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1 (Time: 11:00 a.m.)
 2 CHAIRMAN:
 3 Q. Good morning, counsel. Mr. Kennedy, do we
 4 have any preliminary matters before we begin
 5 this morning?
 6 MR. KENNEDY:
 7 Q. I don't believe so, Chair. I can confirm that
 8 I have spoken to the parties about the
 9 schedule for the day and as well, we've had
 10 some discussions concerning the filing of
 11 written submissions on the conclusion and I
 12 need to have just one more conversation with
 13 counsel and then I'll be able to report back
 14 to the Board on that.
 15 CHAIRMAN:
 16 Q. Okay. That's going to be after the break?
 17 MR. KENNEDY:
 18 Q. Correct.
 19 CHAIRMAN:
 20 Q. I think, Mr. Hutchings, at this stage, you're
 21 on deck with regard to commencing cross-
 22 examination, is it?
 23 HUTCHINGS, Q.C.:
 24 Q. I did a bit actually on the last day, if you
 25 recall.

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1 Hydro will solicit competitive bids for all
 2 materials and external labour," has that been
 3 done already?
 4 MR. DOWNTON:
 5 A. Yes, it has.
 6 Q. So are all the contracts in place now?
 7 MR. DOWNTON:
 8 A. With the exception of the 2005 work.
 9 Q. Okay. So you do have to go back and call
 10 another proposal for the 2005 work, do you?
 11 MR. DOWNTON:
 12 A. That is correct.
 13 Q. So is this all being done--I mean, is it
 14 anticipated to be done by different people or
 15 is it just likely to be a continuation of what
 16 started last year?
 17 MR. DOWNTON:
 18 A. Well basically, there's two pieces of work.
 19 For 2004, there is a difference between 2004
 20 and 2005.
 21 Q. Okay. So the doing of the 2004 work doesn't
 22 necessarily mean that the 2005 work has to be
 23 done in 2005, does it?
 24 MR. DOWNTON:
 25 A. Yes, that's correct.

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1 CHAIRMAN:
 2 Q. Continuation of your cross-examination, and I
 3 just remind the panel--good morning,
 4 gentlemen--you're still under oath. With
 5 that, Mr. Hutchings, you may continue.
 6 HUTCHINGS, Q.C.:
 7 Q. Thank you, Mr. Chair. Good morning,
 8 gentlemen.
 9 MR. DOWNTON:
 10 A. Good morning.
 11 MR. HAYNES:
 12 A. Good morning.
 13 MR. NICHOLS:
 14 A. Good morning.
 15 Q. We spoke on the last day about the
 16 applications enhancements at B-120/121. I'd
 17 just like to look briefly at the security
 18 program for secure remote access at B-122. I
 19 take it this is actually a two-year project
 20 that is already commenced. Is that a fair
 21 characterization?
 22 MR. DOWNTON:
 23 A. Yes, that is correct.
 24 Q. So when you say "to ensure this project will
 25 be completed at the lowest possible cost,

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1 Q. That is correct. So we could, if the Board
 2 thought it appropriate, defer--you know, if it
 3 thought it appropriate, if the Board wasn't
 4 satisfied that it had to be done in 2005, the
 5 2005 work could be hived off and done at a
 6 later time?
 7 MR. DOWNTON:
 8 A. That is at the Board's discretion.
 9 Q. Yes, okay. So we wouldn't lose anything out
 10 of the 2004 work by not doing the 2005 work in
 11 2005?
 12 MR. DOWNTON:
 13 A. That's correct. However, the focus of the
 14 2005 work is to further enhance, I guess, the
 15 authenticational log-in process that we use
 16 for accessing our critical infrastructure
 17 devices. So we basically feel that it is
 18 critical to continue to move forward. I guess
 19 when we look at our critical network
 20 components we speak specifically of access to
 21 our energy management system, distributed
 22 control system at Holyrood, our switches and
 23 our firewalls. So what we're looking at for
 24 2005 is to integrate our remote security
 25 administration software into those components

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1 MR. DOWNTON:
 2 so that we're able to secure who accesses the
 3 devices and that way we also have a record of
 4 when they went in and what they did. So
 5 really it's, again, to enhance our overall
 6 network reliability.
 7 Q. Okay. But this is all part of one project and
 8 you've spent 75,000 or you will spend 75,000
 9 in 2004 on that project to enhance security,
 10 correct?
 11 MR. DOWNTON:
 12 A. That's correct.
 13 Q. And the request now is to spend another 76 in
 14 2005?
 15 MR. DOWNTON:
 16 A. That is correct.
 17 Q. Okay. Thank you. If we can move then to B-
 18 124, the corporate applications environment, I
 19 think we had a brief discussion that referred
 20 to this item in the course of our discussion
 21 about the applications enhancements. Can you
 22 tell us what you mean by corporate
 23 applications environment?
 24 MR. NICHOLS:
 25 A. Really I guess for the applications

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1 access to the operating applications on the
 2 system?
 3 MR. NICHOLS:
 4 A. What this server--what this is is the software
 5 that we use in our thin client environment
 6 also to allow most of our--all of our people
 7 in the office environment basically to get
 8 access to their applications on the server.
 9 Q. Okay. And is that the only software that you
 10 use for that purpose?
 11 MR. NICHOLS:
 12 A. This is the one that we've used in our end-
 13 using infrastructure. That is correct.
 14 Q. Okay. So it is the only one that you use for
 15 that purpose?
 16 MR. NICHOLS:
 17 A. Correct.
 18 Q. Yes, okay. All right. And when was this
 19 particular piece of software acquired?
 20 MR. NICHOLS:
 21 A. We've run--actually we've run this software in
 22 various versions since about very--oh, back
 23 about 1993, and basically we've gone through--
 24 used it for remote applications. First we
 25 used it for internet access within Hydro, and

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1 environment, what we mean by that is within
 2 Hydro we run different applications basically
 3 for the business on a day--used on a day-to-
 4 day basis. So these would be the products
 5 such as, you know, as we put forward here the
 6 Metaframe, the network management tools and
 7 the help desk tools which people use on a day-
 8 to-day basis or the IS&T department uses on a
 9 day-to-day basis to keep the infrastructure up
 10 and running. We have approximately over 40
 11 applications that we run within Hydro.
 12 Q. Okay. So these are all upgrades to existing
 13 applications within Hydro?
 14 MR. NICHOLS:
 15 A. Yes, that is correct.
 16 MR. DOWNTON:
 17 A. That is correct.
 18 Q. Now we asked in IC-80 for some particulars
 19 with respect to these items, and if we look at
 20 the reply, the first item referred to is in
 21 your project description as Metaframe Service
 22 Operating System, and then in the reply to the
 23 question, you say "Metaframe XP Presentation
 24 Server FR2, 300 user licenses." Is this
 25 basically a shell type of program that allows

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1 over time, we've expanded the use of that,
 2 this software.
 3 Q. Okay. And when is the last time -
 4 CHAIRMAN:
 5 Q. Excuse me. Did you say 1993?
 6 MR. NICHOLS:
 7 A. Yes.
 8 Q. Sorry, Mr. Hutchings.
 9 HUTCHINGS, Q.C.:
 10 Q. No problem. When is the last time that
 11 software was upgraded?
 12 MR. NICHOLS:
 13 A. This software was upgraded, the last time
 14 would have been around 2001/2002, and what it
 15 is, this software, what's driving the software
 16 upgrade on this one, it is two levels behind
 17 now. What it is, right now, we are at what
 18 they call FR2 which is what Citrix refers to
 19 as Future Release 2. Since then, they've put
 20 out Future Release 3 and then, what they did
 21 then, like a lot of people, they started
 22 changing the names on things. So the next
 23 version that we would put in was what they
 24 call Presentation Server 3.0. So really, what
 25 it is, this software is two releases behind

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1 MR. NICHOLS:
 2 the most current release, but the main driving
 3 force behind this one is the Future Release 3
 4 provides better ways that this application
 5 will work in remote locations, in terms of
 6 compression of data that goes back and forth
 7 between the user and our server. So we find
 8 it's going to enhance the communications that
 9 were done on the coast of Labrador for remote
 10 terminal unit, with the thin client devices.
 11 Q. Okay. I just wanted to be clear on where we
 12 were. Is FR3 the same thing as 3.0, just
 13 renamed?
 14 MR. NICHOLS:
 15 A. No, it's not. FR2 refers to Future Release 2.
 16 If you notice -
 17 Q. No, FR -
 18 MR. NICHOLS:
 19 A. - way back when, Citrix called this Metaframe
 20 XP Server. Then they changed it to Metaframe
 21 XP Server Future Release 1, Future Release 2,
 22 Future Release 3 and now they--being a
 23 software company, they name it or the
 24 marketing people renamed it, they now call it
 25 Presentation Server 3.

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1 to the Metaframe Server, is it?
 2 MR. NICHOLS:
 3 A. Again, it goes back that we've used this type
 4 of technology for many, many years. I mean,
 5 if you want to go back, at one point it was
 6 called Citrix Server 1.6, Citrix Server 1.8.
 7 Then they got into the--so we've--this version
 8 of the operating system that we've had, we've
 9 had installed for the last couple of years.
 10 When I'm referring to the version, I'm
 11 referring to the current version that's
 12 running now.
 13 Q. Okay. And that's the one you said was last
 14 operated -
 15 MR. NICHOLS:
 16 A. Future Release 2.
 17 Q. - 2001 or 2002?
 18 MR. NICHOLS:
 19 A. That's correct.
 20 Q. And do you have any notion of the cost of that
 21 upgrade, as opposed to the other two items
 22 under this heading?
 23 MR. NICHOLS:
 24 A. Yes. We see that one as being \$95,000. Is
 25 that right?

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1 Q. Okay. So I just want to get the order of
 2 hierarchy here. What you have now is FR2? Is
 3 that correct?
 4 MR. NICHOLS:
 5 A. That is correct.
 6 Q. And you're going to skip over FR3 and go to
 7 3.0?
 8 MR. NICHOLS:
 9 A. That is correct.
 10 Q. Okay. In your answer -
 11 MR. NICHOLS:
 12 A. Wait now, sorry. We're at FR2, that's right.
 13 We're going to FR3--FR3 we're skipping and
 14 we're going to Presentation Server 3.0, yes.
 15 Q. Yes, okay. Because in your earlier answer,
 16 you said that FR3 would give you this
 17 capability of better remote access. Was that
 18 intended to refer to 3.0?
 19 MR. NICHOLS:
 20 A. That is intended to refer to 3.0, that is
 21 correct.
 22 Q. Yes, okay. All right. So in your explanation
 23 at B-124, under operating experience, it says
 24 "these software applications were installed in
 25 2000/2001." That's not accurate with respect

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1 MR. DOWNTON:
 2 A. Yes, that's right.
 3 Q. Okay. In your project description then, Item
 4 B is network management tools. Does one of
 5 the other paragraphs in IC-80 address that
 6 specifically?
 7 MR. DOWNTON:
 8 A. In IC-80, the last paragraph refers to the
 9 network tool, the CiscoWorks.
 10 Q. Okay. So the network management tools
 11 referred to in B in the description is
 12 CiscoWorks? Is that correct?
 13 MR. DOWNTON:
 14 A. That is correct.
 15 Q. All right.
 16 MR. DOWNTON:
 17 A. Actually, I'd like to correct. The Metaframe
 18 upgrade is \$60,000, not 95,000.
 19 Q. Thank you. While you're there, can you break
 20 down the other two items as well, cost wise?
 21 MR. DOWNTON:
 22 A. The CiscoWorks server upgrade, we see as
 23 69,000 and the incident change in
 24 configuration management tools at 111.
 25 Q. And how did you describe that last item?

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1 MR. DOWNTON:
 2 A. That is the Helpdesk one, Helpdesk tool.
 3 Q. Okay. You used other words in describing it
 4 just now.
 5 MR. DOWNTON:
 6 A. When I described it incident change in
 7 configuration management tool, I guess I'm
 8 referring to, you know, the way we look at
 9 incidents, and you know, whether it's an
 10 incident or whether it's a change or whether
 11 it's a configuration process. It works for
 12 all those processes.
 13 Q. Okay. All right. So I'm trying to take these
 14 in some kind of order, but the network
 15 management tools was your item B in the
 16 description, so let's try to deal with that,
 17 and that's the CiscoWorks, which is referred
 18 to in the last paragraph of IC-80. How long
 19 have you been using that software?
 20 MR. NICHOLS:
 21 A. CiscoWorks software has been--we've -
 22 MR. DOWNTON:
 23 A. 2000/2001.
 24 MR. NICHOLS:
 25 A. - 2000/2001, we've been using that software.

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1 lot of people now access their applications--
 2 when you log onto your PC, you'd log on with a
 3 password. So what this does right now--what
 4 that will do with the CiscoWorks, which the
 5 CiscoWorks is the monitoring tool in
 6 networking, but what the security will do is
 7 they have to basically use what we'd call a
 8 secure I.D., which has a number on it which
 9 changes every 60 seconds. So they would have
 10 to use that along with like a pin number which
 11 you use for like your bank card, to get access
 12 to these devices. So what it does, it gives
 13 us a very secure way for people to get into
 14 it. So only very authorized people get or
 15 even try to get onto these machines.
 16 Q. Okay. So this system with the card is part of
 17 this secure remote access project at B-122?
 18 MR. NICHOLS:
 19 A. Yes.
 20 Q. Okay. So CiscoWorks is intended to prevent
 21 people from getting access?
 22 MR. NICHOLS:
 23 A. No, CiscoWorks is used to monitor basically
 24 how busy it is. It shows the type of traffic
 25 that's going through. It's also used to

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1 That software is basically used to keep
 2 control of our network within Hydro and also
 3 it's used both for both the administrative
 4 network and also the SCADA network also, and
 5 also to keep track of things like the
 6 firewalls which connects us to the internet
 7 and whatnot.
 8 Q. Okay. So how does that interact with the
 9 enhancements that you're getting under the
 10 project at B-122, which is secure remote
 11 access?
 12 MR. NICHOLS:
 13 A. The way that interfaces then is that we would
 14 use--CiscoWorks basically allows people to get
 15 access to these types of--like what we'd call
 16 a firewall, which would protect us from the
 17 internet. And so what this will allow us to
 18 do, it keeps--to make sure that nobody, only
 19 authorized people are allowed to access that
 20 piece of machinery, the security upgrade would
 21 basically keep track of who logged in to it.
 22 It would automatically log it. It also gives
 23 them a, what we'd call, a two-tier
 24 authentication and I believe we have a secure
 25 I.D. here, which basically what it means, a

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1 backup configurations of these devices. So
 2 it's a monitoring tool for these devices.
 3 Q. Okay. So your secure remote access project
 4 will determine who can get access and
 5 CiscoWorks will tell you who has had access?
 6 Is that -
 7 MR. NICHOLS:
 8 A. No. CiscoWorks will basically allow you to
 9 run your network in the most efficient way.
 10 Q. What do you mean by that?
 11 MR. DOWNTON:
 12 A. CiscoWorks is a set of tools, and I guess what
 13 we're proposing for 2005 is to add three
 14 modules as we identified in our evidence, and
 15 I guess what we're looking at bringing forward
 16 in 2005 is what we call a quality of service,
 17 which basically allows us to monitor the
 18 levels of service that we're providing to our
 19 customers, and to ensure that it's consistent.
 20 So it's a tool that allows us to monitor the
 21 network. What we're also proposing -
 22 Q. If I could interrupt you, just for a second,
 23 because I didn't--I'm not sure I understand
 24 that answer. When you say the service you're
 25 providing to your customers, do you mean the

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1 HUTCHINGS, Q.C.
 2 service IS&T is providing to the rest of
 3 Hydro?
 4 MR. DOWNTON:
 5 A. Well, basically everyone's a customer to us.
 6 So basically whether--yeah, primarily, it's
 7 our employees.
 8 Q. Yes, okay. So when you talk about customers,
 9 you're not talking about the fellow who turns
 10 his light switch and expects the lights to
 11 come on?
 12 MR. NICHOLS:
 13 A. Yeah, but they also interact with our network
 14 system in turn that we have what they can look
 15 up their--you know, they can look up
 16 information on their accounts through the
 17 internet and whatnot. So it also controls
 18 those types of -
 19 Q. No, no, I understand that. But what I was
 20 trying to get was a feel for what Mr. Downton
 21 understood his customers to be.
 22 MR. DOWNTON:
 23 A. Yes. Basically, I guess, when we look at
 24 customers, employees in this particular case.
 25 Q. Okay. All right.

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1 we have what we call a DCS system which is
 2 basically running Windows-type servers and
 3 things like that. Over the last while,
 4 through putting these types of systems in, we
 5 have to increase the number of firewalls to
 6 isolate these systems from our corporate
 7 network. So basically to make sure that there
 8 will never be any interfacing, you know,
 9 people trying to get into those types of
 10 systems, which we're basically using, you
 11 know, basically what I'd call, you know,
 12 mainstream-type technology, which people have
 13 knowledge on. So when we say customers, they
 14 do secure--we have both our internal
 15 customers, our employees, but we're also
 16 safeguarding the control systems and whatnot
 17 for our customers for the electricity and
 18 whatnot.
 19 (Time: 11:20 a.m.)
 20 Q. So to the extent that this project, as you say
 21 in IC-80, is intended to ensure that network
 22 services are efficiently delivered, have you
 23 quantified, in terms of cost saving, the
 24 efficiencies that are going to arise from this
 25 application?

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1 MR. DOWNTON:
 2 A. I guess what's also in the network management
 3 tools are tools to allow us to ensure that we
 4 are not over allocating band width, which is a
 5 way that we use to ensure that we're keeping
 6 cost at a minimum, and again, this also ties
 7 into the area of security management. So
 8 these are some of the tools that we're looking
 9 to add as part of the CiscoWorks upgrade.
 10 Q. So this capital project relative to CiscoWorks
 11 that you're talking about here is intended to
 12 improve efficiency within Hydro? Is that
 13 correct?
 14 MR. DOWNTON:
 15 A. It's intended to ensure that we're running our
 16 infrastructure in an efficient manner and it's
 17 also intended to ensure that we are adequately
 18 securing our network.
 19 MR. NICHOLS:
 20 A. To give you an idea, a lot of the applications
 21 now that are going into say Holyrood and
 22 Granite Canal, the control system for Granite
 23 Canal is actually a Windows-type server which
 24 runs it, basically, which is on a network
 25 within the Granite Canal. Also, in Holyrood,

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1 MR. DOWNTON:
 2 A. No. However, I mean, on a regular basis, we
 3 try to ensure that we are optimizing the
 4 bandwidth that we have to purchase from
 5 Aliant, to optimize the bandwidth that we
 6 provide internally. Again, these are tools to
 7 allow us to make sure that we're providing
 8 infrastructure that is tuned properly to the
 9 requirements of our internal business
 10 requirements, which does impact our customers
 11 at the end of the day.
 12 Q. And when is the last time you reduced the
 13 amount of bandwidth that you take from Aliant?
 14 MR. DOWNTON:
 15 A. We basically reduced it in the 2002/2003 time
 16 frame. We probably reduced the amount of
 17 bandwidth substantially.
 18 Q. And that was related to some of the other
 19 capital projects that allowed you to use your
 20 own system, correct?
 21 MR. DOWNTON:
 22 A. That's right. We basically used our own--we
 23 leverage our own technology in that particular
 24 case.
 25 Q. Okay. And was that like your PLC and your

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1 HUTCHINGS, Q.C.:

2 other -

3 MR. DOWNTON:

4 A. Primarily our microwave infrastructure.

5 Q. Your microwave infrastructure, yes, okay.

6 Okay. So moving on then, the Helpdesk

7 management tools, I take it, is what is

8 referred to in the second paragraph of the

9 answer to IC-80, GWI Support Release 8.1? Is

10 that correct?

11 MR. NICHOLS:

12 A. That is correct.

13 Q. And you're saying this is a Lotus Notes based

14 application. How long has this software been

15 in place?

16 MR. NICHOLS:

17 A. This software has been in place for about the

18 last four years, since 2000. At the present

19 time, we're running a version called Version

20 8.1, which is no longer supported by the

21 application vendor. So this will--basically,

22 we're going from a release 8.1 to a release

23 10.2, which will be supported under our Lotus

24 6 environment, which we're moving to this

25 fall. So what this is, this is to upgrade

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1 on our desktop and server infrastructure. So

2 every year we basically look at where the

3 portfolio is. We basically look at vendor

4 support. We look at the business

5 requirements. We look at whether those

6 applications will be supported on our desktop

7 or server infrastructure, and then we make a

8 determination of what we bring forward, and

9 again, this year we are bringing forward three

10 out of approximately 40, and as Mr. Nichols

11 said, we do skip releases because we don't

12 feel that is in the best interest of our

13 customers to basically be upgrading every

14 application on a yearly basis.

15 Q. If we could move on then to B-125, this is the

16 project for replacement of what's now referred

17 to as the i Series, which I understand was the

18 AS400, as -

19 MR. NICHOLS:

20 A. That is correct.

21 Q. - that's the same piece of equipment we're

22 talking about here. This is the server that

23 runs the JD Edwards software? Is that

24 correct?

25 MR. NICHOLS:

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1 this software basically to put it into a state

2 of, you know, support from the vendor if we

3 have any problem, and it goes back to Hydro's

4 policy. We don't do every release. We didn't

5 do 9.1 and then 10.2. We basically try and

6 skip releases and also we look at, you know,

7 what the requirements are and whatnot before

8 we just upgrade software.

9 Q. So is it typical then for there to be a new

10 release every second year or so on this type?

11 MR. NICHOLS:

12 A. Typically, with most vendors, there'd probably

13 be a release every year.

14 Q. Every year?

15 MR. NICHOLS:

16 A. Which we have found, yeah.

17 Q. All right. And these corporate applications

18 environment projects are of the type of

19 routine annual projects that your division has

20 to deal with basically on an annual basis?

21 MR. DOWNTON:

22 A. Well basically, again, every year we bring

23 forward what we call applications environment

24 projects. As Mr. Nichols mentioned earlier,

25 we have about 40 major applications which run

Page 24

1 A. It runs both the JD Edwards software and also

2 the Showcase software which we use for

3 reporting from JD Edwards.

4 Q. Okay. Now last year, there was a project that

5 was put forward and then withdrawn to deal

6 with the issue of migration from JD Edwards

7 possibly to One World, and there was some

8 corporate mergers, I believe, that led to

9 changes in that. Can you just tell us where

10 all that stands now?

11 MR. NICHOLS:

12 A. I believe the project you're talking to was

13 not a conversion of JD Edwards, but was really

14 a i Series upgrade basically to basically run

15 our applications. It wasn't a One World

16 upgrade.

17 Q. It was a migration study from JD Edwards to

18 something else.

19 MR. NICHOLS:

20 A. Yes, the -

21 Q. Now the project was put in and then withdrawn.

22 So there was no -

23 MR. NICHOLS:

24 A. Yes, that project, you're talking about a

25 different project which is being put out until

Page 25

1 MR. NICHOLS:
 2 2006/2007, I believe, basically because the
 3 PeopleSoft--PeopleSoft and JD Edwards--to give
 4 you an idea of what happened, JD Edwards was
 5 bought by PeopleSoft and then Oracle wants to
 6 buy PeopleSoft. So they're in a corporate
 7 fight at this point in time. So Hydro really
 8 didn't--until all that sort of works its way
 9 out, Hydro's basically going to keep
 10 leveraging the technology that we have now,
 11 which is World, and we'll wait for a time
 12 until a lot of that goes away to see where we
 13 wish to go at that time. So that's the
 14 project that was withdrawn last year.
 15 Q. Okay. So there is, at this point, no value in
 16 pursuing a capital project to deal with any
 17 migration from your existing JD Edwards
 18 software?
 19 MR. DOWNTON:
 20 A. We will look at that as we prepare our 2006
 21 five-year plan.
 22 Q. Okay. Now the i Series replacement or AS 400
 23 OS, and that's just a change of name, just so
 24 I'm clear on that, is it?
 25 MR. NICHOLS:

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1 Q. Okay. So that software is good until
 2 September 30th of 2005, correct?
 3 MR. NICHOLS:
 4 A. The V5R--I believe what you're looking at is
 5 the one, the V5R2 is supported--actually IBM
 6 has changed their policy and they will support
 7 it until the end of next year, but they've
 8 advised us to be at V5R3 coming into 2006.
 9 (Time: 11:30 a.m.)
 10 Q. Okay. Now in the project to replace this
 11 AS400 server, are you seeking competitive bids
 12 for that?
 13 MR. NICHOLS:
 14 A. Yes, we will. That's correct.
 15 Q. And are you specifying a particular
 16 manufacturer for the equipment or not?
 17 MR. DOWNTON:
 18 A. Well basically it has to be an IBM i Series
 19 server because that's basically what our
 20 applications run on now.
 21 Q. So there is--there's no option -
 22 MR. NICHOLS:
 23 A. There's nobody else in the market.
 24 Q. Pardon me?
 25 MR. NICHOLS:

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1 A. That is correct.
 2 Q. Okay. So the AS400 operating system is one
 3 that you had a project in last year to
 4 upgrade? Isn't that correct?
 5 MR. NICHOLS:
 6 A. That is correct.
 7 Q. And was that done?
 8 MR. NICHOLS:
 9 A. Yes, that project has been done. The project
 10 that was done this year to upgrade, we were
 11 running, at that point in time, a version of
 12 the operating system at Version 5.1 basically,
 13 and we've upgraded that software to V5R2. The
 14 technical support for the operating system
 15 V5R1 was being dropped by IBM and so we had--
 16 that's what that project was for.
 17 Q. Okay. So you've completed now the project of
 18 upgrading to V5R2?
 19 MR. NICHOLS:
 20 A. That is correct.
 21 Q. Okay. And do you have a software maintenance
 22 agreement or a support line contract with IBM
 23 in respect to that?
 24 MR. NICHOLS:
 25 A. Yes, we do.

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1 A. There's nobody else in the market for this
 2 type of machine. But saying that, there is
 3 many dealers in St. John's who do sell AS400.
 4 Q. Right. And when you say this type of machine,
 5 is there nobody other than IBM that builds a
 6 machine that can do what this machine does?
 7 MR. DOWNTON:
 8 A. The software is specifically designed to run
 9 on an i series IBM server.
 10 Q. That's the software that you have now?
 11 MR. DOWNTON:
 12 A. The JD Edwards software and the Showcase
 13 software.
 14 Q. Okay. And there is no option available to you
 15 to convert that to any other operating system?
 16 MR. DOWNTON:
 17 A. The only option to convert that is if we moved
 18 to a--well what PeopleSoft JD Edwards call One
 19 World, and that is a significant project. So
 20 we are trying to leverage the technology that
 21 we have now, which is JD Edwards World.
 22 Q. By proceeding now with the replacement of the
 23 AS400 with another i Series, are you limiting
 24 your options thereafter for your migration to
 25 different software?

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1 MR. NICHOLS:
 2 A. No, we're not. Basically this machine can run
 3 both, both types.
 4 Q. Okay. But you're saying only this machine can
 5 run the existing software that you're running
 6 now?
 7 MR. NICHOLS:
 8 A. That is correct.
 9 Q. And at this point, you're not able to specify
 10 when you anticipate the necessity of changing
 11 from the existing software, the World system
 12 that you have now?
 13 MR. NICHOLS:
 14 A. That is correct. And I guess one of the main
 15 reasons why we're replacing the i series, why
 16 we want to replace the i Series next year is
 17 really due more to a performance problem, more
 18 than to what type of software that we're
 19 running at this point in time. What we found,
 20 this machine was put in in 1997. Since that
 21 time, we've upgraded this machine twice. It
 22 was on lease from 1997 until 2001. The
 23 operating system has gone through six
 24 versions. The thing that's happening with
 25 this machine also is that the operating system

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1 Q. Okay. I thought in the course of your answer
 2 you mentioned a 640 machine that you were
 3 running now?
 4 MR. NICHOLS:
 5 A. Yeah, and really that's the model that we have
 6 in place right now.
 7 Q. That's the model of the AS400?
 8 MR. NICHOLS:
 9 A. Yes.
 10 Q. Okay. And have you identified a specific
 11 replacement for this AS400 now?
 12 MR. NICHOLS:
 13 A. What we've done on that, we've gone and really
 14 we wouldn't pick the machine right now until
 15 we went out to tenders again, because this
 16 technology does change, and they do change the
 17 model numbers on a regular basis. So what was
 18 used to put this quote together, we did put a
 19 quote together basically on the machine that's
 20 there now. But when we go to do it, we'll go
 21 out again and pick the machine that best suits
 22 the purpose at that time.
 23 Q. Have you had any discussions with anyone other
 24 than IBM with respect to a system to--which
 25 will provide you with the hardware and

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1 that we are on, we currently have on this
 2 machine will be supported until the end of
 3 2005; will not be supported into 2006. We've
 4 been advised by IBM to basically, you know, if
 5 you want this support for your software, you
 6 should be on the next version of V5R3 in 2006.
 7 And the 640 machine, which is what we run
 8 right now, the other thing is, the Showcase
 9 software that we run also we've been advised
 10 by them that if you want to run this Software
 11 on this machine, there is some performance
 12 problems that you will have with it, due to
 13 the age of architecture and whatnot, that it's
 14 not meant to support these--what will they
 15 call--you know, ways that it interacts with
 16 the machine, the software. So really, the
 17 just (phonetic) for this one is not--it has
 18 nothing to do with what version of software
 19 that we're running at this point in time.
 20 It's really we want to--as I said earlier last
 21 week, we were running into performance
 22 problems with running reports overnight and
 23 having to stop payroll from running and that
 24 type thing to get reports through and to get
 25 customer billings through.

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1 software that you need to perform the
 2 functions that the AS400 which the existing
 3 software is performing now?
 4 MR. NICHOLS:
 5 A. I believe what you're asking is to move it to
 6 a new platform, and by platform you mean
 7 operating system and whatnot?
 8 Q. Yes.
 9 MR. NICHOLS:
 10 A. At this point in time then again that is not--
 11 that would be maybe a study in years to come.
 12 But at this point in time we were trying to
 13 leverage the technology that we have now and
 14 basically running the software that we have
 15 now. This is just the machine that has to run
 16 it, the iSeries machine.
 17 Q. So you have not had any discussions with
 18 anyone other than IBM in respect of a
 19 different operating platform to meet your
 20 needs, is that correct?
 21 MR. NICHOLS:
 22 A. Yeah. Well, IBM is the thing, but really we
 23 talked to JD Edwards to see where it is
 24 because they are the people, they're--that's
 25 the application that we're using.

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1 MR. DOWNTON:
 2 A. Just to reiterate, the JD Edwards software
 3 that we have had to run on an IBM iSeries
 4 Server.
 5 Q. I understand that.
 6 MR. DOWNTON:
 7 A. And I guess what we've--we do not see any
 8 requirement for the foreseeable future to
 9 migrate to another set of applications from JD
 10 Edwards or anyone else, so we basically are
 11 recommending that we purchase an iSeries
 12 Server to handle the workload requirements
 13 that we require. If at some future point in
 14 time we do need to upgrade to JD Edwards
 15 latest release, which is One World, that
 16 system will be able to handle that workload.
 17 Q. I understood you to say earlier that the only
 18 reason that you didn't pursue the JD Edwards
 19 migration assessment last year was because of
 20 the buy out of JD Edwards by People Soft, is
 21 that not correct?
 22 MR. NICHOLS:
 23 A. That was one factor. But again, it's the
 24 requirements of what the business needs are at
 25 this point in time and things like that. I

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1 significant impact on the business to the
 2 point that even in the business process group
 3 they want to do various testing for different
 4 process changes they want to make and we
 5 cannot do those primarily because this system
 6 cannot handle the workload. And there's no
 7 upgrade path, additional upgrade path. The
 8 last upgrade path that was available on this
 9 unit was back in 2001. So we basically have
 10 no where to go with upgrading the existing
 11 unit. There has to be a replacement.
 12 MR. HAYNES:
 13 A. If I could, from a corporate point of view, a
 14 number of years ago when we moved to JD
 15 Edwards, obviously that was, I believe, a 12
 16 or 13, 14 million dollar project, that
 17 included the hardware and software. And I
 18 mean, we are at the whim of the industry to
 19 both the software and the hardware vendors
 20 from that point of view. So we are into JD
 21 Edwards and IBM right now, and you know, we
 22 are enhancing JD Edwards, you know, here and
 23 there. We've been vesting a lot of time and
 24 money in the company right now trying to
 25 enhance and trying to mine out the value that

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1 mean, we just don't move software to move
 2 software.
 3 Q. No, I understand that. But, I mean, since you
 4 had put this project forward to study the
 5 migration, I'm surprised to hear Mr. Downton
 6 say now that you don't in the foreseeable
 7 future see a need to migrate from JD Edwards.
 8 MR. DOWNTON:
 9 A. Well, foreseeable future, I guess, means
 10 whether we look at a migration strategy in
 11 2006, 2007, we do not have anything on the
 12 horizon to say in 2008, 2009 we have to make a
 13 transition. So I guess I'm using that in an
 14 open context. I guess just to go back to this
 15 particular project, I mean, the driving force
 16 for this project is that the current AS400
 17 Server will not meet our business
 18 requirements. We are basically on a day to
 19 day basis, we have having problems with
 20 running our reports, running our applications,
 21 being able to provide reports for our customer
 22 services group, having to what I call turn
 23 down reporting to get payroll to run. So the
 24 system is not capable of handling the workload
 25 requirements that we have and it's having a

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1 JD Edwards will bring. You know, we have a
 2 number of people engaged in trying to enhance
 3 the applications and improve all that. You
 4 know, and we have to keep in step with JD
 5 Edwards and the hardware for now. If we were
 6 going to contemplate at some future time a
 7 major change, in all likelihood we would be
 8 looking at a major change, you know,
 9 multimillion dollars to go out and possibly
 10 throw out JD Edwards and go with some other
 11 vendor. We're not contemplating that right
 12 now. We don't think that is required. And to
 13 open the door to that would be a lot more than
 14 one or two million dollars; it would be, I
 15 would suggest, you know, ten plus million
 16 dollars to actually go and do a wholesale
 17 change in the hardware and software technology
 18 that we have. You know, once we're in with
 19 these companies, we're there for a number of
 20 years before we get to the point where the
 21 business drives us elsewhere and that would be
 22 a long and painful decision before we would
 23 present that to the Board. If that's helpful.
 24 Q. Thank you. If we can look now to B-127, the
 25 End User Evergreen program? And I just want

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1 HUTCHINGS, Q.C.:

2 to try to put this in context from where we

3 were last year. There's a project at B-127

4 for End User Evergreen program and another one

5 at B-134 which is a server and operating

6 systems Evergreen program, in comparison to

7 last year where there was a single project

8 which showed up in the 2004 Capital Budget at

9 page B-66 which was the End User and Server

10 Evergreen program. Am I correctly seeing that

11 what was one project or grouping last year has

12 been divided into two this year?

13 MR. NICHOLS:

14 A. Three.

15 Q. Three?

16 MR. DOWNTON:

17 A. Yes.

18 Q. Okay. So where's the third one?

19 MR. NICHOLS:

20 A. End User, Server and iSeries.

21 Q. And iSeries?

22 MR. NICHOLS:

23 A. Um-hm. I believe. You're talking -

24 MR. DOWNTON:

25 A. Yes, that's correct.

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1 Budget hearing this year.

2 HUTCHINGS, Q.C.:

3 Q. Okay. So, we've had this what was one project

4 in 2004 has now been split out into three for

5 2005. We've already dealt with the AS400

6 project or the iSeries as it is now known, so

7 we're left now with the End User Evergreen and

8 the Server and Operating Systems Evergreen.

9 In respect of the End User project we had

10 asked at--well, this is generally with respect

11 to the production evidence at IC-81 to

12 identify Capital Budget items which reduce

13 cost or improve efficiency and try to quantify

14 this in respect to B-127. In that answer

15 which is at the bottom of the first page there

16 it's indicated that there would be efficiency

17 improvements are anticipated but the savings

18 are not readily quantifiable. And then

19 there's a reference to when the move to

20 Evergreen was initiated. When do you regard

21 the move to Evergreen as having been

22 initiated?

23 MR. DOWNTON:

24 A. In the context of B-127 we basically say,

25 "However, when the move to Evergreen was

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1 GREENE, Q.C.:

2 Q. That is correct. Last year there was three

3 elements to the project which when we were

4 preparing this year we believed lead to some

5 unnecessary confusion and we have split the

6 matter into three this year. The AS400

7 replacement had been included last year as

8 part of that project that you just referred

9 to, Mr. Hutchings. This year we have three

10 separate ones with full justification for

11 each.

12 HUTCHINGS, Q.C.:

13 Q. Just flicking through last year's project, I

14 didn't see a specific reference there to the

15 AS400, but I guess it was included in the

16 servers -

17 GREENE, Q.C.:

18 Q. It was there. And if you looked at the cross-

19 examination last year and the direct

20 examination, one component, the third element

21 was the AS400. That project was not approved

22 by the Board last year. We then brought

23 forward two separate ones in the winter of

24 2004 and we did not bring forward of the

25 AS400, we deferred it until this Capital

Page 40

1 initiated, staff in the support role were

2 reduced by three and approximate savings of

3 180,000 per year." That would have been two

4 years ago when we basically started to move

5 out of the lease program and implement what we

6 call the Thin-Client strategy which we brought

7 forward to the Board.

8 (Time: 11:45 a.m.)

9 Q. Okay. So there were three staff positions

10 eliminated in 2002 as a result of that

11 program?

12 MR. DOWNTON:

13 A. Yes.

14 Q. Has there been any further reduction since?

15 MR. DOWNTON:

16 A. There has not been any further reduction

17 since.

18 Q. Okay. The project explanations I think for

19 both of these Evergreen projects do make some

20 references to industry standards. And there

21 is a reply to a request for information that

22 directs itself to those industry standards.

23 And that's specifically IC-35. This is in

24 reference to the B-134 project for the Server

25 and Operating Systems. Does Hydro regard

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1 HUTCHINGS, Q.C.:

2 itself as being in both of these projects but

3 the End User Evergreen program and the Server

4 Evergreen program as being consistent with

5 industry standards?

6 MR. NICHOLS:

7 A. That is correct.

8 Q. Okay.

9 MR. NICHOLS:

10 A. And actually, we again on the Server one, we

11 from our research and what we've seen, they

12 put a five-year life on servers, and basically

13 some of our servers we keep for more than five

14 years. And it really goes down to the four

15 points that are below in that we look at the

16 hardware vendor support, basically what the

17 operating system is going to be able to

18 support on that machine. We also look at what

19 the application vendor support is like and

20 also what really the requirements of what the

21 users or business needs are for that server.

22 Q. Okay. These four items, though, are issues

23 that would have to be dealt with no matter

24 what the age of the particular equipment was,

25 isn't that correct?

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1 discussions with other IT departments and

2 hardware and software vendors are used to

3 confirm the life expectancy of the servers.

4 So, is there any independent standard to which

5 Hydro refers in determining the life

6 expectancy?

7 MR. DOWNTON:

8 A. Not really, I guess, an independent standard,

9 I guess, and independent standard. I guess it

10 comes back to our experience, experience that

11 we get, research that we do and also

12 discussions we have with the hardware vendors.

13 And basically what we see is a consistent

14 story that for server infrastructure typically

15 after five years the vendors will not support,

16 typically will not have parts to support any

17 server infrastructure in the Windows

18 environment in particular.

19 Q. Okay. When we discussed this last year, the

20 reference was made to the Gartner best

21 practices information. Is that used by Hydro

22 or not?

23 MR. DOWNTON:

24 A. We basically look at Gartner research. We

25 also look at other research that's available

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1 MR. NICHOLS:

2 A. That is correct. And I guess that's what we

3 look at these on a yearly basis.

4 Q. So even if you had a server that was only two

5 years old and the vendor support for the

6 operating system went away, that would be a

7 cause of concern for you, would it not?

8 MR. NICHOLS:

9 A. It could be a concern. You'd also have to

10 look at what was running on that server, you'd

11 also have to see if the business requirements

12 for that type of software were still

13 applicable to the users and whatnot.

14 Q. Okay. So, in the answer to IC-35 you refer to

15 your own 15 years of experience and the

16 deployment and administration of servers, and

17 I take it that would equally apply to End User

18 devices?

19 MR. NICHOLS:

20 A. Can't remember when we got the first PC at

21 Hydro.

22 Q. Probably more than 15 years ago?

23 MR. NICHOLS:

24 A. Yeah, I believe so.

25 Q. And you say this experience combined with

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1 to us. There's a lot out there. And also we

2 have discussions with the vendors which really

3 are the driving force for the server

4 infrastructure.

5 Q. Are you aware of any other organizations which

6 operate at the level of technological

7 sophistication of Hydro that follow a program

8 which use these service lives for these

9 various pieces of equipment?

10 MR. DOWNTON:

11 A. Again, there's, again, the service life is an

12 approximation. I guess if I were to look at

13 local companies, I mean, Newfoundland Power

14 basically follows the same sort of guidelines,

15 the same sort of analysis when they replace

16 their server infrastructure. And there are

17 lots of other companies that we've had

18 discussions with, not necessarily local, that

19 basically again use the same sort of factors

20 to take in consideration when they're

21 replacing their server infrastructure. And

22 again, each company has to look at where they

23 are and then basically have a look at the four

24 factors that are put forward there to make a

25 determination on a yearly basis as what makes

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1 MR. DOWNTON:
 2 sense to replace and to lay out a program for
 3 that.
 4 Q. In respect of B-134, and I think it's probably
 5 convenient to discuss these two projects
 6 together, there was no indication in the
 7 project description or the explanation
 8 provided that you'd be going to tender on
 9 this, but you have confirmed in IC-34 that you
 10 would be calling tenders in respect of this
 11 work. In your tender call do you specify a
 12 brand name for the equipment that you're
 13 acquiring?
 14 MR. NICHOLS:
 15 A. What we've done with servers over the last
 16 couple of years, we went out and basically got
 17 a purchase order for one for a couple of years
 18 because we didn't want to switch vendors every
 19 year because they all bring their different,
 20 you know, tools and whatnot with them. We've
 21 reached the point again where we want to go
 22 back out to the marketplace to get--to
 23 basically see what's out there and see what
 24 the different vendors can provide for us. So
 25 that's why this year we will be going out for

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1 basically bought from one brand name. But
 2 again, Hydro is going back out to the
 3 marketplace to see which is the best machine
 4 to suit and get the best price and whatnot and
 5 services from the vendor.
 6 Q. Okay. I want to look at the answer to IC-36
 7 for a moment. And this relates to the
 8 suggestion that the current servers do not
 9 support the 2005 operating system. The
 10 question asked what the system is and I don't
 11 think we got an answer to that in the
 12 response. Could you indicate to us what the
 13 2005 operating system is?
 14 MR. NICHOLS:
 15 A. The current operating system for the servers
 16 is what Microsoft calls their 2003 server
 17 operating system.
 18 Q. And what are the hardware requirements for
 19 that system?
 20 MR. NICHOLS:
 21 A. The hardware requirements for that system in
 22 the servers, well, what we looked at, again,
 23 going back to IC-35 where we'd look at the
 24 hardware vendor, we'd look at the application,
 25 we'd look at the business requirements and

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1 public tender. Now, whether it's an IBM or a
 2 Del or a Compaq, I don't know, and we'll have
 3 to look at those factors as we evaluate them.
 4 Q. Okay. Now, when you say whether it's an IBM
 5 or a Del or a Compaq, are you--will your
 6 tender call leave open the ability of
 7 different manufacturers to provide equipment
 8 to satisfy your needs under this proposal?
 9 MR. NICHOLS:
 10 A. That is correct.
 11 Q. So you may end up with to deal with Bell or
 12 Compaq as opposed to IBM?
 13 MR. NICHOLS:
 14 A. That is correct.
 15 Q. And is that equally true in respect of your
 16 End User devices?
 17 MR. DOWNTON:
 18 A. Yes, that is correct.
 19 MR. NICHOLS:
 20 A. That is correct.
 21 Q. Okay.
 22 MR. NICHOLS:
 23 A. Again, we did the same thing with the End
 24 Users, and we didn't want to have, you know,
 25 five different brand names at Hydro, so we

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1 whatnot, the servers that we're replacing
 2 under that budget, it's a model of a server
 3 what we'd call an HP 300R. And going back to
 4 their--they do not support the 2003 operating
 5 system on that machine.
 6 Q. When you say they do not support, who do you
 7 mean?
 8 MR. NICHOLS:
 9 A. HP, it was an HP server.
 10 Q. Okay. So are you telling us that the 2003
 11 server operating system from Microsoft won't
 12 run on the HP 300R?
 13 MR. NICHOLS:
 14 A. I'm telling you that it's not supported by
 15 that hardware vendor. You might get it to
 16 run, but what complications that can run into
 17 is that with any operating system they have
 18 pieces of software which are written to talk
 19 to, say, the hard drive, they're to talk to,
 20 say, the cards for the network. And what HP
 21 have said basically is they will not support
 22 the 2003 operating system on that machine.
 23 Q. Okay.

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1 MR. NICHOLS:
 2 A. So if you ran into a problem, don't phone
 3 them.
 4 Q. In the explanation and the project
 5 justification for B-134 if we follow over to
 6 the top of page B-136, you say that the
 7 replacement addition and the upgrade of
 8 hardware components and software related to
 9 the corporation shared server infrastructure
 10 will allow Hydro to operate in a supported
 11 environment the 2008, 2009 time frame and
 12 allow Hydro to take advantage of the, I take
 13 it that should have been functionality and
 14 enhancements included within the new release.
 15 Is the added functionality and enhancement
 16 part of the reason for justifying this project
 17 at this time?
 18 MR. NICHOLS:
 19 A. No. It's part of it. The other mostly part
 20 of it is that the servers that are being
 21 replaced are running an operating system
 22 called Windows NT, which was put out by
 23 Microsoft in 1996 and basically there is no
 24 support for that operating system at this
 25 point in time.

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1 Falls. And another one is also to support the
 2 Lotus Notes and development environment. We
 3 look at it's not just the operating system
 4 alone, but we also looked at these--you know,
 5 the criticality of some of the applications
 6 which these servers are doing and whatnot.
 7 Q. No, I mean, I'm not questioning that there is
 8 a need to have servers where you have these
 9 servers now. The issue obviously is the
 10 replacement of these ten servers at this
 11 point. When this project is concluded, will
 12 you have any servers left in your system that
 13 won't support the 2003 server operating system
 14 from Microsoft?
 15 MR. NICHOLS:
 16 A. That I believe I'd have to check. But we
 17 have--what we've done with most of our
 18 servers, we have a tentative schedule set up.
 19 So I'd have to look at that and have to--
 20 actually, we would go look at what that
 21 application is doing and whatnot. But I
 22 believe the majority of them will be gone.
 23 Q. Okay. But you may have still some in the
 24 system that you can get by with?
 25 MR. NICHOLS:

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1 Q. So this--I have a bit of ambiguity in your
 2 answer because you say no and then you say but
 3 that's part of the reason. I mean, is this
 4 being driven by the requirements for
 5 additional functionalities and enhancements?
 6 MR. DOWNTON:
 7 A. No, it is not.
 8 Q. It's being driven by the fact that you can't
 9 get support for the new operating system on
 10 your existing servers, is that fair?
 11 MR. DOWNTON:
 12 A. Yeah, that is correct.
 13 MR. NICHOLS:
 14 A. We can go back to IC-35 again, like you say,
 15 to look at, we look at the hardware vendor
 16 support, we look at the operating system, the
 17 application, vendor support and also the
 18 business requirements. And really these
 19 servers that we're replacing this year, you
 20 know, they do things like control the, they
 21 have the monitor and control of our microwave
 22 system, they also control the what we call our
 23 security system for the door, you know, these
 24 swipe cards, it also controls the doors and
 25 that within Hydro Place and also in Bishop

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1 A. Yes. The other thing is you have to remember
 2 if we put a server out in 2006, we would want
 3 that to support itself out to 2011. And
 4 basically we would see the operating system,
 5 we see it on Microsoft now whether, you know,
 6 Microsoft changing their operating system in a
 7 2008, 2009 time frame, so we're into that, we
 8 into that, another round. It won't be--by the
 9 time the servers are replaced in 2006, we
 10 would want them to support the operating
 11 system which will be supported in 2011.
 12 (Time: 12:00 p.m.)
 13 Q. If we can turn then to B-131? This again is
 14 essentially an annual project to replace
 15 peripherals within the system, is that a fair
 16 characterization?
 17 MR. DOWNTON:
 18 A. Yes, that is correct.
 19 Q. Okay. And can you tell me how many devices
 20 are actually being replaced in 2005 or asked
 21 to be replaced under this project?
 22 MR. DOWNTON:
 23 A. We have two what we call multi functional
 24 devices and we have three printers.
 25 Q. That I think is a large reduction from the

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1 HUTCHINGS, Q.C.:

2 number of units that you were replacing last

3 year. Is that correct?

4 MR. DOWNTON:

5 A. Yes, that is correct.

6 Q. Why is that?

7 MR. DOWNTON:

8 A. Because at this point in time those are the

9 only units that we feel that need to be

10 replaced. Out of the three traditional

11 printers that we are replacing, two of them

12 are specifically earmarked for the printing of

13 cheques in treasury department and one is

14 going to Happy Valley office and so basically

15 that's all that we need to meet our

16 requirements for 2005.

17 Q. Are all of the devices that are now being

18 replaced functioning today as we speak?

19 MR. NICHOLS:

20 A. Yes, the ones that are being replaced,

21 especially the one that's being replaced in

22 Holyrood was put in in 2000 and it's what we

23 call a multi functional device. At this point

24 in time that machine has done around 7500--

25 three quarters of a million copies on it. By

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1 addition and then the other ones are

2 replacements.

3 Q. So is there any device in this warehouse that

4 you're talking about now?

5 MR. NICHOLS:

6 A. At this point in time there is a printer

7 there.

8 Q. A printer. And you're adding a fax and

9 scanner capability to that location, are you?

10 MR. NICHOLS:

11 A. Correct.

12 Q. And how is a need to add those functionalities

13 identified?

14 MR. NICHOLS:

15 A. I guess the application really is being a

16 three in one machine, when this--in the

17 warehouse you have like packing slips coming

18 in and things like that, so basically we would

19 take it, we would scan it, so we'd have that

20 type of--have that capability. He also has--

21 he is sending faxes back and forth. So it's

22 more for, you know, for in that warehouse to

23 basically to give him all that functionality

24 there rather than having, you know, to go to

25 different places to get these things done. We

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1 the time it's been replaced, it'll be up to

2 about a million copies and we've started to

3 see an increase, you know, of breakdowns on

4 that machine and whatnot. So again, we go

5 back--it's we go back and look and see what

6 the machine is doing and see--we have another

7 one which is in the mail room which we put in

8 in that same year which basically we find

9 we're having much better performance on which

10 we're keeping. So we don't just automatically

11 replace them, we sort of look at them on an

12 individual basis.

13 Q. Okay. But to get back to my question, the

14 items that are being replaced are all

15 functioning today, are they?

16 MR. DOWNTON:

17 A. With the exception of one. One of the multi

18 functional devices is the new one, and that's

19 going into the warehouse at Hydro Place. And

20 the reason we're putting it there is because

21 this unit will be a printer, will be a scanner

22 and also have a fax capability built into the

23 one unit. And the reason we're doing it that

24 way is because of it takes up less real

25 estate. So basically there's only one new

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1 are talking about a very low end, it's almost

2 to the point where you've seen them in Future

3 Shop and those types of things, this three in

4 one, I believe they call them.

5 Q. Yeah. Does Hydro scan every invoice it

6 receives?

7 MR. NICHOLS:

8 A. No. But, I mean, there is times when he would

9 want to scan things and/or photocopy it. So

10 he could probably scan it in rather than--save

11 paper--and photocopy it.

12 Q. Okay. If we could look now to B-132? Can you

13 just explain for us how your existing disaster

14 recovery system with SunGard works?

15 MR. DOWNTON:

16 A. Yeah. With regards to what we call disaster

17 recovery planning services, we entered into

18 those types of services with SunGard back in

19 1996. I guess in 1999 when Hydro purchased

20 the JD Edwards system and also we installed

21 the Lotus Notes infrastructure, I guess we

22 moved into a different type of services with

23 SunGard in that it was a five-year contract

24 where they would provide us with what we call

25 hot site capabilities. And what that

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1 MR. DOWNTON:
 2 basically refers to is we basically pay them
 3 to keep infrastructure at one of their sites
 4 available for us in a case of us declaring a
 5 disaster, so we can go in there and run our
 6 corporate applications. In particular, our
 7 focus was on JD Edwards, our reporting tool
 8 showcase and also Lotus Notes. So basically
 9 that's the way that it's been. Also, on top
 10 of that we also pay for the telecommunications
 11 costs to connect that site back to Hydro Place
 12 so that in the event of a disaster we're able
 13 to bring users onto that service. I guess
 14 what we are bringing forward here is that as
 15 you see from IC-32, in answer to your
 16 question, indicate the annual cost under an
 17 existing contract with SunGard refer to under
 18 the operating experience, the annual cost
 19 under the existing contract are approximately
 20 \$200,000. That does not include our travel
 21 costs and it also does not include our
 22 telecommunications costs. I guess in an
 23 effort to reduce our overall disaster recovery
 24 planning services, what we're proposing here
 25 is for us to establish a local site on our

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1 MR. NICHOLS:
 2 A. I guess SunGard does the same thing. What
 3 they do is they have hardware and they share
 4 it down there. So, they give you access to
 5 that hardware which is configured to your
 6 system. And I guess with a mobile service,
 7 they--well, again you have access to that
 8 hardware and to be able to store your
 9 applications on.
 10 Q. So, if, in fact, you have to implement this
 11 DRP system, if a disaster occurs, are there
 12 additional charges then that you would pay to
 13 SunGard, whoever it is, to actually run your
 14 systems during the recovery from the disaster?
 15 MR. DOWNTON:
 16 A. Our view is that we will be able to reduce
 17 what we are now paying. Right now we are
 18 paying on average to SunGard, \$200,000.00 a
 19 year. I guess what our expectation by
 20 establishing our own site is that we will be
 21 able to reduce that in our operating budget.
 22 Q. I understand the point that you're trying to
 23 make, I guess, I'm wondering what exactly
 24 we're getting for the \$80,500.00.
 25 MR. DOWNTON:

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1 island which is connected by our microwave
 2 system so that we can establish our own site.
 3 And our intent is, in 2005 we will go out for
 4 an RFP to IBM, to SunGard and others for what
 5 we call mobile DRP services. So that in the
 6 event that we have a, declare a disaster, they
 7 will bring the infrastructure and put it in at
 8 one of our--well, at the selected site so
 9 that--and it's our view, based on our analysis
 10 that that will help us to reduce our overall
 11 operating budget from the number that I
 12 indicated earlier.
 13 Q. Okay. So, if I understand the existing plan
 14 correctly, SunGard is maintaining some
 15 hardware that will run your systems now or run
 16 your applications in the event of a disaster,
 17 is that correct?
 18 MR. DOWNTON:
 19 A. Yes, that is correct.
 20 MR. NICHOLS:
 21 A. Yes, that's correct.
 22 Q. The new strategy that we're talking about here
 23 doesn't provide you with any hardware, as
 24 such, but just a commitment to provide the
 25 hardware if you need it, is that correct.

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1 A. I guess what we are getting is a site, that in
 2 the event of a disaster, we can basically move
 3 in equipment so that Hydro can still function
 4 from a business perspective.
 5 Q. So, this will give you brick and mortar
 6 basically.
 7 MR. DOWNTON:
 8 A. Yes, that is correct.
 9 Q. A physical site, but you still would have
 10 contract with SunGard or someone else to bring
 11 the necessary computer equipment to that site
 12 and run it in the event of a disaster. Is
 13 that--do I understand this correctly?
 14 MR. DOWNTON:
 15 A. That is correct.
 16 Q. Okay. And, I mean, do you have any projection
 17 as to the difference in the annual costs from
 18 your existing system to what they'll be under
 19 the new system.
 20 MR. DOWNTON:
 21 A. We feel that we will be able to pay for this
 22 project here in 12 - 18 months. We will see
 23 that type of savings on an annual basis.
 24 Q. So, in terms of what SunGard or an alternative
 25 supplier will be doing under the new system,

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1 HUTCHINGS, Q.C.:

2 they will have to provide essentially what

3 they were providing before except the physical

4 space in which to run the system, is that

5 correct.

6 MR. DOWNTON:

7 A. Well, they provide the physical space now.

8 Q. Okay.

9 MR. DOWNTON:

10 A. And I guess what were looking at is providing

11 physical space and at the end of the day,

12 reducing our operating budget, from my

13 perspective, by this amount on a yearly basis.

14 Q. You're not able to tell me, at this stage,

15 what range you expect your bids to be for the

16 annual costs to SunGard or the third party

17 supplier once you've got your own bricks and

18 mortar in place.

19 MR. DOWNTON:

20 A. I guess our estimate is that we will save,

21 from a telecommunications cost perspective, we

22 will probably save 15 or \$20,000.00 a year.

23 And our estimate is that we will save 50 to

24 60,000 a year on our DRP services from SunGard

25 by initiating this project.

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1 MR. NICHOLS:

2 A. Now, the original--this goes back to before we

3 had JD Edwards, we also had it on our IBM

4 mainframe which was a 370. So, it goes back

5 to then. So, they provided the services on

6 that machine originally and then we went to--

7 they also did it for our 400, for the last

8 five years.

9 Q. Okay. And the \$200,000.00 annual costs that

10 are referred to in IC 32, that includes

11 communications costs, does it?

12 MR. DOWNTON:

13 A. No, as the response indicated, it's only for

14 SunGard costs.

15 Q. Okay. In addition to that, you would be

16 paying communication costs from Newfoundland

17 to Philadelphia or wherever.

18 MR. DOWNTON:

19 A. That's correct.

20 MR. NICHOLS:

21 A. Just one more point on disaster recovery.

22 There is many other companies, FPI actually is

23 another customer of SunGard. And actually

24 when we had a power outage here a couple of

25 years ago, they actually started to declare

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1 MR. NICHOLS:

2 A. The other thing is you will not have the

3 situation where you have to travel to

4 Philadelphia to restore your system. So,

5 basically they would come to you. So, in the

6 case of a disaster, you'd have less operating

7 costs, if you were in a disaster situation,

8 also you wouldn't have to spend as much money

9 in running what we call a DRP test on a

10 regular basis.

11 Q. So, SunGard, were you being serious in saying

12 that SunGard's operation is actually in

13 Philadelphia?

14 MR. NICHOLS:

15 A. It is. Actually, they were--the last time we

16 ran a test in 2001, it was. Since that time,

17 in the DRP industry, there was a company

18 called Comdisco which SunGard has since bought

19 out, which they now have facilities in

20 Toronto, but they still run their AS400

21 disastery services out of Philadelphia.

22 Q. All right. How long has this agreement been

23 in place with SunGard?

24 MR. DOWNTON:

25 A. In place for five years.

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1 disaster in Philadelphia. So, there's other

2 Newfoundland companies with SunGard.

3 Q. Thank you, gentlemen, those are my questions.

4 Mr. Chairman.

5 CHAIRMAN:

6 Q. Thank you, Mr. Hutchings. As I recall, Mr.

7 Coxworthy, you completed your questions on the

8 last day, correct?

9 MR. COXWORTHY:

10 Q. That's correct.

11 CHAIRMAN:

12 Q. Mr. Kennedy?

13 (Time: 12:15 p.m.)

14 MR. KENNEDY:

15 Q. Chair, just a couple of questions. Gentlemen,

16 I just wanted to get your comments on an

17 aspect of your application enhancement project

18 which is B-120 which you've been cross-

19 examined on a couple of times. And just to

20 recap, the Application Enhancement Project

21 actually describes four different projects,

22 correct, Various Minor Enhancements, Intranet,

23 Key Performance Indicator and Facilities

24 Failure Model.

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1 MR. DOWNTON:
 2 A. Yes, that is correct.
 3 Q. Okay. And in the case of, if we could just
 4 scroll down, Mr. O’Rielly, actually on page 2.
 5 And looking at the Intranet project and it
 6 describes it as, "this involves the continuing
 7 design and implementation of enhancement to
 8 Hydro’s internet to improve access to
 9 information to our employees. And the second
 10 sentence, "this will help to improve
 11 information flow, eliminate redundate
 12 processes, reduce the manual effort associated
 13 with distributing information and provide
 14 enhanced level of customer service". And I
 15 believe that was broken down into in an RFI as
 16 the intranet with--or actually I think it was
 17 during your testimony in saying that that
 18 project is 67.9 thousand dollars or
 19 MR. NICHOLS:
 20 A. You can refer to IC-31.
 21 Q. That’s where that information comes from, IC-
 22 31?
 23 MR. NICHOLS:
 24 A. Yes.
 25 Q. Okay, thank you. So, I just wanted to turn to

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1 effort associated with distributing
 2 information. Would you agree that some of
 3 those operational efficiencies relate
 4 specifically to gains in the efficiency of
 5 your employees?
 6 MR. NICHOLS:
 7 A. I guess one of the, some of the other stuff is
 8 does, again there was an example of sequence
 9 of events interface which a user could go,
 10 find out things that are happening on the
 11 system and basically make determinations to
 12 basically fix that problem. There’s also
 13 things in terms of the WHMIS which are
 14 basically health and safety type things which
 15 give access to people to those types of
 16 documents. So, I guess yes, it does make it
 17 more efficient in that way, that they can at
 18 this information quicker.
 19 Q. Right, okay. So, I guess another simpler way
 20 to put it is that the introduction of some of
 21 these projects is aimed at saving time?
 22 MR. DOWNTON:
 23 A. Basically it’s, again, allowing staff to work
 24 more efficiently.
 25 Q. Okay. It was indicated in your response in

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1 IC-81 and it’s a question the Industrial
 2 Customers put to Hydro asking to identify the
 3 capital budget items in the present
 4 application which reduced costs or improved
 5 efficiency and quantify the reduced costs
 6 arising from each such project. And then
 7 we’ve got B-120, application enhancement. The
 8 response was, "while efficiency improvements
 9 are anticipated in this project, they are not
 10 readily quantifiable". Now, I’ll just ask a
 11 couple of questions first. Is it agreed that
 12 or accepted by Hydro that in the case
 13 specifically of Project B-120, the application
 14 enhancements, that there are aspects to these
 15 projects which involve expected gains in
 16 operational efficiency?
 17 MR. DOWNTON:
 18 A. I guess in the context or, we basically feel
 19 that it will allow us to work more efficiently
 20 and provide us with the tools to do same.
 21 Q. And insofar as, at least one aspect of one of
 22 those projects under your application
 23 enhancements projects is indicated that it
 24 will improve information flow and eliminate
 25 redundant processes and reduce the manual

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1 IC-81, Hydro, at least insofar, as this
 2 response indicates is that these efficiency
 3 improvements are not readily quantifiable.
 4 Before I ask you to explain that, I’m
 5 wondering if first you could indicate whether
 6 you had an opportunity to look at some of the
 7 responses provided by Newfoundland Power in
 8 their capital budget relating to operational
 9 efficiencies expected to be gained through
 10 their IT projects. Did any of you actually
 11 have a look at that?
 12 MR. NICHOLS:
 13 A. No.
 14 MR. DOWNTON:
 15 A. No.
 16 Q. No, okay. So, if I said to you that in the
 17 case of Newfoundland Power in response to RFIs
 18 they are able to provide Net Present Value
 19 calculations based on the operational
 20 efficiencies expected to be gained through
 21 this introduction of some technologies, you
 22 haven’t had an opportunity to actually look at
 23 that.

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1 MR. DOWNTON:
 2 A. I guess in our analysis, I guess in particular
 3 of Intranet, we basically do not, not that we
 4 don't--we basically see the opportunity to
 5 work more efficiently, I guess to quantify
 6 that over the organization, it's difficult to
 7 do. And I guess that's what we really meant
 8 by they are not readily quantifiable. It's
 9 difficult to basically say, okay, the fact
 10 that you can find a document easier, what that
 11 will sum to across the organization.
 12 Q. I might be, I certainly am paraphrasing, but I
 13 guess, I've heard your chief executive officer
 14 testify here before the Board on various
 15 applications and indicate the importance that
 16 Hydro places on it's ability to measure the
 17 impact or benefit of its effort and that that
 18 was driving, for instance, a large part of the
 19 reason why Hydro was conducting its review of
 20 all of its processes in order to drive
 21 efficiencies where it could. And so, I guess,
 22 could you explain why Hydro doesn't seem to
 23 feel that that same ability to demonstrate the
 24 benefit that you expect in terms of actual
 25 dollars saved or actual efficiencies to be

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1 when you do legal research, the fact that you
 2 can get it more quickly, does that actually
 3 mean less time you are doing your opinion.
 4 What we find is the more information is
 5 readily available, the more questions we get
 6 to answer from the Public Utilities Board and
 7 the Intervenors and others. So, that is the
 8 nature of the way the answer was responded. I
 9 don't know if that's helpful for Board
 10 counsel, but I found his question, the way it
 11 was phrased a little bit hard to answer and
 12 actually a little bit misleading in terms of
 13 what Hydro has presented, in terms of when it
 14 does quantify efficiencies.
 15 CHAIRMAN:
 16 Q. Mr. Kennedy, do you have any comment on that?
 17 MR. KENNEDY:
 18 Q. Board Chair, the question wasn't intended to
 19 try to place any untoward pressure on the
 20 Panel in answering the questions. I'm
 21 obviously trying to draw up a comparison and
 22 treatment of the IT projects between the two
 23 utilities which has -
 24 GREENE, Q.C.:
 25 Q. And unless until our witnesses are familiar

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1 gained through the introduction of these
 2 technologies wouldn't apply.
 3 GREENE, Q.C.:
 4 Q. The question that Mr. Kennedy has put is with
 5 respect to one particular one which is
 6 applications enhancement. Mr. Downton and Mr.
 7 Nichols have already answered in the form of
 8 why they said what they did for B-120 and
 9 explained that it's getting access to
 10 information instead of going to a manual and
 11 getting it and doing the research and if it's
 12 update, you can get it online. And as they've
 13 explained, it's very difficult to quantify
 14 that and how many people would use it and what
 15 it would mean. We have done that for other
 16 types of examples. So, the question I find is
 17 phrased so generally, it's very difficult to
 18 respond in a meaningful way for the Board. As
 19 the Board is aware, Hydro does quantify
 20 expected operation efficiencies and have
 21 advised that the particular one that Mr.
 22 Kennedy referred to is with respect to the one
 23 application enhancements one that is here and
 24 both witnesses have explained the type of one
 25 and you can understand is very difficult is

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1 and can speak to whether the Newfoundland
 2 Power IT project is of the same nature as the
 3 one that Mr. Kennedy took them to, it's really
 4 not fair to the witnesses who do not have
 5 knowledge of the Newfoundland Power IT
 6 projects. And I don't believe is fair to put
 7 that to them as they are witnesses here on the
 8 stand, they are not speaking for Newfoundland
 9 Power. We do quantify efficiencies, we have
 10 given examples of that throughout our
 11 application.
 12 CHAIRMAN:
 13 Q. I guess, that would seem to make some sense to
 14 that particular comment, Mr. Kennedy, they've
 15 indicated they haven't seen or looked at the
 16 response to Newfoundland Power.
 17 MR. KENNEDY:
 18 Q. Absolutely Chair, and that's why I moved on
 19 from actually drawing a direct comparison and
 20 went back to just asking a more general
 21 question of what difficulties Hydro's panel of
 22 witnesses can indicate arise when they go to
 23 try to put a number on the efficiency that's
 24 expected to be gained. If they could provide
 25 some background as to why they feel that the

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1 MR. KENNEDY:
 2 numbers are not readily quantifiable as is
 3 indicated in the reply to the information
 4 request. That was the purpose of it.
 5 GREENE, Q.C.:
 6 Q. With respect to b-120.
 7 MR. KENNEDY:
 8 Q. It be a bit muddled, the question, I'm
 9 apologizing, it came out as such -
 10 CHAIRMAN:
 11 Q. I would think the witness would get the gist
 12 of the question though, do you, gentlemen?
 13 MR. HAYNES:
 14 A. Not always, but certainly the internet and Key
 15 Performance Indicators, I mean, they are
 16 communications, they are enhancements. It's
 17 difficult, from a communications point of
 18 view, as Mr. Nichols said on the MSDA sheets,
 19 some of these things are new requirements.
 20 You know, if we have MSDA sheets that are two
 21 or three or six months out of date, they're
 22 instantly, the workers have them, have the
 23 current information. It's very difficult to
 24 quantify and the Key Performance Indicators, I
 25 think, as we discussed when we were here last

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1 in his desk because it's now on the screen.
 2 MR. KENNEDY:
 3 Q. Sure.
 4 MR. HAYNES:
 5 A. When the update is done, it's there, instantly
 6 done and he or a secretary or some assistant
 7 does not have to actually go through the
 8 manual effort inserting six pages of 200 in a
 9 binder. So, that's the difficulty in
 10 quantifying these things.
 11 Q. Okay, difficult, but is it that you're
 12 suggesting that it's either so difficult, just
 13 render it almost impossible to calculate or so
 14 difficult that the number would be
 15 meaningless, the one that you produce.
 16 MR. HAYNES:
 17 A. I think the number would be relatively
 18 meaningless, plus the additional demands on
 19 information is growing by the regulator, as
 20 Ms. Greene said, for this regulatory process
 21 and the environmental regulators. So, as
 22 according to, as these things are increasing
 23 the demands, it's not static, if it was
 24 static, it may be even easier, but it's not
 25 static.

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1 time, there was some discussion on Key
 2 Performance Indicators. They're--you're
 3 building upon a tool to give the supervisor
 4 more timely appropriate adequate information,
 5 extremely difficult to measure the gains on an
 6 individual basis. I mean, even if I save ten
 7 minutes a day, if that's times a thousand
 8 people, how do you actually get that as a
 9 gains. They are enhancements and there will
 10 be gains. If only in communications and if
 11 people know exactly what we're doing and the
 12 information they need to do the work.
 13 MR. KENNEDY:
 14 Q. So, in the case of, for instance, your
 15 Intranet project where you indicate that it
 16 would reduce the manual effort associated with
 17 distributing information.
 18 MR. HAYNES:
 19 A. It's X number of copies of paper in the mail
 20 room, transportation and all that, and now
 21 they just look up on the internet page and
 22 it's there. Whether it's a new policy and
 23 procedure or whatever the case is, there
 24 already has been elimination of multitude of
 25 manual copies that each supervisor would have

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1 Q. So, does Hydro then institute any type of
 2 return on investment criteria when its making
 3 its decisions about the selection of
 4 technology and implementation of technology?
 5 MR. HAYNES:
 6 A. It does, typically, what we do is net present
 7 value analysis, if there are options to
 8 evaluate. In this case here, the intranet was
 9 seen to be--I don't think that particular
 10 aspect was there when we started on the
 11 intranet, you know, to actually rule out an
 12 intranet. You can correct me if I'm wrong,
 13 but I -
 14 MR. DOWNTON:
 15 A. No, you're correct.
 16 MR. HAYNES:
 17 A. It's a communications tool, it was a, I won't
 18 say obvious, but it was a communications tool
 19 that was designed to improve our
 20 communications to our employees to have more
 21 ready access to useful and essential
 22 information.
 23 Q. Sure, and if we accept that just for a moment,
 24 that that's a given, that there will be
 25 efficiencies achieved through these

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1 MR. KENNEDY:
 2 improvements to your intranet, then you
 3 indicated that you would do an MPV where
 4 there's options, but there's always the option
 5 to defer, correct and at least, as a
 6 theoretical option that you could defer
 7 projects and -
 8 MR. HAYNES:
 9 A. If you look at any project, deferring is
 10 always the cheapest thing to do, there's no
 11 doubt about that, but -
 12 Q. And so in making a decision that is aimed at
 13 improving the efficiency of something that
 14 you're already using, sort of spend money now
 15 to save it later, that would involve, would it
 16 not, some sort of net present value
 17 calculation in order to determine whether it's
 18 worthwhile to spend this money, to get that
 19 operational efficiency gain.
 20 MR. HAYNES:
 21 A. It was not done for -
 22 MR. DOWNTON:
 23 A. It was done for these--I guess, getting to the
 24 point of your question, we have looked at
 25 other projects, applications which the

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1 Q. Sure, but without actually putting numbers, if
 2 you will, around that expected operational
 3 efficiency or gain in operational efficiency
 4 in, for instance, your intranet project, we
 5 really wouldn't know whether it would warrant
 6 an expenditure of the proposed 67.9 thousand
 7 dollars or 167.9 thousand dollars or 567.9
 8 thousand dollars really, would we?
 9 MR. HAYNES:
 10 A. I don't think we would actually come forward
 11 on a project if it was going to be six or
 12 \$700,000.00, more than what's here. I mean,
 13 this is 6 or \$7,000.00 that's a
 14 communications improvement, it's for employees
 15 to have more timely and pertinent information.
 16 Q. Sure. Now, that's the sub project underneath
 17 it, right. So, Hydro is actually for approval
 18 of three hundred and ten thousand seven
 19 hundred thousand under this.
 20 MR. HAYNES:
 21 A. For four separate projects.
 22 Q. Right. And there are efficiency gains
 23 throughout those four subprojects under this
 24 three hundred and ten thousand?
 25 MR. HAYNES:

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1 business has brought forward and I guess we've
 2 made determinations on are there going to be
 3 savings from this. Where we cannot get a fast
 4 savings, we basically have gone back to the
 5 business and asked them if there's going to be
 6 savings in the operating budget, to remove
 7 those from their operating budget. And I
 8 guess one of those is the incentive, what we
 9 call, incentive letter mail. That particular
 10 project was to purchase a piece of software
 11 for our customer service for bulk fillings.
 12 And I guess when that was brought forward, we
 13 asked them, well, what are your savings going
 14 to be. The cost of the software was 20,000.
 15 They said, well, we expect on an annual basis
 16 to see \$20,000.00 savings in our postage. So,
 17 before we approved the budget, we said well,
 18 we'll only do the budget if you basically take
 19 the 20,000 out of your operating budget. I
 20 guess after the project was done, we did a
 21 lessons learned on the project and the project
 22 paid for itself in eleven months. So, we
 23 appropriately do look at savings and
 24 harvesting those savings.
 25 (Time: 12:30 p.m.)

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1 A. There should be efficiency gains over the long
 2 term, yes.
 3 Q. And those efficiency gains should provide the
 4 rationale and the basis on which Hydro
 5 proposes to spend three hundred and ten
 6 thousand dollars.
 7 MR. HAYNES:
 8 A. I think you go back to IC-81 where it's
 9 difficult to quantify all those different -
 10 Q. Sure, leaving aside the difficulty in this, if
 11 you will, of the ability to quantify the
 12 operational efficiency gain, nonetheless, the
 13 efficiencies to be gained out of this project
 14 in your opinion, Hydro's opinion -
 15 MR. HAYNES:
 16 A. We think they're worthwhile.
 17 Q. Warrants the expenditure of three hundred and
 18 ten.
 19 MR. HAYNES:
 20 A. That's our view, yes.
 21 Q. Right. That's all the questions I have,
 22 Chair, thank you gentlemen.
 23 CHAIRMAN:
 24 Q. Thank you, Mr. Kennedy. I think we'll take
 25 our 15 minute break at this particular point

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1 CHAIRMAN:
 2 in time. Thank you.
 3 (BREAK - 12:32 P.M.)
 4 (RESUME - 1:00 p.m.)
 5 CHAIRMAN:
 6 Q. Anything on redirect, Ms. Greene?
 7 GREENE, Q.C.:
 8 Q. No, Mr. Chair, I have no redirect.
 9 CHAIRMAN:
 10 Q. Commissioner Powell?
 11 COMMISSIONER POWELL:
 12 Q. Thank you, Chair. I just have a couple of
 13 items. Just so I can see if I understood what
 14 was said. There was some reference, I don't
 15 know if it was this Panel or the Panel prior
 16 to it, but the allocation of costs some of
 17 your costs, like B-124 you're going to recover
 18 from CF(L)Co. \$52,000. Is my understanding is
 19 that the method that you're using that you
 20 used a number of corp applications and then
 21 you used a percentage that CF(L)Co. uses those
 22 which I think I heard 19 percent and that's
 23 what you use across the board to recover costs
 24 of your capital items from CF(L)Co.?
 25 MR. DOWNTON:

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1 usage. And that's pretty much what we've
 2 done. There are no mechanisms which allow you
 3 to measure workload. In the old systems you
 4 could have a workload analysis, but in the
 5 newer systems you don't have it to say, okay,
 6 well, you are servicing 25 percent of the
 7 workload for CF(L)Co. and 75 percent for
 8 Hydro. So I guess what we used as we put
 9 forward are the major applications and the
 10 number of PCs that they represent of the
 11 corporate total as well and we feel that that
 12 gives us a reasonable estimate of what the
 13 overall cost proportion should be.
 14 Q. Yeah, I can appreciate that. No, it just
 15 seemed to me, it struck me it's Hydro would
 16 appear to be paying a higher percentage of the
 17 cost because having those capital items
 18 available represents a certain cost, so if it
 19 was coming the other way, it'd be a better
 20 deal for Hydro than it would be for CF(L)Co.
 21 It just seemed to me that the fact it's
 22 available for me, whether I use it or not, I
 23 should share into it because I have that
 24 availability and then my usage would be on top
 25 of that. But you're saying this is what

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1 A. Yes, that is correct.
 2 Q. The thing that struck me when I heard that, I
 3 thought that's what I heard, and I started to,
 4 I probably started to go around the road
 5 because I immediately started trying to think
 6 as an engineer, actually, listening to all
 7 these lawyers I thought I might think
 8 differently, but would that be a fair basis of
 9 doing it because an application, isn't there a
 10 base cost and then you would use a percentage
 11 and usage after? Like, we got--let's use B-
 12 124 here, we got \$274,000 forgetting what it's
 13 for. But that's an application that has
 14 benefit to both Hydro and CF(L)C, whatever,
 15 but wouldn't there be base costs whether you
 16 used it at all or you used it at--so wouldn't
 17 you take a percentage and then usage on top of
 18 that? It just struck me as being not a proper
 19 measurement of allocating costs.
 20 MR. DOWNTON:
 21 A. When the--in the case of the iSeries Server,
 22 when that was bought back in 1997, a similar
 23 type of formula was used for what. Or when we
 24 purchased JD Edwards, again, it was based on
 25 what we felt was a reasonable estimate for

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1 you've been doing sort of from the get go on
 2 your capital projects?
 3 MR. DOWNTON:
 4 A. Yeah, I think, yeah, that's what we have been
 5 doing. And again, every year we evaluate
 6 whether those numbers are still current. So,
 7 again, if we propose projects for next year,
 8 we'd look at the percentages again and see if
 9 they've changed. So if it's gone up or down,
 10 we will adjust it appropriately. But I think
 11 in answer to your question, with the metrics
 12 that we are using, we feel that we get a good
 13 representation on what's actually being used,
 14 because these are the primary core
 15 applications which everyone has access to. So
 16 by the fact that we're looking at the JD
 17 Edwards users, the number of users, Lotus
 18 Notes databases, Lotus Notes licences and the
 19 number of PCs, we feel that it gives us a
 20 representation of access and ability to use.
 21 We feel that it addresses both aspects of it.
 22 Q. Okay. B-124, this is the application
 23 enhancement. Listening to the discussions
 24 back and forth, have you ever looked at the
 25 cost benefit if you did an annual update on

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1 COMMISSIONER POWELL:
 2 these enhancements as opposed to deciding
 3 you'd do one for X number of years and so
 4 many? Because you're talking significant
 5 dollars, you're talking volume, with an
 6 institution like Hydro you negotiate prices so
 7 you have your enhancements coming every year
 8 so you wouldn't have these just internal costs
 9 of seeing whether you should have or not,
 10 there is a cost, so anybody ever done a cost,
 11 benefit analysis saying when you buy into the
 12 software that you have your automatic updates
 13 just like I do in my little antivirus, I pay a
 14 fee, it's done and I don't have to worry about
 15 it?
 16 MR. NICHOLS:
 17 A. A different aspect of this, a lot of the time
 18 and effort to do like a metaframe upgrade and
 19 do the Helpdesk is also testing some of the
 20 applications that we already have in place,
 21 something to make sure that it all works. So
 22 there is significant, you know, internal
 23 labours. I mean, if we did it every year,
 24 we'd be spending an awful lot of time just
 25 doing the upgrades. Does that answer your

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1 exploiting the improved functionality and it's
 2 just not, you know, you're just not putting it
 3 in there and those types of things. You have
 4 to sort of make sure that you're leveraging
 5 the software to the right, you know, as much
 6 as you can.
 7 Q. Would the changes though in software on an
 8 annual basis--I mean, you made a commitment to
 9 put in a specific type of software because the
 10 fact that your vendor says now we have a newer
 11 version of that, would that require that
 12 detailed of an analysis or would you just
 13 worry about whether any wrinkles throw off
 14 something else?
 15 MR. NICHOLS:
 16 A. I guess what you do in what you do in the
 17 upgrades that we're doing this year like in
 18 the Helpdesk one, it's if they phone us and we
 19 have a problem with it, they won't support it
 20 because we're beyond support. In terms of the
 21 metaframes ones and the CiscoWorks ones, we
 22 really, we do look at some of the
 23 functionality that would be, you know, that
 24 the new release would bring to it.
 25 Q. Okay.

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1 question?
 2 Q. Well, you say down here in future plans you're
 3 planning to do a latest software version every
 4 second year, so -
 5 MR. NICHOLS:
 6 A. And again, we use that as a rule of thumb.
 7 And, like, if you go back to IC-35 in terms of
 8 the hardware support, the vendors--you know,
 9 the application support and whatnot, we would,
 10 you know, refer to those types of things to
 11 see which ones we would want to upgrade on a
 12 yearly basis and how, you know, critical they
 13 are to Hydro.
 14 Q. So, what you're saying that, if I'm
 15 understanding you correctly, is that just to
 16 do the software update annually, you also have
 17 to keep track of whether the hardware can
 18 support the software?
 19 MR. NICHOLS:
 20 A. And also in some cases we'd also have to do
 21 testing internally to make sure it was working
 22 properly and configuration. Sometimes when
 23 you do an upgrade, you will have to
 24 reconfigure the software. There is new
 25 options, you have to make sure that you're

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1 MR. DOWNTON:
 2 A. I guess go back to your question, I guess what
 3 we found in our experience, and again, in
 4 discussions with other companies and to do
 5 updates on a yearly basis would create two
 6 issues. One is that we would spend all our
 7 time just updating and the impact on the
 8 business because we may be providing
 9 functionality at times when they really don't
 10 need it. And also, for the most part it would
 11 be doubling the cost. So, say, as a for
 12 instance, if we upgraded, say, every year to
 13 maybe Helpdesk tools, well, rather than
 14 111,000 that we would expend to go from 2001
 15 to 2005, we may be expending 100,000 every
 16 year just to keep current. So, that's why we
 17 at times where it's appropriate, we skip
 18 releases because what you're doing, you're
 19 actually just multiplying your costs if you do
 20 it every year. And again, when we look at the
 21 functionality and we look at the other
 22 aspects, it may not be bringing that much
 23 value to do it every year. So that's
 24 typically why we typically stay one to two
 25 releases behind, and a lot of cases we only

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1 MR. DOWNTON:
 2 migrate if we cannot get vendor support any
 3 longer or if there's functionality in there
 4 that we figure will bring benefit to the
 5 business.
 6 Q. What you're saying, I agree, you know,
 7 visualizing it at a much lower level. But
 8 sort of what Mr. Kennedy was getting at in
 9 terms of trying to quantify it because you get
 10 this blend between what is an operating cost
 11 and what is the capital costs. And there are
 12 saving, you're saying, because of
 13 logistically, and you can sort of visualize
 14 it. But at the same time I get the impression
 15 that you're saying it's not worth the time to
 16 put it on paper. So it almost seems like some
 17 of these costs should be in the operating side
 18 of the ledger as versus the capital side of
 19 the ledger?
 20 MR. DOWNTON:
 21 A. No, that's, I guess, interpreting your
 22 question, I didn't interpret it that way. I
 23 guess I interpreted -
 24 Q. No, I didn't start off with the question that
 25 way, but you got me there. It struck me this

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1 looking at trying to put in a plan so when you
 2 go for tender, I presume it will be a tendered
 3 proposal, for a disaster plan that would give
 4 you the capability of having a delivery closer
 5 to home, I mean?
 6 MR. DOWNTON:
 7 A. Yes, that is correct. We're looking at
 8 establishing a site on the island.
 9 Q. I'm sort of, that's what I got confused in
 10 when you said that. But maybe when you go to
 11 tender, I mean, the way communications things
 12 are today, it could be somebody in India, from
 13 what you understand, a very low delivery cost
 14 can deliver a plan that would cost you
 15 substantially less than the \$200,000 you have,
 16 you're spending now, so, but there's no need
 17 to have a site here, I mean, in their wisdom
 18 when they answer your tender call, or are you
 19 going to put something around that tender call
 20 saying that they have to use your site here?
 21 MR. DOWNTON:
 22 A. They would have to use our site. And that
 23 will be in what's tendered.
 24 Q. Yeah. But -
 25 MR. NICHOLS:

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1 way.
 2 MR. DOWNTON:
 3 A. I guess from our analysis and I guess the way
 4 we have our units or properties set up, we
 5 basically what we're bringing forward are all
 6 capital costs, would be the actual other
 7 aspects of maintenance agreements and those
 8 sorts of things which are related to things
 9 like Lotus notes and others, those are
 10 actually in our operating costs. But where we
 11 are bringing enhancements forward and with the
 12 materiality limit, these basically are
 13 considered to be capital expenditures.
 14 Q. One other item, yeah, the B-132, the disaster
 15 recovery plan, I'm sort of--I can appreciate
 16 what you're doing, why you're doing it. And
 17 you have a present agreement expires in July
 18 of 2005. I'm just trying to get my mind
 19 around exactly what we're going to get for the
 20 80 or 100,000 dollars here. I presume in July
 21 of 2005 the contract you have now ends and
 22 you'll be entering into a new contract with
 23 the same providers or another provider to
 24 assist or deliver a disaster recovery plan.
 25 Am I gathering from this that really you're

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1 A. Really what we're getting to is we want--they
 2 want them to bring the computers to us rather
 3 than us go to the computers. So I guess this
 4 would establish the site where those computers
 5 could be installed and used for DRP purposes.
 6 MR. DOWNTON:
 7 A. Right now I guess with the existing SunGard
 8 proposal contract they provide the facility
 9 and the computers. And I guess our analysis
 10 shows that if we provide the facility and they
 11 bring the computers to our facility, we will
 12 basically see a reduction in our overall
 13 disaster recovery planning costs.
 14 Q. Okay. So you have done some analysis. Is
 15 that in any of the -
 16 MR. DOWNTON:
 17 A. That was, I mentioned that earlier when Mr.
 18 Hutchings brought it up. We basically feel
 19 that we would save on average--well, we would
 20 pay for this project in the 12 to 18 month
 21 time frame.
 22 Q. Okay. So there was no information request
 23 outlining that internal study, things you've
 24 done for that?

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1 MR. DOWNTON:
 2 A. No.
 3 Q. Okay. Nobody asked that. Okay. That's all
 4 my questions, Chair.
 5 (Time: 1:16 p.m.)
 6 CHAIRMAN:
 7 Q. Commissioner Martin? Mr. Nichols, Mr.
 8 Downtown, Mr. Haynes, thank you, very much.
 9 GREENE, Q.C.:
 10 Q. Mr. Chair, our next witness is John Roberts
 11 who is the Vice-President of Finance and Chief
 12 Financial Officer for Hydro. I think it will
 13 just take him a moment to get set up there
 14 when the other witnesses leave.
 15 MR. JOHN ROBERTS (SWORN)
 16 CHAIRMAN:
 17 Q. State your full name for the record.
 18 A. My name is John Roberts.
 19 GREENE, Q.C.:
 20 Q. Mr. Roberts, what is your current position
 21 with Hydro and what are the responsibilities
 22 of that position?
 23 A. I am the Vice-President of Finance and Chief
 24 Financial Officer of Newfoundland and Labrador
 25 Hydro and interrelated companies. I have

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1 same date there was a Section F to the
 2 application which was the status of the 2004
 3 Capital Budget. A revised Section F was filed
 4 on September 28th in response to IC-49 which
 5 provides the status of the 2004 capital to the
 6 end of August this year. Do you accept the
 7 revised Section F to the application as your
 8 evidence for the purpose of this hearing?
 9 A. Yes, I do.
 10 Q. Mr. Roberts, I wonder if you could please
 11 describe the Capital Budget process which is
 12 followed by Hydro and particularly with
 13 respect to the 2005 Capital Budget process
 14 that's before the Board?
 15 A. Yes. The procedures that are followed
 16 relative to the preparation of the Capital
 17 Budget process are outlined on pages 2 to 4 of
 18 my evidence. The process basically takes
 19 approximately about nine months from start to
 20 finish and involves the review and evaluation
 21 of every Capital Budget proposal that is
 22 prepared to determine if it should be moved
 23 forward for approval to the next level of
 24 supervision. The budget process starts with
 25 the issuance of budget instructions and a time

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1 responsibility for the controllership
 2 functions which would include accounts
 3 payable, financial reporting and budgeting and
 4 general accounting. I have responsibility for
 5 all treasury activities which would primarily
 6 include cash management and debt management.
 7 I have responsibility for rates and customer
 8 services, including financial planning and the
 9 administration of the corporate insurance
 10 program.
 11 Q. Mr. Roberts, how long have you been with Hydro
 12 and what positions have you held prior to your
 13 current one?
 14 A. I have been with Hydro almost 21 years. I
 15 first started in December, 1983 as an
 16 accounting manager, and in 1985 I was promoted
 17 to the position of corporate controller. That
 18 position I held until I was appointed Vice-
 19 President of Finance on January the 1st, 2003.
 20 Q. Pre-filed evidence was filed with the Board on
 21 August 10 of 2004 under the heading of
 22 "Finance". Do you accept this evidence as
 23 yours for the purposes of this hearing?
 24 A. Yes, I do.
 25 Q. With the application that was filed on the

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1 table and the commencement of an update to the
 2 long term planning load forecast in order to
 3 determine the requirement for new generation
 4 projects. Supervisory personnel in the
 5 various areas would review their requirements
 6 with the regional managers and plant managers
 7 to identify potential projects that they would
 8 consider for the current year's budget that's
 9 under way. The criteria that they would be
 10 looking at would be areas of projects related
 11 to safety, projects related, required by
 12 regulation, projects that are required to
 13 maintain and to improve reliability and
 14 availability of an acceptable level of service
 15 to our customers and to reduce costs and
 16 improve efficiency. Once the decision is made
 17 to include these types of projects, Capital
 18 Budget forms are completed and forwarded for
 19 further review and cost estimates as required.
 20 The various directors would undertake a review
 21 of the individual proposals taking into
 22 account the previously mentioned criteria as
 23 well as the cost estimates. After the
 24 directors finish their review, they are
 25 further reviewed with the individual vice

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1 MR. ROBERTS:
 2 -presidents and subsequent to resolution of
 3 any things that have, requiring further
 4 clarification a document is then prepared for
 5 presentation to the management committee of
 6 Hydro. At the management committed level of
 7 Hydro we are provided with a summary and a
 8 complete detail of all Capital Budget
 9 proposals and any additional supporting
 10 information that may be available or as
 11 requested. After approval by the management
 12 committee the Capital Budget is approved by
 13 Hydro's Board of Directors and subsequent to
 14 that then it is submitted to the Public
 15 Utilities Board for approval.
 16 Q. Mr. Roberts, in your answer you referred to
 17 the management committee. What is the
 18 management committee for Hydro?
 19 A. The management committee of Hydro consists of
 20 the present CEO, Vice-President of Production,
 21 the Vice-President of Transmission and Rural
 22 Operations, myself as Vice-President of
 23 Finance and the Vice-President of Human
 24 Resources, general counsel and corporate
 25 secretary.

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1 to project managers to manage these projects
 2 as well as to provide information to the
 3 management committee, the Board of Directors
 4 and to the Public Utilities Board as required.
 5 Q. Now, on page 4 of your pre-filed evidence you
 6 mention a guideline that has been developed
 7 and used by Hydro with respect to the size or
 8 the amount of a capital budget. Thank you,
 9 Mr. O'Rielly. It's there referred to on page-
 10 on lines 1 to 5 of page 4. Could you please
 11 explain for the Commissioners what is the
 12 guideline and how it worked for 2005?
 13 A. The guideline that Hydro has used for several
 14 years is that it endeavours to try to limit
 15 its capital program to what's referred to as
 16 the cash flow from operations. And in that
 17 respect we're referring to the net operating
 18 income for the year which for 2005 could be in
 19 the order of approximately 11 to 12 million
 20 dollars, plus depreciation of approximately 35
 21 million for a total of 45 to 47 million
 22 dollars. However, it is a guideline. There
 23 are occasions when the guideline will be
 24 exceeded, there are other times when it may be
 25 less. In the case of the Capital Budget for

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1 Q. So really, the function is the executive of
 2 the Corporation, is that correct?
 3 A. Yes, it is.
 4 Q. As the VP Finance, what is your role in the,
 5 first the preparation of the Capital Budget?
 6 A. My responsibility is to oversee the complete
 7 Capital Budget process, beginning as I have
 8 just outlined, the issuance of instructions
 9 and a time table up to and including final
 10 approval by the Hydro Board of Directors and
 11 subsequent submission to the Public Utilities
 12 Board. I am also the Vice-President of
 13 Finance, so I would also be intimately
 14 involved in any Capital Budget proposals that
 15 will be coming forward from the various
 16 directors within the finance division. As a
 17 member of management I would also be involved
 18 in reviewing all budget proposals and
 19 supporting documentation where necessary.
 20 Q. After an annual Capital Budget gets approved,
 21 what is your role as VP Finance with respect
 22 to that Capital Budget?
 23 A. My role after the budget is approved is to
 24 ensure that there is a proper reporting system
 25 in place to provide the necessary information

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1 2005 we're requesting the approval of 42.4
 2 million dollars, which is in the range of what
 3 we would use as a financial guideline.
 4 Q. If the budget is approved in the total amount,
 5 how will the proposed 2005 capital
 6 expenditures be financed?
 7 A. The 2005 Capital Budget expenditures will be
 8 financed from a combination of internally
 9 generated funds and the issuance of short-term
 10 promissory notes.
 11 Q. At this time Hydro does not foresee then a
 12 requirement for long-term financing in 2005,
 13 is that correct?
 14 A. That is correct. There's no current plans for
 15 long-term financing in 2005.
 16 Q. I'd like to move now to specific projects for
 17 which you are responsible in this hearing.
 18 And I'd like now, please, Mr. O'Rielly, to go
 19 to page A-11. Is it correct, Mr. Roberts,
 20 that you are speaking to the projects that are
 21 listed there under the heading of
 22 "Administration"?
 23 A. Yes, I'm to provide verification for the ones
 24 listed on "Administration".
 25 Q. What types of projects are listed under that

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1 GREENE, Q.C.:

2 heading of "Administration"?

3 A. Projects that are included here are the

4 replacement of some electronic meter reading

5 devices, a chiller replacement and a diesel

6 fuel system replacement at Hydro Place,

7 storage ramp at Bishop Falls, a security

8 assessment for a system operation and some

9 office equipment.

10 Q. Moving now to the issue of rate base. Is it

11 correct that the Board fixed Hydro's 2002 rate

12 base during Hydro's 2003 general rate

13 application?

14 A. Yes, it is.

15 Q. I wonder, Mr. O'Rielly, if we could go to page

16 H-1 of Section H of the application? This

17 sets out, Mr. Roberts, the 2002 rate base

18 fixed by the Board by order No. P.U. 14, is

19 that correct, is that what's shown there for

20 2002?

21 A. Yes, it is.

22 Q. What is Hydro requesting that the rate base be

23 set at for 2003?

24 A. Hydro is requesting that the rate base be set

25 at the amount that's shown here on H-1 for the

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1 Q. I'd like now to go to page 6 of your pre-filed

2 evidence. And I wanted to discuss with you

3 lines 1 to 5 where you state that the impact

4 on revenue requirement of the inclusion in

5 rate base of the capital expenditures for 2005

6 that come in service in 2005 will be an

7 increase of approximately 1.7 million dollars.

8 Could you please explain for the Commissioners

9 how that 1.7 million dollars was calculated?

10 A. Yes. The 2005 capital expenditures related to

11 projects that will be completed and coming in

12 service in 2005 amount to 33.9 million

13 dollars. Associated with those additions

14 there is 5.1 million dollars worth of assets

15 with an original cost that will be written out

16 of the records has resulted in new additions.

17 So we have a net increase in the original

18 capital cost of 2.8 million dollars. As the

19 calculation of rate base, our return on rate

20 base that was approved in P.U. 7 is 7.467

21 percent and the average rate base is the

22 opening and closing, the opening is zero and

23 the closing is 28, so the average rate base is

24 14.4 million dollars times the return on rate

25 base gives us approximately 1.1 million

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1 2003 column which is \$1,422,412,000.

2 Q. And what is the primary reason for the

3 increase from the rate base set for 2002?

4 A. The primary reason for the increase in the

5 rate base is the inclusion of the Granite

6 Canal project which came in service in June of

7 2003.

8 Q. Why is Hydro requesting that the 2003 rate

9 base be fixed at this time?

10 A. Hydro feels that this is an area where all the

11 actual numbers are now known and they have

12 been reviewed and audited by the Board's

13 financial consultants. It will also eliminate

14 the uncertainty of any major adjustments in

15 different reporting periods which could be of

16 concern to our external auditors and rating

17 agencies in the event that something did

18 happen, and it's also a precedent within the

19 current jurisdiction that the rate base be

20 approved on an actual basis.

21 Q. And that precedent that you are referring to

22 is the practice to fix at a capital budget

23 hearing the average rate base for Newfoundland

24 Power for a preceding year, is that correct?

25 A. That is correct.

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1 dollars for a return on rate base. That

2 return on rate base in effect is covering the

3 financing costs as well as a margin on the

4 particular assets. The remaining \$600, 000

5 represents the calculation of the depreciation

6 expense that would be included on those

7 particular assets coming in service at various

8 times throughout 2005, net of the depreciation

9 on the retirements for approximately 0. 6

10 million for a total when combined with the

11 return to give us the 1.7 million dollars.

12 Q. So the 1.7 million dollars, and you've gone

13 through the detailed calculation, it is simply

14 the interest margin and depreciation

15 associated with the assets that come in

16 service in 2004, is that correct?

17 A. Yes, it is.

18 Q. Now, you've talked about what the theoretical

19 impact and the revenue requirement would be

20 for this one item only, which is the increase

21 in the capital assets in service in 2005.

22 Could you explain what impact there would be

23 on rates for customers as a result of the

24 approval of the 2005 Capital Budget?

25 A. There will be no impact in 2005 from those

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1 MR. ROBERTS:
 2 assets coming in service. There can be no
 3 impact on rate until such time as Hydro makes
 4 an application before the Board and the
 5 proceedings through a general rate application
 6 take place. The amount that's shown here is
 7 the amount that's just taken as being in
 8 isolation of the specific impact of just that
 9 one particular transaction. There are many
 10 other factors that would come into play that
 11 could negate the impact of that on future
 12 rates. As I had outlined, this only reflects
 13 the actual return that we're allowed to earn,
 14 plus depreciation. It doesn't reflect into
 15 account any changes in operating and
 16 maintenance costs or any other costs that may
 17 be changing throughout the year as well.
 18 Q. So the actual change in rates will occur at
 19 such time as Hydro will be applying for a
 20 future general rate increase, is that correct?
 21 A. That's correct.
 22 Q. And in approving the Capital Budget for 2005,
 23 and in fact, any capital budget, what
 24 consideration is given by Hydro and the
 25 executive of Hydro in its final review with

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1 level concern and the impact of a capital
 2 budget on operating costs is of major concern
 3 to us. What costs can we do to control all
 4 costs, not just because we got a capital
 5 budget hearing, but just as being prudent
 6 business to maintain costs at the most
 7 reasonable level and provide an acceptable
 8 level of service. However, at the end of the
 9 date, in the provision of acceptable level of
 10 service, there are sometimes costs that may be
 11 incurred that will require additional
 12 expenditures to be made.
 13 GREENE, Q.C.:
 14 Q. Thank you, Mr. Roberts. That concludes the
 15 direct evidence for Mr. Roberts.
 16 CHAIRMAN:
 17 Q. Thank you, Ms. Greene. Mr. Alteen.
 18 MR. ALTEEN:
 19 Q. Just a couple of areas, Mr. Chairman. First,
 20 if you could go to page six again, Mr.
 21 O'Rielly, please of Mr. Roberts' pre-filed?
 22 The 1.7 million up there that you've referred
 23 to on line 5, Mr. Roberts, that specifically
 24 wouldn't include items such as the lower
 25 operating costs that we heard testimony this

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1 respect to the impact on customers rates of a
 2 particular year's capital budget?
 3 A. Well, Hydro is reviewing its Capital Budget
 4 based on the criteria that I had outlined
 5 earlier which is looking at items that are of
 6 a safety nature that must be done, items that
 7 are required by regulation, looking at how to
 8 maintain and improve reliability and
 9 availability of service to customers, we look
 10 at ways to reduce costs and improve
 11 efficiency. That's the areas that are looked
 12 at from a capital perspective. And from an
 13 operating perspective we're looking at line by
 14 line costs, taking into account that some of
 15 the items that are in the various Capital
 16 Budget proposals will have some impact on the
 17 operating costs. And the various staff that
 18 are involved in the preparation of the
 19 operating budgets would be reflecting any
 20 savings that they would, say, for instance, we
 21 mentioned this morning about the change in the
 22 postage costs, they would be reflected in the
 23 operating budget for that particular year.
 24 (Time: 1:33 p.m.)
 25 A. So the operating costs are certainly very high

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1 morning about in relation to SunGard and the
 2 security system? That isn't factored into
 3 that, is it?
 4 A. No, there's no operating costs factored into
 5 the \$1.7 million. It's strictly return on the
 6 capital investment plus the depreciation
 7 that's associated with that capital
 8 investment.
 9 Q. And to the extent Hydro achieves operating
 10 efficiencies that we've heard about through
 11 the two panels or three panels that have
 12 testified to date, that would tend to reduce
 13 that number, wouldn't it? It would have that
 14 tendency in a rate case scenario?
 15 A. In a rate case scenario, then it would reduce
 16 it.
 17 Q. Yes. Thank you very much. One other point.
 18 This morning, just moments ago, in relation to
 19 the rate base, setting a rate base for 2003,
 20 you had indicated that it would be a concern
 21 potentially to your auditors and you mentioned
 22 periodic reporting. Mr. Roberts, is it a fair
 23 assumption that once the rate base is
 24 approved, it will make your future long-term
 25 financing of the assets included in rate base

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1 MR. ALTEEN:
 2 more simple and transparent for capital
 3 markets? Is that a fair observation?
 4 A. Well, settling the rate base fixes what we're
 5 allowed to earn on, and it eliminates an
 6 uncertainty of going out in two or three years
 7 from now, and you've already financed these
 8 assets, having a risk of something being
 9 disallowed and impacting on what the credit
 10 rating could be or what the valuation that's
 11 being placed by the crediting agency gives on
 12 the assets of the company.
 13 Q. I don't mean to put words in your mouth, but
 14 as the CFO of the company, are you--is it your
 15 evidence that it is beneficial to the
 16 company's access to capital that it be
 17 approved as proposed?
 18 A. I think it's very beneficial to have the
 19 numbers verified and approved and agreed upon
 20 in the year in which they happen, to the
 21 extent that you can. It eliminates an element
 22 of uncertainty towards the future.
 23 Q. Thank you, Mr. Roberts. Those are my
 24 questions, Mr. Chair.
 25 CHAIRMAN:

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1 fixed, since it became rate base regulated,
 2 correct?
 3 A. The 2001 rate base was fixed at that
 4 application.
 5 Q. Yes, and this represents the first time, other
 6 than in a general rate application, that Hydro
 7 has applied to the Board to have its rate base
 8 fixed? Is that correct?
 9 A. Yes, in a capital budget hearing, and it will
 10 be what we'd proceed to do in the future as
 11 well, at each capital budget hearing to fix
 12 the rate base that's actually occurred the
 13 year before.
 14 Q. Okay. Yes, I understand that's your intent,
 15 but in a capital budget hearing or in any
 16 other proceeding other than a general rate
 17 hearing, there has never been an application
 18 from Hydro to fix its rate base, correct?
 19 A. No, because 2001 was the first general rate
 20 application. Then because of timing and
 21 circumstances, it just wasn't done. If we
 22 hadn't been going back to back with a general
 23 rate application in 2003, then we would have
 24 been back applying for the rate base to be
 25 approved.

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1 Q. Thank you, Mr. Alteen. Mr. Hutchings.
 2 HUTCHINGS, Q.C.:
 3 Q. Yes, thank you, Mr. Chairman. Mr. Roberts, I
 4 don't want to get into a long debate about
 5 Hydro's financing and so on, but isn't it
 6 correct that Hydro's access to capital markets
 7 and the ease of its financing is essentially
 8 dependent upon the guarantee that it gets from
 9 the Provincial Government?
 10 A. Hydro's debt is guaranteed by the Province and
 11 that does facilitate access to funds. We can
 12 never be better than the province, but we can
 13 certainly, to the extent we can, not cause a
 14 deterioration towards the Province, which is
 15 what has been known for quite some time.
 16 Q. Okay. And Hydro has been subject to a rate of
 17 return type of regulation since 1996? Is that
 18 correct?
 19 A. We became fully rate regulated in 1996, but
 20 the first visit back before the Public
 21 Utilities Board for a general rate
 22 application, I think that methodology was in
 23 the 2001 General Rate Application.
 24 Q. And it was in the 2001 General Rate
 25 Application that Hydro first had its rate base

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1 Q. Okay. What you would have done is a different
 2 question than the one I asked. There has not
 3 been an application by Hydro, other than in a
 4 general rate application, to fix its rate
 5 base, other than the one that's now before
 6 this Board? Is that correct?
 7 A. That's correct.
 8 Q. Yes, thank you.
 9 GREENE, Q.C.:
 10 Q. But I think it's fair to the witness to be
 11 allowed to explain the answer, that we've been
 12 blessed in the sense we've had two rate
 13 applications, one when we got the order in
 14 2002 and when we filed again in 2003.
 15 HUTCHINGS, Q.C.:
 16 Q. Mr. Chairman, Ms. Greene will have an
 17 opportunity to present her argument.
 18 GREENE, Q.C.:
 19 Q. Mr. Hutchings -
 20 CHAIRMAN:
 21 Q. I think, Ms. Greene, in all fairness as well,
 22 he has explained, you know -
 23 GREENE, Q.C.:
 24 Q. And I think he should be -

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1 CHAIRMAN:
 2 Q. - his reasoning and the Board -
 3 GREENE, Q.C.:
 4 Q. - he should be given the opportunity.
 5 CHAIRMAN:
 6 Q. - understands the reasoning that he gave.
 7 HUTCHINGS, Q.C.:
 8 Q. Thank you, Mr. Chairman. Mr. Roberts, the
 9 amount of your rate base now determines, does
 10 it not, the amount that Hydro is permitted to
 11 earn in any given year?
 12 A. The rate base is the basis upon which the
 13 approved rate of return is applied, and then
 14 from there, you may determine what the
 15 earnings of the company are, relative to
 16 return on equity.
 17 Q. And as and when this Board makes an order with
 18 respect to excess earnings of Hydro, the fact
 19 that your rate base for a given year has been
 20 approved at a higher amount will increase the
 21 amount of money that Hydro can keep before
 22 engaging any excess earnings account? Isn't
 23 that correct?
 24 A. If rate base increases and you apply the
 25 return against it, then you'll have a new

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1 hearing, the second sentence in the first
 2 paragraph, starting at line three, says "the
 3 target for the last couple of years has been
 4 to keep our capital expenditures to the level
 5 of depreciation, which is -
 6 CHAIRMAN:
 7 Q. Excuse me. Line three, what page, Mr.
 8 Hutchings?
 9 HUTCHINGS, Q.C.:
 10 Q. This is page four of the finance evidence of
 11 2004, Mr. Chair.
 12 CHAIRMAN:
 13 Q. Thank you.
 14 HUTCHINGS, Q.C.:
 15 Q. "The target for the last couple of years has
 16 been to keep our capital expenditures to the
 17 level of depreciation, which is approximately
 18 34 million for 2004." If we can return to
 19 page four of the 2005 capital budget evidence,
 20 at line two, you say "the target for the last
 21 couple of years has been to keep capital
 22 expenditures to the level of net income,
 23 depreciation and some other non-cash items,
 24 which for 2005 is approximately 35.3 million
 25 for depreciation and 11 to 12 million for net

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1 number. So you will be able to earn on the
 2 asset as you go through the piece, based on
 3 that premise, all things being held equally in
 4 isolation.
 5 Q. Okay. Now moving to another subject, can you
 6 explain to the Board why the target for
 7 capital expenditures by Hydro has changed
 8 since last year?
 9 A. The philosophy and the guideline has always
 10 been net cash flow from operations and we base
 11 it on what the numbers are for depreciation
 12 and what our estimate of what net income may
 13 be for a year. But it's a guideline. It's
 14 not a hard and fast rule that Hydro will only
 15 do this for a capital budget program. It
 16 looks at the reliability and the level of
 17 service it must provide. It reviews all
 18 projects in accordance with the criteria
 19 that's established and then based on that,
 20 then we settle on what the level of capital
 21 program is for that particular year.
 22 Q. Mr. O'Rielly, can we bring up the finance
 23 evidence from the 2004 Capital Budget at page
 24 four? Referring to that evidence, which is
 25 your evidence from the last capital budget

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1 income." Now those two statements both refer
 2 to the last couple of years and they say
 3 different things. Can you explain why they
 4 say different things? One says it's
 5 restricted to depreciation. The other says
 6 it's restricted to net income plus
 7 depreciation plus other non-cash items.
 8 A. The non-cash items are there may be some other
 9 non-cash items there and we're referring to
 10 cash flow from operations. Normally it's net
 11 income plus depreciation. For 2003, we knew
 12 we were going to possibly experience a loss,
 13 so we're trying to minimize the cash flow that
 14 we had. In the case of 2004, the uncertainty
 15 wasn't there relative to where the general
 16 rate application was heading and what return,
 17 if any, we were getting. And as I mentioned,
 18 this is a guideline. This is not a hard and
 19 fast rule. For instance, in 2003, we were
 20 expending money on Granite Canal. We were
 21 expending money in 2002 on Granite Canal. We
 22 spent money that would have been in excess of
 23 what depreciation would have been, plus even
 24 net income for that matter, in a particular
 25 year. But it is a guideline that we use

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1 MR. ROBERTS:
 2 internally when we're reviewing our capital
 3 program, taking into account the criteria that
 4 we're looking at together with the other
 5 factors that are involved.
 6 (Time: 1:45 p.m.)
 7 Q. In May of 2003, you said "the target for the
 8 last couple of years has been to keep capital
 9 expenditures to the level of depreciation" and
 10 you're saying that in the context of a 2004
 11 capital budget hearing. So is it fair to say
 12 that that target referred to 2003, 2002?
 13 A. I think it's primarily just 2003, 2004,
 14 because we were looking at what was happening.
 15 We had just come out of the 2001 GRA. The
 16 order wasn't received until sometime, I think
 17 it was, in September. There was uncertainty
 18 there. We knew we were going to be going back
 19 for another hearing because of Granite Canal,
 20 the new power purchase agreements. Time just
 21 wasn't there in order to be able to do it, and
 22 a decision was made that we are anticipating a
 23 potential loss in those years and the
 24 uncertainty that was there, it was the
 25 guideline that we decided we'd try to keep

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1 from operations.
 2 Q. Your answer is not being helpful to me at this
 3 point, Mr. Roberts. I understand that you
 4 characterize the target as a guideline. My
 5 question to you -
 6 A. It's the target -
 7 Q. - is has the target changed?
 8 A. Yes, because we had a loss in 2003 and we
 9 don't anticipate a loss in 2005.
 10 Q. Okay. All right. And your capital budget
 11 proposed for 2004 was within the level of
 12 depreciation alone, wasn't it?
 13 A. I believe that it was.
 14 Q. And the capital budget for 2005 would exceed
 15 the level of depreciation alone, would it not?
 16 A. Yes, capital budget is 42 and the estimate of
 17 depreciation is 35.
 18 Q. Mr. Roberts, if you could look at page A-11 of
 19 this year's application? You said that you
 20 would be responding in respect of the items
 21 under the heading "administration" in this
 22 particular--on this particular page. Can you
 23 explain for the Board the entry "purchase and
 24 replace administrative office equipment less
 25 than \$50,000," which is a budget item of

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1 target down to just depreciation, recognizing
 2 that there may be losses in those particular
 3 years.
 4 Q. So in August 2004, when you say "the target
 5 for the last couple of years" which is
 6 presumably 2003, 2004, is the cumulation of
 7 net income, depreciation and other cash items,
 8 then that represents a change from what you
 9 said last year? Isn't that correct?
 10 A. I think the basic concept of looking at net
 11 cash flow from operations is the same. I
 12 guess when I made the comment last year, I was
 13 looking at that I knew in my mind that we were
 14 having a loss for 2003 and 2004 was uncertain.
 15 So that's why I made the reference to that
 16 we're just limiting it to just depreciation,
 17 to the extent that we possibly can.
 18 Q. So looking at your two pieces of evidence from
 19 last year and this year, has there been a
 20 change in the target?
 21 A. The target, it's a guideline.
 22 Q. Okay. The -
 23 A. The guideline is -
 24 Q. I understand how you characterize the target.
 25 A. - the capital program should not be cash flow

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1 \$114,000 for 2005?
 2 A. That's various pieces of office equipment that
 3 will be required that are less than \$50,000,
 4 that are grouped together and that's what
 5 makes up the 114,000, which is the same thing
 6 as grouping other pieces of equipment that you
 7 would have found through the other divisions
 8 in production and TRO, where it would be tools
 9 and equipment less than \$50,000 as one group.
 10 Same principle is applied here.
 11 Q. Okay. And how does that differ from an item
 12 such as surge arrestors, where depending on
 13 the number you buy, it may be more or less
 14 than \$50,000?
 15 A. Well, the pieces of equipment, like for
 16 instance, a fax machine for Hydro Place, a
 17 filing cabinet, it's just various pieces that
 18 are associated with the administration side of
 19 things within Hydro Place that are being
 20 accumulated from the various departments and
 21 consolidated underneath administration.
 22 Q. How much of this \$114,000 is being spent on
 23 furniture for Hydro Place?
 24 A. 40,000.
 25 Q. What's the nature of that expenditure?

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1 MR. ROBERTS:
 2 A. Panel furniture for our call centre in our
 3 customer services section.
 4 Q. Is that replacement of existing material?
 5 A. No, it's not.
 6 Q. Why is new furniture required?
 7 A. Because we're relocating the customer services
 8 to an enclosed area. They're presently in an
 9 open area, and we're relocating them to a more
 10 secure area and changing the configuration.
 11 Q. So why is it that they cannot take their
 12 existing furniture with them?
 13 A. The furniture is not compatible to the set up
 14 for a customer service centre.
 15 Q. How long have they been in their current
 16 situation?
 17 A. I'm just guessing, four or five years.
 18 Q. If we can look for a moment at page B-153?
 19 This project is described as a security
 20 assessment of system operations and the
 21 project justification it's noted, "this
 22 project will be the first risk assessment of
 23 their facilities." Do I understand from that
 24 that Hydro to date has not made any assessment
 25 of risks associated with its critical

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1 capital or an operating expense would depend
 2 upon who did the review?
 3 A. If our own internal people did an assessment
 4 of what they felt, that may trigger a capital
 5 budget proposal to have work done. Here we're
 6 hiring a consultant who's going to do a
 7 particular study and from there, we'll assess
 8 whether or not additional work is required.
 9 Q. That's what your people have been doing year
 10 over year all the time, is it not?
 11 A. Our people are managing their facilities as
 12 best that they can, but this is an independent
 13 outside security risk assessment of our
 14 facilities.
 15 Q. But this project in itself is not going to
 16 produce any capital asset for you, is it?
 17 A. It may. I can't prejudge the outcome.
 18 Q. No, this project in itself, assuming that it's
 19 done and the report says you're in fine shape,
 20 you don't need to spend any more capital
 21 money, that won't produce any capital asset
 22 for you, will it?
 23 A. No. However, it is our policy that if you're
 24 conducting a study, that we would normally
 25 capitalize the study and we'd cover it over a

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1 facilities?
 2 A. This is the first corporate-wide assessment
 3 that's been done. There may have been
 4 individual assessments done at individual
 5 locations, but we're endeavouring here, the
 6 intent on this proposal is to look at all of
 7 our major centres by an individual, rather
 8 than just piecemeal, and from there, determine
 9 whether or not what additional measures, if
 10 any, may be required, and to set the tone for
 11 future decisions relative to assessment of
 12 risk.
 13 Q. And -
 14 A. Where is the priority?
 15 Q. Okay. And have capital funds been approved
 16 for these prior risk assessments that were
 17 restricted to individual facilities?
 18 A. I don't know the answer to that.
 19 Q. That would ordinarily be an operating expense,
 20 would it not?
 21 A. Depending on who did the review. I don't
 22 know. I can't answer if we've hired an
 23 outside consultant to do a security risk
 24 assessment at other locations.
 25 Q. You say that it's characterization as a

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1 five-year period.
 2 Q. Okay. Let's look then at the answer to IC-86.
 3 We asked here for an explanation of your
 4 policies as to what expenditures are regarded
 5 as capital and which are regarded as
 6 operating. Am I correct in saying that
 7 there's nothing in the answer that you
 8 provided here that would make that designation
 9 turn upon whether or not the work was done in
 10 house or contracted out?
 11 A. No, there's no distinction in this policy
 12 about who's doing the actual work.
 13 Q. Okay. The notion of units of property which
 14 you discuss at line 20 and following, can you
 15 expand upon the definition that is given
 16 starting at line 24?
 17 A. Units of property are just primarily
 18 breakdowns of what's included within your
 19 Prime Asset that may or may not have the same
 20 useful life. For instance, you may have a
 21 transformer in a particular substation which
 22 is used and useful in its own right, and if
 23 the substation, for instance, as a useful life
 24 of 30 years, the transformer may only be good
 25 for ten. So what you would do is you would

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1 MR. ROBERTS:
 2 break out the assets into what's referred to
 3 as a Unit of Property, knowing that over the
 4 life of that particular Prime Asset, you may
 5 have to replace these particular assets two,
 6 three or four times. But there's an element
 7 of professional judgment that you're using
 8 here, in relationship to the analysis of the
 9 various capital budget proposals and what
 10 happens on an actual basis.
 11 Q. One of the examples you quote here is a wood
 12 pole structure.
 13 A. That's correct.
 14 Q. And you would regard a wood pole structure as
 15 being a unit of property?
 16 A. A wood pole structure is considered a unit of
 17 property and if the structure was destroyed,
 18 we would estimate the cost of the old one,
 19 remove it, and capitalize the new one.
 20 Q. Now does a wood pole structure include both a
 21 single pole in a transmission line or a
 22 distribution line and also a structure like an
 23 H-frame which may consist of four, six or
 24 seven actual poles together with crossbracing
 25 and so on?

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1 average worth about \$3,000, and they serve a
 2 particular function with respect to the
 3 protection of lines and when they fail,
 4 generally they fail catastrophically and you
 5 can't repair them, according to the evidence
 6 Mr. Martin gave. On what basis, with
 7 reference to your definition at IC-80--or not
 8 IC-80, I'm sorry, IC-86, do you regard these
 9 as units of property?
 10 A. The surge arrestor is considered to be part of
 11 the various terminal station, and we would add
 12 it to the cost of the terminal station. The
 13 terminal station is a prime asset.
 14 Q. A surge arrestor, in itself, is not
 15 independently operational, is it?
 16 A. It's considered to be part of the terminal
 17 station. It may be able to be operated
 18 independently, but from an accounting
 19 perspective and our evaluation of the capital
 20 budget proposal, it's part of the structure
 21 associated with a terminal station and we
 22 would just add it to the cost of the terminal
 23 station.
 24 Q. Okay. But you do regard it as a unit of
 25 property?

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1 A. I believe my understanding is that if the
 2 structure consists of three or four poles and
 3 we just replaced one, then we wouldn't
 4 capitalize it. It's got to be the structure.
 5 Q. All right. And the notion being then that the
 6 single pole is not useful in its own right or
 7 readily separable?
 8 A. The unit of property has been defined, in the
 9 case of the transmission lines, as your wooden
 10 pole structure. Whereas if you run a
 11 distribution line, you would be capitalizing
 12 all the poles because it's an actual pole by
 13 pole in the majority of cases in a
 14 distribution line, whereas in your
 15 transmission lines, there would be more poles
 16 to the structure.
 17 Q. So whether or not a single pole is a capital
 18 asset may depend upon what you're using that
 19 pole for?
 20 A. It would depend on whether or not it's a
 21 transmission line or a distribution line.
 22 Q. Okay. We asked, in IC-72, about surge
 23 arrestors in particular and I had some
 24 discussion with Mr. Martin concerning those.
 25 These items, according to IC-72, are on

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1 A. Yes, and as I say, it's added to the cost of
 2 the terminal station.
 3 (Time: 2:00 p.m.)
 4 Q. That's fine. But your definition of unit of
 5 property relates to an item that is
 6 independently operational. You regard surge
 7 arrestors as being independently operational?
 8 A. I can't answer it. I would assume that they
 9 can be used from place A to place B.
 10 Obviously if that's what the intent is that's
 11 here on a proposal, they can say the region
 12 (phonetic) surge arrestors in 69, 138 and 230
 13 kV voltage or if so, I'm not an electrical
 14 engineer, but I'm assuming that they would be
 15 movable from terminal station to terminal
 16 station.
 17 Q. Mr. Martin told us that the purpose of the
 18 arrestor is to protect the device that it's
 19 mounted adjacent to, and it's not a repairable
 20 item. Does that change your view of whether
 21 or not that should be regarded as a unit of
 22 property for capital purposes?
 23 A. It wouldn't change my view.
 24 Q. Pardon me?
 25 A. It wouldn't change my view of it. I would

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1 MR. ROBERTS:
 2 still capitalize it.
 3 Q. Do you regard items generally kept in
 4 inventory as capital items?
 5 A. There is such a thing called capital spares,
 6 and if you'll just bear with me for a second,
 7 if you're doing a particular capital project,
 8 you know, just to use an example, I think in
 9 the case of Granite Canal, in the building of
 10 that facility, the manufacturer, in most
 11 cases, would suggest that you would have an
 12 element of capital spares available in the
 13 event that some of these parts are unique or
 14 whatever and there's a significant lead time.
 15 They would recommend that you have what we
 16 would refer to as capital spares on hand.
 17 That would be assessed by the project managers
 18 and if the decision is made that yes, we will
 19 require them, they would get set up and
 20 depreciated over the life of the asset, the
 21 same as the asset is being done. I don't know
 22 if that answers your question or if you're -
 23 Q. No, I think that sheds some light on the
 24 subject generally. Would I take it that these
 25 capital spares, so called, are usually pretty

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1 ability can't be done in that respect. From a
 2 finance perspective, if I capitalize it or
 3 not, I can answer those questions, but whether
 4 or not there are items less than \$10,000 that
 5 would be deemed critical spares, I'd be
 6 surprised if there's not, but I'd also
 7 acknowledge that some of them may be very high
 8 value items as well.
 9 Q. Is there not an element of a threshold value
 10 associated with the determination of whether
 11 or not an item is capital or operating?
 12 A. You can just read the very first sentence that
 13 we quote in IC-86, "the acquisition cost of
 14 assets that are of a permanent or lasting
 15 nature whose useful life is expected to extend
 16 over several years," it's the exercising of
 17 professional judgment. This is what the
 18 accounting profession has settled on, that use
 19 over several years, normally then, it should
 20 be deferred and amortized over that reasonable
 21 period.
 22 Q. But your definition is an item that's
 23 independently operational, readily separable
 24 from the prime asset and useful in its own
 25 right, correct?

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1 expensive items?
 2 A. They can be, but they can also be unique items
 3 too that, you know, they're not something that
 4 you can go out and buy tomorrow. I'm getting
 5 into an area that I'm not technical for. I
 6 can just tell you that from an accounting
 7 perspective, there is such a thing called
 8 capital spares and it's common in the
 9 electrical utility business that if the
 10 engineers decide that this is crucial and
 11 critical and it's recommended and everybody
 12 agrees that we do acquire them, we do
 13 capitalize them, we depreciate them, even
 14 though they may never even be used over the
 15 life of the project. But it's a fairly normal
 16 practice to do that.
 17 Q. Would it be fair to say that it would be
 18 unusual in an operation like Hydro's to find a
 19 capital spare item that cost less than
 20 \$10,000?
 21 A. I'm not qualified to be able to speak from a
 22 technical perspective. There may be a \$5.00
 23 part that's sitting out there that could be
 24 crucial to an area. I wouldn't be able to
 25 answer that for you. My level of technical

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1 A. That's for a unit of property, but there's
 2 also prime assets too.
 3 Q. Yes. No, I understand that, and I mean, I
 4 don't think there's any issue about a
 5 generating station being a capital item, such
 6 as a prime asset. But when we get down to the
 7 issues of units of property, would it be fair
 8 to say that an item that is not in the
 9 ordinary course readily separable from the
 10 prime asset should not be defined as a unit of
 11 property?
 12 A. It may not be defined as a unit of property
 13 but we would still capitalize it, depending on
 14 what the particular item is.
 15 Q. Okay.
 16 A. It may be an addition to a prime asset.
 17 Q. Now, in your answer you gave two levels of
 18 classification, fixed assets and units of
 19 property. Are you saying there's a third
 20 classification here now?
 21 A. No, I'm just saying that the thing, even
 22 though it may not be a unit of property, it
 23 may be considered part of a prime asset. For
 24 instance, we just went through with the
 25 arrestors, we considered them to be part of

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1 MR. ROBERTS:
 2 the prime asset which happens to be the
 3 substation. There will be all kinds of other
 4 pieces of equipment that we would have in that
 5 substation, that we would add to the
 6 substation that doesn't necessarily mean we
 7 have them broken down at a lower level.
 8 Q. Well, I mean, a wood pole structure is part of
 9 a transmission line, is it not?
 10 A. That's correct.
 11 Q. Okay. So why don't you just regard that as
 12 part of the prime asset? Why do you regard it
 13 as a unit of property?
 14 A. Because of the fact that when the initial
 15 transmission line was built, we know over time
 16 that some of these structures will get damaged
 17 and it's a means of being able to write out in
 18 order (phonetic) to capitalize them out. It
 19 does have a useful life.
 20 Q. So you recognize that there are items that may
 21 or may not be units of property that you
 22 capitalize simply because you call it part of
 23 the prime asset?
 24 A. There are things that we consider to be a part
 25 of prime asset that we'd capitalize. As an

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1 capital asset, then the cost of replacement of
 2 those items would be an operating cost to the
 3 company? Correct?
 4 A. If they were in inventory?
 5 Q. Yes.
 6 A. And if that was replacing a surge arrestor
 7 that was already on the system, we remove it
 8 from inventory and capitalize it in the fixed
 9 assets and write out the old.
 10 Q. If there was an item such as a surge arrestor
 11 that had to be replaced and it was not a
 12 capital item, the cost of that replacement
 13 would be an operating expense, would it not?
 14 A. I guess I'm leading you back, the surge
 15 arrestor is a capital item.
 16 Q. Okay. I'm saying such as a surge arrestor.
 17 Let's go to the software then. There's
 18 software that you pay for every year and
 19 charge as operating expense, isn't it?
 20 A. Yes, we set a dollar value of \$25,000. If it
 21 doesn't exceed \$25,000 then we won't
 22 capitalize it, and that's an administrative
 23 rule and a practice that we've established.
 24 Q. Okay. So on the basis of that rule, software
 25 under \$25,000 is an operating expense and

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1 example that you used was the arrestors.
 2 Q. So notwithstanding your answer in IC-86 and
 3 the definition you provide of a unit of
 4 property being independently operational,
 5 readily separable from the prime asset and
 6 useful in its own right, there are items that
 7 don't meet that definition that you regard as
 8 capital, even if they in themselves are not
 9 prime assets? Is that right?
 10 A. I guess all I'm saying is that a prime asset
 11 will be capitalized and a unit property can be
 12 a component in a breakdown of a prime asset,
 13 so that we can have breakdowns underneath the
 14 prime asset. We would look at materiality.
 15 For instance, if a particular generator went
 16 or a transformer was damaged, then you would
 17 look at is it of significant change by having
 18 it fixed would it extend the life? So there
 19 may be all kinds of adjustments that are
 20 coming through, but the key is the exercising
 21 of professional judgment, looking at it, is it
 22 a prime asset and underneath that prime asset,
 23 do we have units of property defined?
 24 Q. So if, for example, a surge arrestor was
 25 regarded as a pure inventory item and not of a

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1 software over \$25,000 is a capital expense or
 2 a capital item?
 3 A. Correct.
 4 Q. Okay.
 5 A. But in pure accounting theory, you would have
 6 capitalized it if it had a value, a useful
 7 life longer than one year. That's the policy
 8 that we established as an organization.
 9 Q. Okay. To the extent that this Board does not
 10 approve, shall we say, an allowance for surge
 11 arrestors as capital items and just assume
 12 that that happens, the surge arrestors will
 13 none the less have to be purchased and in that
 14 situation would be charged against operating
 15 expenses, correct?
 16 A. I guess it will be a function of the
 17 circumstances at the time. We have the right
 18 to come back to the Board and ask, if we run
 19 into problems with these--if this project got
 20 turned down and it's detrimental to the system
 21 to have that surge arrestor, it is a capital
 22 item in our opinion, and if it exceeded
 23 \$50,000, we would bring it back to the Board
 24 for approval. If it's less than \$50,000, we
 25 will do it and we would capitalize it.

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1 HUTCHINGS, Q.C.:

2 Q. Okay. Assume that the Board didn't agree with

3 your opinion and said "we don't regard these

4 surge arrestors as being capital items," you

5 would none the less have to buy surge

6 arrestors or a certain number of them to keep

7 the system functioning through the year, would

8 you not?

9 A. Yes.

10 Q. And if they weren't allowed as a capital

11 expenditure, they would come out of your

12 operating budget, would they not?

13 A. No.

14 Q. Why not?

15 A. Because the Board turns down the proposal

16 doesn't mean that we're going to write the

17 particular asset off. It'll just be an

18 unregulated asset. That doesn't necessarily

19 mean that I'm going to take a write off to an

20 operating cost because the Public Utilities

21 Board disallowed an expense. If in the

22 judgment of the corporation it happens to be a

23 capital item, there's nothing to prevent us

24 from having it as an unregulated capital

25 asset, and there's just no return or margin

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1 on revenue requirement? So that if you spent

2 another 34 million next year or the year

3 after, that's the approximate impact on

4 revenue requirement?

5 Q. Yes.

6 A. To answer the question, it's a function of

7 what the capital program is, because

8 depreciation will vary. If there's sinking

9 fund assets versus straight line assets, the

10 estimated useful life, so the depreciation

11 will vary, and it can vary significantly. And

12 even in the case of the return, it's a

13 function of what the allowed return is at the

14 point in time. So right now, our rate of

15 return is set at 7.467 and two years from now,

16 if there happens to be another hearing, it

17 could be set at some other different number.

18 So until such time as you know the details as

19 to what's actually behind the capital program

20 and what the return is that's allowed, then

21 it's really difficult to say that it could be

22 representative into the future.

23 Q. The effect that you've identified here in the

24 year 2005 is that the amount of increase in

25 revenue requirement is about five percent of

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1 allowed to be earned on it. But we are still

2 matching costs and revenue and we feel that

3 there's a useful life beyond more than one

4 year, and that would be why we would follow

5 our policy in doing that.

6 Q. Okay. So the funds that you would expend then

7 to replace these surge arrestors would come

8 from the shareholder, would they?

9 A. It's basically coming out of what's there for

10 the shareholder.

11 Q. Yes, okay. You had a discussion with Ms.

12 Greene about the effect on revenue requirement

13 of the capital expenditures that are

14 projected, and you explained the derivation of

15 the numbers that appear at the top of page six

16 of your pre-filed evidence. Would you say

17 that the increase in revenue requirement of

18 \$1.7 million associated with the inclusion of

19 \$33.9 million of capital expenditures in 2005

20 is a typical result in terms of the proportion

21 that the change in revenue requirement would

22 be to the inclusion in rate base of that

23 amount of capital expenditure?

24 A. Are you saying \$34 million for the capital

25 program, that's the impact that it would have

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1 the increase in rate base. Do you agree with

2 that?

3 A. I'll accept your math.

4 Q. I mean, it's 1.7 over about 34.

5 A. Over 33.9.

6 Q. Yes. So that's five percent.

7 A. But I think you also got to recognize, it's

8 not as simple as it may sound on the surface,

9 and that's part of the reason why I explained.

10 If you look at the 33.9, 33.9 is the original

11 additions going in, but correspondingly going

12 with that, you got \$5 million that is coming

13 back out. So next time around, you may have

14 \$33 million worth of additions and none coming

15 out. Or it could be the other way. There's

16 just--you know, all you can do, if you know

17 approximately what the depreciation is, you

18 may be able to ballpark it. But on the

19 return, it happens to be a function of what's

20 approved at the time.

21 Q. Is it fair to say that on average the increase

22 in revenue requirement over the years, taking

23 all of these various things into account, is

24 likely to be in the five percent range of the

25 amount added to rate base?

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1 MR. ROBERTS:
 2 A. I don't think I could make that particular
 3 statement. As a matter of fact, I think what
 4 you're seeing here is just one aspect of rate
 5 base. If you look at the actual rate base,
 6 which is shown on page five of my evidence,
 7 you'll find that actually rate base is
 8 forecast to go down in 2005. So in isolation,
 9 it may or may not be going up. It depends on
 10 what's that ratio of depreciation, what's the
 11 ratio of additional costs, what's the
 12 disposals that are related to the assets.
 13 There's just so many variables there that I
 14 don't think you could say as a rough rule of
 15 thumb it's going to change by five percent or
 16 one percent. I think you have to look at it
 17 on the each.
 18 (Time: 2:17 p.m.)
 19 Q. No, I mean, I understand there are other
 20 things happening, but what we're trying to do
 21 is isolate the effect of adding a certain
 22 amount of capital to the system in a given
 23 year and what the result on revenue
 24 requirement is. And I assume that's what you-
 25 -that's why you put this in your evidence,

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1 rate. And as I just outlined, the sinking
 2 fund asset and a straight line asset are
 3 completely different and the time frames that
 4 they're there and even in a straight line
 5 asset, is it one that we're writing off over
 6 five years, ten years, fifteen years or twenty
 7 years. It'll all have an impact on what your
 8 depreciation number would be.
 9 Q. And you don't feel, over time and your many
 10 years of experience with capital budgets in
 11 Hydro, that you can tell how these various
 12 factors are going to cancel one another out
 13 over time to provide any guidance at all in
 14 terms of an average result. Is that right?
 15 A. I guess we've, in the case of Hydro, have very
 16 little experience with rate base per se as
 17 itself because it's only been since 2002 that
 18 the actual rate base has been adjudicated by
 19 the Board here. And we now know all the
 20 components, we now know the rules of what goes
 21 in and what goes out and how it's calculated.
 22 So, really, to be honest, I think you need
 23 more history behind us plus, as I keep saying,
 24 I still think the answer is in the components
 25 of what your capital program is. And from

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1 isn't it?
 2 A. We put this in my evidence to indicate the
 3 impact that the 2005 would have, but as I just
 4 outlined, behind the 2005 you can see a lot of
 5 changes. Like, we've got five million dollars
 6 worth of assets that are coming out. If you
 7 went out to the following year, there may only
 8 be two; there could be none. So, it's really
 9 difficult to try to determine a percentage
 10 unless you know what the capital program is
 11 because the capital program is the one that's
 12 dictating what the other impacts are.
 13 Q. So, you can't tell us what a typical result on
 14 the revenue requirement is of the addition of
 15 any particular amount to rate base, is that
 16 correct?
 17 A. I think you have to know what the value of the
 18 assets are and if they're brand new that are
 19 being added with absolutely no disposals and
 20 no further adjustments, then you could apply 7
 21 1/2 percent to it. Okay. That would cover
 22 the return, but that's a theoretical world and
 23 in practice, is never going to happen. And
 24 the question is then is that you have to pick
 25 and decide on what's an average depreciation

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1 there then you may be able to do, but without
 2 knowing what makes up your capital program, I
 3 think is extremely difficult to say whether or
 4 not it's going to be five percent or ten
 5 percent.
 6 Q. Well, the Board has only fixed your rate base
 7 twice. You have, in fact, calculated what
 8 your rate base has been in every year since
 9 1996, have you not?
 10 A. No, I have not.
 11 Q. You have not calculated rate base?
 12 A. No, we only calculated rate base for 2001 when
 13 we came in for the General Rate Application.
 14 That's the first time that a full fledged rate
 15 base was done and submitted to the Board for
 16 approval.
 17 Q. And since 2001, I take it, you have calculated
 18 rate base for each and every year?
 19 A. From 2001, two and three are actuals right now
 20 and in my evidence here as to what we predict
 21 for 2004 and 2005 and that's on page 5.
 22 Q. And in order to produce the rate base for
 23 2001, presumably you had to take into account
 24 all the additions and deletions from 1996 to
 25 2001, correct?

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1 MR. ROBERTS:
 2 A. It would be whatever the actual numbers were
 3 up to the time that we did the calculations.
 4 If it was '96, for purposes of rate base, rate
 5 base took all assets from day one, it just
 6 didn't start on 1996. 1996, all they did is
 7 said your method and way that you're going to
 8 be regulated is going to change. You're going
 9 to move from interest coverage basis to rate
 10 of return. The rate base could have been
 11 calculated irrespective of whether or not you
 12 were on an interest coverage basis or rate of
 13 return. You can still to the calculation any
 14 time that it needed to be done.
 15 Q. Right, okay. And as you point out, this
 16 capital budget in itself will not affect
 17 revenue requirement, well will not affect the
 18 rates that customers pay until such time as
 19 there is another general rate hearing, is that
 20 correct?
 21 A. That's correct and even then, it may not have
 22 an impact because of other factors, so -
 23 Q. Well there may or may not be a change in
 24 rates.
 25 A. There may or may not be other factors, but if

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1 president of human resources. That arose over
 2 time from the point of view of, I guess,
 3 splitting up the workload among the various
 4 vice presidents and also taking into account
 5 in the materials management, you're not only
 6 just dealing with inventory, but you're
 7 dealing with purchasing and all the materials
 8 handling goes with it. And, of course, there
 9 a close liaison between legal and materials
 10 management relative to tenders and assets and
 11 reviews. So, at the time the decision was
 12 that materials management and the
 13 administration even in Hydro Place falls
 14 underneath the vice president of the Human
 15 Resources.
 16 Q. In respect to the storage ramps, has there
 17 been any directions from Workplace Health and
 18 Safety or any independent agency requiring
 19 that these ramps be replaced at the present
 20 time on a safety basis?
 21 A. My understanding is that I'm not aware of any
 22 outside direction, but our own staff feel that
 23 it's a safety issue, that they're deteriorated
 24 and I understand there's some very expensive
 25 equipment that does get stored up off the

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1 you dealt with it in isolation and if you
 2 assume that rates changed on January 1
 3 and absolutely no other cost changed for any
 4 other reason, then there would be an
 5 additional 1.7 million dollars in the revenue
 6 requirement that's requested.
 7 Q. Right, okay. So, until such time as there is
 8 another general rate hearing, Newfoundland and
 9 Labrador Hydro has no way to access additional
 10 funds from its customers other than through
 11 growth, correct?
 12 A. We had no way to change rates until such time
 13 as we come back before the Board.
 14 Q. But you do have the ability to come to this
 15 Board and ask it to approve additional capital
 16 expenditures on an annual basis?
 17 A. We're required by legislation to do it.
 18 Q. Yes, okay. Mr. Roberts, is there some reason
 19 why the upgrade of the standby diesel fuel
 20 system and the reconstruction of storage ramps
 21 in Bishop's Falls fall under the Human
 22 Resources and Legal Division?
 23 A. The reason why they fall underneath human
 24 resources/legal is that our materials
 25 management department falls under the vice

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1 ground. And in the event that it happened to
 2 be stored on these particular ramps and the
 3 ramps collapsed, the damage could be
 4 detrimental to what's happening at the time.
 5 Q. In respect to the project that B-152 which is
 6 the replacement of the chiller in the air
 7 conditioning system, I take it, at Hydro
 8 Place, we asked for production of the cost of
 9 benefit analysis referred to and that was
 10 provided in answer to IC-48. Do you four
 11 pages attached to that answer represent
 12 preexisting documents that Hydro used to base
 13 its decision on or were they generated for the
 14 purpose of answering this question?
 15 A. They were in the process of being generated as
 16 the budget explanation sheet was being
 17 prepared. As you may be able to tell from
 18 what you're seeing here, these are done by our
 19 system planning people. So, they were
 20 generated by system planning while the
 21 administration people were writing up the
 22 proposal.
 23 Q. Okay, so this -
 24 A. So, they were done jointly together, one
 25 person was writing it up and the other person

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<p>1 MR. ROBERTS: 2 had done the analysis and was putting it 3 together in the format that's requested. 4 Q. So this reply to IC-48 was not concluded prior 5 to the preparation of the explanation? 6 A. Not into the format that you see here, but the 7 analysis had been done. 8 Q. Do I understand correctly from the explanation 9 that's been provided here that you are 10 prohibited by the law from refilling these 11 chillers after January 2005 with the existing 12 refrigerant? 13 A. That's my understanding as of January 1st, 14 2005, we are not permitted to use it and it 15 can't be refilled. 16 Q. So whatever you do, you have to dispose of 17 that refrigerant in January 2005? 18 A. That has to be properly disposed of, we're not 19 allowed to use the machine as of January, 20 2005. 21 Q. I'd like to refer briefly to page B-46 to the 22 application, this project dealing with the 23 purchase and installation of the conduit and 24 control cables that had been damaged and in 25 respect of this, we asked at IC-73 to what</p>	<p>1 extent the life of the terminal station of the 2 powerhouse or any other asset or the asset 3 base was enhanced by the project. And the 4 reply came back, "This project does not extend 5 the life of either the terminal station, the 6 powerhouse or any other asset. So it's the 7 asset base of the terminal station would be 8 enhanced by the amount of capital funds 9 expended for the work." I can understand the 10 second sentence in the sense of saying that it 11 is your intention to add to the capital cost 12 of the terminal station the amount of money 13 you spend, but in terms of the concept, how is 14 the terminal station any better off from the 15 expenditure of these funds? 16 A. Well if the cables are damaged, they're not 17 being used to the extent that they can, so 18 they need to be replaced. They have to be 19 done. 20 Q. They need to be repaired, which - 21 A. No, they have to be replaced. 22 Q. But it's - 23 A. There's a difference between repair and 24 replace, we're taking out the old and we're 25 putting back something that's new.</p>
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<p>1 Q. Because they're not repairable? 2 A. I can't tell you if they're not repairable. 3 My guess is that I can assume from the 4 proposal that they had been damaged and it's 5 just--"repairs (unintelligible) current nature 6 and are not adequate to ensure the long-term 7 security and reliability of the Bay d'Espoir 8 facility and they're a key set of cables and 9 they need to be replaced." 10 Q. So if you need to replace a light bulb in 11 Hydro Place, is that a capital item? 12 A. No, it's not, but the control cable certainly 13 would be, they're considered to be a unit of 14 property. 15 (Time: 2:30 p.m.) 16 Q. So these are considered to be a unit of 17 property? 18 A. Yes, they are. 19 Q. So they are independently operable? 20 A. They're part of the unit property under the 21 prime asset which is the terminal station and 22 we would write out the old and capitalize the 23 new. 24 Q. Okay, I want to try to understand this because 25 I still have a problem with this</p>	<p>1 classification issue. Is this control cable-- 2 are these control cables regarded as capital 3 because they're units of property or because 4 they're part of the prime asset? 5 A. Both. 6 Q. Both. 7 A. Both. The prime asset is the terminal station 8 and underneath the prime asset, we have units 9 of property and the units of property are only 10 a breakdown of the total cost of the 11 particular prime asset. It's not broken down 12 in infinite detail. 13 Q. And isn't the light bulb part of the prime 14 asset known as Hydro Place? 15 A. If the light bulbs were in there when the 16 place was initially built, it may have been 17 capitalized. It may have been considered part 18 of the cost of the lighting, if there was 19 special lighting installed and it may have 20 been added to the cost of the particular 21 structure, but to replace it wouldn't. 22 Q. But when it's replaced, what is it when it's 23 replaced? 24 A. It would be just an operating cost, but the 25 light bulb is not the unit of property; in</p>

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1 MR. ROBERTS:
 2 this particular case, the control cables are.
 3 Q. Okay, but the light bulb is part of the prime
 4 asset, there's no question about that,
 5 correct?
 6 A. It may have been, I'm just surmising, trying
 7 to theorize as to what's going there.
 8 Q. Okay, so you say the conduit and control
 9 cables are properly capital both because
 10 they're part of the prime asset and because
 11 they're units of property?
 12 A. And because we have them set up as a unit of
 13 property.
 14 Q. Okay, so it is your decision not to set up the
 15 light bulb as a unit of property that makes
 16 that an operating expense, is that correct?
 17 A. We're exercising professional judgment and
 18 what value is placed to a particular asset and
 19 does it have a useful life, is it extended
 20 over several years. And materiality also has
 21 to come into play. We wouldn't capitalize a
 22 60 cent light bulb.
 23 Q. That makes sense.
 24 A. But we certainly would capitalize a \$60,000
 25 set of control cables.

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1 A. Certainly from an accounting sense we would be
 2 looking at what makes up the components of
 3 that prime asset and are they able to be
 4 segregated and are they being replaced.
 5 There's all kinds of various criteria that you
 6 may end up applying to decide whether or not
 7 the item is broken out as a unit of property.
 8 These units of property have been in existence
 9 since back in 1975/77.
 10 Q. Another characteristic of a unit of property
 11 is that it has to be useful in its own right,
 12 is that an accounting or an engineering
 13 concept?
 14 A. I think it maybe some of both. It would
 15 certainly be an accounting and an engineering,
 16 like for instance, the transformer can be
 17 moved from point A to point B and may be used
 18 in other locations. I think it's a function
 19 of what actually are the capital budget
 20 proposals, does it have a service life that is
 21 extended over several years, and we're right
 22 back to the issue we have prime assets and
 23 underneath prime assets, you would normally
 24 breakdown your prime assets into units of
 25 property. Same thing as we have a category

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1 Q. And what if it was just one control cable and
 2 it was only \$30,000?
 3 A. If the control cables are a unit of property,
 4 then you wouldn't capitalize it. A street
 5 light is a unit of property, that's pretty
 6 well standard in the electrical utility
 7 business, and a street light in relationship
 8 to other assets may not be significant, but it
 9 is a unit of property and it is capitalized.
 10 Q. How is this control cable readily separable
 11 from the prime asset?
 12 A. Because through somewhere through the piece
 13 when the terminal station was initially done,
 14 when the decision was done to establish units
 15 of property, then somebody either estimated or
 16 actually had cost information available on the
 17 close of the work orders in order to be able
 18 to determine a cost.
 19 Q. So that makes it readily separable from the
 20 prime asset?
 21 A. You're able to identify the particular asset
 22 underneath the prime asset.
 23 Q. So readily separable from the prime asset
 24 doesn't mean technically or from an engineering
 25 sense, but from an accounting sense?

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1 called general plant. Underneath general
 2 plant we have vehicles, we have office
 3 equipment, we have other types of equipment,
 4 but the prime category is general plant.
 5 Q. So because you choose to call a particular
 6 item a unit of property, then you regard it as
 7 appropriately a capital expenditure to replace
 8 that item?
 9 A. If we replace that unit of property, then we
 10 would capitalize it, we would write out the
 11 old and capitalize the new.
 12 Q. Those are all the questions I have, Mr. Chair.
 13 CHAIRMAN:
 14 Q. Thank you, Mr. Hutchings. Mr. Kennedy?
 15 MR. KENNEDY:
 16 Q. I have no questions, Mr. Chair.
 17 CHAIRMAN:
 18 Q. No questions, very good.
 19 GREENE, Q.C.:
 20 Q. I have some in re-direct, Mr. Chair. If you
 21 would go to page 4, I believe it is, of Mr.
 22 Roberts' pre-filed evidence, Mr. O'Rielly.
 23 And there was certainly some discussion with
 24 Mr. Hutchings about the guideline. And the
 25 first sentence there, Mr. Roberts, is that the

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1 GREENE, Q.C.:

2 guideline that has been used for several years

3 is that the capital program should not

4 normally exceed cash flow from operations.

5 How long has that guideline been in effect?

6 A. That guideline has been in effect ever since

7 I've been controller, which goes all the way

8 back to 1985.

9 Q. Cash flow from an accounting perspective, what

10 did you mean by cash flow there?

11 A. Cash flow from operations when you look at a

12 statement of cash flow, it normally starts off

13 when net income and you add back non-cash

14 items and non-cash items would be like

15 depreciation, it could be write-offs of

16 foreign exchange costs, which is what it would

17 be in our case, but they are literally non-

18 cash items, things that may have been expended

19 in prior years and it's only an accounting

20 that you're doing an amortization over a

21 period of time. So they would be considered

22 as being non-cash items.

23 Q. And turning to the 2003 year, I believe your

24 evidence was that cash flow there did not

25 include net income because Hydro has a loss,

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1 Q. In response--moving onto another topic, in

2 response to a question from Mr. Hutchings, he

3 asked you were all inventory items capital and

4 you responded by talking about capital spares

5 and I guess I wanted to ask you is everything

6 in inventory a capital spare?

7 A. No, it's not.

8 Q. So in referring to capital spares, that would

9 be the exception with respect to the

10 inventory, is that correct?

11 A. Yes, there's some regular operating inventory

12 as well as a, what I'll refer to a capital

13 spares inventory. One sits as a fixed asset

14 on the balance sheet and is depreciated and

15 the other one is our normal operating

16 inventory that current assets sitting on a

17 balance sheet.

18 Q. And capital spare relates to, I think you

19 already explained that it related to a spare,

20 a critical spare generally or any type of

21 spare that's required for an asset, is that

22 right?

23 A. It's only the critical spare items are

24 required for a capital asset.

25 Q. And the last brief area is with respect to

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1 is that correct?

2 A. Hydro had an actual loss and had been

3 projecting that it would probably have a loss

4 as well.

5 Q. And that's why it was different for 2003, is

6 that correct?

7 A. Yes, it is.

8 Q. Does that mean the guideline had changed?

9 A. No, the guideline is still--net cash flow from

10 operations, just so happened in 2003, there

11 was no net income to be there.

12 Q. And with respect to 2004, you mentioned the

13 uncertainty was the timing of the Board Order

14 following the GRA and what it meant for the

15 revenue requirement, is that correct?

16 A. That's correct, we were hopeful that the GRA,

17 had it been resolved sooner, unfortunately it

18 wasn't, and we've had uncertainty there. The

19 decision was we would just deal with the level

20 of depreciation.

21 Q. So the issue that made 2003 and 4 different

22 was whether there was going to be any net

23 income in either of those years which would

24 have affected cash flows, is that correct?

25 A. Yes, it is.

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1 Hydro's policies regarding when the capitalize

2 an item verses when they operate--put it in

3 operating as an expense. Has Hydro's policies

4 for capitalizing items changed or has it been

5 constant over the last few years?

6 A. No, they haven't changed. We had a

7 depreciation study done in 1986. We had

8 another one done in 1998 and both of those,

9 although not specifically addressing a

10 specific capitalization policy, it did review

11 our units of property, it did review our

12 service lives and based on the

13 recommendations, there were some changes in

14 our service lives. We will be going back out

15 again in 2005 for another update.

16 Q. And I think you mentioned that the issue as to

17 whether something is capitalized or not is one

18 of the exercise of professional judgment, is

19 that correct?

20 A. Yes, it is.

21 Q. And are there rules under generally accepted

22 accounting principles with respect to when an

23 item is capitalized or not, is that the type

24 of professional judgment you were talking

25 about?

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1 MR. ROBERTS:
 2 A. That's the type of professional judgment in
 3 IC-86 on lines 6 to 9, we're paraphrasing what
 4 the Canadian Institute of Chartered
 5 Accountants is saying in this section dealing
 6 with capital assets that are of a permanent or
 7 lasting nature, its useful life is expected to
 8 extend over several years.
 9 Q. So Hydro's capitalization policies--first I
 10 should ask you, Mr. Roberts, are you a
 11 chartered accountant?
 12 A. Yes, I am.
 13 Q. And is the manager of the finance department a
 14 chartered accountant?
 15 A. Yes.
 16 Q. In applying Hydro's judgment with respect to
 17 whether an item is capitalized, do you follow
 18 the, what we call GAAP or generally accepted
 19 accounting principles?
 20 A. Yes, our financial statements are prepared in
 21 accordance with generally accepted accounting
 22 principles and that's reviewed both by our
 23 external auditors and the review is also done
 24 by the Board's financial consultant on an
 25 annual basis.

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1 coming from, is B-46, the one that the
 2 Industrial Customers, you were just talking
 3 about, am I to gather that you're replacing
 4 these cables--the existing cables, my
 5 understanding your existing capital assets you
 6 can identify what their costs are now, you've
 7 depreciated them for "x" number of years, they
 8 have a value, so you're going to take that
 9 charge against your operating?
 10 A. Yes, we'll write that off as a loss on
 11 disposable and capitalize them.
 12 Q. So if you had \$20,000 worth of undepreciated
 13 capitals, it -
 14 A. It gets written off as a loss and that hits
 15 our bottom line in the year in which we do the
 16 write off.
 17 Q. So we can start again with a brand new cables?
 18 A. So we can start with new cables added to that
 19 particular terminal station.
 20 Q. Because you couldn't repair the cables up to
 21 \$20,000 or whatever the value would have been
 22 there, you had to put new cables in?
 23 A. I think the decision that was made by the
 24 operations personnel was that the cables need
 25 to be replaced. This is a critical

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1 Q. So there's nothing that's unique to Hydro with
 2 respect to this issue, is that correct?
 3 A. Not in my opinion there's not.
 4 Q. And you've already mentioned that our prime
 5 assets in the service lives for those have
 6 been reviewed twice externally and would be
 7 done again in 2005, is that correct?
 8 A. Yes, that's correct.
 9 Q. Thank you, that concludes all the questions I
 10 have in re-direct.
 11 CHAIRMAN:
 12 Q. Thank you, Ms. Greene. Commissioner Powell?
 13 COMMISSIONER POWELL:
 14 Q. Yes, thank you, Chair. Good day, Mr. Roberts.
 15 First I'd like to compliment you on your
 16 presentation. I like the information that you
 17 put there, it sort of put a band around the
 18 capital budget from an accountant's point of
 19 view. I appreciate the fact that probably it
 20 begs more questions, but it's all part of the
 21 process. So from an accountant to an
 22 accountant, I liked it. But having said that,
 23 that does beg some questions for me. First of
 24 all, I'd like to clear up one little--I have
 25 an understanding or I think I do where you're

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1 communication facility that's between the
 2 terminal station and the Bay d'Espoir facility
 3 and it's critical that that communication be
 4 put there.
 5 Q. But there was a real loss to Hydro, to their
 6 bottom line?
 7 A. There is going to be a loss depending on what
 8 the net book value is for those cables in 2005
 9 when we write out the old and capitalize the
 10 new.
 11 Q. So unless you convince the Board in 2000
 12 whatever, when you have the next rate base,
 13 increase your costs because you're going to
 14 have more losses like this, you absorb that?
 15 I mean, that's your operating -
 16 A. No, that loss is strictly to our bottom line
 17 in 2005.
 18 Q. Okay, I thought that and that goes on with all
 19 your assets?
 20 A. Yes, all of our assets and I guess one of the
 21 things that was even in the depreciation
 22 study, we don't use group assets anywhere.
 23 All of our assets are on the each.
 24 Q. Yes.
 25 A. We were there before technology, now the

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1 MR. ROBERTS:
 2 technology, we're finding a lot of other
 3 utilities are looking at that as well for at
 4 least certain assets, others they may still be
 5 grouping, but in our case, we started I think
 6 from way back when setting up by the each and
 7 have just continued on, we haven't
 8 consolidated at this point.
 9 Q. Yeah, I thought that's what you were talking
 10 about. I take you to page 5, you talk about
 11 the rate base and I looked at it and I thought
 12 it was good, but I had a problem, you say in
 13 2004 your capital assets are 1.9 billion
 14 dollars and 2005, they're up 24.9 million,
 15 just a little less than 25 million dollars.
 16 A. Uh-hm.
 17 Q. But I couldn't find out where that was because
 18 you're talking capital assets in your budget,
 19 was it forty-six million dollars you're
 20 looking at expense? Forty-two?
 21 A. Yeah, and of that forty-two million, not all
 22 of those assets are going in service.
 23 Q. So you only figure about 25 million is going
 24 in service?
 25 A. What's going in service is 33.9 million, but

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1 difference in depreciation. Okay, I'm not
 2 going to do the math, that's pretty good. On
 3 page 4 when you talk about guidelines, I
 4 appreciate the concept and you use the income,
 5 the depreciation and other non-cash items.
 6 You don't, the guidelines, you don't use one
 7 of the criterias, the fact that--and I
 8 appreciate the context in which the regular
 9 requirements will go up by 1.7, as you say on
 10 page 6, depending on a whole bunch of other
 11 issues. I appreciate that there's a snapshot
 12 at that point in time, but when you do your
 13 guidelines, you don't put that in saying what
 14 is the effect of this budget in isolation or
 15 you let that fall?
 16 A. What happens is through the process the people
 17 that are out into the areas and into the
 18 various operations, they're looking at the
 19 criterias, is this a safety item, are we
 20 required by law to do this, is this increasing
 21 the reliability and the level of service to
 22 our customers. Then is there reductions in
 23 cost in improving efficiency, that's what
 24 they're looking at. As it gets into
 25 management, that's when we're looking at it

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1 we've got 5 million dollars worth of assets
 2 that are associated with those new ones that
 3 are being disposed of, that's how come you end
 4 up with the net of the 25.1, so we added new
 5 assets in 2005 for 33.9 million, but we had
 6 old assets that we're disposing of and writing
 7 out that are associated with those new
 8 replacements and the original cost on those is
 9 5 million, so we get the net that is coming
 10 through.
 11 Q. That's part of your cables in B-46 as going
 12 out?
 13 A. Yes.
 14 Q. Okay. Well then you go down and you
 15 accumulate the depreciation and you've got--
 16 there's an increase by 28 million and you're
 17 projecting when you did your--you said on page
 18 6, you talked about--no, not page 6, page 4,
 19 depreciation somewhere it's 35 million
 20 dollars.
 21 A. 35 million, but you would also have the same
 22 principle happening on assets that are being
 23 disposed of and written out.
 24 (Time: 2:45 p.m.)
 25 Q. Okay, so we got seven million dollars

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1 from a high level, total corporate perspective
 2 as to what is our guideline. We're saying
 3 here that in the particular year it's 35
 4 million plus ten or eleven million dollars,
 5 45, 46 million dollar capital program. We
 6 feel that's doable from the point of view of
 7 being able to finance it, manage it and still
 8 provide the level of service to our customers.
 9 Q. Okay, the reason why--I appreciate all of
 10 that, but I just get the sense of one step
 11 missing and that's from the customer service
 12 sense saying I've got to pass this 1.7 million
 13 on to my customers, this is not a good
 14 environment and so therefore, why don't you go
 15 back and sharpen your pen again?
 16 A. Well, the sharpening of the pen is done on a
 17 proposal by proposal basis in capital, but
 18 then we also, a month or two months after
 19 that, are looking at our operating budgets and
 20 we're also cognizant of the fact that at
 21 management that yes, this does have an impact
 22 and it's not in rates. Because, for instance,
 23 in the capital program, the financing cost on
 24 those assets is coming straight off our
 25 profit, until such time as we go back a change

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1 MR. ROBERTS:
 2 in rates. So at the management level we've
 3 very cognizant of the impact of what capital
 4 will do to it.
 5 Q. When this--management does their thing and it
 6 goes to the Board to approve, are they aware
 7 of the fact that this budget, as presented,
 8 again in isolation would cause an increase in
 9 revenue of--revenue requirement of 1.7 million
 10 dollars? Would they be given that information
 11 the same as ourselves?
 12 A. I believe and I stand to be corrected, I'm not
 13 sure if they saw all the evidence for the
 14 capital budget, but they are certainly aware
 15 that by having this capital budget, it would
 16 impact our revenue requirement and can impact
 17 on what our net income is going to be for that
 18 particular year.
 19 Q. That's all my questions. Thank you, sir.
 20 CHAIRMAN:
 21 Q. Commissioner Martin?
 22 COMMISSIONER MARTIN:
 23 Q. No questions.
 24 CHAIRMAN:
 25 Q. I just have one, possibly two, Mr. Roberts and

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1 A. Yes, because that, in effect, is really the
 2 equivalent structure to what you would find on
 3 a transmission line.
 4 Q. I see, okay, thanks. And the other question
 5 was you did note that with regard to software
 6 programs and what have you, if it exceeded I
 7 think you used the figure of \$25,000 it would
 8 be capitalized, if it was less than \$25,000 -
 9 A. Less than \$25,000 we don't capitalize it.
 10 Q. Do you have any other examples of areas where
 11 you use a dollar line figure like that where
 12 you would -
 13 A. One in particular, for instance, as I
 14 mentioned we talked about general plant, that
 15 would be your office equipment, vehicles,
 16 there's a big broad category in there. When
 17 we look at like office equipment, anything
 18 less than \$1000 we will not capitalize it.
 19 The administrative cost of trying to trace and
 20 track a \$100 calculator that may last one year
 21 or may last five, we've just administratively
 22 said, look, for less than \$1000, it would cost
 23 more than it is to track it.
 24 Q. You don't add these up over \$1000 or something
 25 and then capitalize it.

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1 the first thing, you use the distinction being
 2 drawn and I just want to make sure I
 3 understood what it was and it had to do with,
 4 in the discussion between capitalization
 5 verses operating expenses and on cross-
 6 examination by Mr. Hutchings, drawing some
 7 distinctions between transmission line poles
 8 verses distribution line poles, could you--I
 9 got lost on that, could you clarify what the
 10 distinction was?
 11 A. Okay, if I may, normally in a distribution
 12 line, it's like going through your backyard,
 13 it's just a pole, another pole, another pole
 14 and it goes down through the piece. In our
 15 transmission lines, in our wooden pole
 16 structures, you will find that there's
 17 probably three poles and that's what is
 18 considered to be the full structure. So if
 19 one just snapped off, we would expense it, but
 20 if we lost a full structure, we'd capitalize
 21 it all.
 22 Q. Verses on a distribution line.
 23 A. On a distribution there's only one pole, so we
 24 would capitalize that one.
 25 Q. You would capitalize it.

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1 A. No, no, if I buy a calculator for \$200, then
 2 once somebody else buys one for \$200, they're
 3 both expensed. So anything that's less than
 4 \$1000 we don't capitalize and the software, as
 5 I alluded to, if it's less than \$25,000, we
 6 don't capitalize it either. Most of our
 7 software is sitting on a mainframe and the
 8 number of cases that we would have for a
 9 specific software is not that great. There
 10 may be some areas that may require specialized
 11 software and when you start hitting that, a
 12 lot of cases then it does start to exceed
 13 \$25,000, but by using the set up that we have
 14 now with the Citrix and the software tools,
 15 like Microsoft Office suite of products
 16 sitting on a server, then there's no need of
 17 having stand-alone software sitting on your
 18 machine anymore.
 19 Q. But there are no other, what one might call
 20 the maintenance programs which if they do not
 21 exceed a certain amount, you would put to
 22 operating -
 23 A. There may be some other materiality rules that
 24 are being used, but off the top of my head, I
 25 wouldn't be able to quote them for you.

1 MR. ROBERTS:
 2 Somebody may decide to look at, you know, if
 3 it's less than a certain dollar threshold,
 4 then we may not be capitalizing it, but it's,
 5 you know, it's a judgment call as to that
 6 point as to whether or not you would or would
 7 not.
 8 Q. Anything arising from the Board?
 9 GREENE, Q.C.:
 10 Q. I have no questions.
 11 HUTCHINGS, Q.C.:
 12 Q. I have nothing, thank you, Mr. Chair.
 13 CHAIRMAN:
 14 Q. Well I think then there remains to deal with
 15 the issue of written argument dates and I
 16 think as well the mediation report.
 17 MR. KENNEDY:
 18 Q. Yes, Chair. As to the written submissions, I
 19 think what's being agreed to by the parties is
 20 that the Industrial Customers, Newfoundland
 21 Power and myself, insofar as Board Hearing
 22 Counsel, may submit a written submission.
 23 That those parties would be due by noon,
 24 Tuesday, October 26th and the filing by Hydro
 25 of its written submission would be due by

1 noon, Monday, November 1st.
 2 CHAIRMAN:
 3 Q. Okay, well unless the parties have any other
 4 comments, the Board will set those dates as
 5 indicated by Mr. Kennedy as being the
 6 respective times that legal arguments would be
 7 filed. With regard to the mediation report,
 8 Mr. Kennedy?
 9 MR. KENNEDY:
 10 Q. Yes, Chair, and I have the mediation report
 11 ready to be signed, but to be fair to the
 12 individual counsel, they should just do a last
 13 review before their signature is entered. And
 14 as it's being done by consent, I can't really
 15 file it until it's been actually signed, but
 16 it's my intention to have that done
 17 immediately and then file it with the Board's
 18 secretary so it's on the official record.
 19 CHAIRMAN:
 20 Q. So that would be filed perhaps later today or
 21 tomorrow?
 22 MR. KENNEDY:
 23 Q. Correct, Chair.
 24 CHAIRMAN:
 25 Q. Well I think that generally concludes matters.

1 Mr. Roberts, thank you for your testimony and
 2 I'd certainly take this opportunity to, on
 3 behalf of the Board, to thank all of the
 4 witnesses who have testified at this
 5 particular hearing. I'd extend our
 6 appreciation to counsel for the Application,
 7 Newfoundland Power's representatives and
 8 counsel, as well as the Industrial Customers.
 9 Mr. Kennedy, thank you. The Board staff and
 10 we'd also wish to thank Discoveries Unlimited
 11 on their timely presentation on the
 12 transcripts and Ms. Greene indicates last, but
 13 not least, we'd like to thank Mr. O'Rielly for
 14 his expertise in the computer field. I think
 15 that being said, that covers everything and we
 16 will now adjourn. Thank you very much.
 17 Upon conclusion at 2:54 p.m.

1 CERTIFICATE
 2 I, Judy Moss Lauzon, hereby certify that the
 3 foregoing is a true and correct transcript in the
 4 matter of Newfoundland and Labrador Hydro's 2005
 5 Capital Budget Application, heard on the 18th day
 6 of October, A.D., 2004 before the Board of
 7 Commissioners of Public Utilities, Prince Charles
 8 Building, St. John's, Newfoundland and Labrador and
 9 was transcribed by me to the best of my ability by
 10 means of a sound apparatus.
 11 Dated at St. John's, Newfoundland and Labrador
 12 this 18th day of October, A.D., 2004
 13 Judy Moss Lauzon