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1 (9:02 A.M.)
 2 CHAIRMAN:
 3 Q. Good morning, Ms. Newman. Anything before we
 4 start?
 5 MS. NEWMAN:
 6 Q. Yes, good morning, Mr. Chairman, Vice-Chair.
 7 I believe that the Consumer Advocate has a
 8 document to enter as an Information item,
 9 perhaps he can speak to now and we can label
 10 it.
 11 CHAIRMAN:
 12 Q. Good morning, Mr. Johnson.
 13 MR. JOHNSON:
 14 Q. Good morning. Thank you, Ms. Newman. The
 15 document to which Ms. Newman refers is some
 16 selected excerpts from the Newfoundland Power
 17 2008 Capital Budget.
 18 MS. NEWMAN:
 19 Q. And we'll call that Information Item No. 13.
 20 CHAIRMAN:
 21 Q. Sorry, Ms. Newman, I didn't catch it?
 22 MS. NEWMAN:
 23 Q. No. 13.
 24 CHAIRMAN:
 25 Q. No. 13. Okay, thank you. Good morning, Mr.

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1 supply and the safety issues surrounded with
 2 that. And Newfoundland Power and Newfoundland
 3 and Labrador Hydro you share the same program,
 4 share the same--we're back and forth on that
 5 one in terms of--and we consistently have a
 6 consistent program that we train fire fighters
 7 with across the island. A second area is in
 8 the area of the Power Line Hazards course,
 9 that's a course that the Workplace Health and
 10 Safety Compensation Commission delivers, and
 11 anyone who operates a portable crane or a
 12 derrick in Newfoundland must have that course,
 13 the Power Line Safety Hazards course. And
 14 Newfoundland Power and Newfoundland and
 15 Labrador Hydro coordinate and make sure that
 16 course is consistent and we coordinate on that
 17 particular thing. From time to time if a
 18 safety issue should arise, Newfoundland Power
 19 and Newfoundland and Labrador Hydro will help
 20 each other or coordinate with each other. A
 21 couple, like there's a couple of them that
 22 come to mind, as well. One is in back in 2006
 23 in August we were looking at a large, an
 24 increase, an unsettling increase in the number
 25 of tree cutting incidents and it culminated in

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1 Delaney.
 2 A. Good morning.
 3 Q. When you're ready, Mr. Johnson. How much
 4 longer, do you have any notion?
 5 MR. JOHNSON:
 6 Q. I would expect maybe to the break.
 7 CHAIRMAN:
 8 Q. Okay, good. When you're ready.
 9 MR. JOHNSON:
 10 Q. Thank you. Just to change gears a little bit
 11 before readdressing reliability initiative,
 12 Mr. Delaney, you spoke yesterday in terms of
 13 the coordination that Newfoundland Power
 14 undertakes with Newfoundland Hydro with
 15 respect to safety issues and concerns. Would
 16 you mind elaborating on what that entails?
 17 A. Newfoundland Power and Newfoundland and
 18 Labrador Hydro do coordinate in various areas
 19 of safety. A couple of the areas that I
 20 mentioned yesterday, well, I mentioned three.
 21 One is in the area of fire fighter safety.
 22 The utilities give training to fire fighters
 23 across the province to assist them, you know,
 24 if there's a fire call as to what they should
 25 be looking for in terms of the electricity

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1 a contractor fatality in Deer Lake Airport
 2 where a contractor who was surveying a line
 3 had fell a tree across a power line and he--
 4 and it was a fatality associated with it. So
 5 Power and Hydro got together, you know,
 6 talking how are we going to deal with this.
 7 We both had that same issue, certainly, with
 8 vegetation and tree trimming. So we partnered
 9 with the Workplace Health and Safety
 10 Compensation Commission and sent out notices
 11 to 15,000 employers in the province, all the
 12 employers. There was a vast array of other
 13 things done as well as that in terms of
 14 communications and training with the
 15 Newfoundland and Labrador Surveyor's
 16 Association was another aspect of that. And
 17 there are some safety advertising that we
 18 joint, we do some joint safety advertising,
 19 not all safety advertising, but we do some
 20 joint safety advertising in the areas of
 21 hunter safety, you know, tree cutting,
 22 vegetation safety and snowmobiles and ATVs
 23 because that's another area where we're quite
 24 concerned where a lot of people use the
 25 snowmobiles and ATVs to traverse our power

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1 MR. JOHNSON:
 2 lines.
 3 Q. Do you do any joint television ads with
 4 Newfoundland and Labrador Hydro?
 5 A. No, we don't.
 6 Q. How about joint radio ads?
 7 A. There are some joint radio ad with respect to
 8 energy conservation.
 9 Q. Is Newfoundland Power aware of what
 10 Newfoundland Hydro's plans would be in
 11 relation to safety massaging, you know, before
 12 Newfoundland Hydro actually, you know,
 13 executes its plan?
 14 A. We would be aware to the extent that there's
 15 conversation going back and forth between the
 16 utilities. There's no formal mechanism by
 17 which we prepare each other or we coordinate
 18 each other with respect to our safety
 19 massaging, but we do meet at various levels
 20 within the organization. And one interesting
 21 thing, actually, Hydro does recently in their
 22 last reliability meeting, Hydro starts all
 23 their meetings now with a safety moment.
 24 That's a new sort of thing which I think is
 25 pretty, a pretty neat idea, actually. And

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1 are held responsible for performance and, in
 2 fact, that's reflected in the short-term
 3 incentives, in particular, that the Company
 4 has devised for its executives and managers,
 5 correct?
 6 A. Yes, managers and executives of the Company
 7 are held accountable for performance.
 8 Q. And if certain benchmarks are met relating to
 9 reliability, safety and customer satisfaction,
 10 that would trigger, under your compensation
 11 scheme, payments to executive and management?
 12 A. If certain targets that we establish for the
 13 management of the business are met, I would
 14 agree that's true. There's a subtle
 15 difference with benchmarking.
 16 Q. Well, in terms of reliability, for instance,
 17 could you indicate for 2007 what the target is
 18 for the purposes of the STI?
 19 A. I need to get that. I know we have it on an
 20 RFI, our STI targets. I'm trying to find out
 21 which one it is. I was trying to find the
 22 RFI. There is an RFI which has our list of
 23 STI targets. I just wanted to confirm it, but
 24 from memory I think it's 2.63 is our target
 25 for SAIFI in the 2007 STI.

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1 during that, I know the meetings I had with
 2 Jim Haynes and Mr. Henderson and Hydro on a
 3 regular basis, we always start the meeting off
 4 with a discussion of safety and what's going
 5 on in our relative organizations.
 6 Q. The Newfoundland Power obviously invests in
 7 the--in radio and television, as you described
 8 yesterday on the safety massaging. And you
 9 mentioned that there was production costs
 10 associated with the television ad, still
 11 photos, etcetera. How did your Company decide
 12 to go the route of television and radio, did
 13 that involve any marketing insight or
 14 expertise?
 15 A. It's been some time since that safety ad was
 16 developed. At the time the safety ad was
 17 developed, clearly we had some expertise out
 18 there to, you know, to do the ad. We don't
 19 have in-house expertise to develop television
 20 advertising, so we did employ an outside
 21 agency that gave us advice in getting that
 22 message across.
 23 Q. Just if we could turn to the reliability issue
 24 again, Mr. Delaney? Would you confirm that
 25 managers and executives of Newfoundland Power

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1 Q. Okay, and so if in 2007 you reach that target
 2 personally, the Company reaches that target,
 3 what does that mean for you personally in
 4 terms of your compensation?
 5 A. I see the STI targets as a, there are a number
 6 of targets there, they represent a balance.
 7 One of those targets is reliability. If we do
 8 well on the reliability target, then that
 9 impacts the bonuses that management and
 10 executive are paid. But at the same time
 11 there are other targets there with respect to
 12 customer satisfaction, there are targets with
 13 respect to first-call resolution, cost and
 14 earnings. I might have them all, there may be
 15 some others. So in the whole balance of
 16 things, if we're able to achieve our targets,
 17 that's--if that composite reflects the
 18 performance of management and we have a Pay
 19 for Performance system at Newfoundland Power
 20 and compensate, there would be some effect on
 21 compensation for meeting those targets.
 22 (9:15 A.M.)
 23 Q. But in relation to the SAIFI target, for you
 24 personally, what percentage of your STI would
 25 that be for '07?

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1 MR. DELANEY:
 2 A. Again, that's in an RFI. That amount, I just
 3 don't recall it offhand.
 4 Q. I might be able to assist. 340.
 5 A. I think there's an attachment somewhere in one
 6 of the RFIs that gives each of the managers
 7 and executive compensation. That's the
 8 overall one there. Yes, here we are. If we
 9 can go down? Here we are. These would be the
 10 performance targets for my position as VP of
 11 Engineering Operations, reliability -
 12 Q. That was '06, though.
 13 A. Oh, that's '06, okay. And we don't have '07
 14 on the record.
 15 Q. '07 is there, as well.
 16 A. Okay.
 17 Q. I think it follows it.
 18 A. So in my personal performance targets for the
 19 year, reliability is there as 20 percent,
 20 enhanced reliability of the customers and, you
 21 know, balanced off with safety, capital budget
 22 execution, productivity and operating
 23 efficiencies and the overall operations of the
 24 Company.
 25 Q. Yes, I understand. And how about on the

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1 set this target for management, we set this
 2 target, all right, this is what we want to
 3 focus on, let's see what we can do here. So
 4 we get that out there and get it to the
 5 engineers. So we're looking at SAIFI, we're
 6 trying to figure out, okay, now, the thing
 7 that we want to get, focus on this year as a
 8 target for the Company, as a target to improve
 9 is getting down the frequency of outages.
 10 It's a different thing that the duration of
 11 outages. Durations is related to response,
 12 whereas frequency is trying to prevent that
 13 thing from happening in the first place. So
 14 what happens and what is happening in our
 15 Company is you start to get some good thinking
 16 going on as to how to address this issue, how
 17 to get this SAIFI target down. So we got
 18 things happening in the Company now because we
 19 have this target and we're focused on it, we
 20 got our engineers coming back, they're looking
 21 at different ways to do distribution
 22 protection coordination. That sounds like a
 23 big word, but it's about the sizing of fuses
 24 on the distribution line and trying to take
 25 off the smallest part possible and give

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1 customer--you mentioned other targets. There
 2 were certain ones going to customer
 3 satisfaction?
 4 A. At the STI level, at the corporate level, yes,
 5 there is a target there for customer
 6 satisfaction.
 7 Q. And can I get your views on why it would be
 8 appropriate, in your judgment, in the context
 9 of a regulated monopoly service such as
 10 electricity distribution for certain
 11 executives and managers to be paid in
 12 accordance with internally set targets, but
 13 when consumers put forward the proposition
 14 that, you know, how about external targets,
 15 that we're met with such opposition?
 16 A. When we establish a target inside the Company,
 17 what we are doing is we're saying, okay,
 18 management, here are the key areas that you
 19 should focus on in the coming year. And we
 20 give considerable thought to the targets, as
 21 to what their priorities are for the coming
 22 year. So let's look at reliability for one.
 23 Reliability this year we're focusing on the
 24 SAIFI, the frequency statistic. In past years
 25 we focused on the duration statistic. So, we

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1 yourself the best chance to interrupt the less
 2 number of customers possible when a fault
 3 occurs. So by management establishing
 4 targets, management is encouraging thinking
 5 and encouraging efforts in particular areas of
 6 the Company. And the effort and reliability
 7 now that we see as we want to push and get the
 8 synapses firing as to what we can do is in the
 9 SAIFI target, because we're out of line with
 10 the Canadian average in that area. On the
 11 duration side we think we've--we're in a good
 12 spot. But, so that's a target. Next year we
 13 may have a different target, you know,
 14 depending on the priorities that management
 15 has. Management is accountable for our
 16 reliability performance, so we should--we do
 17 it by setting targets and objectives and
 18 getting the job done.
 19 Q. But just if you might focus in on my
 20 particular question. And I appreciate your
 21 response. But my particular question had to
 22 do with how you reconcile that with the
 23 request for customers who are paying the bills
 24 and paying for the cost of service, but
 25 they've, there's no external benchmark that's

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1 MR. JOHNSON:
 2 provided to the customer in this process. And
 3 how do we reconcile that?
 4 A. Okay, I got the first side of it, reconcile
 5 how management, what a target is for
 6 management. On the second side, with respect
 7 to the customers, for one thing, we hear from
 8 our customers every day and we get feedback
 9 from the customers every day with respect to
 10 reliability, service and how we meet customer
 11 service expectations. That is a continuous
 12 feedback process in the Company. The setting
 13 of benchmarks we have three main concerns.
 14 Well, actually, with benchmarks there's two
 15 big concerns. One is in Newfoundland
 16 reliability of service breaks into two areas,
 17 there's urban and there's rural. Rural
 18 reliability is twice as bad as urban
 19 reliability. Rural customers experience two
 20 times more outages than urban customers, and
 21 getting into that environment and establishing
 22 benchmarks is not an easy proposition.
 23 Q. Is that your -
 24 A. That's, I think there's a lot of complication
 25 associated with establishing benchmarks.

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1 is that brought to bear upon Newfoundland
 2 Power's setting of its internal target on
 3 SAIFI?
 4 A. Again, it's a target, and I described the
 5 purpose of the target, to focus thinking in
 6 this area, and it is set as an overall system
 7 average.
 8 Q. So the internal target is set as an overall
 9 system average. And does that, does it take
 10 into account the rural, urban phenomenon that
 11 you've described here in Newfoundland?
 12 A. It would take into account on the aggregate,
 13 yes.
 14 Q. Now, you've indicated that Newfoundland Power
 15 is out of line on SAIFI with the Canadian
 16 average, out of line with the Canadian average
 17 on SAIFI?
 18 A. The CEA produces a statistic of the--produces
 19 report, service continuity report for Canada
 20 where they give an average reliability
 21 performance across the country. Now, there
 22 are many caveats with the data because a lot
 23 of utilities don't report the same way.
 24 There's, you know, different standards for
 25 what constitutes an outage. Some utilities

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1 Q. How does the--how is the urban, rural--and I
 2 take it Newfoundland and Labrador is not
 3 distinct in the case that there is differing
 4 reliability in urban areas and rural areas,
 5 that's a well-known phenomena, I take it?
 6 A. I would think, yes, on balance, rural
 7 reliability may be worse than urban
 8 reliability in most jurisdictions.
 9 Q. Why would that be?
 10 A. It's because in urban areas you tend to have
 11 more infrastructure. And one term we use is
 12 things tend to be paralleled and looped so
 13 there are alternative ways of supplying
 14 different loads whereas in rural areas you
 15 tend to have what we call radial systems and a
 16 lot more sort of plant per customer.
 17 Q. Okay.
 18 A. I just--you know, in Delaware one of the
 19 examples that was brought up, Delaware was
 20 divided in two utilities. One utility served
 21 the rural areas and one utility served the
 22 urban areas, and the urban utility had a
 23 different reliability benchmark than the rural
 24 utility but two separate utilities.
 25 Q. And in terms of this rural, urban divide, how

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1 report momentary outages, some don't. Some
 2 have pretty sophisticated outage management
 3 systems, others rely on, you know, the
 4 customer to call before they, you know, record
 5 the outage has started whereas others have a
 6 SCADA system, they know very precisely their
 7 outage times. So there's a fair amount of
 8 uncertainty with the data, but it's the best
 9 that's out there, and we use it in
 10 establishing our target.
 11 Q. And just explain to me how its used in
 12 establishing your target?
 13 A. Well, we look at the statistic, you know,
 14 knowing that it's not perfect but it's the
 15 best that's available, and we look at it and
 16 we wonder why our frequency of outages is
 17 higher than the Canadian average, and we say,
 18 let's put some effort in here, let's put some
 19 thought into understanding why that is and
 20 let's put it out to management as a target and
 21 let's see if we can make some improvement here
 22 as to the way we manage.
 23 Q. The president of the Company, Mr. Ludlow,
 24 rather colourfully described the challenges
 25 even in St. John's, it's the windiest,

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1 MR. JOHNSON:
 2 foggiest, iciest, drizzliest spot I would have
 3 thought anywhere, according to his
 4 description. How is that brought to bear in
 5 assessing the CEA standard relative to what
 6 management thinks is appropriate in
 7 Newfoundland?
 8 A. Did you say the CSA standard?
 9 Q. CEA.
 10 A. CEA. Because there's CSA standards, another
 11 area there. They sort of do all the
 12 construction standards that we would build our
 13 plant to.
 14 (9:30 A.M.)
 15 We are unable to make a correlation with
 16 respect to the weather and how it's built into
 17 that CEA standard versus what we're using.
 18 Again, look, we're using it as a guide, using,
 19 set a target, this is an area we want to focus
 20 on. The stat, CEA stat there are some, like I
 21 say, there are huge numbers of exceptions.
 22 Some utilities if the power outage is more
 23 than so many hours, affecting so many
 24 customers, I don't know the statistics, they
 25 take it out, so that's not even reflected in

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1 judgment with respect to maintenance practices
 2 and it's based on deploying our resources to
 3 respond appropriately to power outages when
 4 they occur.
 5 Q. Well if we were at the CEA average on SAIFI,
 6 would that be satisfactory?
 7 A. I think it would be a nice place to be, but
 8 it--we clearly would still have work to do in
 9 reliability. We have \$1.2 billion worth the
 10 assets. Every one of those assets has a
 11 finite service life. It will be replaced at
 12 some point to ensure the reliability of the
 13 system is maintained. We spend approximately
 14 \$3.2 million per year in refurbishing our
 15 plant, which is on average a little over 30
 16 years old and the inflation, I believe, in the
 17 last 30 years has been 182 percent. And when
 18 you compare that like as a check in terms of
 19 how much we're spending to continually
 20 refurbish the plant, we're spending 30
 21 million, our depreciation is about 40 million
 22 and the plant is about 30 years old, so I
 23 think we're in an inefficient place in terms
 24 of refurbishing the plant. The SAIFI
 25 statistic is a statistic, if we meet it, that

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1 the statistics. So we're aware of that, that
 2 it's not--that there are exceptions. A big
 3 weather event, say, in Nova Scotia, Hurricane
 4 Juan and those things that happened in Nova
 5 Scotia, all those outages were excluded from
 6 that CEA stat to do the average. It was
 7 considered an exceptional event. We can be
 8 humbled by the weather, there's no doubt about
 9 it. And that SAIFI statistic is based on the
 10 last three years, a SAIFI sort of target based
 11 on the last three years with a ten percent
 12 improvement. If we happen to get a bad
 13 weather spell, well, we're not going to make
 14 the target.
 15 Q. So do I take it that there's recognition on
 16 your part and the Company's part that in light
 17 of that, achieving the CEA standard is not the
 18 goal?
 19 A. Our goal is to manage reliability from the
 20 perspective of capital investment, sound
 21 capital investment that has engineering rigour
 22 in it where we inspect, we assess the power
 23 system on a methodical basis, bring those
 24 items before the Board, those projects before
 25 the Board. It's based on sound engineering

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1 would be great, but we still got a bit system
 2 to take care of and keep reliable.
 3 Q. You spoke about--I sort of sensed where you're
 4 coming from in terms of the other utilities
 5 reporting their SAIFI stats and they might be
 6 backing out of those stats, you know, certain
 7 storms, etcetera. And I took it that, you
 8 know, sometimes that might not be comparing
 9 apples to apples if other utilities are doing
 10 that. Would that be a fair general comment?
 11 A. Yeah, there are various things utilities do
 12 with that reliability stat. That, you know,
 13 you have to, you have to factor that into your
 14 decision on how reliable the statistic is.
 15 Q. Does Newfoundland Power, in its reporting of
 16 its reliability statistics, whether it be
 17 SAIFI or SAIDI, for that matter, back out from
 18 its statistics major storms?
 19 A. Not in my--not in the last--not on the record,
 20 I would say, have we backed out any storms to
 21 come up with our SAIFI or SAIDI records since
 22 2002. Whether we did or not back in 1994,
 23 which was our last major bust-up, our last
 24 major storm, I'm not sure whether we did it in
 25 '94 when we put our statistics, but we haven't

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1 MR. DELANEY:
 2 on the record that's before the Board.
 3 Q. Mr. Delaney, to your knowledge how wide spread
 4 is the practice in Canada of utilities
 5 actually backing out SAIFI, SAIDI events in
 6 their statistics?
 7 A. I don't know what all utilities do. I know
 8 that the IEEE actually has a standard
 9 associated with this for utility reporting.
 10 And if memory serves me correct, I think it's
 11 24 hours for 10 percent of customers is
 12 considered a major event that you would back
 13 out of statistical reporting, that's if memory
 14 serves me correct. It's something around
 15 that. So there is a standard by which you
 16 would back out information. Now, whether
 17 utilities respond to it or not, I don't know.
 18 Q. But in any event, I take that that
 19 Newfoundland Power's reporting, at least for
 20 the past five, six years and could be even
 21 before that, sort of contains warts and all?
 22 A. It contains warts and all. It would contain
 23 not only weather, cars that, you know, plow
 24 into power lines and take the power lines
 25 down, it would include incidents where we took

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1 and I'm sure there's a rational explanation
 2 for it. But when I was looking at Graph 4 on
 3 page 24.
 4 KELLY, Q.C.:
 5 Q. The evidence, Chris, not the Application, the
 6 evidence.
 7 MR. JOHNSON:
 8 Q. I'm sorry, Chris.
 9 KELLY, Q.C.:
 10 Q. The original evidence.
 11 MR. JOHNSON:
 12 Q. Yeah. If you see the SAIFI line for '04 and
 13 '05 and '06, '04 is clearly above three and
 14 '05 is a bit above three and '06 looks to be
 15 just slightly under three. And when I--I
 16 couldn't really square that with the
 17 undertaking that was, what was provide by Mr.
 18 Ludlow where he provided the explanation as to
 19 how the '07 SAIFI target of 2.63 was
 20 calculated, because I understood that
 21 Undertaking No. 2 indicated that the '07 SAIFI
 22 target of 2.63 was taken by averaging '04, '05
 23 and '06, which yielded, according to that
 24 undertaking, 2.77 and then there was a five
 25 percent improvement onto that to come up with

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1 the power off because of a large fire that we
 2 had to take the power off at the request of
 3 the fire departments, instances like that as
 4 well as the weather, that's all in there.
 5 Q. Do you know what the CEA average is for 2007
 6 on SAIFI?
 7 A. On the SAIFI or the frequency or -
 8 Q. Frequency. SAIDI, for that matter, if you
 9 know?
 10 A. Do I know what the CEA is for 2006?
 11 Q. Seven.
 12 A. Seven.
 13 Q. Or '06, I'm sorry.
 14 A. '06. I reviewed the report, I don't recall
 15 the number right off.
 16 Q. I wonder could you undertake to provide that
 17 information to the Board?
 18 A. The CEA, there would be a number of statistics
 19 that CEA produce. There's a total for the
 20 country, there's one for urban, and there's
 21 one for urban, rural split, so there are
 22 several statistics that they do report. I
 23 think we can easily get those, yeah.
 24 Q. Thank you. Just if you could call up page 24
 25 of the Application? I just have a question,

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1 the 2.63. And obviously, at least how it's
 2 graphically presented, '04 and '05 and '06
 3 could not possibly average 2.77. Now, I don't
 4 want to leave you up there hanging, because
 5 there's another RFI, which is CA-NP-67, which
 6 might bear some light on it. Graph 1 shows
 7 Newfoundland Power's five-year-average SAIFI,
 8 I'm referring to CA-NP-67, which shows that
 9 '04, '05 and '06 you're between two and 2.5?
 10 A. Is there a question?
 11 Q. Yeah. I'm just wondering what is correct, the
 12 graphical representation of SAIFI in the
 13 Company's evidence, which doesn't square with
 14 Mr. Ludlow's undertaking, or this Graph 1 in
 15 CA-NP-67?
 16 A. The Graph 4 and Graph 5, if we can go back to
 17 page 24? Both this SAIFI and SAIDI numbers
 18 show the frequency and duration of outages
 19 experienced by Newfoundland Power's customers,
 20 from a customer perspective, and they would
 21 include outages that resulted, that originated
 22 on Newfoundland and Labrador Hydro's system,
 23 as well.
 24 Q. Pardon me? I'm sorry.
 25 A. Oh, the SAIFI and SAIDI numbers that you see

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1 MR. DELANEY:
 2 on page 24 are representation of what
 3 customers see and customers see both outages
 4 that originate on Newfoundland Power's system
 5 and Newfoundland and Labrador Hydro's system,
 6 so this number is the composite of
 7 Newfoundland Power and Newfoundland and
 8 Labrador Hydro in SAIFI and SAIDI. And we are
 9 interlinked with Hydro every day on
 10 reliability performance system, so you know,
 11 it's appropriate that we put that sort of
 12 thing, and it is what the customer sees.
 13 (9:45 A.M.)
 14 If we can go back to CA-NP-67, what that is is
 15 a five-year rolling average of Newfoundland
 16 Power and CEA. And we had an undertaking
 17 earlier and we do have the CEA five-year-
 18 rolling-average number, that would be the
 19 average for a utility that has an urban, rural
 20 split. Now what exactly the CEA average was
 21 in 2006, I'm not sure, but that's the rolling
 22 average of CEA.
 23 Q. Is Newfoundland Power--I take it the--I heard
 24 what you said this morning, but in response to
 25 CA-NP-435, at line 20 to 22 it states,

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1 that broad statistic of SAIFI and SAIDI we had
 2 our best year after in 2006, but I wouldn't
 3 say that to some of the customers on Botwood
 4 O1 feeder or Glovertown 2 feeder, some of the
 5 feeders where we have some pockets of real
 6 trouble. When we look at the overall
 7 condition of our plant, we have an inspection
 8 system, good inspection systems out there.
 9 We're visiting our substations every month,
 10 we're reviewing our transmission lines every
 11 year. When we look at the broad condition of
 12 the plant. I mean, taking all these factors
 13 we say that the reliability of the system is
 14 acceptable.
 15 Q. Just your reference in that response to CEA
 16 standard again. Given, you know, you talked
 17 about being able to glean some information
 18 from it, etcetera, and you spoke earlier about
 19 the fact that Newfoundland Power reports warts
 20 and all, others back out data, etcetera, the
 21 president spoke of Newfoundland's operating
 22 circumstances, etcetera, far, certainly a far-
 23 flung population, sparsely populated areas in
 24 some instances. Would it not be folly to make
 25 as a goal the CEA average with all those

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1 "Newfoundland Power believes that broad
 2 reliability performance across the electrical
 3 system as indicated in system reliability
 4 indices such as SAIDI and SAIFI is currently
 5 acceptable." Then goes on to state, "However,
 6 the instances of poorly performing assets
 7 currently exist and will require action,"
 8 etcetera. What is the basis for Newfoundland
 9 Power's saying that these broad reliability
 10 performance across the electrical system is
 11 currently acceptable?
 12 A. When we assess where we are in terms of our
 13 position with respect to reliability
 14 performance and making a statement that
 15 broadly acceptable, it's an assessment type of
 16 term, I can bring into that a lot of factors.
 17 One, we can look at CEA benchmarks, knowing,
 18 you know, what the quality of that data is,
 19 and but glean something from it, it's the best
 20 out there that we can do to compare ourselves
 21 with. We can look at our customer
 22 satisfaction surveys, which tell us that we're
 23 doing a good job on reliability. We look at
 24 our performance over the past five years and
 25 in my testimony I mentioned that in terms of

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1 issues that I've put in the question to you?
 2 A. I think it would take us down some roads to
 3 start establishing these type of targets.
 4 There's two different reliability performances
 5 on this island, urban and rural. The urban
 6 SAIDIs and SAIFIs, they're around, well, not
 7 exact figures, they're around a little less
 8 than two, the SAIFI stats in terms of outages.
 9 That's the average. In rural areas you're a
 10 little higher than four, on average, with a
 11 wide band width there. The overall system
 12 average represents really neither of the
 13 groups. The best way to improve the overall
 14 system average, if we were to get into
 15 benchmarking, the best way to do it is to
 16 focus resources 50 percent of our customers,
 17 where 50 percent of our customers are, they're
 18 in St. John's and hugging around Conception
 19 Bay. But setting these benchmarks and saying,
 20 now, that's what will guide our decisions with
 21 respect to reliability, it will start moving
 22 in those type of directions.
 23 Q. How about the idea of the target? Like, for
 24 instance, Newfoundland Power internally has
 25 set a target for 2.63. And what I'm asking is

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1 MR. JOHNSON:
 2 would it not be folly in light of the CEA
 3 issues that we've discussed, Newfoundland's
 4 environment and particularities with our
 5 population, etcetera, to use the CEA as our
 6 target, forget benchmark for a moment, but
 7 just as our target, you've chosen 2.63?
 8 A. I think I explained the philosophy behind
 9 targets. The philosophy behind target is to
 10 focus management to pay attention to key
 11 performance areas of the Company. When I look
 12 at reliability, we talk about folly. I think
 13 what would be folly would be not to approach
 14 reliability from a perspective of sound
 15 engineering management, of your capital
 16 investment, your maintenance practices and how
 17 you're deployed. That's what will get us the
 18 best chance, the best result in reliability.
 19 But I also have in mind, as Mr. Ludlow says,
 20 with the snowiest, windiest stuff that your
 21 ultimate reliability performance will be
 22 impacted by how well you do your job in terms
 23 of your capital investment maintenance and
 24 deployment. But things like the weather and
 25 other things like that will have big impacts

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1 A. If we can get it up on the screen. Okay.
 2 Yes, I can confirm that in 2006 our SAIDI plan
 3 for the year was 3.98.
 4 Q. Thank you, Mr. Delaney. How--I know we're
 5 only targeting in '07 SAIFI, but in previous
 6 years you've targeted SAIFI and SAIDI. How
 7 did, and as you've indicated, that drives a
 8 focus, it drives people to do things within
 9 your organization. It drives spending, yes?
 10 A. Our spending with respect to reliability is
 11 not driven by that target. Our spending is
 12 driven by, I'll say it again, our capital
 13 investment methodology with respect to
 14 managing reliability, our maintenance with
 15 respect to managing reliability and being
 16 deployed properly.
 17 Q. Well, it influences spending, at the least, at
 18 target that you set on something as important
 19 as SAIFI or SAIDI?
 20 A. I don't think so, no.
 21 Q. Well, if management were to set a SAIFI target
 22 of two, would that not affect spending?
 23 A. No, I don't think so.
 24 Q. Well, why don't we have two?
 25 A. I think we're misunderstanding what a target

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1 on reliability. In 2006, for instance, half
 2 of our duration index, half of the SAIDI index
 3 all happened on one day and one storm.
 4 Q. In 2006 half of SAIDI happened on one day?
 5 A. Somewhere around 17, 18 percent happened on
 6 December 5th.
 7 Q. What happened that day?
 8 A. There was a severe icing conditions and wind.
 9 Q. Who was affected?
 10 A. I think it was mostly the eastern portion of
 11 Newfoundland. The Burin Peninsula, I think,
 12 was probably the hardest hit.
 13 Q. And in '06 you achieved an actual SAIDI,
 14 notwithstanding that event in December, of
 15 three?
 16 A. In '06, could you show me that in the
 17 evidence?
 18 Q. Page 24, Graph 5.
 19 A. In '06, yes, we achieved a SAIDI of three,
 20 even with that event in there.
 21 Q. And your plan on SAIDI was 3.98 in '06, I
 22 understand from your report filed at CA-NP-08
 23 for the period ending March 31st, '06 at page
 24 5, refers to 3.98 as being the planned SAIDI
 25 for 2006. Can you confirm that?

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1 is. A target is an indication to management
 2 that we want to focus on this area and we want
 3 to get improvement and this is a key direction
 4 for us or a key focus for us. Our spending is
 5 associated with engineering, sound engineering
 6 principles in terms of what capital investment
 7 do we need, what should our maintenance
 8 practices be and how should we organize our
 9 workforce and be deployed across this
 10 province.
 11 (10:00 A.M.)
 12 Q. Well, let's just use a slightly different
 13 example. If you were--we talked about the
 14 internal company metrics on call answering,
 15 80/40, if I'm wrong on that, correct me. And
 16 I thought you said yesterday that, well, if
 17 you went to a more stringent standard, that
 18 better watch out because that's going to cost
 19 money, we don't have the infrastructure and
 20 the people, etcetera, in order to meet that
 21 type of Company expectation, target, plan,
 22 whatever. Do you remember saying that?
 23 A. I remember saying, yes, to go to 80/20 would
 24 be a large change for us.
 25 Q. And if you went to that target, that would

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1 MR. JOHNSON:
 2 drive spending, I take it?
 3 A. If we went to that target, it would clearly
 4 drive spending, yes, if we were to say, now we
 5 want to answer 80 percent of calls in 20
 6 seconds, we can model that appropriately, we
 7 can determine how many people we would have to
 8 put in our call centre, how much investment we
 9 would have to make and that would drive
 10 spending.
 11 Q. Well, just going back to SAIFI then. If we
 12 said forget about us trying to better our
 13 three-year average in 2007, this 2.63 or I
 14 think is the number that falls out of that, we
 15 don't want 2.63. By golly, we want 1.5. Are
 16 you with me?
 17 A. Yes, so far, yeah.
 18 Q. Would that influence spending?
 19 A. Well, that's a hypothetical situation that you
 20 throw out there. We're not suggesting we're
 21 going to 1.5. Our target is based on looking
 22 at the last three years of performance,
 23 putting in a reliability--putting in an
 24 improvement factor and putting the spotlight
 25 on that for management to focus on SAIFI,

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1 that we have. I can give a reasonable
 2 prediction as to what our service levels could
 3 be. SAIDI and SAIFI are totally different
 4 matters. There are a huge number--there are
 5 weather variables in there to--if it went down
 6 to a distribution feeder basis, I would have
 7 to know the condition of the plant with a
 8 great degree of accuracy, assign probabilities
 9 of failure, bring in the dynamics with respect
 10 to weather and then there's various dynamics
 11 happening within the system. There are
 12 components of the system that are
 13 deteriorating at an accelerated rate. One
 14 example of that would be cut outs. We've had--
 15 distribution cut outs is a switch on the
 16 power system. We had 100 failures in 2000.
 17 We're up to about 500 now. So to model and
 18 predict SAIDI and SAIFI is an incredibly
 19 complex thing where you would have to make
 20 numerous assumptions and try to--and then, of
 21 course, the more assumptions you make and the
 22 less data you have, the less confidence you
 23 have in the final result. Whereas predicting
 24 an 80/40 in a call centre is a much more
 25 simple exercise.

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1 getting some improvements in SAIFI. There are
 2 many things out there that could--if we have a
 3 big storm and we are unable--and through
 4 circumstances totally beyond management's
 5 control, we have a big ice storm, we don't
 6 make our SAIFI target, then we don't make our
 7 SAIFI target. We miss targets on occasion.
 8 Q. I'm just trying to honestly understand this,
 9 Mr. Delaney, and I appreciate that you're not
 10 actually targeting 1.5, you're targeting
 11 another number, but I'm honestly trying to
 12 appreciate how target that you choose does not
 13 have an effect on spending, you know,
 14 deployment of resources if the focus is--if
 15 that's the target, you know, how do we meet
 16 it? That's the purpose of setting a target,
 17 and I can't believe that that could not have
 18 an effect on spending. It just doesn't make
 19 any sense to me.
 20 A. SAIFI is an outcome. It's an outcome of what
 21 we do to manage the system. Predicting what
 22 SAIFI or SAIDI will be in any part of the
 23 system, I can predict with relative certainty
 24 in terms of an 80/40 call centre, based on the
 25 history of calls that we get, on the models

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1 Q. Well, let us approach it from this angle. I
 2 understood Mr. Ludlow to say that several
 3 years ago when Mr. Brown did his engineering
 4 report through 1998 that SAIFI was
 5 unacceptable. Correct?
 6 A. I'd have to see that, if we can get it up
 7 there.
 8 Q. You want to see Mr. Ludlow's evidence you
 9 mean?
 10 A. Are you talking about what Mr. Ludlow said or
 11 Mr. Brown?
 12 Q. He was referring to Mr. Brown and said back
 13 then they made a decision that it was not
 14 where it should be, had to be improved.
 15 A. I'd have to see if Mr. Ludlow said that SAIFI
 16 was unacceptable or whether Mr. Brown said
 17 reliability. I don't think Mr. Brown--I think
 18 Mr. Brown said reliability was acceptable but
 19 there was room for improvement.
 20 Q. Well how do you measure reliability?
 21 A. I measure reliability performance with the
 22 SAIDI and SAIFI statistic. The reliability of
 23 a system is more an engineering assessment in
 24 terms of a condition of the plant.
 25 Q. NP-65. Just refer you to page three of six,

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1 MR. JOHNSON:
 2 Mr. Delaney, lines 27 to 30. Would you read
 3 that, sir?
 4 A. 27 to 30 says "the quality of service report
 5 clearly indicated to the Board and
 6 Newfoundland Power that the Company should
 7 seek to improve its reliability performance.
 8 In response to this, Newfoundland Power has
 9 undertaken a number of initiatives to improve
 10 this reliability performance and associated
 11 reporting."
 12 Q. Yes, and the quality of service report that's
 13 referenced in that line is the quality of
 14 service report done by Mr. D.G. Brown in 1998?
 15 A. Yes, that would be the report by Mr. Brown,
 16 and it's a paraphrase of what Mr. Brown said.
 17 Q. So when you--so then I understand that
 18 Newfoundland Power then set about to
 19 undertake, as it says here, response to this,
 20 it has undertaken a number of initiatives to
 21 improve its reliability performance and
 22 associated reporting.
 23 A. Yes, that's correct.
 24 Q. And did that improve--and I take it we've had
 25 improvements since 1998?

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1 one.
 2 A. On the record, between 2002 going up to 2008
 3 or 2006, Newfoundland Power has made
 4 improvements in reliability of somewhere in
 5 the--displayed here, our SAIFI has improved by
 6 39 percent and our SAIDI has improved by 34
 7 percent. We have done that by reducing
 8 operating costs. We have done that with our
 9 impacts on rates being--from 2002 to 2008, our
 10 overall impact on rates would be one percent.
 11 We've done that by investing approximately
 12 30.2 million dollars per year into the power
 13 system to maintain its condition, replacing
 14 30-year-old assets on average. Our
 15 depreciation is about 40 million, which is
 16 less than what we're pumping back into the
 17 system. Those are the costs associated with
 18 that.
 19 Q. But I thought one of the core balancing acts
 20 that a utility, providing distribution service
 21 as its core part of its business is balancing
 22 costs and reliability. I thought that was
 23 essential tenet. Now if it doesn't have to be
 24 balanced to get the extra reliability, which
 25 is sort of what I seem to be gathering, well,

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1 A. Yes, we have had improvements in reliability
 2 and performance.
 3 Q. And did that improvement come with a cost?
 4 A. The improvement in reliability performance, we
 5 invested capital. Our cost, in terms of
 6 operating costs today, I'm not sure what they
 7 were in 1998, but I think that they're
 8 probably a little lower, clearly lower in
 9 terms of inflation. In terms of inflation
 10 adjustment, our operating costs are clearly
 11 lower than what they were in 1998. We did
 12 invest capital to improve performance under
 13 the Distribution Reliability Initiative, which
 14 I described, and we did invest capital to
 15 ensure that the condition of the power system
 16 which certainly has an impact on reliability,
 17 that the condition of the power system was
 18 maintained and kept to an acceptable
 19 condition.
 20 Q. So if we--so did it cost more or did it not
 21 cost more? I mean, was there any additional
 22 cost attended upon trying to improve
 23 performance on reliability, I guess is what
 24 I'm asking? Because if there was no costs
 25 attached to that, well we should have SAIFI of

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1 where does the balancing come in, cost and
 2 reliability?
 3 A. Where does the balancing come in for cost and
 4 reliability?
 5 Q. Well, what -
 6 A. Let me just say that we have reduced our
 7 operating costs. We have improved our
 8 reliability and our impact on customer rates
 9 is a one percent increase from 2002 to 2008.
 10 I don't know what more I can say.
 11 Q. But it's got to be explored. Let's put it
 12 this way. We could, I take it, improve our
 13 reliability by doing radial loops everywhere,
 14 doubling the amount of poles so that we had a
 15 contingency plan in case a pole cracked off,
 16 we'd have another one. We'd have a duplicate
 17 system. That would improve reliability, would
 18 it not?
 19 A. If we had a duplicate system throughout the
 20 entire island, I would expect reliability
 21 performance to improve, yes.
 22 (10:15 A.M.)
 23 Q. But that would not come without a cost,
 24 correct?
 25 A. Yes, it would cost a lot of capital dollars to

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1 MR. DELANEY:
 2 put in a duplicate power system across the
 3 province.
 4 Q. And why don't we do that then? Because of the
 5 cost would be prohibitive, not worth it?
 6 A. It's a stretch for me to get there, but yes,
 7 we wouldn't do that because of the enormous
 8 capital cost associated with it.
 9 Q. And would I take it that you would agree with
 10 the statement in CA-NP-436 at lines 26 and 27
 11 where it says "while Newfoundland Power
 12 expects that customers are not 'willing to
 13 spend any amount for reliability improvement'
 14 it expects that targeted capital expenditure
 15 on distribution feeders," etcetera and goes
 16 on. So you recognize that customers are not
 17 prepared to spend any amount of reliability
 18 improvement, correct?
 19 A. Yes, I expect that customers are not willing
 20 to pay any amount.
 21 Q. When Newfoundland Power was setting its
 22 corporate targets in the past on SAIDI and
 23 SAIFI and present on SAIFI, did you have to
 24 undertake a comprehensive engineering study of
 25 our Province's system in order to come up with

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1 penalties or repercussions, but as an external
 2 objection target that has some input, other
 3 than by yourselves, without penalties, okay,
 4 would we need to carry out a detailed
 5 engineering study in that instance?
 6 A. I'm trying to follow the hypothetical, could
 7 you repeat that again?
 8 Q. If you have an internal SAIFI target, if that
 9 was to be the external target, then you'd
 10 report to that target in under a reliability
 11 initiative such as we're urging upon the
 12 Board, would that necessarily entail a
 13 detailed engineering audit of the whole
 14 system?
 15 A. If we were to establish the target on the same
 16 principles that we did in terms of taking a
 17 three year average and taking a five percent
 18 improvement, that's what we would do, if it
 19 were an external target. It all depends on
 20 what we can to accomplish with the target as
 21 an external target, whether or not it would
 22 require an extensive engineering review.
 23 Q. If we could turn up Exhibit 1, Line 1,
 24 revised. Line 1 shows distribution costs,
 25 right across the board there. Do these costs

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1 the target?
 2 A. In order to come with the SAIFI target, I
 3 think we described that as being the last
 4 three years average with a five percent
 5 improvement factor. There was no
 6 comprehensive engineering study.
 7 Q. Why not?
 8 A. I guess we didn't see the point of doing a
 9 comprehensive engineering study of the entire
 10 network to establish that target.
 11 Q. And do you feel your SAIFI target is
 12 appropriate for 2007?
 13 A. I believe where we, are right, now that it's
 14 the appropriate target for us to focus our
 15 attention on SAIFI as to why the frequency of
 16 outages in Newfoundland are what they are and
 17 to get my management team and engineers
 18 focused on that; understanding why that is;
 19 comparing it; looking at the things like I
 20 said, coming back with ideas in terms of views
 21 co-ordination and various things that we can
 22 do from an engineering perspective on the
 23 system that may help up focus attention.
 24 Q. So, if Newfoundland Power's internal target on
 25 SAIFI was to be the external target, without

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1 include the costs of responding to outages?
 2 A. Yes, they do.
 3 Q. And how much, roughly, would be incurred in
 4 terms of responding to outages, roughly?
 5 A. In our system of accounts we don't, under
 6 distribution here, we would have a number of
 7 sub functions, like for street lights,
 8 services, poles, guides and wires is another
 9 one that I recall. How much of those costs
 10 are associated with responding to power are
 11 not exactly--power outages are not exactly
 12 tracked under our system of accounts. There
 13 may be a way to cipher out those and get an
 14 estimate of the amount of those costs that are
 15 associated with responding to power outages.
 16 I don't have the figure in front of me.
 17 Q. And if you--I take it if you're seeing a
 18 decline in SAIFI, would that be a good thing
 19 from the point of view of avoiding the costs
 20 of responding to outages, the frequency of
 21 those outages?
 22 A. Yes, if the number of outages decrease, I
 23 would expect that our operating costs would
 24 decrease.
 25 Q. And -

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1 MR. DELANEY:
 2 A. In responding to those outages, of course, the
 3 cost of responding to those outages, yes.
 4 Q. I'm sorry, I didn't hear the last -
 5 A. I think if our frequency of outages decreases,
 6 the cost of responding to outages will
 7 decrease.
 8 Q. Yes. And so, would it be fair to say that, as
 9 between, say, SAIFI and SAIDI, the duration
 10 and the frequency, is there one or the other
 11 that has the biggest bearing on responding to
 12 outage costs?
 13 A. I don't know. I've never done that analysis.
 14 Q. Obviously we don't have to go there right now,
 15 but the graphic representation of the
 16 improvement of SAIFI and SAIDI in the
 17 Company's evidence from up to the present over
 18 the last several years, would it be fair to
 19 say that the improvement in SAIDI and SAIFI is
 20 a result of your ongoing investment in
 21 improving the distribution system?
 22 A. I attribute the improving SAIDI and SAIFI to
 23 our approach to reliability management which
 24 is, you know, capital investment maintenance
 25 and being deployed properly.

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1 So, are these anticipated to have an impact on
 2 reliability?
 3 A. I'll explain what each of them is and how they
 4 impact reliability. Rebuild Distribution
 5 Lines is a capital program which is our
 6 preventative capital maintenance on
 7 distribution lines. We do inspections every
 8 year of our distribution system. I think our
 9 cycle is around seven years on distribution
 10 feeders and we identify work that needs to be
 11 done to keep the system in good shape, in good
 12 condition. A lot of known, defective
 13 equipment out there, so the Rebuild
 14 Distribution Lines captures that and keeps the
 15 system in good condition which has a positive
 16 impact on reliability. The Distribution
 17 Reliability Initiative is a targeted
 18 reliability improvement program on our worst
 19 performing feeders as I described yesterday.
 20 And reconstruction can be best characterized
 21 as either breakdown maintenance or corrective
 22 maintenance on the distribution system. It's
 23 stuff that comes up during the course of the
 24 year. We estimate it on historical averages.
 25 And so all three of those projects will have a

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1 Q. And in terms of the capital investment, that
 2 would be a significant piece of explaining
 3 that SAIDI and SAIFI improvement, would it?
 4 A. Yes, the capital investment would be a
 5 significant piece of improving SAIDI and SAIFI
 6 performance.
 7 Q. And perhaps if we could look those extracts in
 8 Info. No. 13. I guess on page of one of five,
 9 if everyone is--that gives a breakdown by
 10 asset class as to how much is being spent in
 11 the 2008 capital budget, 26 -
 12 A. Sorry, where are we?
 13 Q. I'm sorry, page one of five, the first page of
 14 that Information piece.
 15 A. Okay, page one of five, yes.
 16 Q. Yes, it just shows, first of all, the
 17 26,636,000 spent in relation to distribution.
 18 A. Yes, that's correct.
 19 Q. And the if you turn in to page three of five,
 20 under Section 5, it refers to rebuilding
 21 distribution lines and then there's three
 22 point nearly four million and then
 23 distribution and reliability initiative,
 24 nearly one point three million and
 25 reconstruction of three point one million.

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1 contribution to maintaining the condition of
 2 the system which has a positive impact on
 3 reliability performance. There are others
 4 there as well that would have an impact.
 5 (10:30 a.m.)
 6 Q. And are there other benefits from those other
 7 than reliability? Like for instance, you
 8 know, if we have--I think we've established if
 9 there's reduced outages, it's reduced outage
 10 related expenses, et cetera, would there be--
 11 so, other benefits come out -
 12 A. Oh absolutely. There would be safety
 13 benefits, clearly, particular in Rebuild
 14 Distribution Lines which is our distribution
 15 program for inspection is very much focused on
 16 public safety and ensuring that the condition
 17 of the system is upheld for public safety.
 18 There would also be environmental issues as
 19 well under the Rebuild Distribution Lines
 20 projects and the Transformers Project, we have
 21 a program to get PCB transformers out of our
 22 system. As well, we have, continue to have
 23 some problems in, particularly in salt
 24 contaminated areas with rusty transformers.
 25 So, there would be reliability benefits,

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1 MR. DELANEY:
 2 safety benefits and environmental benefits
 3 from these projects.
 4 Q. And how about ongoing operating expense
 5 benefits? Would you expect--because I note
 6 that in your Company's evidence, it talks
 7 about work being carried out in capital
 8 budgets by way of preventative work, cheaper
 9 in the long run, saves on operating, etcetera.
 10 Would that be -
 11 A. Yes, capital investment can help you reduce
 12 your operating expenditure.
 13 Q. And is that a goal of--a benefit of
 14 Newfoundland Power that wants to see an impact
 15 on operating as much as--on the operating side
 16 as much as it can from its capital
 17 expenditure?
 18 A. If it does have that impact, that's a positive
 19 thing, but our capital expenditures are driven
 20 primarily through engineering assessment.
 21 Q. But now certain other projects, for instance,
 22 if you turn in, let's say information systems
 23 at page four and five, would those types of
 24 expenditures be expected to produce
 25 efficiencies within the organization on the

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1 service. Some will result in increased
 2 operational efficiencies. Some projects will
 3 have a positive impact on both customer
 4 service and operational efficiency." Correct?
 5 A. That's correct, yes.
 6 Q. So but none of this, none of the capital
 7 investment which can lead to these
 8 efficiencies, for instance, of whether it be
 9 reduced outage operation expense or other
 10 efficiencies that arise by spending money on
 11 computer infrastructure, none of that
 12 obviously is without a cost to the customer,
 13 right, and in the sense that that gets
 14 included in depreciation costs for the
 15 customer and they commence paying for that
 16 investment, correct?
 17 A. All of our capital investments are approved
 18 capital investments, are put in our rate base
 19 and yes, we earn on our rate base.
 20 Q. Of course, and it's obviously reflected in the
 21 rates that the customers pay?
 22 A. That's correct.
 23 Q. And just if you could turn to Exhibit 1, line
 24 five, that's the Administrative and
 25 Engineering Support line, and by my

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1 operating side?
 2 A. Yes, those type of expenditures on enhancing
 3 our IT systems would be expected to give us
 4 some efficiencies?
 5 Q. Can you give us some examples?
 6 A. One example here is the extension of our asset
 7 management system. We're get more users on
 8 our asset management system. We are building
 9 in--right now in our asset management system,
 10 we have generation assets, substation assets,
 11 transmission assets well established and that
 12 all those systems working, and we're currently
 13 working on distribution assets, getting our
 14 distribution inspection programs, work orders,
 15 scheduling, all this stuff tied into the asset
 16 management system. So that requires an
 17 expenditure on the IT front to get that up and
 18 running.
 19 Q. And if you turn to page 64 of 78 in the
 20 attachment, the second last sheet in, you give
 21 a project description of the applications and
 22 enhancement, etcetera, and you note under
 23 justification that "some of the proposed
 24 enhancement included in this project are
 25 justified on the basis of improving customer

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1 calculation, there's a significant reduction
 2 of about 29 percent from 2002 to 2008, in
 3 admin and engineering support. Subject to the
 4 math, would you expect--would you confirm
 5 there's certainly a material reduction?
 6 A. Yes, I'll agree that administration and
 7 engineering support has declined. The cost
 8 has declined, operating cost has declined to
 9 Newfoundland Power.
 10 Q. Now in terms of, I guess, there's investments
 11 that are made by the company which then create
 12 this productivity, I take it, and but there is
 13 a cost borne by the ratepayer that's
 14 associated with these expenditures. I mean,
 15 the productivity doesn't come for free, right?
 16 A. The productivity, could you repeat that?
 17 Q. Well, let's take the example of capital
 18 spending on, you know, computer infrastructure
 19 or, as I talked about two minutes ago, capital
 20 spending on reliability initiatives which also
 21 have the effect of reducing outage expense on
 22 operating, yes, you'll see hopefully a decline
 23 in operating expense, but there was an
 24 investment that had to be made in order to
 25 achieve that operating efficiency or

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1 MR. JOHNSON:
 2 productivity. I guess just as a general
 3 statement, would you agree with that?
 4 A. Generally, yes, I would agree that investment
 5 can give you operating cost reductions.
 6 Q. Okay. And those costs of investments are
 7 obviously borne by the rate payer, ultimately,
 8 correct?
 9 A. Yes, our capital investments are put in our
 10 rate base and borne by the rate payer,
 11 Q. So, the productivity, this business of
 12 productivity comes with costs. Now, don't
 13 customer need to receive a productivity
 14 benefit that's, at least, equal to the cost of
 15 the productivity initiatives?
 16 A. The point of implementing productivity
 17 initiatives would be to bring down the overall
 18 costs to the customer.
 19 Q. But if the customer doesn't receive the
 20 productivity benefit that's, at least equal to
 21 the cost that they bear for productivity
 22 initiatives, for instance, wouldn't they be
 23 facing higher rates due to these improvements
 24 in productivity?
 25 A. Yes, I think that's true.

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1 been in your position?
 2 A. Seems like a long time.
 3 Q. I don't mean up there.
 4 A. Since 2004.
 5 Q. Overall, would you say that Newfoundland Power
 6 is increasing, decreasing or holding steady in
 7 its efforts to improve operational efficiency?
 8 A. We steadily improve operational efficiency,
 9 but it is lumpy. Every year we make
 10 investments, we put in technology, but the
 11 lumpiness with respect to our costs comes
 12 about as a result of things like Early
 13 Retirement Programs. And Mr. Ludlow spoke
 14 about the potential of future Early Retirement
 15 Programs and it doesn't seem that that's a way
 16 we're going to go in the future. We can make
 17 all these improvements and if you look at the
 18 last five years, everything we--you know, we
 19 made a huge gain in 2005/2006 with Early
 20 Retirement Program, but that was because of
 21 all the things we had done up to that point.
 22 In the future, what we look at going down
 23 the road is that the Company is changing a lot
 24 right now with respect to training. We have,
 25 as I put in my testimony, 30 apprentices and a

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1 Q. And would it be true that if the productivity
 2 that's reflected in rates for 2008 is too low,
 3 consumer may actually be made worse off.
 4 A. I don't follow that.
 5 Q. Well, it sort of goes back to you
 6 crystallization comment yesterday, sort of a
 7 rolling concept that Newfoundland Power has to
 8 crystallize the benefits of past capital
 9 investments in 2008 to offset the additional
 10 costs being incurred in 2008.
 11 A. I think what I mean by crystallized is this,
 12 is that we invest in capital, we invest in
 13 technology, we change our processes, we change
 14 our organization, we do all these things and
 15 the term crystallize is used in conjunction
 16 with our Early Retirement Program. And it is
 17 at that point in an Early Retirement Program
 18 when we were able to take 76 people out of the
 19 organization and replace with 21 because of
 20 all those things we've done, that that's when
 21 the full savings, the full savings, our
 22 savings along the way, but the full impact of
 23 everything we've done up to that point are
 24 crystallized.
 25 Q. Which, overall, Mr. Delaney--how long have you

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1 number of new engineers and technologists.
 2 So, that we're in an entirely different
 3 business position today that we were prior to
 4 2005 where we did the Early Retirement
 5 Program. So, there is--all those business
 6 conditions do give you some lumpiness as to
 7 when you actually get the costs out, but we're
 8 continually at operational efficiency.
 9 Q. Is there other types of productivity beyond
 10 labour productivity?
 11 A. I've always seen productivity as a measure, I
 12 guess, in its absolute form, you know,
 13 productivity is how much output you get for
 14 input, but I always think of productivity, in
 15 my own mind anyway, as associated with labour.
 16 Q. But I guess you can work smarter in terms of
 17 handling materials that, more careful use of
 18 assets that you have on hand, cutting down on
 19 non-labour expense here and there as a
 20 reflection of some productivity improvements
 21 within the organization. Would that be fair
 22 too? Does Newfoundland Power look for those
 23 opportunities?
 24 A. Yes, we control our costs in the non-labour
 25 areas. That's something we do, control our

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1 MR. DELANEY:
 2 costs. I don't whether I'd precisely describe
 3 it as productivity, but it could be. I'll
 4 agree that that's a subset of productivity.
 5 That's part of it.
 6 Q. And it's certainly one of your controllable--
 7 part of your controllable expense items, the
 8 non-labour?
 9 A. Non-labour operating costs are part of our
 10 controllable--well, controllable to the extent
 11 balanced off with service.
 12 Q. Yes, and if we could just go back to CA-NP-
 13 361. We spoke of this yesterday, and of
 14 course, we saw that the executive review
 15 resulted in a reduction of 580,000 bucks in
 16 the total labour figure in the approved
 17 budget. Recall that?
 18 A. I recall our discussion that between the
 19 initial forecast submitted and the approved
 20 forecast, there is a change in labour of
 21 580,000, approved by the executive.
 22 Q. That's right, and but would you agree that
 23 the--and I think we agreed yesterday that the
 24 580 is sort of akin to the productivity
 25 allowance that showed up in another RFI.

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1 down.
 2 A. I guess the best I can say about that 2, 000
 3 was that the costs were originally submitted
 4 based on the best data available at the time,
 5 and as you move into it, there was some fine
 6 tuning.
 7 Q. But I understood that the process was the
 8 initial forecast was brought and that initial
 9 forecast was then approved. So there was more
 10 information after that, was there?
 11 A. Yes, when we finalize our forecast for the
 12 Test Year, we would use the best information
 13 available at that time.
 14 Q. And the 2007 forecast numbers in your revised
 15 application, have they been updated to actuals
 16 to see where you are relative to your 2007
 17 forecast?
 18 A. Our 2000--could you repeat that again?
 19 Q. In your revised application.
 20 A. Okay. We updated where there was a material
 21 difference. For instance, we changed our
 22 insurance costs by \$190,000 because we had a--
 23 we knew the insurance policy. So where there
 24 was a material difference, we change. There
 25 would be other little differences, but we

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1 A. Can you--akin, what do you mean by akin?
 2 Q. Well, the 580, if you compare it to CA-NP-47
 3 number.
 4 A. Okay, it described how 531 is a productivity
 5 improvement that management decided to put
 6 against our forecasted wage increases for
 7 2007. So they are related in a way.
 8 Q. In what way are they related?
 9 A. In that the final result is 28,671,000.
 10 Q. And but the--in the final review and approval
 11 process, there was more changes to the initial
 12 forecast on Table 1 of 361 than just labour,
 13 right?
 14 A. Yes, there was certainly a time period in
 15 between the initial forecast and the approved
 16 forecast, so a lot of things changed in that
 17 interval and a lot of discussion and back and
 18 forth and there are some nips and tucks there.
 19 Q. And these nips and tucks were directed by the
 20 executive?
 21 A. Not directed by the executive, but as part of
 22 a process involving all the senior management
 23 as we fine tune our budget.
 24 Q. Just for instance, take the postage line, went
 25 down by \$2,000. I take it stamps didn't go

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1 wouldn't consider them material.
 2 Q. I'm speaking--sorry, Mr. Delaney. I'm
 3 speaking about--and I wasn't clear, not your
 4 fault, I'm speaking about the 2007 forecast
 5 column in the exhibits to the Amended
 6 Application.
 7 A. Okay.
 8 Q. Because that 2007 forecast did not change from
 9 May, the original filing to October, the
 10 revised filing, and I'm just wondering, is
 11 there more solid information on 2007 now?
 12 A. Yes, we would have reviewed that and any
 13 material differences, we would have updated,
 14 but we're pretty well on track with our 2007
 15 forecast.
 16 Q. How recently were they updated to actual?
 17 A. How recently were--our 2007 forecast this
 18 year?
 19 Q. I guess, when was the last time you had an
 20 actuals number for 2007?
 21 A. Our last actuals number for 2007 would have
 22 been at the end of September. We would have
 23 made a run on the system then.
 24 Q. Is it possible to provide that?

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1 KELLY, Q.C.:

2 Q. Not sure where that takes us, an actual set of

3 numbers for part way through the year. Is it

4 of any assistance to the Board?

5 MR. JOHNSON:

6 Q. It's information.

7 KELLY, Q.C.:

8 Q. Pieces of paper for the sake of pieces of

9 paper, if it's provided as assistance, but if

10 we're simply asking for actuals part way

11 through the board, I don't see how it provides

12 any comparative useful information.

13 MR. JOHNSON:

14 Q. Well, I certainly do. I mean, we've got four

15 or five hundred RFIs. We've got information

16 exhibits about all manner of things. We're

17 trying to get a grasp on productivity issue

18 vis-a-vis previous years, including '07

19 relative to '08. I can't believe that it's not

20 of some relevance. Hard to believe that it

21 wasn't.

22 KELLY, Q.C.:

23 Q. In the Board's hands. If the Board believes

24 it's useful, we'll provide it.

25 CHAIRMAN:

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1 the rest of the day?

2 MR. JOHNSON:

3 Q. I'd say about half hour.

4 CHAIRMAN:

5 Q. About a half an hour. When you're ready,

6 please.

7 MR. JOHNSON:

8 Q. I'm a little bit off. Just, and perhaps I

9 should have brought this up with Ms. Newman. I

10 was doing other issues. I think the

11 undertaking that I've asked for, it probably

12 wouldn't make much sense to see that in the

13 absence of seeing the forecast for '07 as

14 well. So would that be a problem?

15 KELLY, Q.C.:

16 Q. So if I understand it correctly, we're looking

17 for the actuals to the end of September and

18 the current forecast to the end of '07?

19 MR. JOHNSON:

20 Q. No, the forecast '07.

21 KELLY, Q.C.:

22 Q. Just the forecast '07.

23 MR. JOHNSON:

24 Q. Yes, to September.

25 KELLY, Q.C.:

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1 Q. If you could provide it, that'll be fine,

2 sure.

3 KELLY, Q.C.:

4 Q. No problem, Mr. Chair.

5 MR. JOHNSON:

6 Q. It's close to that hour, Mr. Chairman. I

7 wonder if you wouldn't mind if we took a break

8 now, as opposed to waiting another five

9 minutes, and I'll try to gather where I am.

10 CHAIRMAN:

11 Q. Okay.

12 MR. JOHNSON:

13 Q. Thank you.

14 CHAIRMAN:

15 Q. We'll come back. We'll just take a half hour

16 and we'll reconvene at 11:25.

17 (BREAK - 10:55 A.M.)

18 (RESUME - 11:26 A.M.)

19 CHAIRMAN:

20 Q. Anything, Ms. Newman, before we get started?

21 MS. NEWMAN:

22 Q. I don't believe so.

23 CHAIRMAN:

24 Q. Mr. Johnson, do you have any idea how much

25 longer you're going to be for scheduling for

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1 Q. To September?

2 MR. JOHNSON:

3 Q. Yes.

4 KELLY, Q.C.:

5 Q. Don't know if there is a forecast by--because

6 you forecast to the end of the year. So

7 whether there's a forecast '07 that can even

8 be produced, I think you forecast to the end

9 of the year.

10 MR. JOHNSON:

11 Q. I don't know if Mr. Delaney can shed any light

12 on that.

13 A. We have actual operating cost to the end of

14 September and there is a forecast that we

15 would produce where we would end up at the end

16 of the year.

17 CHAIRMAN:

18 Q. The end of the year, yes.

19 KELLY, Q.C.:

20 Q. Those are the two things we can produce.

21 CHAIRMAN:

22 Q. Yes, that sounds -

23 MR. JOHNSON:

24 Q. Okay, if that's all they can produce, that's

25 all I need. Can't ask you -

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1 CHAIRMAN:
 2 Q. That would be the normal practice, I would
 3 think, yes. Is that okay?
 4 MR. JOHNSON:
 5 Q. Yes, that's -
 6 KELLY, Q.C.:
 7 Q. Have no problem with either of those, but to
 8 create a forecast to the end of September is -
 9 CHAIRMAN:
 10 Q. Okay, thank you.
 11 MR. JOHNSON:
 12 Q. Just if we could turn up--or if it's not there
 13 now, CA-NP-361. You see that there was, in
 14 the aggregate, \$147,000 taken off the non-
 15 labour expenses at the final approval stage,
 16 Mr. Delaney, that we were talking to before
 17 the break.
 18 A. Yes, the difference between the initial first
 19 cut operating costs forecast and the final
 20 approved operating product that was put before
 21 the Board in Test Year and the other area is
 22 \$147,000 difference.
 23 Q. And some of--could at least some of the 147 be
 24 characterized as non-labour productivity?
 25 A. Non-labour cost management, yes, I would

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1 A. Well, one thing that's happening in the
 2 organization right now is when I look at our
 3 full complement of staff, they participate in
 4 operating--certainly, operating the company,
 5 but we are a big capital company. Many of our
 6 staff is engaged in capital and given the
 7 business conditions that we have right now
 8 where we have so many young linemen, line
 9 apprentices on staff, a part of their training
 10 is bringing them through, like what I'll call
 11 the line construction. So part of--most of
 12 routine sort of lower level line construction
 13 that--not most, but a fair portion of the low
 14 level line construction that we do, we
 15 contract out. So what we are actually--what's
 16 actually happening in the dynamic, as a
 17 company right now, is work that we would
 18 otherwise have contracted out is being done by
 19 these internal apprentices, and certainly
 20 they're on our staff as FTEs. So there's a
 21 balancing going on where we're using less
 22 contract labour and making it up with the
 23 internal apprentices.
 24 Q. Okay. Would it be fair of you to talk about
 25 the collective agreement increases that are

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1 characterize it as that.
 2 Q. Okay, and if we go back to CA-NP-47, would it
 3 be fair to say that the best estimate of the
 4 increase in labour costs in the absence of any
 5 productivity improvement is the 1 million--
 6 gee, I don't know how to even express that.
 7 I'm not even going to try. one million two
 8 thousand dollar increase, how's that?
 9 A. The one million two thousand dollar increase
 10 is based on a calculation looking at the
 11 number of collective agreement people within
 12 the organization and multiplying that by four
 13 percent for their collective agreement wage
 14 increase in 2008 and an assumption of three
 15 percent for management. So the composite is
 16 one million two thousand dollars.
 17 Q. And holding staff levels constant would be
 18 part of that assumption?
 19 A. Holding our FTE. I think our FTE is pretty
 20 well constant, yes.
 21 Q. So I take it then that the productivity and
 22 labour costs that falls out of that, that
 23 would be achieved by reducing staff?
 24 A. No, not necessarily.
 25 Q. Okay, how would that be then?

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1 coming effective '08 and then there's a
 2 management increase coming effective '08 and I
 3 think it was four percent for union, three
 4 percent for management in '08. Is that
 5 correct?
 6 A. Yes, that's correct.
 7 Q. And would it be fair to observe that the
 8 upward pressure on Newfoundland Power's costs
 9 have been fairly consistent over the past
 10 years, over the past several years in terms of
 11 like for instance, with labour, I understand
 12 non-union labour in the past was a little
 13 higher than the three percent that would be
 14 taking place in '08, but on the other hand,
 15 the union wages in the past were a bit lower
 16 than the four percent that's going to be
 17 happening in '08. On the whole, would it be
 18 fair to observe that the upward pressure is
 19 about the same in past years as in '08?
 20 A. No, I don't think so. Wages are one component
 21 of operating labour, wage increases, but there
 22 are many other components of operating labour.
 23 You know, our operating labour, fundamentally,
 24 is in response to what we've got to do to run
 25 the company and serve customers. When I look

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1 MR. DELANEY:
 2 at our costs over the last number of years,
 3 clearly in 2005-2006, through that interval
 4 where we took 76 people out of the company, we
 5 had a nice--we had a big drop in our costs
 6 through that time period. Whereas where I
 7 look where I am right now, in terms of having
 8 30--well, 20 line apprentices and six
 9 engineers and six technologists on board
 10 training, I have some upward pressure. So
 11 wages are one impact on costs, operating
 12 costs, but there are many others.
 13 Q. But the upward pressure, you've got less
 14 people than you had in those previous years,
 15 so where is the upward pressure coming from?
 16 A. We could have less costs if we decided to not
 17 plan for the future and bring people in to
 18 train them, realizing that I have 188 people
 19 retiring and I could do a single year and not
 20 bother with that and have low costs, but we've
 21 got to--we're planning for the future. We
 22 could have less FTEs if I wasn't training line
 23 apprentices and engineers. So we could have
 24 less cost temporarily, but we would pay for
 25 that down the road.

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1 Q. So in '04 to '07, management increase was--the
 2 percentage increase was ahead of union, but in
 3 '08 that's turning around and union's
 4 percentage increase is ahead of management?
 5 A. That's our forecast.
 6 Q. And in terms of general inflationary pressure
 7 in Newfoundland, over these past, say going
 8 back to '04 up to the present, was inflation
 9 tracking higher than its forecast for '08 or
 10 lower or is it about the same?
 11 A. I don't have the inflation rates before me
 12 from 2004 to 2007. I don't know.
 13 Q. Would you accept, subject to subsequent
 14 checking and verification, that inflation in
 15 this province over those years have been equal
 16 or higher than the 2008 forecast for inflation
 17 in the province in 2008?
 18 A. I'd have to see the number.
 19 Q. Okay, and if you could check it and verify it,
 20 that'd be fine.
 21 KELLY, Q.C.:
 22 Q. Hold on now. If the Consumer Advocate is
 23 going to produce some information on inflation
 24 that he then wants the witness to review?
 25 We're not surely being asked to go out and do-

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1 Q. Okay. Let's put it this way. Is the salary
 2 wage increases forecast in '08, which is the
 3 four percent for union, three percent for
 4 management, is that at all significantly
 5 different from past wage increases? I note,
 6 and we don't have to go there, but CA-NP-50
 7 gives a history of non-union salary increases
 8 and CA-NP-48 gives union wage increases and
 9 shows the relative split between union and
 10 management within Newfoundland Power, which
 11 has been pretty constant?
 12 A. Let's get it up.
 13 Q. Sure.
 14 A. Could we scroll down? That's management, just
 15 scroll down some more. I think it must be
 16 another RFI. According to this, our wage
 17 increases for union were--well, they have been
 18 three percent for the last while, from 2005 up
 19 to 2007, with four percent anticipated in
 20 2008. Just scroll down. You'll see that
 21 historically management increases have been in
 22 the 3.1--well, you know, in the last three or
 23 four years, 3.1 and 3.6 and we're forecasting
 24 a number in 2008 that is lower than any other
 25 number on the chart there.

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1 -provide inflation information?
 2 MR. JOHNSON:
 3 Q. I can provide that and have the witness verify
 4 that. That's not a problem. Now, so I take
 5 it, Mr. Delaney, that you would agree that you
 6 had needed--Newfoundland Power had needed
 7 productivity over the last three or four years
 8 to hold the line on total operating costs,
 9 since the last GRA? Or the year since the
 10 last GRA, you needed productivity to hold the
 11 line on operating costs?
 12 A. Yes, productivity has been a major influence
 13 in our management of operating costs in
 14 holding the line.
 15 Q. And would you--relative to the productivity
 16 that Newfoundland Power has enjoyed in the
 17 year since the last GRA, compared to what
 18 anticipates in 2008, would you need more
 19 productivity in 2008 or somewhat similar to
 20 past productivity levels in order to keep a
 21 hold on costs?
 22 A. Productivity does not exactly track costs.
 23 That's the concept I was trying to get through
 24 with respect to the early retirement program.
 25 We build in this productivity and get the

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1 MR. DELANEY:
 2 crystallization of the cost in the early
 3 retirement program when you can get the full
 4 benefits of all the technology and capital
 5 investment that you've made up to that point.
 6 You get the--you can bring down the size of
 7 the organization, bring down the cost
 8 structure of the organization. So I see
 9 productivity improvement as something we do,
 10 you know, as a cost efficiency. We're looking
 11 for ideas all the time to improve productivity
 12 and it goes on and on, but the cost
 13 relationship to productivity can be lumpy as
 14 you get the cost of the system. Clearly there
 15 was a big lump in 2005-2006 as we got--as we
 16 changed the cost structure of the organization
 17 and got all the benefits of everything we had
 18 done up to that point. So the cost
 19 productivity is not an exact in any year
 20 relationship.
 21 Q. If you look at the productivity that the
 22 Company proposes in 2008 and, to my mind, I
 23 look--I keep looking at that CA-NP-361 when on
 24 the final cut there was \$580,000 cut out of
 25 labour, on NP-361, and then there were other

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1 final analysis. So that's the meaning of the
 2 727. It's part of an iterative process
 3 involving all of management. I'm not sure the
 4 question--could you just give me the question
 5 again.
 6 Q. Well, let's--looking at the productivity
 7 figure, I look upon it as perhaps the 727,
 8 maybe you look upon it as the 531, but I guess
 9 the question is a fundamental one, and that
 10 is, we know that productivity comes with a
 11 cost that's borne by the customer and is there
 12 any evidence whereby you can tell me that
 13 "look, don't worry. The cost of getting this
 14 productivity--the productivity in 2007 that
 15 Newfoundland Power is forecasting, that's
 16 sufficient to offset the cost that customers
 17 are bearing in '08 due to those productivity
 18 related investments?" Is there a net gain to
 19 the customer?
 20 A. Productivity, well you mentioned productivity
 21 costs, comes at a cost. We implement
 22 productivity measures to improve our cost
 23 performance, not to increase them, for one.
 24 The ultimate measure in--a utility is in a
 25 completely--it's an interlinked, so many

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1 adjustments made to other operating costs, and
 2 you've indicated all ready that some of that
 3 could be considered finding efficiencies, and
 4 if you did a tally on those number, you come
 5 up to about \$750,000 bucks that being taken
 6 off for '08 and I guess, we talked about the
 7 cost of productivity that customers have to
 8 bear in terms of capital spending, etcetera.
 9 Can you point to anything in Newfoundland
 10 Power's evidence that demonstrates that even
 11 if we call the whole \$727,000 reduction, even
 12 if we call all of that productivity, can you
 13 point to anything to show that that amount is
 14 sufficient to offset the higher costs that are
 15 being borne by customers in 2008, due to
 16 productivity invested--productivity related to
 17 investment?
 18 A. What I'm looking at in 361 is a first cut,
 19 which we provided through an RFI, of a
 20 budgetary process that started around October
 21 of 2006, a first cut. What we see in the
 22 approved forecast, which was many months
 23 later, in March '07, is the final analysis.
 24 That's what that is. That's a comparison
 25 between first cut of doing a budget to the

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1 interlinked functions in the company of many
 2 functions, many people all interlinked. But
 3 when you step back from it all and in the
 4 final analysis, I look at it, I see our
 5 operating costs are stable and I see our
 6 contribution to rates from 2002 to 2008 are up
 7 one percent. That's the assessment we make in
 8 terms of everything we've done in improving
 9 productivity. I can look at my FTE numbers
 10 and they're down six percent from 2002 to
 11 2008. So that is the ultimate measure, I
 12 guess, is what's, at the end of the day, based
 13 on all these interlinked functions within the
 14 utility with productivity. Well, at the end
 15 of the day it's on customer's bills what's on
 16 their rates and it's up, that's the ultimate,
 17 I think, at the end of the day measure of how
 18 successful we have been in managing our cost,
 19 managing our productivity.
 20 Q. But I guess my point that this productivity,
 21 for instance, whether it be through computer
 22 spending, I mean, customers are paying for
 23 that. It has a cost to customers. This is
 24 not free productivity.
 25 A. Productivity, by its essence, is to control

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1 MR. DELANEY:
 2 your costs and to improve as an organization.
 3 I don't understand the concept of free
 4 productivity.
 5 Q. Just let me turn to a bit of a lighter, less
 6 heavy topic anyway. Just on the poles, can I
 7 just understand something? I understand that
 8 when the pole comes out of the ground, that
 9 pole becomes the property of the contractor.
 10 Is that correct?
 11 A. That's correct.
 12 (11:45 A.M.)
 13 Q. And when the contractor stores the pole and if
 14 it can be reused, Newfoundland Power rebuys
 15 the pole at a new price, the current cost of a
 16 new pole?
 17 A. Yes, we buy it at the price that we're buying
 18 poles for the different sizes of poles,
 19 different classes of poles.
 20 Q. And I know that this fits in with the larger
 21 approach to pole management, but I'm just
 22 wondering, Mr. Delaney, how did it--and I
 23 understand that this was tendered, etcetera,
 24 but how did it come to pass that that type of
 25 sort of odd provision would end up as part of

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1 think last year it was about seven percent.
 2 So there's a pole sitting in the contractor's
 3 yard and it can be reused, so it would make
 4 sense to reuse it. So then you think about
 5 how do we administer this. I can get the
 6 contractor to charge me a different price for
 7 the used pole and get him to charge me a
 8 different price for the year of the used pole.
 9 I could get him with the size of the used
 10 pole, whether it's Penta treated or CCA
 11 treated. There's various treatments to the
 12 pole. So I could have that matrix developed
 13 and the contractor can bid in any way on the
 14 price he would give me for the poles of
 15 various ages. I just see an administrative
 16 hassle for no reason whatsoever, because at
 17 the end of the day, the contractor is going to
 18 recover his costs and hopefully make some
 19 profit and keep a competitive market in
 20 Newfoundland. If I say to the contractor,
 21 "all right, I want a different price for used
 22 poles than new poles," the contractor, all the
 23 ones I know anyway, are going to recover their
 24 cost and they would just adjust their prices
 25 accordingly. So what we get, in the end, is a

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1 the contract? Like whose proposal was it that
 2 "we'll pay you a new price for an old item
 3 that we used to own before it came out of the
 4 ground?"
 5 A. Whose proposal specifically?
 6 Q. Yes.
 7 A. It was when we worked with our contractors in
 8 terms of how we would--it would be
 9 Newfoundland Power's proposal.
 10 Q. And were the contractors receptive to that?
 11 A. In what way receptive? They bid on our
 12 contracts, so I guess they're receptive that
 13 they bid on our contracts and entered bids.
 14 Q. And how was the assessment made that this was
 15 actually cheaper than actually paying the
 16 contractor a price for a used pole?
 17 A. Assessment was based on common sense.
 18 Q. Just explain what you mean.
 19 A. Well, if we got a pole that's perfect, in good
 20 condition, that was moved or is back in
 21 inventory because of a--like I said in my
 22 direct, road widening or that sort of matter,
 23 then to reuse would make perfect sense from an
 24 environmental perspective. So we look at our
 25 contractor. It's a very small percentage, I

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1 blended rate.
 2 With respect to the age of poles, if we--
 3 it's not unusual for us to have some of our,
 4 like low use poles for transmission and sort
 5 of stuff like that, like 65-footers or 60-foot
 6 poles in storage for ten years or more
 7 ourselves, you know, to act as contingency,
 8 and when we put them in the ground, they're
 9 new poles, but they've probably been sitting
 10 around inventory for ten years. But the basic
 11 concept is reduce administration. The pole is
 12 perfectly good to use and it makes infinite
 13 sense to me.
 14 Q. Just I want to turn to vacancies for a moment.
 15 I understand you don't track vacancies,
 16 although I'm not quite so sure that's totally
 17 accurate. We can explore it. Because I
 18 understand that you do track lost time due to
 19 injury in the organization?
 20 A. That's correct.
 21 Q. And so you would know if a person has been off
 22 on a workplace accident and you'd know who the
 23 person is and how long they'd been off?
 24 A. Yes, yeah, in the past, yes, we would have,
 25 know how long people have been off.

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1 MR. JOHNSON:
 2 Q. And I know you're into using the FTE, but one
 3 of the information items that I've provided
 4 has to do with FortisAlberta and they use FTEs
 5 too, but they also, as part of that FTE, track
 6 or make an adjustment for vacancy, and if I
 7 could just turn you to that, if you don't
 8 mind, Mr. Delaney. That would be item number,
 9 Information No. 5. This is taken from the
 10 FortisAlberta 2008-2009 tariff application. I
 11 think it was filed in June, and if you scroll
 12 down a little bit, apparently Fortis in
 13 Alberta entered into an agreement referred to
 14 there at line 12 that "for 2006 and 2007 test
 15 years, FortisAlberta will continue to record
 16 and report actual and forecast vacancy rates
 17 for each department. Further, in its next
 18 DTA, Fortis will assume new employees start
 19 work at the forecast date of hire rather than
 20 January 1," and then if you could just go in a
 21 little bit further to page 57, if you could go
 22 up just a little bit more, yes, Table 14 shows
 23 FortisAlberta's corporate FTEs and they show
 24 their 2006 actual and you can just read it
 25 across there, but then they have a note, "FTEs

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1 filled that are going unfilled. WE don't have
 2 that issue as well. We don't have that issue.
 3 FortisAlberta has an SAP work management
 4 system which is driven by a positional type of
 5 work management. So positions are part of the
 6 way they manage, and they manage both ways.
 7 So there are differences on that end.
 8 Just go back to the first page there,
 9 just for some illustrative purposes.
 10 Q. Sure.
 11 A. Lines 13 to 15, "for the 2006 and 2007 test
 12 years, FortisAlberta will continue to report--
 13 record and report actual forecast vacancy
 14 rates for each department. Further, in its
 15 next DTA, FortisAlberta will assume new
 16 employees start work at the forecast date of
 17 hire." Now we do that. In terms of
 18 establishing our FTE process, we do that now.
 19 We make assumptions when we get into doing our
 20 FTE forecast. We make forecasts with respect
 21 to things like maternity leaves, who's going,
 22 who's coming, at what point. It's all on an
 23 employee basis, not on a position basis. It
 24 gets complicated on position basis. We have
 25 various people on LTD who may be coming back,

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1 are defined as all full time and part time
 2 employees adjusted for actual forecast
 3 vacancies and date of hire," and then if you
 4 scroll down a little bit further, you see
 5 Table 15 where they again say as part of their
 6 ongoing NSA commitment, FortisAlberta
 7 continues to track vacancy rates, and the
 8 following table obviously summarizes the
 9 vacancy rates by department, and you know, you
 10 can see that they vary, you know. For
 11 instance, operation is 2.3 percent and actual
 12 '06, etcetera, and now that's a company that
 13 uses FTEs as a sister company. Mr. Karl Smith
 14 is out there now, president, and it just sort
 15 of struck me, they adjust their FTEs for
 16 vacancies and why wouldn't that--would that
 17 not something to consider here? Why are they
 18 doing it and we're not?
 19 A. There's a couple of things. Fortis operates
 20 in a very--FortisAlberta operates in a very
 21 different environment than we do. They are
 22 growing quite a lot. They have an incredibly
 23 tight labour market, from my understanding of
 24 FortisAlberta, a lot of turnover, and they do
 25 have a lot of positions that they need to get

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1 so they would be part of our STE complement,
 2 retirements and hires. So the movement inside
 3 of the work force, in terms of coming and
 4 going, there's a large number of things done
 5 there to come up with our FTE forecast.
 6 Q. How would--if you just go back down a little
 7 further, I guess it would be on the other--
 8 that's page 17, yes. In note one under Table
 9 14, they define what FTEs are and then they
 10 say that these are adjusted for actual
 11 forecast vacancies and date of hire and you've
 12 covered off date of hire, but how would you--
 13 if you wanted to, how would you go about
 14 adjusting FTEs for vacancies, because they're
 15 using FTEs, they're expressing it in terms of
 16 FTEs.
 17 A. I don't know how we would go about it, because
 18 we've moved away from this whole vacancy rate
 19 approach to managing manpower at least ten
 20 years ago. We moved away from it because it
 21 was too rigid and regimented. We didn't have
 22 the systems for it. FortisAlberta has an SAP
 23 system. It may work well for them. And we
 24 thought it was stifling productivity
 25 improvements and new ideas. Like I can give

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1 MR. DELANEY:
 2 you an example of what's happened to the
 3 Company just a little while ago in terms of
 4 how people move around, and trying to track
 5 the positional way that works. We had a
 6 manager who retired. So we think about how
 7 we're going to fill in behind that. How are
 8 we going to execute things after that. How
 9 are we going to get the job done? And so one
 10 of our superintendents became the new manager,
 11 got moved into a manager role. So then we
 12 have another one of our superintendents in
 13 Corner Brook, we decide that he needs a--he's
 14 ready for a new challenge, so we move him into
 15 that other superintendent's position who has
 16 moved up to the manager and moved him into St.
 17 John's. Now that guy in Corner Brook, he was
 18 an engineer, had engineering expertise. So we
 19 replaced him with--now we had a job interview
 20 process inside the company. We replaced him
 21 with a employee that has a customer service
 22 specialty, but he's not an engineer. So I got
 23 to get regional engineering done in western
 24 region where he came from, so the guy who's an
 25 engineer in Grand Falls says "I'll step up.

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1 account.
 2 Q. You did file, in response to CA-NP-40, your
 3 organization chart of March '07. I understand
 4 that this gives all regular positions that
 5 existed at Newfoundland Power as of the 31st
 6 of March, 2007?
 7 A. That is an organizational chart of the
 8 employees of Newfoundland Power as of 2007 and
 9 what position they're--what their position
 10 title is.
 11 Q. Okay.
 12 A. We don't have a system of approved positions.
 13 We're very fluid in that. We don't have a
 14 rigid organizational structure.
 15 Q. Okay. So, but we can put a person's name and
 16 face to everyone of these boxes, at least as
 17 of March 30/07, can't we? Just keep on going
 18 down, Chris, if you would? For instance,
 19 there's the corporate organization, director
 20 internal audit we see in the middle, etcetera.
 21 Keep on going down. Corporate offices, we
 22 have an executive secretary there, we see sort
 23 of in the middle, a load research specialist I
 24 see in the bottom left-hand corner, and the
 25 very bottom, an office coordinator. Keep on

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1 I'll take on that engineering role." So now
 2 he's got a new job, new roles, "but I need
 3 some support." So we bring in a new engineer
 4 just hired and she's working in Grand Falls
 5 now with that engineer. So you look at the
 6 fluidity of how we move people around and
 7 trying to track that by vacancy, vacancy rate,
 8 what's vacant, it just--it would just be
 9 taxing. I don't know how we'd do it.
 10 (12:00 P.M.)
 11 Q. So you're not set up for it even if you wanted
 12 to, basically?
 13 A. We're not going back to vacancy rates
 14 approach, that would be my--I don't think it
 15 would be productive at all.
 16 Q. Well, what's our best measure of--because
 17 actually, you know, there are--we can't ignore
 18 the fact that on the grounds, at any one time,
 19 there are people on LTD, there might be people
 20 on maternity, there might be people injured on
 21 a workplace accident, you know, anything like
 22 that. So what's our best sense of to what
 23 degree that's happening in the organization
 24 and how do we know that we're -
 25 A. Well, we got an FTE forecast which takes into

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1 going down. Internal audit, keep going. Keep
 2 going, if you would. Say occupational health
 3 nurse on this next slide, you know, all sorts
 4 of various positions that people--you know,
 5 people occupy, and I'm just trying to get a
 6 sense, I mean, when you're making your labour
 7 forecast, do you make any assumptions as to
 8 whether these people are going to be there all
 9 year long? I'm sort of struggling with it,
 10 because -
 11 A. Yes, we do, we -
 12 Q. - you do have positions, let's face it, when
 13 you see an ad in the paper, apply for a
 14 position, you know, occupational health nurse
 15 with Newfoundland Power.
 16 A. Yes, we do make changes in our FT forecast.
 17 If one of those employees were going on a
 18 maternity leave or someone were temporarily in
 19 a position, coming back, we make on our best
 20 knowledge at the time we do a forecast, we do
 21 our--we adjust our FTEs accordingly.
 22 Q. But if I knew your organization had, I'll make
 23 it up, 500 FTEs, I can't derive what your
 24 labour bill is going to be coming out of that
 25 because I don't know what person in each

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1 MR. JOHNSON:
 2 position actually gets paid. So how do you
 3 project your labour bill, don't you assume
 4 that the person holding the position is going--
 5 -let's take the occupational health nurse, and
 6 she makes X dollars a year, do you assume
 7 you're going to have to pay her that year?
 8 A. If the occupational health nurse were assumed
 9 to be there for the full year, we would have
 10 to pay her that full year. If the
 11 occupational health nurse were going to be off
 12 for some leave or so, we would incorporate
 13 that into our FTE forecast and she would not
 14 be paid for the year. At the end of the day,
 15 it's our labour costs that the customer has to
 16 pay for.
 17 Q. Yeah. And -
 18 A. Using a flexible FTE system that we use
 19 encourages flexibility. Just think of the
 20 example I told you. We had at least three or
 21 four different positions changed there and
 22 position titles while we went through that
 23 process. We don't have a system that's
 24 continually--we just don't do it that way on a
 25 positional vacancy rate approach.

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1 Q. Okay, thank you.
 2 CHAIRMAN:
 3 Q. Thank you, Mr. Johnson. Good afternoon, Mr.
 4 Young.
 5 MR. YOUNG:
 6 Q. No, I have no questions.
 7 CHAIRMAN:
 8 Q. First of all, let me apologize for not
 9 inviting you to cross-examine yesterday, but
 10 I--or two days ago, whenever it was, Mr.
 11 Ludlow and Ms. Perry. I neglected to do that.
 12 Maybe it was the nature of the intervention,
 13 but in any event.
 14 MR. YOUNG:
 15 Q. It is the nature of the intervention.
 16 CHAIRMAN:
 17 Q. But in any event, it was an oversight and I
 18 apologize for that.
 19 MR. YOUNG:
 20 Q. That's no problem, Mr. Chair.
 21 CHAIRMAN:
 22 Q. You have no cross today?
 23 MR. YOUNG:
 24 Q. I have no cross for Mr. Delaney, thank you.
 25 CHAIRMAN:

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1 Q. So if you're--let's use the example of the
 2 occupational health nurse. If you're saying,
 3 look, we've got this man or woman occupying
 4 this position, they make X amount of dollars a
 5 year, benefits, etcetera, and now we've got to
 6 try to project forecasts forward as to what
 7 our salary and benefits costs are going to be,
 8 and you were talking about--well, do you
 9 assume that position is going to be occupied
 10 the full year?
 11 A. In our FTE forecast, if we know when we do our
 12 budget, if we got a reasonable, make a
 13 reasonable assumption that that person is not
 14 going to be there, then we--it would all
 15 depend on the person and what duties they're
 16 taking. We may get into a situation where
 17 someone else, an occupational health nurse
 18 wouldn't be an example of this, but there may
 19 be others, say, a technologist or someone else
 20 that we may--others may come in and fill that
 21 role or there could be a situation where we
 22 may have to hire a temporary employee to fill
 23 the role. It's very flexible and fluid. And
 24 it just speaks to the complications of trying
 25 to bring in a vacancy rate system.

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1 Q. Thank you. Ms. Newman?
 2 MS. NEWMAN:
 3 Q. I have no questions, Mr. Chairman.
 4 CHAIRMAN:
 5 Q. Any redirect?
 6 KELLY, Q.C.:
 7 Q. No further questions, Mr. Chair.
 8 VICE-CHAIR WHALEN:
 9 Q. No questions. Thank you, Mr. Delaney, it was
 10 very helpful.
 11 CHAIRMAN:
 12 Q. I have just a couple, Mr. Delaney, and I won't
 13 be long. I know that the CEO of Newfoundland
 14 Power actually appeared before us at their
 15 last General Rate Application and he talked
 16 about safety as being, I guess, certainly one
 17 of their number one priorities. And the
 18 Consumer Advocate canvassed some of this this
 19 morning in some of the questions that I would
 20 have asked. I think you indicated that there
 21 are some joint initiatives between yourselves
 22 and Newfoundland and Labrador Hydro, training,
 23 I think you mentioned is one this morning. I
 24 thought you also said that there's no formal
 25 dialogue that takes place in terms of any

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1 CHAIRMAN:
 2 committees or anything like that as it relates
 3 to safety. Did I hear that correctly?
 4 A. Not at the executive level there is no formal
 5 back and forth between the utilities on
 6 safety. I know our respective safety officers
 7 of the two companies do a lot of, you know,
 8 it's probably not formalized, but as part of
 9 their work, they do interact quite frequently.
 10 Q. So how do the joint initiatives and that get
 11 under way, how do they get planned, how do
 12 they get executed?
 13 A. We have two, I guess, formal joint committees
 14 between us and Hydro. One is the Reliability
 15 Committee and the other is the Planning
 16 Committee. And when you get a group of
 17 engineers that run a utility sitting down
 18 running utilities, safety always comes up, you
 19 know, issues of public safety and employee
 20 safety and what we are each doing. You know,
 21 that almost always seems to come up it's just
 22 so ingrained in the utilities. No formal
 23 mechanisms, but a lot of discussion. You
 24 know, anything that comes up, like a few weeks
 25 ago we had an incident that hit the media

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1 had been some discussion that's occurred
 2 between the Board and Newfoundland Power on
 3 this particular issue, and it's public
 4 contacts with power lines and what have you.
 5 You mentioned a contractor, I think, who was -
 6 A. Last August, yeah.
 7 Q. Last August. And there seems to be a greater
 8 incidence of this over the past year or so.
 9 And I know there have been some discussions.
 10 And if you're really not in a position to
 11 answer it, that's fine. But how do you, how
 12 have you dealt with this, I guess, as an
 13 internal, do you see it as an issue with the
 14 incidents, number one, I guess, and secondly,
 15 has there been anything done by Newfoundland
 16 Power over and above, perhaps, what would be a
 17 normal response to respond to this? But it
 18 seems to be a bit of an increase in this area?
 19 A. Yeah. In the area of tree cutting and public
 20 contacts, I just happen to have a memo here
 21 from the 2006, August, 2006 incident. And we
 22 took it extremely serious. And it actually
 23 had come about a couple of months after a
 24 child was killed in Prince Edward Island
 25 having climbed a tree and came in contact with

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1 where we had a street light head fall down and
 2 we responded to that appropriately, you know,
 3 we did inspections and got to the root of the
 4 problem very quickly. And those type of
 5 communications would happen between myself and
 6 Jim Haynes at Hydro, what did you do, what are
 7 you going to do, what's your standards, what
 8 are you looking at, so that sort of thing
 9 happens as a matter of routine between the two
 10 utilities. We're implementing a new standard
 11 right now for safety. We have an ISO 14001
 12 standard for environment and we're now in the
 13 process--we just turned it up, actually, a
 14 couple of weeks ago for OHSAS, sounds like
 15 OHSAS, but notes say OHSAS which is a CEA
 16 approved safety standard which ensures good
 17 practices in a utility. So there's been
 18 discussion back and forth with Hydro on that,
 19 you know, as we went through. Now, Hydro have
 20 not adopted the same system, but they're
 21 looking at various things. A lot of
 22 interaction, but nothing, no formal thing that
 23 we meet every so often to discuss safety, in
 24 particular.
 25 Q. On a related matter, I guess, and I know there

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1 a power line, so the fatality we had in
 2 Newfoundland with the contractor in Deer Lake
 3 Airport happened right after that. And so
 4 right before that just coming off the Maritime
 5 Electric experience we were, you know,
 6 considering things that we could do. And we
 7 formed a group and Hydro were involved and we
 8 did an extremely, what I'll call extremely
 9 aggressive public messaging campaign. I got
 10 the memo here. There's an exhaustive list.
 11 There was a memo that we went to the Public
 12 Utilities Board on January 11th, 2007 that
 13 documented all the things that we did, which I
 14 alluded to in earlier testimony about mail
 15 outs to 15,000 employers, education and
 16 training for the Newfoundland and Labrador
 17 Surveyor's Association and we did a lot of
 18 inspecting, we sent a lot of people out around
 19 lines to check vegetation management and we
 20 responded, you know, in full, I would call it
 21 an in full and aggressive response. It would
 22 be--you know, it's one thing that we're very
 23 serious about. If we could just prevent these
 24 things from happening, it would be just a
 25 great thing. And -

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1 CHAIRMAN:
 2 (12:15 P.M.)
 3 Q. Probably premature to consider the impact of
 4 some of those things at this point in time, I
 5 guess?
 6 A. Well, we got the message out strong last fall,
 7 but it seems to be in the fall that this sort
 8 of thing ramps up. And we do do some targeted
 9 in our safety advertising program, we go
 10 seasonal with our safety advertising program.
 11 In the winter, of course, it's snowmobiles,
 12 you know, going along our power line routes.
 13 And we've had some pretty sad incidents of
 14 safety associated with people colliding at
 15 power lines, as well, on snowmobiles, so our
 16 focus there is in the winter. Then we move to
 17 sort of ads with respect to icing around our
 18 generating stations as we get into the spring.
 19 And as we get into summer and fall our
 20 targeted safety advertising goes at the tree
 21 trimming and the tree, you know, tree cutting
 22 sort of area. So we're conscious of that in
 23 terms of getting the message out there.
 24 Q. Certainly seems to be -
 25 A. Different seasons pose different hazards, you

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1 Could you just address briefly what process
 2 you would engage in to get at that?
 3 A. Well, when we came in in Test Year, we wanted
 4 to show that we were going to continue on cost
 5 efficiencies. So as we went through our
 6 budget process, you know, we manage the
 7 Company, we got a fairly good idea of what's
 8 happening in the intricacies of the Company
 9 and what's achievable. And we look at our
 10 past record as to what's achievable and what
 11 may be achievable in the future, and we set an
 12 aggressive target for ourselves to take out
 13 half of the wage increases while we're in this
 14 what I call training mode. It is an
 15 aggressive target. We think we can do it.
 16 You know, we've got a good record on cost
 17 performance. There's a lot of interesting
 18 things happening out there. I haven't got
 19 them fully quantified, but I talked about our
 20 technical contact process and how, you know,
 21 we got that implemented and how that's working
 22 for out there in the field. And if we can get
 23 more technicians out of routine operations day
 24 to day and into more of our capital program,
 25 that would be a good thing. We think there's

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1 know.
 2 Q. Yes, no I can appreciate it. Seems to be an
 3 escalating issue, though, and hopefully we'll
 4 see some of that having an impact next year,
 5 hopefully. You made a comment on the--I think
 6 with regard to the energy plan and there's a
 7 partnership that's been identified in there, I
 8 guess, with government, the utilities, and I'm
 9 sure others, as well. Is there anything
 10 that's been initiated on that at this point in
 11 time, that you're aware of?
 12 A. I don't think there's been any initiation that
 13 I know of at this point. I've been in kind of
 14 seclusion for a week or so, but -
 15 Q. Yes, no, I can appreciate that. I guess with
 16 the energy plan being so new and government
 17 just going through an election, there's
 18 probably been very little focus. I'm sure, it
 19 will emerge later.
 20 A. We are very ready to participate and really
 21 want to be part of this whole thing.
 22 Q. With regard to the productivity improvement
 23 and 500 and some odd thousand dollars, I
 24 think, you indicated yesterday it was
 25 uncertain how you would achieve that in 2008.

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1 lots of--we now have, through that contact
 2 process, a lot better information as to what
 3 customers are asking us to do and where
 4 they're asking us to do it, you know, where
 5 the busy areas are and where the less busy
 6 areas are and what they're asking us to do,
 7 you know, whether it's service locations,
 8 easements. So having better information in
 9 that area is something we never had before, I
 10 think it's going to lead to some improvements.
 11 There's a lot, there's a myriad of little
 12 things out there. One that I kind of like is
 13 we've got this new Citrix Conference Manager.
 14 We do a lot of travel around to get to safety
 15 meetings, training and all this stuff, and we
 16 used the Citrix Conference Manager this year
 17 to communicate with employees island wide on
 18 various issues, and we see there's some, there
 19 may be some gains there. You know, there are
 20 a large laundry list of things that we could
 21 do to keep moving in that direction. And
 22 that's the principle we work under, that we
 23 haven't got all those perfectly quantified.
 24 And, of course, it's not easy to quantify
 25 every direct link, relationship within a

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1 MR. DELANEY:
 2 company. But overall we gave ourselves the
 3 target to reduce that, get \$530,00 out of that
 4 wage increase.
 5 Q. So you really set your target and then after
 6 you see what opportunities exist to try and
 7 achieve that, is that, is it?
 8 A. That's we set the target and we're going to
 9 work towards the target, that's the principle.
 10 Q. I don't recall, did you have a productivity
 11 target in 2003? I know you weren't -
 12 A. I can't recall.
 13 Q. You mentioned, also, I guess, that one of the-
 14 -in feedback from customers one of their main
 15 sort of concerns would be meter reading. What
 16 is the--what's particularly the major concern
 17 there, is it the fact that they feel the meter
 18 is not read properly and they haven't consumed
 19 as much electricity as otherwise or what's the
 20 bulk of the -
 21 A. It kind of breaks into two groups as I see it.
 22 One is the estimate is not--is off from what
 23 they would expect it to be, and the other
 24 would be it's, you know, your bills are too
 25 high. And it just becomes a--the customer

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1 Q. Nothing arising, Mr. Chairman.
 2 CHAIRMAN:
 3 Q. Okay. What we'll do is we'll take five
 4 minutes now, so enable you to clear the table
 5 and get set up for Mr. Henderson. Is that
 6 okay?
 7 KELLY, Q.C.:
 8 Q. That would be perfect.
 9 CHAIRMAN:
 10 Q. Satisfactory?
 11 KELLY, Q.C.:
 12 Q. Yes.
 13 (RECESS)
 14 (12:33 P.M.)
 15 CHAIRMAN:
 16 Q. Thank you. Ms. Newman, anything before we
 17 begin?
 18 MS. NEWMAN:
 19 Q. Good afternoon, Mr. Chairman. Yes, I did want
 20 to mention that the Consumer Advocate has
 21 provided copies of the requested inflation
 22 information. It hasn't been circulated yet,
 23 it's being copied now and will be circulated
 24 after and the Consumer Advocate can speak to
 25 it later on once its available.

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1 sees us read the meter and so that's how they
 2 associate it with their meter.
 3 Q. Do you do any estimating now with regard to
 4 your meter reading?
 5 A. We do a summer estimating project. And the
 6 other, only other estimating we would do would
 7 be, you know, if we can't get access to the
 8 property and storms and stuff like that, yeah.
 9 Q. Driveway blocked with snow or something of
 10 that nature?
 11 A. Yeah.
 12 Q. Okay. That's all I have. Thank you, very
 13 much. I found your testimony most
 14 informative, actually. And a couple of new
 15 words I jotted down from a business context
 16 that I've heard, peaks and valleys and sort of
 17 increases in trends and fluctuations and
 18 volatility, but lumpiness, I haven't heard
 19 that one before within the context of--I'm not
 20 sure if Ms. Perry would use that as a CA, but
 21 probably an engineer would. But anyway, it's
 22 a good word, I must keep it in mind. Thank
 23 you, very much. Any other questions as a
 24 result of -
 25 KELLY, Q.C.:

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1 CHAIRMAN:
 2 Q. Sure. Do you propose to speak to that later
 3 on, the information that you're providing once
 4 we get it?
 5 MR. JOHNSON:
 6 Q. Yeah, once everyone has see it.
 7 CHAIRMAN:
 8 Q. Okay.
 9 MR. JOHNSON:
 10 Q. Maybe tomorrow is fine, too.
 11 CHAIRMAN:
 12 Q. Sure. Thank you. Mr. Kelly, could you
 13 introduce your witness, please?
 14 KELLY, Q.C.:
 15 Q. Thank you, Mr. Chairman. Mr. Chairman, the
 16 next witness is Mr. Lorne Henderson, Director
 17 of Regulatory Affairs with Newfoundland Power.
 18 CHAIRMAN:
 19 Q. Good afternoon, Mr. Henderson. Welcome.
 20 A. Good afternoon.
 21 MR. LORNE HENDERSON (SWORN)
 22 Q. Once again, welcome. When you're ready, Mr.
 23 Kelly.
 24 KELLY, Q.C.:
 25 Q. Thank you, Mr. Chairman. Mr. Henderson, you

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1 KELLY, Q.C.:

2 are the Director of Regulatory Affairs with

3 Newfoundland Power?

4 A. Yes.

5 Q. And do you adopt Section 4, the Customer Rates

6 and Regulations section of the original

7 evidence, as modified by the supplemental

8 evidence as your testimony in this proceeding?

9 A. Yes.

10 Q. And are there any changes that you wish to

11 make to your pre-filed testimony at this time?

12 A. No.

13 Q. Okay. Could you please explain the changes

14 being proposed to customer rates?

15 A. Yes. A 2.8 percent increase is required in

16 revenue from customers rates. The average

17 proposed rate change by class is provided in

18 Table 24 on page 28 of the supplemental

19 evidence. Chris, could you bring up Table 24,

20 please? Yeah. This table shows the average

21 proposed rate change and how the change

22 proposed for each class relates to the overall

23 average increase of 2.8 percent. Going down

24 through the table we are proposing a 3. 9

25 percent increase for Domestic rate 1.1; a 1. 2

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1 Study. The results of this Load Research have

2 had a major impact on our Cost of Service

3 Study. This has lead the Company to propose

4 that the rate changes vary by class.

5 Q. Would you explain how the results of the Load

6 Research Study impacted the Cost of Service

7 Study, please?

8 A. Within the Cost of Service Study a large

9 portion of the Company's costs are related to

10 demand during the time of system peak. These

11 are referred to as demand-related costs. The

12 demand-related costs are allocated to each

13 class based on an estimate of the contribution

14 that each class makes to the system peak.

15 This is where the Load Research comes into

16 play. The Load Research Study determines the

17 relative contribution of each of the customer

18 classes to the Company's peak demand. It is

19 on the basis of this relative contribution

20 that the demand-related costs are allocated to

21 the various customer classes. Chris, could we

22 pull up on the screen Table 54 on page 114 of

23 the Company's evidence? Table 54 compares the

24 results of the Cost of Service Study based on

25 the old load research data and the new load

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1 percent decrease for General Service rate 2.1;

2 a .2 percent decrease for the General Service

3 rate, 2.2; a 1.8 percent increase for the

4 General Service rate 2.3; and the average

5 increase of 2.8 percent for both the General

6 Service rate 2.4 and the Street and Area

7 Lighting rates.

8 Q. Why are you proposing that the rate changes

9 vary by class?

10 A. The primary guide in determining how the

11 Company's revenue requirement should be

12 recovered from each customer class is the Cost

13 of Service Study. The Cost of Service Study

14 is used to assess how fair the rates are in

15 apportioning costs to customers. The Cost of

16 Service Study takes the Company's embedded or

17 historical cost of providing service and

18 allocates these costs to various classes of

19 customers. By comparing the resulting costs

20 allocated to each class with existing rate

21 revenue from that class an assessment is made

22 of how fairly existing rate revenues recover

23 the cost of providing service to each class.

24 Since the Company's 2003 General Rate

25 Application, we have completed a Load Research

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1 research data. The results are expressed in

2 terms of revenue-to-cost ratios. A revenue-

3 to-cost ratio greater than 100 percent

4 indicates that revenues recovered from the

5 class exceed the cost of serving that class.

6 Conversely, when a revenue-to-cost ratio is

7 less than 100 percent, this indicates the

8 revenues recovered are less than the cost of

9 serving the class. Ideally, the revenue-to-

10 cost ratio should be close to 100 percent. As

11 Table 54 shows, incorporating the results of

12 the new load research data into the Cost of

13 Service Study has resulted in an increase in

14 the revenue-to-cost ratios for the General

15 Service classes and a decrease in the revenue-

16 to-cost ratios for the Domestic class and

17 Street and Area Lighting class. This change

18 reflects a reduction in cost allocated to

19 General Service classes and an increase in

20 cost allocated to the Domestic and Street and

21 Area Lighting class. There are two main

22 reasons why this has occurred. The first is

23 related to the change in the time of system

24 peak and the second is related to having

25 better and more current load data for the

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1 MR. HENDERSON:
 2 small General Service classes served under
 3 rates 2.1 and 2.2.
 4 Q. How did the change in the time of the system
 5 peak influence the allocation of costs to the
 6 various rate classes?
 7 A. The current Load Research Study shows that the
 8 load patterns for General Service and Domestic
 9 customers vary during the day. The General
 10 Service load is typically at its highest in
 11 the morning whereas the Domestic load tends to
 12 be at its highest in the evening. At the time
 13 of the previous Load Research Study, the
 14 system peak was a morning peak. As a result a
 15 higher proportion of the load contributing to
 16 the peak was attributable to the General
 17 Service customers. Since the last Load
 18 Research Study the time of system peak has
 19 changed. It now tends to occur in the
 20 evening. Because this is the time when the
 21 Domestic load tends to be at its highest, a
 22 higher proportion of load contributing to the
 23 system peak is now Domestic load. This
 24 results in a higher proportion of demand-
 25 related costs being allocated to the Domestic

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1 recovery among the various rate classes.
 2 There is a certain element of judgment in
 3 allocating cost in the Cost of Service Study.
 4 It is therefore not considered necessary to
 5 achieve a revenue-to-cost ratio of precisely
 6 100 percent for each rate class, nor may it
 7 practically be possible. It has been
 8 Newfoundland Power's long-standing practice to
 9 design rates so that to the extent practical
 10 the revenue-to-cost ratios of its customer
 11 classes are within a range of 90 percent to
 12 110 percent. This practice, which has been
 13 deemed reasonable by the Board in the past, is
 14 intended to insure that there is no undue
 15 cross subsidization among the various classes.
 16 As can be seen in Table 54, the revenue-to-
 17 cost ratios are above 110 percent for three of
 18 the General Service classes. It is desirable
 19 that these classes be brought back within
 20 their cost recovery range of 90 percent to 110
 21 percent. To minimize the overall impact of
 22 the proposed rate change on individual
 23 customers and on customer classes Newfoundland
 24 Power is proposing a gradual approach to bring
 25 in all customer classes back within an

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1 class and contributes to the change in
 2 revenue-to-cost ratios shown on Table 54.
 3 Q. And the other factor that you mentioned
 4 contributing to a change in the revenue-to-
 5 cost ratios was better and more current data.
 6 Could you just explain that?
 7 A. The new Load Research data provided better
 8 load data on the General Service Customers on
 9 rate 2.1 and 2.2. The improved data resulted
 10 in a reduction in the Company's estimate of
 11 the relative contribution of these two classes
 12 to peak. This factor contributed further to
 13 the change that has occurred in the revenue-
 14 to-cost ratios for these two classes.
 15 Q. So how did new revenue-to-cost ratios
 16 influence your rate proposal?
 17 A. Referring again to Table 54, which is still on
 18 the screen, you'll observe that the revenue-
 19 to-cost ratios in the title, in the column
 20 titled, "New Load Research" range from a low
 21 of 93.7 percent for the Domestic class to a
 22 high of 119.8 percent for the small General
 23 Service Customers on rate 2.1. As I've
 24 indicated, the Cost of Service Study serves as
 25 a guide to assessing the fairness of cost

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1 acceptable range. Now let's look again at
 2 Table 24 on page 28 of the supplemental
 3 evidence. The class rate changes relative to
 4 the proposed average increase of 2.8 percent
 5 are provided in the last column to the right.
 6 This column shows that the Company is
 7 proposing a lower than average rate change for
 8 the three General Service classes with
 9 revenue-to-cost ratios currently above 110
 10 percent. To offset this the proposed rate
 11 change for the Domestic class is higher than
 12 the average increase. These changes go
 13 approximately halfway towards bringing all of
 14 the revenue-to-cost ratios within the 90
 15 percent to 110 percent range. In its next
 16 rate application the Company intends to
 17 present rate proposals that will bring all
 18 classes within the 90 to 110 percent range.
 19 Q. Will individual customers within each rate
 20 class receive the same percentage change in
 21 their bills?
 22 A. No. Because the proposed adjustments to the
 23 various rate components, such as the Basic
 24 Customer Charges and the Demand and Energy
 25 Charges are not equal and because of variation

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1 MR. HENDERSON:
 2 in usage between customers, the percentage
 3 change experienced by customers within each
 4 class will vary.
 5 Q. Why has the Company proposed different
 6 percentage adjustments to the various rate
 7 components?
 8 A. The different percentage adjustments proposed
 9 for various rate components arise out of the
 10 results of the recently completed Marginal
 11 Cost Study. The Marginal Cost Study includes
 12 both Hydro's marginal cost of generation and
 13 transmission and Newfoundland Power's marginal
 14 cost related to distribution and customer
 15 service.
 16 (12:45 P.M.)
 17 Based on the results of the Marginal Cost
 18 Study the Company has observed several things.
 19 First, marginal cost on the system exceed the
 20 average cost recovered in customer rates.
 21 Second, practically all marginal generation,
 22 transmission and distribution demand costs are
 23 related to the winter season demand
 24 requirements. And finally, marginal energy
 25 costs are substantially the same year round.

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1 The Basic Customer Charge will remain
 2 unchanged. For General Service customers a
 3 similar approach was taken in that the tail
 4 block energy charges were modified to better
 5 reflect margin energy costs while the Basic
 6 Customer Charges are proposed to remain
 7 unchanged. To better reflect seasonal
 8 differences in margin demand costs, the
 9 differential between the winter and non-winter
 10 demand charges for General Service customers
 11 is to be increased. The changes to the
 12 individual rate components were also
 13 influenced by customer bill impacts. This is
 14 to limit the impact of the rate changes on
 15 individual customers.
 16 Q. Let's look at that next, then. Would you
 17 describe the impacts of the rate proposals on
 18 customers?
 19 A. For our customers in the Domestic and General
 20 Service classes, except for customers on rate
 21 2.1 the percentage increase will be higher for
 22 higher usage customers. For customers on rate
 23 2.1 higher usage customers will actually get a
 24 greater percentage decrease. Individual
 25 customer impacts across all rate classes will

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1 Economic theory suggests that prices based on
 2 margin cost will encourage customers to use
 3 electricity in an efficient manner. In
 4 modifying our rates to better reflect margin
 5 cost, we have taken into account sound rate
 6 design criteria such as rate stability,
 7 fairness and efficiency and practical
 8 considerations such as the ability of the
 9 customer to understand the rate design.
 10 Q. Next would you please provide us with an
 11 overview of the Company's Rate Design
 12 Proposals?
 13 A. The Company's Rate Design Proposals are listed
 14 in Section 5.3 on page 29 of the supplemental
 15 evidence. Could we please have that on the
 16 screen, Chris? With the exception of the
 17 proposal to make no change to the Basic
 18 Customer Charge for Domestic customers, all of
 19 the Company's rate proposals have been agreed
 20 upon by the Parties to the Settlement
 21 Agreement. I will summarize the main Rate
 22 Design Proposals. For Domestic Customers
 23 Newfoundland Power is proposing to apply the
 24 full rate increase to the energy charge to
 25 better reflect current marginal energy cost.

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1 range from decreases of 3.9 percent to
 2 increases of 4.4 percent. While a very small
 3 portion of General Service customers will
 4 experience increases above 4 percent,
 5 approximately 30 percent of Domestic customers
 6 will see increases above four percent.
 7 Exhibit 11.1 to the supplemental evidence
 8 provides detailed customer bill impacts for
 9 the Domestic and General Service customers.
 10 Q. Now, as you mentioned a moment ago, the
 11 Settlement Agreement includes an agreement on
 12 Cost of Service Methodology and Rate Design,
 13 but the issue of the Basic Customer Charge for
 14 the Domestic customers was not agreed upon.
 15 Why is the Company proposing to leave the
 16 Domestic Basic Customer Charge unchanged?
 17 A. The Company's proposal to leave the Basic
 18 Customer Charge unchanged at this time is an
 19 attempt to balance three considerations. One
 20 consideration is fairness in recovery of
 21 costs, another is the efficiency reflected in
 22 rates and third is the rate impact on
 23 individual customers.
 24 Q. How do the components of the Domestic rate
 25 compare to costs?

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1 MR. HENDERSON:
 2 A. The Company's evidence on this is set out
 3 principally in the Rate Design Review which is
 4 found in Volume 2 at Tab 13 of the original
 5 filing. Could we please have Table 3 on page
 6 5, the Rate Design Review on the screen,
 7 Chris? Table 3 provides a comparison of the
 8 Basic Customer Charge to embedded and marginal
 9 costs. As can be seen, the Basic Customer
 10 Charge which following the July 1 rate
 11 adjustment is now \$15.60 is below the
 12 comparable customer-related cost shown in the
 13 other columns. Embedded costs, according to
 14 the Cost of Service Study, are \$20.88,
 15 marginal costs, according to the Marginal Cost
 16 Study are \$20.90. I would also direct your
 17 attention to the right-hand column headed
 18 "Maximum Basic Customer Charge." The figure
 19 shown in that column, \$16.95, was calculated
 20 in accordance with an agreement reached
 21 between the Parties through mediation at
 22 Newfoundland Power's 2003 General Rate
 23 Application. The Parties agreed at that time
 24 to cap the Basic Customer Charge for Domestic
 25 customers to recover no more than 50 percent

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1 of the existing charge to cost, it is also
 2 reasonable to increase the energy charge.
 3 Q. So, given that there's a justification for
 4 increasing both the basic customer charge and
 5 the energy charge, why does Newfoundland
 6 Power's rate proposal place the entire
 7 increase on the energy charge?
 8 A. To promote the efficient use of electricity
 9 prices should be set with due consideration
 10 for marginal cost. In this regard consumption
 11 charges are more important in promoting
 12 efficient use than fixed charges such as the
 13 Basic Customer Charge which do not vary with
 14 use. Newfoundland Power's proposal to recover
 15 all of the required increase through the
 16 energy charge maintains a reasonable level of
 17 recovery of customer-related costs while
 18 improving the extent to which Domestic energy
 19 charge reflects marginal costs.
 20 Q. Would you please comment on the customer rate
 21 impacts of the proposal then for the Domestic
 22 class?
 23 A. The customer rate impact of the Company's
 24 proposal for the Domestic class is shown in
 25 Exhibit 11.1. Chris, could we please have

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1 of the customer-related distribution costs
 2 beyond the service draw. This agreement to
 3 cap the Basic Customer Charge reflected a
 4 recognition that there is disagreement among
 5 Cost of Service experts as to the amount of
 6 distribution costs that should be assigned to
 7 customer related. As you can see in Table 3,
 8 the Company's Basic Customer Charge in
 9 addition to being below the embedded and
 10 marginal cost is also below the level of the
 11 cap agreed to at the last GRA. So, based
 12 strictly on a comparison of the level of the
 13 existing charge to customer-related cost,
 14 there is justification to increase the basic
 15 customer charge. However, the overall
 16 increase in the revenue requirement for the
 17 class and whether the level of the existing
 18 energy charge is appropriate are also relevant
 19 considerations. Chris, can you now bring up
 20 Table 4 from the same document? Table 4
 21 compares the energy charge to embedded and
 22 marginal demand in energy costs. This table
 23 shows that the energy charge is also below
 24 both marginal and embedded costs. Therefore,
 25 based on strictly on a comparison of the level

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1 11.1, Table 1 on the screen? Table 1 shows
 2 the percentage change in customers annual cost
 3 resulting from the proposed rate increase and
 4 the percentage of Domestic customers reflected
 5 by--affected by various changes of impacts.
 6 The column headed, "Percent Change in Annual
 7 Costs" shows that customer impacts will range
 8 from zero percent to a maximum of 4.3 percent.
 9 Over 30 percent of Domestic customers will
 10 experience rate impacts in the highest range
 11 shown on the table, 4 percent to 4.3 percent.
 12 While these impacts are considerably higher
 13 than the overall average increase of 2.8
 14 percent, they are reasonable in light of the
 15 need for an above average increase for the
 16 Domestic class.
 17 Q. Now, Mr. Bowman, for the Consumer Advocate,
 18 has proposed that the Basic Customer Charge be
 19 reduced by a dollar. Would you comment on his
 20 proposal?
 21 A. Yes. Mr. Bowman's proposal to decrease the
 22 Basic Customer Charge will result in higher
 23 increases to many Domestic customers than that
 24 proposed by the Company. The maximum customer
 25 impact of Newfoundland Power's Domestic

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1 MR. HENDERSON:
 2 proposal is a 4.3 percent increase. Mr.
 3 Bowman's proposal will result in a maximum
 4 increase of about 4.9 percent. Under Mr.
 5 Bowman's proposal approximately 20 percent of
 6 Domestic customers will experience increases
 7 higher than the maximum increase under the
 8 Company's proposal.
 9 Q. So about 20 percent of Newfoundland Power's
 10 Domestic customers would then get a rate
 11 increase of between 4.3 and 4.9 percent, is
 12 that correct?
 13 A. That's correct.
 14 Q. Okay. Could you continue?
 15 A. Reducing the Basic Customer Charge for the
 16 Domestic class and increasing the energy
 17 charge, as proposed by Mr. Bowman, would bring
 18 the energy charge closer to margin cost, thus
 19 improving the efficiency of the price signal.
 20 However, Mr. Bowman's proposal would reduce
 21 cost--reduce recovery of customer-related
 22 costs below the current level. Currently
 23 Basic Customer Charge recovers only 75 percent
 24 of the embedded customer-related costs. The
 25 Retail Rate Review will focus on rate design

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1 Newfoundland, but that is not correct. In
 2 fact, Newfoundland Power supplies both rural
 3 and urban customers. It is therefore my view
 4 that rural basic customer charges should not
 5 have been excluded from Mr. Bowman's table.
 6 In NP-CA-1 Newfoundland Power asked Mr. Bowman
 7 to restate his table to include the Basic
 8 Customer Charge for rural customers. Chris,
 9 can you please show us NP-CA-1? In this
 10 table, for those utilities with both urban and
 11 rural rates Mr. Bowman has provided the
 12 average of the Basic Customer Charges. The
 13 second column provides the Basic Customer
 14 Charges for Domestic customers. If you scroll
 15 up a little bit, you can see. You can see in
 16 this it's actually referred to as residential.
 17 For--as you can see, the Basic Customer
 18 Charges range from \$27.81 for customers
 19 supplied through ATCO Electric System to a low
 20 of \$3.69 for customers supplied by BC Hydro.
 21 For utilities in Atlantic Canada Newfoundland
 22 Power's Basic Customer Charge is the second
 23 lowest behind Nova Scotia's, which is \$10.83.
 24 At the bottom of the column the simple average
 25 of the Basic Customer Charge is shown at

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1 changes that improve the efficiency of the
 2 price signal while maintaining reasonable cost
 3 recovery. The Company believes the
 4 appropriate level of the Basic Customer Charge
 5 needs to be considered as part of the upcoming
 6 rate review. Decreasing the Basic Customer
 7 Charge to increase the energy charge at this
 8 time may be premature.
 9 Q. In his pre-filed evidence Mr. Bowman included
 10 a survey of Domestic customer charges to
 11 support his proposal for a one dollar
 12 reduction in the Basic Customer Charge. Would
 13 you comment on that survey?
 14 A. Yes. Chris, can you please bring up page 15
 15 of Mr. Bowman's pre-filed evidence? In the
 16 table we see here Mr. Bowman provides a simple
 17 average of the Domestic Basic Customer Charges
 18 from across Canada. The Basic Customer
 19 Charges are taken from Newfoundland Power's
 20 response to CA-NP-259. In his table Mr.
 21 Bowman excluded the Basic Customer Charges for
 22 rural customers. Footnote 1 to Mr. Bowman's
 23 table suggests that this was done on the basis
 24 that only Newfoundland and Labrador Hydro
 25 provides service to rural customers in

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1 \$15.28. This average is not much different
 2 than the Company's current Basic Customer
 3 Charge of \$15.60. In the Consumer Advocate's
 4 Information Item No. 12 a 2002 survey of Basic
 5 Customer Charges is included. Based on this
 6 survey it appears that the simple average of
 7 Basic Customer Charges from across Canada has
 8 increased by about \$2 since 2002. During the
 9 same time Newfoundland Power's Domestic Basic
 10 Customer Charge was reduced by about \$1.20.
 11 So in comparison to the Basic Customer Charge
 12 of other utilities in Canada, Newfoundland
 13 Power's Domestic Basic Customer Charge does
 14 not appear to be unreasonable.
 15 (1:00 P.M.)
 16 Q. Would you please summarize your views on the
 17 Domestic Basic Customer Charge issue?
 18 A. Overall, the Company's proposal is a
 19 reasonable balance of fairness, efficiency and
 20 customer impacts. The proposed customer rates
 21 place an emphasis on increasing energy charges
 22 in order to better--in order to provide a
 23 better pricing signal to customers to use
 24 electricity efficiently. Meanwhile,
 25 decreasing the Basic Customer Charge would

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1 MR. HENDERSON:
 2 further erode the recovery of customer-related
 3 costs and would result in higher bill
 4 increases to customers whose increase will
 5 already be well above the average increase. I
 6 believe that the upcoming comprehensive rate
 7 review is the appropriate forum to contemplate
 8 changes to the Basic Customer Charge.
 9 Q. Let's turn to that. Would you please comment
 10 next on the upcoming rate review process?
 11 A. Sure. It's timely that a rate review be
 12 conducted now, given the new information
 13 that's available from the Marginal Cost Study
 14 and the Provincial Energy Plan and the
 15 information that will be available when the
 16 Conservation and Demand Management Potential
 17 Study is completed later this year. We will
 18 also consider recent experience with rates in
 19 other jurisdictions. While the detailed scope
 20 of the study, the rate review, has not yet
 21 been developed, it is expected that the review
 22 will be comprehensive. The basic objective of
 23 the review is to provide for increased
 24 emphasis on energy efficiency in the rate
 25 designs. The review will focus on both

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1 will have an opportunity to respond, provide
 2 their own expert reports and any other
 3 additional data and analysis they may wish to
 4 contribute to the process.
 5 The agreed framework provides for a
 6 technical conference to be held in 2009
 7 involving all interested parties.
 8 Participants will examine and provide
 9 perspective on what rate structure should be
 10 used by Newfoundland Power. The goal is to
 11 settle on appropriate rate designs for
 12 Newfoundland Power's customers for inclusion
 13 in the Company's next General Rate
 14 Application. It has also been agreed that the
 15 parties may ask the Board to convene a rate
 16 design hearing if there are outstanding issues
 17 to resolve.
 18 KELLY, Q.C.:
 19 Q. Now, the application proposes that the
 20 purchase power unit cost variance reserve be
 21 discontinued and that a demand management
 22 incentive account be approved. The
 23 Application also proposes a change to the rate
 24 stabilization clause to provide for the
 25 reasonable recovery of energy supply costs,

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1 Domestic and General Service rates and will
 2 look at a variety of alternative rate
 3 structures, including rates that vary by
 4 season, by time of day and by consumption
 5 level. The question of whether to implement
 6 these alternative rates on a mandatory or
 7 optional basis will also be addressed.
 8 Assessing the rate alternatives will involve
 9 balancing of many considerations, including
 10 fairness, efficiency, customer cost impacts
 11 and the customer acceptability of any new rate
 12 design. The framework for this review
 13 provides for a process that is scheduled to
 14 begin this fall and be completed in 2009.
 15 During the fall of 2007 the process will
 16 primarily consist of the development of the
 17 scope of a study to be completed by
 18 Newfoundland Power.
 19 We will be consulting with the Consumer
 20 Advocate, Newfoundland and Labrador Hydro and
 21 Board staff with respect to the scope of the
 22 study. During 2008, Newfoundland Power will
 23 undertake and complete the study and
 24 distribute a copy to the other parties
 25 involved in the process. The other parties

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1 that's the new energy supply costs variance
 2 clause. And the Settlement Agreement has been
 3 reached on both of those issues. But could
 4 you please explain how these items are related
 5 and generally what they're trying to do?
 6 A. The purchase power unit cost variance reserve
 7 was introduced in 2005. Its purpose was to
 8 limit the impact on the Company of purchase
 9 power cost variances that resulted from the
 10 introduction of a demand in energy rate from
 11 Newfoundland and Labrador Hydro, while
 12 providing the Company with an incentive for
 13 demand management. However, this reserve was
 14 never designed to deal with the current supply
 15 cost dynamics on the system. Because the
 16 marginal cost of supplying now exceeds the
 17 average cost of supplying included in customer
 18 rates, any customer load growth will erode the
 19 Company's ability to recover energy supply
 20 costs beyond the Test Year. As noted in the
 21 evidence, it is necessary to have a mechanism
 22 to provide for a reasonable recovery of energy
 23 supply costs and avoid additional regulatory
 24 proceedings. The difficulty in modifying
 25 existing variance reserve is that it

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1 MR. HENDERSON:
 2 encompasses both energy and demand costs. To
 3 ensure transparency and avoid duplication, the
 4 Company has proposed separate mechanisms to
 5 deal with the demand and energy components of
 6 purchased power.
 7 The demand management incentive account
 8 is explicitly related to the demand component
 9 of purchase power cost. The demand management
 10 incentive account preserves the incentive for
 11 demand management as originally provided by
 12 the purchase power unit cost variance reserve
 13 and also retains the requirement to apply to
 14 the Board for the disposition of any balance.
 15 The energy supply cost variance clause is
 16 explicitly related to the energy component of
 17 purchase power cost. This is a specific
 18 response to the new energy supply cost
 19 dynamic. It is designed to recover, through
 20 the RSA, the energy supply cost variance
 21 related specifically to the difference between
 22 purchasing energy at the second block energy
 23 charge in the wholesale rate and the Test Year
 24 energy supply cost provided for in customer
 25 rates.

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1 you want to move to the bottom of the screen.
 2 Q. Oh, I'm sorry.
 3 A. Yes, the maximum increase is 4.93 percent,
 4 approximately.
 5 Q. And I take it that this impact relates to
 6 pretty high consumption in customers, would
 7 you agree with that statement?
 8 A. That's correct, well, you know, customers
 9 anywhere above 2000 kilowatt hours will be
 10 receiving increases above Newfoundland Power's
 11 proposal and I would note that I think our
 12 average, all-electric single attached home has
 13 a consumption of roughly 23, 2400 kilowatt
 14 hours per month.
 15 Q. But does this, can you confirm that customers
 16 who would consume less than 1200 kilowatt
 17 hours a month, that that--customers fitting
 18 into that category would represent about 57
 19 percent of the Customer class and they would
 20 see reduced bills if the basic customer charge
 21 is reduced by \$1.00 a month?
 22 A. I haven't worked out 57 percent as to whether
 23 that's accurate. I recognize that all the
 24 columns, I guess, below 1200 kilowatt hours
 25 are customers that will receive a decrease in

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1 The parties have agreed that this clause
 2 will apply to the recovery of purchase power
 3 expense to the end of 2010. To extend beyond
 4 2010, the clause will have to be reviewed by
 5 the Board.
 6 KELLY, Q.C.:
 7 Q. Mr. Henderson, does that conclude your
 8 testimony?
 9 A. Yes, it does.
 10 Q. Thank you, Mr. Chair.
 11 CHAIRMAN:
 12 Q. Thank you, Mr. Kelly. Mr. Johnson.
 13 MR. JOHNSON:
 14 Q. Thank you, Mr. Chairman. Good afternoon, Mr.
 15 Henderson.
 16 A. Hello.
 17 Q. Can I direct you to CA-NP-449, 1st Revision?
 18 I think we have to go down a bit further, next
 19 page. Would you confirm that with the impact
 20 of a \$1.00 reduction in the basic customer
 21 charge that the worse case scenario, in terms
 22 of a customer impact, is an increase of about
 23 .6 percent compared to what Newfoundland Power
 24 has proposed, right?
 25 A. Yes, that's correct. Chris, I don't know if

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1 their rate from Newfoundland Power. The total
 2 on the right-hand column, you know,
 3 circumspectively, you know, 57 percent may be
 4 about right.
 5 Q. Okay, and would it be correct, again look at
 6 that that customers consuming 1500 kilowatt
 7 hours a month would pretty much see the same
 8 bill impacts, whether the basic customer
 9 charge is frozen at the current level or
 10 reduced by a \$1.00 a month?
 11 A. What range were you referring to?
 12 Q. 1500.
 13 A. 1500 to 2000? The customers in that range
 14 would have a higher increase. I think looking
 15 at CA-NP-197, which is the comparative table
 16 that's one on the same basis, I would say it's
 17 probably the range of 1200 to 1500, you know,
 18 within that range somewhere the break-even
 19 point is.
 20 Q. Just if we could go back to CA-NP-449, 1st
 21 Revision, I take it that consumers who consume
 22 more than 2000 kilowatt hours a month
 23 represents--my math says about 15.7 percent of
 24 the customers in the Domestic class?
 25 A. Above 2?

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1 MR. JOHNSON:
 2 Q. Above 2000.
 3 A. That seems to be roughly correct, yes.
 4 Q. And the range that they would see in terms of
 5 higher bills would range from .29 percent to
 6 .63 percent?
 7 A. Can you just--you're talking about the
 8 relative impacts compared from one proposal to
 9 the other?
 10 Q. Yes.
 11 A. I compare the two at around 2000 kilowatt
 12 hours, the low end of the range is, yes, about
 13 .29 percent, you know, Mr. Bowman's proposal
 14 would result in a .29 percent increase for
 15 customers at around 2000. And what was the
 16 other level you mentioned?
 17 Q. I said more than 2000, up to--well I guess,
 18 even up to the highest it would be .63 is
 19 where it would max out.
 20 A. Right, yes.
 21 Q. So subject to the Math and the checking of the
 22 actual percentages in terms of the number, the
 23 proportion of the Domestic customers, our Math
 24 would seem to indicate, you know in summary,
 25 that about 67.5 percent of Domestic customers

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1 usage customers largely have, you know, beared
 2 the brunt, let's say, of the increasing fuel
 3 costs over the years as all of those increases
 4 would have gone on energy charges and they
 5 would have, you know, had those increases.
 6 (1:15 p.m.)
 7 Q. And I take it line 40, which is what we're
 8 seeing here is the customer proportion of
 9 customers in the Domestic class who consume
 10 between 2500 to 3000 kilowatt hours a month
 11 and that's at 3.55 percent?
 12 A. Yes.
 13 Q. And over 3000 would be 1.45 percent of
 14 customers?
 15 A. That's right.
 16 Q. And I guess sort of obvious, but could we
 17 agree that even with the worse case impact
 18 under Mr. Bowman's proposal, that that is
 19 still about 2 percent less of an impact than
 20 Newfoundland Power had proposed for those
 21 customers in its original application in May?
 22 Because you had proposed originally, I
 23 understand, something in the order of a 7
 24 percent increase for those higher consumption
 25 customers at that time?

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1 would either see a bill reduction relative to
 2 your Newfoundland Power's proposal on the
 3 basic customer charge, or a very, very modest
 4 increase at the most of about .1 percent?
 5 A. It's going to take me a while to verify. As I
 6 know that the break-even point between the two
 7 impacts, seems to be between--somewhere
 8 between 1200 and 1500, so any customer
 9 somewhere, maybe 1300, 1400 kilowatt hours,
 10 any customer larger than that would see a
 11 higher increase and that would be, I guess
 12 somewhat complimentary to the 57 percent
 13 probably that we were talking about or
 14 thereabouts, you know. Anyway -
 15 Q. I guess the Math is what it is at the end of
 16 the day.
 17 A. The Math is what it is, you know, but there is
 18 a significant portion of customers that are
 19 going to get higher and of course, there is
 20 going to be a significant portion of customers
 21 that are going to get lower, you know. My
 22 concern or, you know, is with regard to the
 23 increases, the above-average increases that
 24 you give customers, you know, they're already
 25 getting above-average increase and these high

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1 A. Yes, just a minute. If I can dig out the
 2 original one so that I can consult it. Can
 3 you tell me if this is CA-NP-449, non 1st
 4 version, you know, that -
 5 Q. Yeah, I hear you, it's CA-NP-197.
 6 A. The original one, okay. Okay, so what -
 7 Q. Line, I take it that this represents, what
 8 we're seeing on the screen now, the top table
 9 represents what the original rate impact was
 10 from the May application. Say line 20, line
 11 21, as I see it, line 20 refers to those
 12 between 2500 and 3000 a month at a low of 6.81
 13 and a high of 6.89 percent?
 14 A. Yes, I have that.
 15 Q. And above 3000, from 6.89 to 7, a little over
 16 7 percent of an increase as per originally
 17 proposed?
 18 A. That's correct.
 19 Q. So I guess my, I guess it falls out of the
 20 Math that Mr. Bowman's proposal is still 2
 21 percent less than what the Company had
 22 originally proposed for these customers?
 23 A. Yes, it is.
 24 Q. And under the proposed rate increase as is
 25 before the Board now in this Amended

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1 MR. JOHNSON:
 2 Application, I take it that the Domestic class
 3 won't be paying the full cost of service.
 4 It's not proposed in this Application, it's
 5 proposed to go here in the next one, I think,
 6 is that correct?
 7 A. Right now it's within the acceptable range,
 8 okay, and I'm sure it will be whatever it will
 9 be next time, but it will still be within the
 10 acceptable range.
 11 Q. At present, is it about 95 percent or is it
 12 about 5 percent less than the full cost of
 13 service?
 14 A. I'm a little bit challenged by what you'd
 15 expect full cost of service because the Cost
 16 of Service Study is only a guide and as a
 17 result, you just don't take the numbers
 18 necessarily explicitly, that's the reason why
 19 we have the 90 to 110 percent range that we
 20 put on it. And as a result, judging the
 21 extent to which they are above or below cost,
 22 you know, you have to accept a little bit of,
 23 I guess--I don't know what the right word is,
 24 but given there are different ways of doing
 25 Cost of Service Studies every person who is

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1 you recall, Mr. Henderson, whether in that
 2 study he uncovered any jurisdiction that uses
 3 marginal cost as the basis for establishing
 4 the basic customer charge?
 5 A. I'm pretty sure Mr. Brockman's review focused
 6 on Canadian experience and within Canada, you
 7 know, from all the Cost of Service Studies
 8 I've ever seen from across Canada, I've never
 9 seen anybody doing anything other than basing
 10 it around embedded costs.
 11 Q. The Exhibit 17 in Appendix A of the Rate
 12 Design Review? That's under Volume 2 of the
 13 Company's Application. Tab 13. And there's
 14 an Exhibit 17 to that too, please--Table 17
 15 that should be. This particular table, Mr.
 16 Henderson, shows the embedded and marginal
 17 cost components compared to the current energy
 18 charge for the Domestic class, does it?
 19 A. Yes, it does.
 20 Q. And where are--in terms of your embedded
 21 costs, I take it the embedded energy charge is
 22 close to double the current energy charge and
 23 there is no demand charge at all, even though
 24 the embedded cost of demand is--what is it,
 25 4.528 cents a kilowatt hour, that's been

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1 doing it will come up with a different result.
 2 As a result, what is--you deal with what's an
 3 acceptable range as opposed to particularly
 4 saying this is exactly correct, that sort of
 5 stuff.
 6 Q. Bit of an arc.
 7 A. Bit of an arc, yes.
 8 Q. Okay. In terms of the use of marginal
 9 embedded cost components in rate design, vis-
 10 a-vis the basic customer charge issue, is
 11 there anyone using marginal costs as the basis
 12 for establishing basic customer charges?
 13 A. I have never seen it, but I certainly don't
 14 have the breadth of knowledge of what other
 15 people do to really comment on how they
 16 utilize it. I do know there are some
 17 utilities out there in the US and the South
 18 West who haven't really dispensed with
 19 embedded costs and are using marginal costs to
 20 allocate costs to class and such. As a result
 21 in those jurisdictions, I don't know the
 22 details, but it's a possibility.
 23 Q. In Mr. Brockman's study, information item, and
 24 with any luck at all, we won't have to wade
 25 through it too much at this late hour, but can

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1 updated since. I guess the question is what
 2 was the basis for originally proposing a rate
 3 with a \$15.59 month customer charge. The
 4 embedded energy charge, I think is close to
 5 double the current energy charge and there is
 6 no demand charge at all?
 7 A. Say that again?
 8 Q. The current energy charge.
 9 A. The current energy charge, you know, what's on
 10 your screen there is the energy charges on
 11 January 1. The current energy charge is, you
 12 know, lower than that. Okay, so that's the
 13 energy charge.
 14 Q. I think I might need to collect where I am and
 15 if the Board could see fit -
 16 MS. NEWMAN:
 17 Q. Do you want to come back then -
 18 MR. JOHNSON:
 19 Q. I've got some numbers in front of my that are
 20 not jiving with -
 21 CHAIRMAN:
 22 Q. We're close to 1:30, are you -
 23 MR. JOHNSON:
 24 Q. I think we could probably clue it up, you
 25 know, in probably twenty minutes in the

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1 morning.
 2 CHAIRMAN:
 3 Q. Okay. I'm just trying to canvass tomorrow
 4 really.
 5 MR. JOHNSON:
 6 Q. Well maybe if we could just take a break, I
 7 could live with that too.
 8 KELLY, Q.C.:
 9 Q. A short break would be fine.
 10 CHAIRMAN:
 11 Q. Yes, I think it would in everybody's interest
 12 to--not that we're trying to get rid of you,
 13 Mr. Henderson, or anything like that.
 14 A. I don't mind.
 15 CHAIRMAN:
 16 Q. I'm sure. But I think it would be in the
 17 interest of everybody, given what I understand
 18 to be the direct and cross for tomorrow for
 19 Mr. Todd and Mr. Bowman, if we conclude on Mr.
 20 Henderson today, if that's okay. Is five
 21 minutes satisfactory?
 22 MR. JOHNSON:
 23 Q. Or ten.
 24 CHAIRMAN:
 25 Q. Or ten, okay. We'll come back after hopefully

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1 decrease, for instance. Even if the energy
 2 charge goes--basic customer charge goes down
 3 and the energy charge goes up, they may end up
 4 using more electricity, so, you know, the
 5 customer's reaction to a rate is not
 6 necessarily only tied to the charge, it is
 7 also tied to the overall bill. So as a
 8 result, you know, things, I guess, are a
 9 little bit more complicated than simply
 10 setting a rate at a certain point and assuming
 11 that's going to result in certain behaviour
 12 change?
 13 Q. But on direct when Mr. Kelly was asking you a
 14 question about, you know, what consumers can
 15 respond to, I thought that you had indicated
 16 that it's the energy charge that they're most
 17 able to respond to or is that--did I -
 18 A. I basically said when you get to economic
 19 theory and I'll have to caveat I'm not an
 20 expert at it, right, okay, you're trying to
 21 price out these marginal costs, so economic
 22 theory suggests that and I'll use the word
 23 "suggest" that by pricing energy charge
 24 closest to marginal costs, people will do
 25 things in a more economically efficient manner

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1 a short break. Thank you.
 2 (RECESS - 1:30 p.m.)
 3 (RECONVENED - 1:41 p.m.)
 4 CHAIRMAN:
 5 Q. When you're ready Mr. Johnson.
 6 MR. JOHNSON:
 7 Q. Thank you very much. We can leave that on the
 8 screen because I'll come back to it, Mr.
 9 Henderson. But you confirmed on direct that
 10 in terms of the customer's ability being able
 11 to respond to a price signal, I take it that
 12 there is agreement between yourself and Mr.
 13 Bowman that the customer can only really
 14 respond to the energy charge, not basic
 15 customer charge, right? If they want to be a
 16 customer.
 17 A. Yes, they can only respond if they're--I think
 18 of it this way is that the energy charge
 19 itself gives them, if they are analytically
 20 inclined, they can evaluate the energy
 21 efficiency of something, right, you know,
 22 customers when they see their bills change, I
 23 suspect they react to that from the
 24 perspective they might have more disposable
 25 income, so, you know, a customer who gets a

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1 than they otherwise would do, right. You
 2 know, if driving up the energy charge involves
 3 decreasing the basic customer charge, you
 4 know, the customers themselves and how they're
 5 going to react, is certainly going to depend
 6 on their overall bill impact, along with the
 7 energy charge. I suspect for large General
 8 Service customers who are sophisticated and
 9 can study their bills and they compare how
 10 things happen, they will be very--pricing
 11 their charge close to the marginal cost will
 12 have a much more significant impact on them
 13 than maybe a Domestic customer who is probably
 14 more focused on their overall bill and things
 15 like that. However, that all being said, you
 16 know, trying to move your rates to more
 17 efficient rates is, you know, a good goal to
 18 have, you know, it's obviously one of the
 19 goals that you need to have in your rate
 20 design, along with balancing it with all these
 21 other issues.
 22 Q. So on balance from that efficiency
 23 perspective, would reducing--I take it from
 24 your point of view, in terms of the efficiency
 25 perspective, reducing the basic customer

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1 MR. JOHNSON:
 2 charge would not improve the rate design from
 3 the efficiency perspective?
 4 A. From an economic, an economist's perspective
 5 on setting charges, yes. From the perspective
 6 of how customers will react to it, I don't
 7 know to tell you the truth, and it's--you
 8 know, your smaller customers who see a lower
 9 price and a lower bill, they may react by
 10 spending more on electrical appliances now, or
 11 maybe they'll go out and have dinner, I don't
 12 know. But the same effect for the larger
 13 customers, they'll see their bill go up and
 14 they will attempt to reduce it, you know, they
 15 will attempt to manage that cost, right. The
 16 extent to which Domestic customers actually
 17 sit down and say I'm buying this appliance and
 18 it says that I'm going to get a 10 kilowatt
 19 hour annual saving and I'll multiply that by
 20 my tailblock rate and figure out what the
 21 dollar savings is and then present value it
 22 and figure out--I don't think Domestic
 23 customers can do that type of analysis. I'm
 24 sure there's people out that do, but, you
 25 know.

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1 So, you get a figure of roughly 10.05 or
 2 thereabouts. You know, the current marginal
 3 costs today is dependent on the price of fuels
 4 that they're burning out of Holyrood. And I
 5 don't have a current figure of that and I have
 6 no reason to believe that this estimate is
 7 that much out.
 8 Q. Is it all Holyrood?
 9 A. Is what all Holyrood?
 10 Q. The 10 cent figure.
 11 A. There's a component. This a demand and energy
 12 combined cost. The energy charge for Domestic
 13 is recovering both demand and energy charges.
 14 So, this does have a component that is demand
 15 and has a component that is energy.
 16 Q. If the energy charge for the Domestic class
 17 were increased to pick up full marginal cost
 18 of energy from Holyrood, would you expect that
 19 that would cause less energy to be consumed by
 20 the class, then as a result, there'd be less
 21 production from Holyrood?
 22 A. If you ignore offsetting decreases that would
 23 have to occur in order to price that high and
 24 drove up the whole rate to the marginal cost
 25 of Holyrood, consumers' bill would go up

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1 Q. We have the Table 17 up on the screen now and
 2 we see marginal costs of 10.35 on the rate
 3 1.1, this is Domestic Rate 1.1. Is that the
 4 current figure?
 5 A. No. The figures in this table were not
 6 updated for the January 1 rate decrease. If
 7 you note at the bottom of the page, for
 8 Footnote 10, the marginal cost which comes
 9 from the Marginal Cost Study and I'll say that
 10 is different results than if you looked at our
 11 Purchase Power Rate. But the Marginal Cost
 12 Study gave us a figure that we increased to
 13 include the RSA adjustments that existed at
 14 the time and municipal taxes. So, with this
 15 RSA adjustment that occurred July 1, both the
 16 marginal costs and the energy charge for the
 17 Domestic Rate both decline. So, the
 18 difference between the two effectively stays
 19 roughly the same.
 20 Q. What's your current best estimate, at this
 21 time, as regards to marginal costs of energy
 22 supplied to the Domestic class?
 23 A. The figure I have with me is basically the
 24 marginal costs that's on the table, less
 25 roughly .3 because of the decline in the RSA.

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1 materially and there would be--I'm sure there
 2 would be an elastic reaction to it and would
 3 reduce consumption. However, if you're
 4 dropping a tailblock rate and you have other
 5 components that you're decreasing, as a
 6 result, the customers bill, some will go up,
 7 some will go down. I suspect those that go up
 8 will consume less, potentially. And the ones
 9 that go down may consume more. The total
 10 between the two, I really don't know. It
 11 obviously depends on the reaction of those
 12 types of customers to it.
 13 Q. If we could just go to Table 15 and 16 in
 14 Volume 2. In the cases of Rate Class 2.2 and
 15 2.3 -
 16 A. Yes.
 17 Q. - does the customer charge recover the
 18 embedded customer costs portion?
 19 A. Okay, you're talking about the embedded costs,
 20 Table 15.
 21 Q. Yes.
 22 A. No, they don't. They're below.
 23 Q. And what's the reason that it's below?
 24 A. Well for 2.2, they have a lot of customer
 25 within that class that are of similar size to

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1 MR. HENDERSON:
 2 2.1. As a result, customers that transition
 3 from 2.1 to 2.2, we attempt to narrate
 4 (phonetic) to make sure that they don't get a
 5 big change in their costs and such. As a
 6 result, 2.2 is deliberately kept low in order
 7 to better align with Rate Class 2.1. For 2.3
 8 itself, you'll notice that there's a
 9 difference between the 92 and the overall
 10 total of 105, it's fairly close, in overall,
 11 you know, magnitude, as a percent, I guess you
 12 could call it. And also for that Class, the
 13 distribution system costs make up a very small
 14 portion of the total. So, for that Class in
 15 particular, there's certainly room that we
 16 could increase the basic customer charge to
 17 recover what's referred, the Embedded Customer
 18 Cost Component for the total of 105. But in
 19 doing our rate design, we were trying to
 20 emphasis efficiency again and we're trying to
 21 manage that with customer impacts and we're
 22 trying to manage it the desired changes in our
 23 demand charges. And through all that, we
 24 thought it was simpler just to create the
 25 general goal or emphasizing efficiency and

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1 ahead of the Rate Design Study?
 2 A. Yes, we are attempting to improve efficiency
 3 at this point in time.
 4 Q. To the extent that the Boards concludes that
 5 Mr. Bowman's proposal to reduce the basic
 6 customer charge adds to the efficiency of the
 7 Domestic rate, if they conclude that, would
 8 you suggest that they should nevertheless wait
 9 for the Rate Design Study?
 10 A. Obviously if the Board were to conclude
 11 something, it would be before the Rate Design
 12 Study is done, if they do something out of
 13 here. By going to the Rate Design Study to
 14 review this issue which involves issues of the
 15 setting of the basic customer charge, means
 16 that we can ensure ourselves that whatever
 17 comes out of that process that basic customer
 18 charge, at the end of the day, gets set at a
 19 reasonable level, you know, on a go forward
 20 basis. Decreasing it now may just be
 21 premature to the results of the Study.
 22 Obviously, if the Board chooses to decrease
 23 the basic customer charge, then obviously that
 24 decision is made prior to it.
 25 (2:00 p.m.)

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1 keeping basic customer charges the same.
 2 Q. Page 28 of the Amended Application, in the
 3 Supplemental Evidence of the Amended
 4 Application, that is, Table 24. The Amended
 5 Application proposes a .2 percent decrease for
 6 those General Service Customers in rate 2.2.
 7 A. Yes.
 8 Q. And if we could--sorry about the jumping
 9 around--if we could just turn to CA-NP-13,
 10 First Revision, Attachment B, Page 1, Rate
 11 2.2. Just go down further. I take it that
 12 for rate 2.2, Newfoundland Power is proposing
 13 to increase the tailblock energy charge and
 14 decrease the non-winter demand charge for this
 15 particular class?
 16 A. Yes, we're doing that and also to balance
 17 customer impacts in order to limit it. We've
 18 also reduced the first block energy charge.
 19 Q. And is that seen as making the rate more
 20 efficient?
 21 A. It's bringing these rate charges closer to
 22 marginal costs. Yes, from a--yes. It
 23 improves the efficiency of the charges, I
 24 guess.
 25 Q. And Newfoundland Power is proposing to do this

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1 Q. Let's put it this way, if reducing the basic
 2 customer charge by a dollar were to improve
 3 the efficiency of that rate, should we not
 4 just get on with it?
 5 A. I guess it depends on what your objectives
 6 are. If it's pure efficiency and you were to
 7 improve the efficiency of that rate, yes, you
 8 can go ahead and do it. If you're trying to
 9 balance customer impacts and balance, or give
 10 consideration to cost recovery and those types
 11 of things, the appropriate decision may be, at
 12 this point in time, to leave this issue for
 13 the Rate Design Review. So, you know, the
 14 decision made can be vetted through that
 15 process so as to what decisions are made are
 16 appropriate for the future.
 17 Q. And how would you suggest that the Board
 18 should consider things like Holyrood and the
 19 pollution that Holyrood causes and
 20 environmental issues arising out of Holyrood,
 21 very high costs of oil for Holyrood, how
 22 should that bear, in your judgment, on waiting
 23 for a Rate Design Study or doing something in
 24 this hearing, given the fact that Newfoundland
 25 Power in the negotiated agreement, we're not

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1 MR. JOHNSON:
 2 talking about those new rates being
 3 implemented until the next year end.
 4 A. What I can say, I guess, is that obviously,
 5 how environmental issues factors into Rate
 6 Design is something that the Board can turn
 7 their mind to, but when you go about changing
 8 Rate Designs, you know, the whole effect on
 9 customers, I guess, cost recovery issues, you
 10 know, there's a lot of issues that need to be
 11 balanced and you got to deal with all these
 12 complicated mix of issues. And in making a
 13 decision, we'd like to have the appropriate
 14 information in front of you in order to make
 15 the whole bundle work. And going too far now
 16 on efficiency, you'd have to ask yourself are
 17 you just doing it prematurely without the full
 18 information that you want to have at the end
 19 of the day to make that decision. And, you
 20 know, for me, the Rate Design Review is going
 21 to hopefully give all the information that is
 22 required, necessary to make all those
 23 decisions.
 24 Q. And just further, are you saying that Mr.
 25 Bowman's proposal is going too far on the Rate

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1 MS. NEWMAN:
 2 Q. No questions.
 3 CHAIRMAN:
 4 Q. Commissioner Whalen?
 5 VICE-CHAIR WHALEN:
 6 Q. No, thank you, Mr. Henderson.
 7 CHAIRMAN:
 8 Q. Thank you, Mr. Henderson. I have no
 9 questions. It's good to see you again.
 10 Thanks very much. Tomorrow we have two
 11 witnesses left, Mr. Todd and Mr. Bowman. I
 12 think we're running a little bit behind. What
 13 I'm going to suggest, if it's okay with
 14 everybody, is Ms. Newman to canvas what might
 15 happen tomorrow in terms of time and what have
 16 you for direct and cross, just so we might
 17 structure perhaps, early in the morning, the
 18 actual sitting time, to give some appreciation
 19 time, in any event, of how this is going to
 20 unfold tomorrow, rather than attempt to
 21 discern that right now at this time and with
 22 everybody.
 23 MS. NEWMAN:
 24 Q. Yes, Mr. Chairman, I think that's a great
 25 suggestion.

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1 efficiency aspect?
 2 A. Going too far on rate efficiency itself?
 3 Q. Yes.
 4 A. No, you know, like the whole issue of coming
 5 up with Rate Design is a balance of a bunch of
 6 issues and got to judge the impact on
 7 customers and all that sort of stuff. Our
 8 rate proposal doesn't decrease basic customer
 9 charge, it leaves it the same. Your proposal
 10 will result in larger customers getting higher
 11 increases, you know, smaller customers getting
 12 decreases. They're will be some getting
 13 decreases. Also you have the issue of cost
 14 recovery from small customers to the basic
 15 customer charge. Now, I have to say, I've
 16 lost my train of thought. Could you repeat
 17 the question?
 18 Q. Were you here before the break?
 19 A. Actually, in fairness to you, Mr. Henderson, I
 20 think you've addressed what I wanted to ask
 21 you, to be honest with you. Thank you very
 22 much.
 23 CHAIRMAN:
 24 Q. Thank you, Mr. Johnson. Ms. Newman, do you
 25 have any questions?

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1 CHAIRMAN:
 2 Q. So, if that's okay, if you could do that, I
 3 would appreciate it and we'll, as a result of
 4 that, we'll see what will happen tomorrow.
 5 Thank you very much and we'll see you in the
 6 morning.
 7 Upon conclusion at 2:05 p.m.

CERTIFICATE

1
2 I, Judy Moss, hereby certify that the foregoing is
3 a true and correct transcript in the matter of
4 Newfoundland Power's 2008 General Rate Application
5 heard on the 25th day of October, A.D., 2007 before
6 the Board of Commissioners of Public Utilities,
7 Prince Charles Building, St. John's, Newfoundland
8 and Labrador and was transcribed by me to the best
9 of my ability by means of a sound apparatus.
10 Dated at St. John's, Newfoundland and Labrador
11 this 25th day of October, A.D., 2007
12 Judy Moss