 23 Automatic Adjustment Formula, it would seem to
 24 allow rates to be set if it was utilized for
 25 2011. So I wonder if you could provide any

Page 135

1 other things that may be happening,
 2 Newfoundland Power to come back in 2010, as it
 3 anticipates now, do you have any concerns with
 4 the Board determining now that you should be
 5 back in 2010 for 2011?
 6 MR. LUDLOW:
 7 A. Whatever the Board orders, we'll be only too
 8 happy to oblige.
 9 MS. NEWMAN:
 10 Q. Those are all my questions.
 11 CHAIRMAN:
 12 Q. Thank you, Ms. Newman. Mr. Kelly, any re-
 13 direct?
 14 KELLY, Q.C.:
 15 Q. No re-direct, Mr. Chairman.
 16 CHAIRMAN:
 17 Q. Commissioner Whelan.
 18 VICE-CHAIR WHELAN:
 19 Q. I had lots of questions, and then I didn't
 20 have many questions. I have one, I think, and
 21 it has to do with the IFRS issue, and a
 22 comment you just made, Ms. Perry, about the
 23 big question being will regulatory assets and
 24 liabilities actually survive, in 2011, I mean,
 25 and I guess did I understand yesterday when

Page 136

1 you went through your Chief with Mr. Kelly
 2 that right now Newfoundland Power has a number
 3 of regulatory assets that are currently in the
 4 process of being amortized or are we going to
 5 have to deal with it in terms of this
 6 application? I think the total in my mind is
 7 over 100 million dollars.
 8 MS. PERRY:
 9 A. That's correct, yeah.
 10 Q. And some of those will be amortized by 2011, I
 11 appreciate that.
 12 MS. PERRY:
 13 A. A small portion of those, yes.
 14 Q. Yeah, not a lot though.
 15 MS. PERRY:
 16 A. No, not a lot.
 17 Q. So if the regulatory assets and liabilities
 18 don't survive this IFRS, and the OPEBS will be
 19 only one of them, is there a possibility that
 20 we'll be dealing in 2011 OPEBS, plus, plus,
 21 plus? I mean, we won't only be dealing --
 22 because the context will be totally different
 23 if that's the scene that unfolds, I guess.
 24 MS. PERRY:
 25 A. The transitional piece of going to IFRS is

Page 138

1 transitional piece as well.
 2 Q. Yes, and the transitional piece, if we dealt
 3 with both. If we just dealt with one, it's
 4 1.3. With the certain uncertainty of what we
 5 don't know that's going to have with the IFRS
 6 issue, and this balancing of erring in favour
 7 of rate stability now and pushing out the
 8 consideration of the move to the accrual
 9 method and dealing with that. That's a
 10 difficult piece to deal with right now, and I
 11 appreciate that, but I guess it's the other
 12 uncertainties that are more concerning. Will
 13 the March 31st update from the IFRS give us
 14 any indication as to where they might be going
 15 with some of those pieces, or is it -- you
 16 don't know that either.
 17 MS. PERRY:
 18 A. I'm not certain with respect to what's going
 19 to be in the report either. I know it's a lot
 20 of uncertainty. What's happening lately is
 21 that there's a lot of chatter about IFRS
 22 because the time lines are starting to
 23 approach us. So that's usually when the
 24 industry starts to move, and the Accounting
 25 Standards Board will offer guidance. So I

Page 137

1 MS. PERRY:
 2 probably one of the most uncertain aspects of
 3 it because this is -- we're not unique here.
 4 There's many other utilities that have a lot
 5 of regulatory assets sitting on their balance
 6 sheet or liabilities. So if we had to take the
 7 hit, for the lack of a better word, you know,
 8 from a financial reporting perspective, that's
 9 going to be an industry movement thing, I
 10 suspect, and usually with changes in
 11 accounting standards, there's acceptance to
 12 migrate the transitional pieces, but again
 13 it's fully uncertain at this point as to the
 14 impact it's going to have, and whether or not
 15 it even occurs is the bigger question.
 16 Q. I guess, is the uncertainty we have now going
 17 to be -- have to balance it with -- there's a
 18 definite uncertainty now, but there's even
 19 worse uncertainty out there. We know what the
 20 rate impact would be today at least if we
 21 dealt with the OPEBS issue. It would be 2
 22 percent or so if we amortized over ten years,
 23 about 1.3 and .7.
 24 MS. PERRY:
 25 A. Yes, if you went to the full accrual and the

Page 139

1 expect that by March we'll have a lot more
 2 information than we do here today.
 3 VICE-CHAIR WHELAN:
 4 Q. That's all I have. Thanks to both of you.
 5 CHAIRMAN:
 6 Q. Thank you, Commissioner Whelan. I have a
 7 short list of questions. I'll start, Mr.
 8 Ludlow, with you, if you don't mind. Your
 9 predecessor, I guess, Mr. Hughes, in his
 10 testimony back in 2003 gave a fair bit of
 11 detail in terms of trends, in terms of
 12 operating costs, in terms of FTEs, customer
 13 satisfaction, shown some fairly dramatic
 14 results dating back to 1994/1995, and I think
 15 you addressed a lot of that yesterday in terms
 16 of the improvements that have occurred since
 17 that time. I do have a response to an
 18 information requests which deals with a five
 19 year forecast, at least an income statement
 20 and a balance sheet, and it shows operating
 21 costs, for example, going from 47 million up
 22 to 51 and all that. This is a question which,
 23 I guess, would be addressed to you, as the
 24 Chief Executive Officer of Newfoundland Power.
 25 You just commented, for example, on rates

Page 140

1 where you perceived -- the pressure points on
 2 rates, for example, I think you mentioned,
 3 oil, and the mix of generation as being a
 4 couple of the pressure points there. Would
 5 you just -- again speaking as the Chief
 6 Executive of the organization, could you speak
 7 to what you see over the next five years in
 8 terms of some of the trends and some of the
 9 pressure points, in general terms?
 10 MR. LUDLOW:
 11 A. I'll give it a try, Mr. Chair, and I'll look
 12 at the next five years.
 13 Q. I know where you come from. I guess I'm
 14 interested in your perspective of where the
 15 organization is going and where you plan to
 16 take it?
 17 (1:00 P.M.)
 18 MR. LUDLOW:
 19 A. Well, the biggest challenge that I highlighted
 20 and tried to bring out in my chief in some of
 21 those would be people. People -- employees is
 22 where my mind is going on that. We've got a
 23 lot of testimony yet to come on that front,
 24 but it's training, keeping the skillset up and
 25 our ability to attract. I will not see or

Page 142

1 today and more will come as well. On the
 2 global scene in Newfoundland, the Energy Plan
 3 has laid out a framework. You're seeing a
 4 push towards more sustainable energy, more
 5 wind power, and those types of things. That
 6 could help offset some of the increases or the
 7 volatility regarding oil prices, we see that
 8 as well. To focus back on the energy
 9 efficiency portion of the business, I think
 10 there's a change occurring, a change has
 11 occurred, as to how we impact and our ability
 12 to impact and work with government,
 13 Newfoundland and Labrador Hydro, ourselves,
 14 our customers, and just how we can cause
 15 changes in consumption patterns, and, in
 16 effect, that will also I'm sure be part of the
 17 rate study. I think there are a lot of
 18 pressure points, but we're starting from a
 19 good base, and I think that's something that I
 20 want to leave with this Board as well. I'm
 21 not going to go back through the past, but we
 22 are in a pretty reasonable place, we have
 23 skilled workers, it's a good company to work
 24 with, and a CEO would not say anything other
 25 than that, Mr. Chairman, but our employees

Page 141

1 MR. LUDLOW:
 2 forecast massive reductions in our FTEs. We
 3 may get slight declines as we go forward, but
 4 it would be much more on an incremental basis,
 5 to use my terminology, as a step increase
 6 through an early retirement program. So that
 7 would be one point I'd look at. Operations
 8 and operating expense, in general, has been
 9 showing consistent levelling and declines.
 10 Our objective, and the objective I see, is to
 11 fight to keep that as neutral as much as
 12 possible to ferret off any increases, and gain
 13 many things from fuel oil, to labour increases
 14 and so on, and trying to bring in - be
 15 creative in how we run the business to try and
 16 offset those expenses. That's going to be a
 17 challenge, and a big challenge. So you're
 18 combining training new people at a time when
 19 we can't predict when people are leaving
 20 because we have people early retiring now to
 21 go to work in Western Canada. So that's a
 22 real challenge as we go. The general
 23 operations of the business is in good shape,
 24 there's work to be done, but it's
 25 controllable, and we've spoken about that

Page 143

1 will speak to that tone. Our customers,
 2 there's always room for improvement, but at
 3 the same point in time it's not broken either,
 4 and I think that's a positive thing and we can
 5 address the pressure points. As I walk
 6 through those areas, that's what gives me
 7 concern as I talk about pressure points. The
 8 general operations of the business that I
 9 spoke about in areas of environment is in very
 10 good shape, safety is in good shape, but a lot
 11 of work required within the business as well.
 12 It's not something to go through again.
 13 That's the way I'd see the business. There is
 14 a focus changing in the industry definitely,
 15 and the Energy Plan has laid that out. The
 16 Energy Plan also clearly laid out the roles,
 17 which I thought was very important as well.
 18 That's a few comments that I'd offer on those
 19 points.
 20 Q. On the whole issue of the impact of trades,
 21 you're hearing a lot of -- I have friends in
 22 the construction business, and the siphoning
 23 of people to Alberta is really creating a
 24 number of issues for employers, and I guess
 25 you commented on the fact you have people

Page 144

1 taking early retirement and moving on. Again
 2 I heard your comment yesterday that you said
 3 an apprentice takes four years to become fully
 4 trained, in your view, I think it's seven, a
 5 fairly long period of time. Is that having
 6 any particular impact that's creating
 7 vulnerability with the organization, for
 8 example?
 9 MR. LUDLOW:
 10 A. This is not a new undertaking. It's something
 11 that we started several years ago. The focus
 12 has increased. We've ramped up our number of
 13 apprentices within the system and there's in
 14 excess of 20 right now. It's interesting --
 15 we talk about the Alberta utilities. They
 16 don't hire by one's and two's, they're hiring
 17 by the 50's and 70's, and it is truly amazing
 18 the volumes of work that's going into those
 19 areas, whatever utility you refer to. Am I
 20 concerned? Yeah, a little bit, but I would
 21 also go so far as to say that I'm comfortable
 22 that it's under control and we are bringing in
 23 new training, new learning, and that's a good
 24 thing as well. That's not only in
 25 apprenticeships, it's in the engineering

Page 146

1 before we see you again here. How do you see
 2 what implications might that have for your
 3 company over the next while?
 4 (1:15 P.M.)
 5 MR. LUDLOW:
 6 A. I think the first thing, Mr. Chairman, is that
 7 it's certainly cemented the roles of the
 8 respective utilities within the province, and
 9 by that I'm referring to Newfoundland and
 10 Labrador Hydro as being the prime transmitter
 11 and generator, and ourselves being the urban
 12 and primarily the base for the rural
 13 distributorship. Things that could happen in
 14 there that I foresee would be in the areas of
 15 small hydro or hydro development. I think
 16 there's comments, sustainable energy is the
 17 same type of thing. You could see some
 18 substantive movement in those areas. Some
 19 under construction today, like St. Lawrence, a
 20 significant discussion on work in Fermeuse. I
 21 think we're going to see things move from the
 22 discussion stage to the production stage.
 23 That's the sense I would have on some of these
 24 fronts. The fact that there was a major
 25 portion of the plan devoted to energy

Page 145

1 MR. LUDLOW:
 2 ranks, the technologist ranks, and that's well
 3 underway as well, after coming back after
 4 being away for four years. I guess a true
 5 test is the number of people you know when you
 6 walk in a line room, and there's a lot I don't
 7 know. So that's a true test that things have
 8 continued since 2003. We've got work to do
 9 and there's work underway in those areas. I'm
 10 getting more comfortable over the next few
 11 years.
 12 Q. Your comment on the Energy Plan was a good
 13 segue because that's my next question, I
 14 guess. The Government has been re-elected, as
 15 we're all well aware. Likely to see certainly
 16 some of that plan rolled out, I would think,
 17 over the next period of time. I think there
 18 is a commitment in terms of some fundamental
 19 and major decisions in 2009, and I've read the
 20 plan two or three times so I know some of the
 21 comments in it with respect to specifically
 22 your company. How do you -- just again from
 23 the point of view of being the CEO, you've
 24 read that I'm sure more times. How do you see
 25 that -- again we're talking about 2010 or 2011

Page 147

1 conservation and energy in total; not just
 2 electrical energy, but the broader piece, the
 3 formation of partnership. A lot of things
 4 have been happening between Newfoundland Power
 5 and Newfoundland Hydro on that end, and the
 6 Provincial Government through the Save
 7 programs, for example, with the distribution
 8 of CFL's in Burin and Lab West. So a lot of
 9 things -- I think we're going to see more of
 10 that happen as we go out over the next
 11 three/four years. That's my sense of it. I'm
 12 not forecasting major structural change. The
 13 thing that concerns me with the plan, if a
 14 major industry that's forecasted for this
 15 island comes on board, I think a second oil
 16 refinery, hydromet facility, and so on and so
 17 on, the capacity of the system is going to be
 18 a major issue. Then comes the issue of
 19 Labrador infeed, and Mr. Chairman, I don't
 20 particularly want to get into that topic here
 21 today, but if it comes in, maybe that's the
 22 way out, but I don't think those industries
 23 are being talked about in terms of 2016 and
 24 there will have to be either short term fixes
 25 to power supply, and fixes may be gas turbine,

Page 148

1 may be self-generation, it may be co-
 2 generation at some of these facilities.
 3 That's what gives me, as I look out, the type
 4 of things, as I say, where is all this
 5 happening, and I wrap that right back around
 6 to our first discussion, where are all the
 7 people coming from. These are all skilled
 8 trades we're talking about, skilled trades for
 9 construction and operation in many of these
 10 large projects, and that's going to be even a
 11 bigger issue. I don't see us, as Newfoundland
 12 Power, being at risk from losing our skilled
 13 trades. Maybe some small specific trade
 14 groups in the areas of controls or design and
 15 engineering, we're okay on those fronts, not
 16 particularly in line trades. So it's a long
 17 ramble, but that's the way I assess the Energy
 18 Plan. It gives us a road map to go forward
 19 and that's the way I see the province.
 20 CHAIRMAN:
 21 Q. Thank you, Mr. Ludlow, for sharing that.
 22 That's all the questions I have. Ms. Perry, I
 23 just have a couple of items in an area that
 24 I'm far less comfortable with, to tell you the
 25 truth, but, anyway, with regard -- you

Page 150

1 they expected our financial profile to
 2 improve. They just weren't as vocal about if
 3 you should go below a certain number, we will
 4 downgrade you, as what Moody's were, but
 5 they're always interested when you're trending
 6 down.
 7 Q. So is there any information specifically on
 8 what DBRS might have said about --
 9 MS. PERRY:
 10 A. The amended application? I called both rating
 11 agencies when the negotiated settlement was
 12 announced, and I walked through item by item,
 13 similar to what I had done here yesterday, and
 14 we haven't got any written confirmation from
 15 DBRS, but they appeared to be comfortable with
 16 the negotiated agreement.
 17 Q. Based on the amended application.
 18 MS. PERRY:
 19 A. Based on the amended application.
 20 A. Just a couple of short questions, and it gets
 21 to this OPEBs, I guess. In terms of this
 22 Board, and certainly we're committed to having
 23 a decision out, I think, before the year end
 24 on this, and hopefully substantially before
 25 the year end. So outside of the accrual, is

Page 149

1 CHAIRMAN:
 2 mentioned yesterday the credit metrics, and I
 3 think you pointed to some of the impacts there
 4 in relation to your return on equity, and you
 5 talked about two rating agencies, but I think
 6 you would have focused more on Moody's or
 7 solely on Moody's. I presume the other is
 8 Standard and Poors, is it?
 9 MS. PERRY:
 10 A. DBRS.
 11 Q. DBRS. What are they saying about Newfoundland
 12 Power in terms of the future?
 13 MS. PERRY:
 14 A. They're less vocal in their credit rating
 15 assessment, annual assessment, that they do at
 16 Newfoundland Power on credit matrix. I've
 17 spoken with them, and we review our financial
 18 performance with them annually. So they're
 19 obviously concerned about the declining
 20 matrix. Credit rating agencies review
 21 qualitative things like the regulatory
 22 environment or the competition that you face,
 23 and all a bunch of factors, and so DBRS
 24 indicated in their release or latest annual
 25 assessment, the latest annual assessment, that

Page 151

1 there any reason for this Board not to wait to
 2 see what happens in 2008 in terms of the
 3 progress report, I guess, that we would
 4 anticipate coming forward in terms of this
 5 IFRS issue?
 6 MS. PERRY:
 7 A. The whole decision, I guess, on OPEBs and
 8 whether we go to the accrual or cash, we're
 9 thro'ing through the negotiations, you know,
 10 so we struck the balance that we recognize
 11 that customers have seen a pretty substantial
 12 rate increase over the last -- since 2002.
 13 When we take into IFRS, and whether or not
 14 OPEBs will be impacted by IFRS, it's just so
 15 early in the game, and I have no visibility at
 16 all as to whether or not this will even be an
 17 issue, that it's just hard to sit here and
 18 make a decision or say that we should do
 19 something today because we really have no
 20 visibility as to whether or not they will
 21 survive, and even if they don't survive.
 22 There's a stage two that we'll go to. We'll
 23 see if there's a way that we can get our
 24 regulatory assets and liabilities to actually
 25 qualify as GAP assets and liabilities, and if

Page 152

1 we can't and they're totally abandoned, then
 2 we've got to wait to see how the markets react
 3 or what the industry decides to do, because
 4 it's a big industry issue, and there's been a
 5 lot of rumble, a lot of letters written to the
 6 Accounting Standards Board about why this does
 7 not make sense; why regulatory assets and
 8 liabilities of a regulated enterprise makes
 9 sense. So there's a lot of influence that's
 10 going to happen over the next little while
 11 with respect to a lot of voice from the
 12 utilities as to why this -- their position on
 13 why we should record regulated assets and
 14 liabilities. So to marry that with the
 15 decision of whether or not it's appropriate to
 16 do OPEBs at this time, there's just such a
 17 clear line, it's just so uncertain it's too
 18 early to tell.
 19 Q. Is it correct that March, 2008, presents a bit
 20 of a milestone in terms of additional
 21 information becoming available at that time
 22 that we don't have now, for example, to at
 23 least assist with looking into the future?
 24 MS. PERRY:
 25 A. I hope, Mr. Chairman, that in March there's a

Page 154

1 of some of this stuff. I just wanted to get
 2 some clarification of that as well.
 3 MS. PERRY:
 4 A. Is it, yeah. All regulatory assets and
 5 liabilities, yeah.
 6 Q. So all those, because presumably they're all
 7 on the basis of an accrual now which could
 8 translate. Even with regard to the OPEB, the
 9 notion of having an amortization of 5, 10, or
 10 15 years, is that something again that would
 11 be affected by the decision or could be
 12 affected by the decision?
 13 MS. PERRY:
 14 A. It could be, yes. The whole recognition of
 15 regulatory assets or liabilities, amortization
 16 periods that are ordered by a Board, are all
 17 impacted by -- could all be different from
 18 that of the External Financial Statements.
 19 CHAIRMAN:
 20 Q. That's it. I have no more questions. Thank
 21 you both for your testimony and putting up
 22 with the heat, the temperature in the room,
 23 and otherwise. Thank you very much. It is
 24 twenty after now. We're scheduled to conclude
 25 by 1:30.

Page 153

1 MS. PERRY:
 2 lot more visibility to this than what it is
 3 today.
 4 Q. I think Commissioner Whelan alluded to this
 5 question. You went through yesterday, and it
 6 perhaps shows my ignorance to some degree in
 7 the financial and accounting area, but I'll
 8 ask the question, in any event. You pointed
 9 out yesterday that there were in addition to
 10 the OPEBs a number of other liabilities. You
 11 talked about unrecorded tax obligation, OPEB,
 12 78 million, you talked about OPEB, you talked
 13 about other unrecovered reserves of 15
 14 million. There's another 13 million and
 15 another 22 million. Would some of these
 16 accruals be affected by or could be affected
 17 by that decision as well?
 18 MS. PERRY:
 19 A. They all will be.
 20 Q. They all will be.
 21 MS. PERRY:
 22 A. They all will be.
 23 Q. So in actual fact, the 28 million, in terms of
 24 OPEB and the impact there, heaven forbid,
 25 could be the thin edge of the wedge in terms

Page 155

1 CERTIFICATE
 2 I, Judy Moss, hereby certify that the
 3 foregoing is a true and correct transcript in the
 4 matter of Newfoundland Power's 2008 General Rate
 5 Application heard on the 23rd day of October, A.D.,
 6 2008 before the Board of Commissioners of Public
 7 Utilities, Prince Charles Building, St. John's,
 8 Newfoundland and Labrador and was transcribed by me
 9 to the best of my ability by means of a sound
 10 apparatus.
 11 Dated at St. John's, Newfoundland and Labrador
 12 this 23rd day of October, A.D., 2007
 13 Judy Moss