

- 1 (9:00 a.m.)
- 2 MR. NOSEWORTHY, CHAIRMAN: Thank you and
3 good morning everybody. I guess Ms. Newman is
4 unavoidably, was unavoidably delayed and good
5 morning, Ms. Newman, just since you've just arrived, I'll
6 ask Mr. Kennedy if there are any preliminary matters.
- 7 MR. KENNEDY: There are none.
- 8 MR. NOSEWORTHY, CHAIRMAN: Thank you very
9 much.
- 10 MS. NEWMAN: Other than my apologies to everyone.
- 11 MR. NOSEWORTHY, CHAIRMAN: We'll begin, good
12 morning, Mr. Hughes, Mr. Perry.
- 13 MR. HUGHES: Good morning.
- 14 MR. NOSEWORTHY, CHAIRMAN: Good morning,
15 Mr. Browne, I would wonder if you could continue your
16 cross, please?
- 17 MR. BROWNE, Q.C.: Thank you, Mr. Chairman. Good
18 morning, Mr. Hughes, Mr. Perry?
- 19 MR. HUGHES: Good morning, Mr. Browne.
- 20 MR. BROWNE, Q.C.: Yesterday in your opening
21 statement you alluded to the budgetary process. Can
22 you tell us exactly what is the budgetary process at
23 Newfoundland Power?
- 24 MR. HUGHES: I can, I can go through it again, similar
25 to yesterday, or if there was ...
- 26 MR. BROWNE, Q.C.: Let's just hear it again.
- 27 MR. HUGHES: What happens in about spring is that
28 the various inputs are starting to be gathered, the
29 customer and sales growth, the condition of the
30 feeders, any known things, all those various inputs are
31 starting to be gathered.
- 32 MR. BROWNE, Q.C.: That's in the spring.
- 33 MR. HUGHES: In the spring.
- 34 MR. BROWNE, Q.C.: And when you say the spring,
35 that's March month or April?
- 36 MR. HUGHES: It varies year to year. If you have a, if
37 you're going to file relatively early and say for this year,
38 I believe, Mr. Browne, I'm correct in saying that we filed
39 in August ... I'm sure somebody's got the exact date.
- 40 MR. PERRY: It's August 2nd, I think.
- 41 MR. HUGHES: We have ...
- 42 MR. BROWNE, Q.C.: You filed in August but your pre-
43 filed evidence wasn't filed until October 28th.
- 44 MR. HUGHES: I'll take you ... unless counsel objects,
45 Mr. Browne, I'll assume that the dates you're giving are
46 accurate. So in a year where we're filing in August, it
47 probably starts, three or four weeks earlier than it does
48 if we're filing in September, so what happens in the
49 spring, and Mr. Browne is right, it's somewhere around
50 that March/April sort of period, the process really
51 begins, and as I said, we pick up all the various inputs.
- 52 MR. BROWNE, Q.C.: Okay, who is involved in the
53 process?
- 54 MR. HUGHES: At that time I would say most of the
55 general forepersons, directors, superintendents. When
56 I say directors, I'm not talking about board of directors,
57 I'm talking about it's a grade in Newfoundland Power
58 that's below the manager. Managers, vice-presidents
59 and executives, it's a fairly inclusive kind of process.
60 We also ...
- 61 MR. BROWNE, Q.C.: There's a meeting of all these
62 people?
- 63 MR. HUGHES: No, no, no, Mr. Browne, there's one
64 other group that also is involved. We also ask the
65 technicians and the line persons. There is, there will be
66 meetings at that time of various groups to discuss
67 various issues but there's not, and I think the
68 implication of your question was that there was some
69 huge sort of congress. There's nothing like that.
70 Should I continue going through the process, or did
71 you want to ...
- 72 MR. BROWNE, Q.C.: Yes, certainly, I'm interested in
73 the meeting process that occurs.
- 74 MR. HUGHES: At that time there are various meetings.
75 I couldn't tell you what meetings do or don't occur,
76 because they're fairly informal, and people get together
77 to discuss issues, so if, for example, there was a

1 concern on a feeder, then ... say like the one at Milton,
2 then two or three people might chat about that one, or
3 they might talk about a more general issue, and so on,
4 so there aren't, at that time the meetings are fairly small,
5 fairly specific, to the point, and it's just sort of
6 gathering information, so that's what's happening in
7 that spring stage.

8 MR. BROWNE, Q.C.: So is each department given an
9 amount of money to spend? How is the spending
10 determined?

11 MR. HUGHES: At that time you're not looking at
12 spending, you're looking at need. You're looking at
13 where we think the reliability is not performing, because
14 you're starting to get the SAIDI and SAIFI information
15 because if the previous budget was filed in September,
16 you've got six, seven, eight months, and it depends
17 when it is, SAIDI and SAIFI information, so you know
18 what the reliability has been since then. You also have
19 an idea of how equipment is performing, sales growth.
20 For example, I mean if we pick, say, Stavanger, you'd
21 know what had happened since the previous six or
22 seven months, what new stores were coming on, all
23 those kinds of inputs are starting to be gathered, so
24 that's what's happening at that stage.

25 MR. BROWNE, Q.C.: Okay, it starts from the linesmen,
26 is that what you're telling us, they give reports of poor
27 lines and present them to their immediate superior, is
28 that how it begins?

29 MR. HUGHES: No, it's a more informal and flowing
30 because what you're trying to do at that time is gather
31 information, gather what it's really like out there, so one
32 of the things that the, say, regional managers would do,
33 they'd talk to the superintendents, they might talk to
34 some of the line persons and say, Fred or Jane, what
35 kind of condition is that line in, so it's like a preliminary
36 look, and they would know because they're working on
37 it, but a line person doesn't provide a report, it's more of
38 an informal, I suppose there is some formal, gathering
39 of information before you go into the next stage. Some
40 of the data like the reliability and the sales growth, say
41 like the new services, you'd know what was happening
42 on that, and on say some of the larger stores or
43 something like that, you would know that, you might
44 know it for the next year as opposed to the upcoming
45 six months.

46 MR. BROWNE, Q.C.: Okay, where you need the new
47 servicing, that's understood from your forecast, and
48 you know the areas of growth.

49 MR. HUGHES: But you would start to know that, Mr.
50 Browne, so some of ... it depends who it is. If it's
51 something that's large, it probably is going into the next
52 year. If it's something that's small it's probably that time
53 in the spring, within the same year, so it wouldn't go
54 into the capital budget.

55 MR. BROWNE, Q.C.: Okay, so they give reports, say
56 other than new growth, there's a problem out there, I
57 guess that would come to the attention of the persons
58 immediately responsible who would pass it up along, is
59 that the way it would work?

60 MR. HUGHES: That's essentially how it works.

61 MR. BROWNE, Q.C.: Okay, at some point you decide
62 the amount of money that, there must be meetings to
63 decide the amount of money that's necessary. Do
64 department heads meet, or vice-presidents meet, or is
65 there an executive meeting, or how does that work?

66 MR. HUGHES: We probably do it a little bit different
67 than most. The executive would have a belief,
68 understanding of what the likely range would be, so at
69 the moment, and there might be a brief discussion
70 about it. At this stage you would believe, knowing the
71 system, knowing the customer growth and things like
72 that, you would tend to believe that it would be in the
73 \$45 to \$60 million range, because that's what you would
74 feel from the size of business is most likely. But at this
75 time in the spring, and I'm still in the spring, I can come
76 forward if you want, that's sort of, that's known by
77 probably the exec and the management group. I mean
78 it's certainly not a secret what you tend to think is the
79 range, but that's all that happens at that time.

80 MR. BROWNE, Q.C.: Is there a set amount of money
81 that you establish as the upper limit as to what can be
82 spent in any particular year?

83 MR. HUGHES: Not really, what we do ... if I can jump
84 ahead almost to the end of the process. When the
85 budget is sort of pulled more together, and as I
86 explained in the direct, we then do look at the financial
87 implications, we look at whether something can be
88 deferred, whether it can't be deferred, I mean have a
89 look, but because we've got the obligation to serve ... if,
90 say for example, there were three power transformers

1 that we thought were going to fail, they are roughly
2 \$1.2 million each, so if they were going to fail, you have
3 no choice but to replace them, so that's not a new
4 customer service growth, that just is what it is. So
5 some of it, you know, particularly on the ... well, I
6 suppose it's two parts, the obsolescence, replacement,
7 and the new services is, (a), determined on the first
8 hand by the condition of the equipment, and how many
9 new people require service.

10 (9:15 a.m.)

11 MR. BROWNE, Q.C.: You mentioned that the budget
12 you thought would be in the \$45 to \$60 million range,
13 how would you know that?

14 MR. HUGHES: Just feel of the business.

15 MR. BROWNE, Q.C.: Because you've left the \$45
16 million range, which was consistent with budgets for a
17 number of years, and now you're into the upper level of
18 the \$55 million range, and approaching the \$60 million
19 range, where does it go? Where is the budgetary
20 planning here? Do you see a \$70 million or an \$80
21 million budget down the road? Where does it end?
22 What is reasonable?

23 MR. HUGHES: What is reasonable is what's going to
24 best serve the customers at reasonable cost, and
25 obviously there's obligation to serve, particularly in
26 rural Newfoundland. Personally, I expect the budgets
27 to be in the range that they are now for the next little
28 while. However ...

29 MR. BROWNE, Q.C.: You don't see it going above the
30 \$60 million mark in the foreseeable future, is that what
31 you're telling us? Barring an emergency.

32 MR. HUGHES: If the conditions stay roughly as they
33 are at the moment, and if I'm allowed to sort of expand
34 a bit .. I see the following happening in the next few
35 years. I think, if you go through it in its components ...
36 growth is somewhere in that one to two percent range.
37 It's there or thereabouts. It may creep into the low
38 two's, but it's somewhere around that. I think on the
39 distribution, although we're still below the average, I
40 think we're making progress, and I think if you kept that
41 sales growth that after time there would be less on the
42 distribution. On the generation, I think we're making
43 good progress on the penstocks and the surge tanks,
44 so I think, you know, that's another one that's going to
45 hold flat or maybe decrease. I think the area that

46 probably, and Mr. Ludlow can talk about this at greater
47 length than I can ... I think the area where you might see
48 a little bit of increase is on the substations in
49 transmissions, and so in answer to Mr. Browne's
50 question, if that scenario holds, and assuming that we
51 are successful bringing reliability up to about the
52 average, then I think the budgets will be somewhere
53 about the same. The Aliant \$4 million comes out in the
54 next couple of years, so I think you're going to be in
55 that \$50 to \$60 million range, and obviously I'm
56 assuming that inflation stays much the same, so my
57 best estimate, Mr. Browne, is that because I don't think
58 that sales growth is going to particularly jump, inflation,
59 I suspect, is going to stay much the same, that's why I
60 tend to think it will stay around the same range for the
61 next few years. After three years, I'm not certain.
62 Obviously if you had a period like the beginning, you
63 know, if you go back in the last 20 years there are
64 periods of huge growth, and that would affect it, but I
65 would be surprised if that happened in the next three
66 years.

67 MR. BROWNE, Q.C.: Is there a paper plan for, like say
68 a five year plan for budgetary process? Do you have
69 that in place?

70 MR. HUGHES: There is a five year forecast, I believe.

71 MR. BROWNE, Q.C.: There's a five year forecast, okay,
72 and Mr. Crane probably provides you with that. Is
73 there a five year budgetary plan, or is the budgetary
74 plan ad hoc, year to year to year?

75 MR. HUGHES: It's a bit of both, Mr. Browne in that I
76 think you actually misinterpreted me when I said
77 forecast because you ... a forecast, the word "forecast"
78 is ambiguous. It can either be a sales forecast, like Mr.
79 Crane's, or it can be, you know, a set of financial
80 statements. I meant, I think, I believe I'm right in
81 saying, Mr. Perry, there's a five year forecast?

82 MR. PERRY: I'm not, no, Philip, I don't think there is a
83 five year forecast of capital. The capital budget process
84 is a very continuous process that essentially, as Philip
85 indicated, early in the spring there is a listing of various
86 projects that need to be considered. As we go through,
87 I don't think you finished your process, Philip, of going
88 through to the end of how we actually got to the final
89 list, but you know, then the next year starts again based
90 on our experience, our assessments in the field,
91 inspection of equipment, looking at what did not make
92 the list in the prior year, is one of the things we would

1 do, and then based on our assessments, based on new
2 customer growth for the coming year, we would
3 develop the budget again. When you get beyond one,
4 two years forecasting, what you're going to do with the
5 system, you know, I think it's ... and Earl Ludlow can
6 really say more about this, it gets really difficult to
7 predict, you know, we are monitoring what's occurring
8 on the system, but when you go predicting into the
9 future, I think it's very difficult to go beyond that one or
10 two year period, and if we were to provide numbers,
11 frankly they'd be probably fairly useless, I would
12 suggest.

13 MR. BROWNE, Q.C.: So even, is there a two year plan
14 on paper, is there something on paper here to say, look,
15 this is our plan, here's where we're headed for the year
16 2003, 2004, 2005?

17 MR. HUGHES: I believe we filed for the GRA a
18 2003/2004.

19 MR. PERRY: That's correct.

20 MR. HUGHES: And you know, as Mr. Perry says, once
21 you start getting out there, the number is nominal, but
22 we tend to think it's going to be around in that \$50 to
23 \$60 range for the next few years.

24 MR. PERRY: Just add, I ...

25 MR. BROWNE, Q.C.: But how do you think that?

26 MR. HUGHES: Because ...

27 MR. BROWNE, Q.C.: There's nothing in writing, there's
28 no plan, there's nothing down that you see where
29 you're going, how could you even estimate that, sir?

30 MR. HUGHES: Because we know the business.

31 MR. BROWNE, Q.C.: It's all in your mind then?

32 MR. HUGHES: No, no, because we live the business
33 every day. You have a feel for how you're doing on
34 reliability, how you're not doing on reliability. For
35 example, last night I was in discussions with Mr.
36 Ludlow about an issue on the system, so through all
37 these discussions you get an idea of what's happening,
38 and you read the reports, you know, say, for example,
39 before I came in this morning, I read the report that
40 comes out from our control centre every day, so you
41 get an idea of what's happening in the system, you get

42 an idea of what progress you're making on reliability,
43 you get an idea of what's happening on the sales
44 growth, so with all those facts, you then say, alright,
45 what do I think the range is, and to say something is in
46 a range between \$50 and \$60 million, that's a fairly wide
47 range. I can't tell you that I think it's going to be \$53.6
48 or \$58.1 million, because what it will depend on is
49 whether it is 1.4 or 1.9, and which substations it affects
50 and so on. I mean in our budget we're expanding
51 Chamberlains and Virginia Waters. If that growth had
52 been more spread and it wasn't so concentrated in
53 those areas, it could be that the power transformers in
54 the system were fine, but when you've got concentrated
55 growth, it tends to make, the equipment that's very local
56 needs to be bigger or have extra equipment, and that's
57 how it works. Now when you look at scenarios, and as
58 Mr. Perry said, it does become nominal. We filed the
59 next two years, I think it's there, whatever it is, so we're
60 now in 2002. I think the times where companies, and I
61 don't think it's peculiar to our industry, can predict with
62 certainty huge periods into the future is gone.

63 MR. BROWNE, Q.C.: For a number of years you had,
64 I'll try it from a different direction, you had the insulator
65 replacement program, you had those faulty insulators,
66 and over, I think, a ten year period you replaced them
67 all, is that correct?

68 MR. HUGHES: That's correct.

69 MR. BROWNE, Q.C.: Okay, so over that period, over
70 the ten years, there was so much in the budget year
71 over year given for that, is that correct?

72 MR. HUGHES: It is, and it isn't. What the original
73 program, and somebody has got this in the records, I
74 think you're right in saying, Mr. Browne, it was
75 originally a ten year program. What we were finding,
76 however, was that the incidents of failure and outages
77 were increasing, and we were getting more and more
78 problems, so we accelerated it in light of the reliability
79 problems, and I think I'm right in saying that in one year
80 we accelerated it so that St. John's replaced 10,000 of
81 these defective insulators in one year, and the reliability
82 improved because what was happening, the cracks in
83 the (inaudible) were getting bigger, the electricity was
84 (inaudible), and we were getting more and more outages
85 and pole fires, so in that particular one we started off
86 trying to spread it, and in the end it worked out that it
87 wasn't a wise move.

1 MR. PERRY: Adding to what Mr. Hughes said is that
2 what I recall from the RFI that was asked on this
3 question is that we started out in a certain area, for
4 example, substations, we did the insulators there, and
5 then we moved into distribution, did the insulators
6 there, and then we moved into transmission and doing
7 the insulators there, so it was a program that was
8 focused in various areas of our business and as we saw
9 success in each of those areas, we moved into the other
10 areas, and I think there is an RFI that's been answered
11 on that that details that various process over the ten
12 year period.

13 MR. ALTEEN: CA-107 if anyone is interested in the
14 RFI, Mr. Chairman.

15 MR. BROWNE, Q.C.: It seems to me that over that ten
16 year period where you were doing the insulators, would
17 the ten years be on some kind of spreadsheet, and for
18 each year you have so much money for that insulator
19 program, so it is a planned process, would that be there,
20 is that correct?

21 MR. HUGHES: I think, I mean we're going prior to my
22 time, Mr. Browne, but my understanding that originally
23 there was a spread of those insulators. There's two or
24 three different kinds of the insulators as well. I think
25 there was at the outset, I think there was a spreading
26 and whether it was in a spreadsheet or set down, but
27 there was a plan. It was changed because, as I said, the
28 reliability was deteriorating.

29 MR. BROWNE, Q.C.: Is part of your plan now to
30 replace the penstocks throughout the system, is that
31 where you're headed now?

32 MR. HUGHES: Our aim is where you have penstocks,
33 say like the Lockston one, that is beyond repair, then
34 we should ... what happens is that this tends to be on
35 the wooden penstocks, and I don't know if any of you
36 have been past ... if you went past Petty Harbour a few
37 years ago you would have seen the wooden pipe that
38 ran down beside the road and for years you saw it
39 leaking and all the rest of it, and in winter it froze over.
40 What tends to happen for about ... and I'm going to talk
41 in orders of magnitude ... for about five or six years on
42 a penstock that leaks, we tend to use people to repair it,
43 putting pegs in, putting pieces of wood over the side,
44 and trying to keep it together. After a time it's a bit like
45 the Dutch boy and the dyke, you just cannot keep
46 repairing it, and Mr. Ludlow has got a picture in his
47 opening remarks that shows the water just shooting out

48 of the Lockston, so that one needs to be replaced.
49 Penstocks have got a tremendous life. I believe
50 Lockston is 1956, which is a very good year because
51 that's the year I was born in, and is obviously much
52 greater than 30 years. A lot of them last 40 or 50 years,
53 penstocks, but if a penstock is functioning and we can
54 repair it, you just keep it going almost forever, you
55 know. There's no upside to replacing a penstock early.

56 (9:30 a.m.)

57 MR. BROWNE, Q.C.: Can you go to 87(d) for a moment
58 please? I asked, please provide the minutes from the
59 budgetary ...

60 MR. ALTEEN: Would you wait for the witness?

61 MR. BROWNE, Q.C.: Pardon? I'm sorry, they have the
62 monitor as well or ...

63 MR. HUGHES: Yeah, but I can see it better if I just look
64 it up, so if you can indulge me, Mr. Browne. Okay, Mr.
65 Browne.

66 MR. BROWNE, Q.C.: I asked the question, please
67 provide the minutes from the budgetary meetings
68 conducted by departmental staff managers and
69 executive in relation to this proposed capital budget,
70 and the answer, there's no minutes of budgetary
71 meetings in relation to this proposed capital budget.
72 How could there be no minutes of meetings for a
73 budget in excess of \$55 million? There would have to
74 be something.

75 MR. HUGHES: To be honest, Mr. Browne, I can't think
76 of an internal meeting, unless it's an action list, action
77 lists we keep, but I'm not sure we keep minutes, and
78 maybe I'm wrong, but I don't know why you'd keep
79 minutes. You want to have action lists, and you want
80 to do what things you've got to follow up on, so it
81 might be that ... I'm sure somebody within a budget
82 meeting would have, you know, let's check the whole
83 length of the line, let's look at this, let's look at that, let's
84 thermoscan that, so I suspect there are notes like that,
85 but it would be a more action list, but I would be
86 surprised, in fact, I can't think of an instance where
87 you'd want minutes as opposed to the, you know,
88 George (inaudible) is going to check on this, and
89 Phonse Delaney was going to talk to the technician
90 because he had been in substation Y, you know, so it's
91 very specific on what you want to do.

1 MR. BROWNE, Q.C.: And it's all oral, is that what
2 you're telling the Board?

3 MR. HUGHES: No, no, no, no, people go in the meeting
4 and they discuss issues, but what they do is they then
5 come out with what are we trying to do? We want to
6 know whether something ... let's put it in the capital
7 budget sense ... supposing they're talking about
8 Lockston Penstock, so we can deal with a live example
9 as opposed to a ... one of the things that's going to
10 happen on Lockston Penstock, you want to know can
11 you repair it. What is, how much labour have we, say,
12 used ... someone would look at it over the last few years
13 in repairing it. Now what can then happen is that, say
14 it's happened in this one, Mr. Ludlow felt he wanted to
15 go out and look at it, so he goes out and looks at it, but
16 I don't believe there's a minute that says "Mr. Ludlow
17 was requested to go and look at it". People have, or it
18 might be that, say for example, on a conductor, it could
19 be that there's a concern on the condition of it, so it
20 could be that we ask for a little section to be cut and
21 sent away for testing, so that's the kind of stuff that
22 happens in the meetings, and because you want to
23 make sure what condition it's in, but we're an action ...
24 we want to have things to happen, we want costs to be
25 reasonable, and that's how it works. I mean that's how
26 today's business works. You don't have endless
27 minutes.

28 MR. BROWNE, Q.C.: I can't imagine any business not
29 having a master plan for capital expenditures or
30 spending \$60 million of someone else's money and not
31 having it, not having it as some kind of follow-up or
32 minutes or something in writing to show where you're
33 headed.

34 MR. PERRY: Mr. Browne, we have a plan for our
35 capital budget. It's shown in our 2003 capital budget,
36 and it's also in our general rate application for 2004. It's
37 a two year plan. It's about \$55.8 million for 2003, \$51
38 million, I believe, if I recall correctly, for 2004. It's based
39 on our assessment of equipment, replacing sometimes
40 very old assets that we're, you know, we're replacing at
41 three and a half times the original cost. It's from new
42 growth in our customers. It's for IT, some things to
43 support our business. We have a very clear plan, it's a
44 two year plan. The meetings that we have are
45 organized meetings from time to time, but we don't
46 minute them, we don't have people sitting around
47 taking minutes. Like Philip said, it's action oriented.
48 Where do we need to focus, what work do we need to
49 do. Let's get out there and get it done, and beyond two

50 years, I don't see any value in it and that's why we don't
51 do it.

52 MR. BROWNE, Q.C.: You don't see any value in
53 having a five year plan or a six year plan or a seven year
54 plan?

55 MR. HUGHES: Mr. Browne, the world you're in, the
56 world you're describing is something that went out in
57 the fifties and sixties. I mean this centrally planned,
58 you know how the world is going to unfold, it doesn't
59 exist anymore. We respond to our customers, we
60 respond to reliability concerns, but if somebody builds
61 a store in Pearlgate or Corner Brook or Stavanger, we
62 have the obligation to serve them. I cannot, nor can
63 any Newfoundland Power employee, either discourage
64 or encourage them. They will do it based on their own
65 business decisions. What we try and do is make sure
66 the equipment is in good condition, and as I mentioned
67 in my opening, you know, direct, we've been
68 successful. The length of the assets is there. You are
69 asking me about in the middle of the process, is there
70 some rigid plan, and my answer was no. Mr. Perry is
71 right, is that, you know, once you've pulled all the
72 inputs together and particularly when there's a rate
73 case, that's what you do, and it's a formal plan at that
74 time. But I think, to be honest, I think before you send
75 a piece of conductor away for testing, before you deal
76 with all those things to say we will replace that line is
77 irresponsible. You want to find out what's happening.

78 MR. BROWNE, Q.C.: Can you go to CA-46(a) please?
79 Here I asked the question, please provide a copy of the
80 company's communications plan. The answer, the
81 company does not have a formal communications plan,
82 but yet, you provide a budgetary item, in this instance,
83 \$242,000 for various upgrades. It's on page 62 of 82,
84 and you're replacing a VHF radio, page 62 of 82,
85 Schedule B.

86 MR. HUGHES: 62 of 82, yeah, I looked at that one.
87 What was the question, Mr. Browne? Are you asking
88 why we're doing this if there's not a formal plan?

89 MR. BROWNE, Q.C.: Where is your plan for
90 communications for the company?

91 MR. HUGHES: On the telecom area, this is different
92 than a lot of other areas. We would like to replace,
93 upgrade our radio system. We would also like to
94 improve our communications between the plants. As
95 far as the radio system is concerned, a lot of the choices

1 are very, very expensive, and we decided to sort of
2 keep going until it comes down. In terms of the UHF
3 system, which is trying to link in the plants to the
4 control centre and so on, we are making some progress
5 on that, but we're trying to do it at a very low cost, and
6 you know, it's shown here. Sometimes you've got to
7 wait until the prices come into what you think is an
8 acceptable range. Another example of the, similar to
9 telecom is work management. We would like to have a
10 comprehensive work management system in our front
11 line on the line. The prices of the products I think are
12 too expensive, so what you have is that you're trying to
13 improve your productivity, improve your reliability and
14 so on, while keeping the cost down, and you know,
15 that's the two things, so, you know, VHF is the radio
16 system. We think the choices at the moment, and it's,
17 obviously it's our opinion, the choices to replace it are
18 very expensive, and so we're sort of going ad hoc. The
19 UHF, we are making some progress on, and ...

20 MR. BROWNE, Q.C.: Now the VHF communications, is
21 that the same type system Hydro is, Hydro has, the
22 VHF communications?

23 MR. HUGHES: They have a similar system.

24 MR. BROWNE, Q.C.: And do you recall any meetings
25 between Newfoundland Power and Newfoundland
26 Hydro suggesting that both companies opt into the
27 same VHF communications system?

28 MR. HUGHES: There have been meetings and
29 discussions about that, Mr. Browne.

30 MR. BROWNE, Q.C.: And are you aware that
31 Newfoundland Hydro has an application before this
32 Board for a purchase of a new VHF communication
33 system?

34 MR. HUGHES: I am.

35 MR. BROWNE, Q.C.: And have you had consultations,
36 you or your representative, with Newfoundland Hydro
37 in reference to that particular communications plan?

38 MR. HUGHES: We have had ... I'm not sure plan, but
39 we have had discussions about their new system,
40 certainly.

41 MR. BROWNE, Q.C.: And is it a possibility that
42 Newfoundland Power, if Hydro's application is granted
43 for a VHF communications system, that Hydro will opt

44 into that system and share it with Newfoundland
45 Hydro, is that a possibility?

46 MR. HUGHES: I think you mean Power, don't you?

47 MR. BROWNE, Q.C.: I'm sorry, Power will share it with
48 Hydro?

49 MR. HUGHES: No, I don't think so, and the reason why
50 ... there's a difference of opinion between the two
51 companies, and time will tell who is right. Hydro, as far
52 as I understand it, believes that they needed to replace
53 it now, and they proposed the system. We believe that
54 that system is more expensive than we're willing to pay.
55 It's a difference of opinion. Time will tell who is right,
56 and that's why we decided to opt out. There were lots
57 of discussions and Hydro was forthright and so on,
58 they did the things they should have done. It's a
59 difference of opinion, Mr. Browne.

60 MR. BROWNE, Q.C.: Well, the difference of opinion is
61 costing the ratepayers money, is it not, Mr. Hughes?

62 MR. HUGHES: Mr. Browne, my job is to manage
63 Newfoundland Power as well as we can. It is the
64 opinion of our management team that we're better off
65 opting out of that system on a cost basis, and that's our
66 opinion.

67 MR. BROWNE, Q.C.: But how is it that you have a
68 joint committee formed between Newfoundland Power
69 and Newfoundland Hydro where there was a
70 recommendation, I'll put to you, that you share the VHF
71 system?

72 MR. HUGHES: We've talked to lots of people about
73 sharing VHF systems, I mean various people have got
74 them. I mean the RCMP has got them, Aliant's got
75 them, Hydro's got them, and they're all various ones. If
76 you could have a system that could be shared, and
77 everybody was happy on the economics, then that is
78 the perfect world, and so on a basis, yes, it would make
79 sense, and I suspect there's a couple of others ... I don't
80 know what the paramedics do, but if you could have a
81 system where the RCMP, Aliant, ourselves, and Hydro,
82 had the same system, that would be, I suspect, the
83 perfect world, but saying you want to do something
84 and actually doing it, often is dependent on your view
85 of price and cost, and that's our opinion, but that
86 doesn't ... I mean Hydro believes, and, you know,
87 they're a competent company, that they think it's
88 worthwhile. Time will tell who is right.

1 MR. BROWNE, Q.C.: But here you are proposing in
2 your budget to make certain replacements to your VHF
3 system, when at the same time we have Hydro with an
4 application before the Board looking for a new system.
5 The money is coming from all the same sources, is it
6 not, Mr. Hughes?

7 MR. HUGHES: Am I right in saying that the system is
8 \$11 million?

9 *(9:45 a.m.)*

10 MS. GREENE, Q.C.: I don't mean to interrupt in cross-
11 examination, but just for the record, there is no current
12 application before the Board seeking approval of the
13 VHF radio. It is not part of the 2003 capital budget
14 application. The telecommunication plan which was
15 filed shows that we are planning to bring it forward for
16 2004, so there's no current application before the Board
17 with respect to the radio.

18 MR. NOSEWORTHY, CHAIRMAN: Thank you for that
19 information.

20 MR. BROWNE, Q.C.: Oh, okay, thank you for the
21 clarification, I thought I saw it in your 2003 capital
22 budget though.

23 MS. GREENE, Q.C.: No, it's not in the 2003 capital
24 budget. We filed an updated telecommunications plan
25 that shows that it's planned for 2004, and if we stay
26 with that plan we will include it in our 2004 capital
27 budget application.

28 MR. BROWNE, Q.C.: Okay, so in 2004 you're bringing
29 it forward, okay.

30 MS. GREENE, Q.C.: That is the current plan.

31 MR. BROWNE, Q.C.: Well, that gives the parties a bit
32 of time, doesn't it, Mr. Hughes, to see if they can work
33 something out and see if they can share the same
34 system for the benefit of your customers and your
35 ratepayers, is that a possibility?

36 MR. HUGHES: We will, we share where possible, and
37 there's a lot of instances where the two companies
38 share, but there are instances where we don't share. I
39 mean the two companies have billing systems, and at
40 one time Newfoundland Power did Hydro's billing, and
41 now for the last couple of years we don't, so there's
42 times when we share and there's times when we don't.

43 In recent times, we closed down our meter shop a few
44 years back, I can't remember exactly when, I'm sure it's
45 filed, and for a while Nova Scotia Power did our meter
46 work. Hydro have worked on their meter shop, and
47 since, I think it's this year, they undertake the work for
48 us, so where it makes sense, we share. I mean my
49 comments on the VHF system is, you know, I go back
50 to it, we would like to replace the system. At the
51 moment, and we've talked to a lot of people, we're
52 struggling to find a system that we believe for our
53 customers is cost effective. I stand to be corrected, but
54 my understanding of what Hydro is proposing, and I
55 can't speak for Hydro, they're capable of talking for
56 themselves, is that they believe that their system will
57 work for them. When we've looked at opting, our
58 opinion is that it's too expensive for Newfoundland
59 Power and that's where we are.

60 MR. BROWNE, Q.C.: Mr. Hughes, there was an order
61 of this Board, given recently to file a final document in
62 reference to the joint planning committees between
63 Newfoundland Power and Newfoundland Hydro, are
64 you familiar with that?

65 MR. HUGHES: Is this the order that came out of the
66 Hydro hearing or not?

67 MR. BROWNE, Q.C.: I think, yes.

68 MR. HUGHES: I've glanced at it, I must admit.

69 MR. BROWNE, Q.C.: Has that been filed, do you
70 know?

71 MR. HUGHES: I think it's a Hydro order, isn't it? Am I
72 allowed to ask for clarification on something like that?

73 MR. BROWNE, Q.C.: Ms. Greene is smiling, she has all
74 the answers there.

75 MR. NOSEWORTHY, CHAIRMAN: Ms. Greene, do
76 you want to clarify?

77 MS. GREENE, Q.C.: No, it is a requirement of PU Order
78 No. 7. It has not been filed yet. It is required to be filed
79 by December 31 of this year.

80 MR. NOSEWORTHY, CHAIRMAN: That's my
81 understanding, yes.

82 MR. HUGHES: But my understanding, Mr. Browne, is
83 that it was in the Hydro rate case and Hydro was meant

- 1 to file it, that's my understanding, and I believe I have
2 it in front of me.
- 3 MR. BROWNE, Q.C.: You have the report in front of
4 you, or the order?
- 5 MR. HUGHES: No, no, no, I have an extract of the
6 Hydro order that talks about it.
- 7 MR. BROWNE, Q.C.: Sure, and do you know how the
8 final report is being put together?
- 9 MR. HUGHES: I don't, Mr. Browne. Whether
10 somebody else in the company does, I don't know?
- 11 MR. BROWNE, Q.C.: Who is responsible for it, sir, do
12 you know that?
- 13 MR. HUGHES: Most Hydro/Power interactions come
14 through Mr. Ludlow. Mr. Alteen and Maureen Greene
15 obviously talk on occasions but I would suspect that if
16 it hasn't happened already, and I just don't know, that
17 I would suspect it would be Mr. Reeves and Mr.
18 Ludlow would be the main thing, because when you're
19 into duplication and stuff like that, most of the progress
20 that can be made is on engineering and (inaudible).
- 21 MR. BROWNE, Q.C.: And from your comments in
22 reference to the VHF system, it's your position, forget
23 it, there's going to be no sharing with Hydro on the
24 VHF system, is that what you're telling the Board?
- 25 MR. HUGHES: No, no, what I'm saying is that my
26 understanding of the discussions to date, and Mr.
27 Ludlow can get into more detail, but my understanding
28 is that it's our opinion that we believe that what is
29 proposed, we believe is not as cost effective for our
30 customers as continuing as we're going, and that's my
31 understanding of what it is. If, you know, through
32 further discussions, you know, it becomes that, yes, it
33 is worthwhile, then we'll do it. I mean the classic
34 analogy to this is the meter shop. When we closed
35 down our meter shop, my understanding there was
36 discussions with Hydro and with Nova Scotia Power
37 and some other people, and the most economic was
38 Nova Scotia Power. Sometime after that Hydro
39 approached Power and basically asked, you know, they
40 had made some progress, there was some things
41 happening and so on, and so it was with Nova Scotia
42 Power for a couple of years, or that order of magnitude,
43 and Mr. Ludlow then had a discussion, and I remember
44 hearing Mr. Reeves mention it one day, and it was then
45 felt that, yes, it was a good idea for Hydro to do the
46 meters, and so it was transferred. I mean we're sort of
47 non-denominational. We'll, we will put the work
48 wherever we think, whether internally, externally, or to
49 whoever, whoever we think will do the quality and the
50 cost.
- 51 MR. BROWNE, Q.C.: But now you're both sharing the
52 meter shop, yourself and Hydro?
- 53 MR. HUGHES: No, it's Hydro's meter shop, it's not
54 ours.
- 55 MR. BROWNE, Q.C.: But you're contracted in to Hydro
56 now, is that it?
- 57 MR. HUGHES: I know that they do our meters, exactly
58 what the legal ... as far as I understand it, we're just a
59 customer of theirs. I don't think we ... I don't believe we
60 sort of share costs or have any kind of partnership. I
61 believe it ... Mr. Ludlow can ... my understanding is that
62 what happens is that we send the meters, it's an agreed
63 upon charge, they repair them, test them, certify them,
64 whatever else they do, and they come back.
- 65 MR. BROWNE, Q.C.: And certainly that is progress
66 from a consumers' perspective, you would have to say,
67 Mr. Hughes. Now if we can get you on the VHF radio,
68 we would be very pleased.
- 69 MR. HUGHES: Well, Mr. Browne, what's important ...
70 there's two things about radios. One is the safety.
71 Radios are a vital part of the safety because as I've said
72 many times, it's a lethal (*phonetic*) commodity, you
73 know, and they are very, very important for switching
74 orders, and if you have accidents and so on. The other
75 thing is cost, and I think if we did something, no matter
76 who that we felt wasn't at the most reasonable cost,
77 then we're not doing our job. Whether we're right or
78 not, time will tell, and I'm sure, Mr. Browne, if we're
79 wrong, you will tell me in three years time, but that is
80 our opinion at the moment, but Hydro, I'm sure, will
81 discuss the issue with us in an upcoming year and we'll
82 see what happens.
- 83 MR. BROWNE, Q.C.: Mr. Hughes, throughout your
84 evidence and, indeed, a consistent theme for
85 Newfoundland Power, and indeed among your
86 customers is reliability, is that not correct?
- 87 MR. HUGHES: That's correct.

1 MR. BROWNE, Q.C.: Okay, and reliability is measured
2 in what's known as SAIFI and SAIDI, is that not
3 correct?

4 MR. HUGHES: They're the most common.

5 MR. BROWNE, Q.C.: The most common, and is that
6 what you rely upon, the SAIDI and SAIFI in terms of
7 measuring reliability yourselves?

8 MR. HUGHES: Yes.

9 MR. BROWNE, Q.C.: And I understand that SAIFI
10 measures the number of interruptions, is that correct?

11 MR. HUGHES: That's correct.

12 MR. BROWNE, Q.C.: Okay.

13 MR. HUGHES: The F stands for frequency.

14 MR. BROWNE, Q.C.: And SAIDI gives the time of the
15 interruptions, the length of the interruptions
16 collectively in hours, is that correct?

17 MR. HUGHES: That's correct, Mr. Browne, the D is the
18 duration.

19 MR. BROWNE, Q.C.: The duration, okay, so even if
20 there is one interruption and it takes five hours to
21 correct that or to find the line that's down, the SAIDI
22 will reflect one interruption, but ... the SAIFI would
23 reflect one interruption but the SAIDI would show five
24 hours, it's one to five or something.

25 MR. HUGHES: Yes, but it's also done by customer, so
26 you've got to remember that the denominator is
27 customer, so in your example, if you had ten ... let's do
28 the SAIFI, if you had ten people, it would be .1 ... if you
29 had a hundred it would be .01, so it's by customer, so
30 you ... the duration and frequency is always by
31 customer.

32 MR. BROWNE, Q.C.: And you keep statistics of SAIFI
33 and SAIDI from a company perspective, is that not
34 correct?

35 MR. HUGHES: Yes, and over the last, I can't remember
36 when it changed, certainly for the last five-ish years,
37 we've taken the viewpoint that we should do it from
38 what the customer is truly experiencing. In other
39 words, a few companies, and we used to do it in the
40 past, I can't remember when it changed. If it was a
41 major storm or a momentary or small interruption, under
42 15 minutes, those weren't recorded, but obviously from
43 a customer's point of view it's important that it is
44 because that's what they're experiencing.

45 MR. BROWNE, Q.C.: And Mr. Hughes, in this
46 province, I guess in any province, there's never going
47 to be perfection from a reliability perspective, is that a
48 fair comment? You're not going to get a hundred
49 percent reliability.

50 MR. HUGHES: Absolutely.

51 MR. BROWNE, Q.C.: So it's just trying to keep things
52 within a certain range, is that ...

53 MR. HUGHES: I think that's fair enough.

54 MR. BROWNE, Q.C.: And what is your target, or what
55 is your range for reliability, do you have one, your
56 company?

57 MR. HUGHES: We've discussed it a bit internally.
58 Where we are at the moment is we're below the average,
59 both in Atlantic Canada and nationally, so we're below
60 it, so we need to get it up. Most utilities in the country
61 are trying to aim for an availability of 99.99, which
62 means that they're probably less than an hour. That's
63 what most of them are trying to aim for. I suspect that
64 that's not possible at a reasonable cost in
65 Newfoundland. I think as a general average, we should
66 be aiming for in duration for one and a half, two hours,
67 something like that, but we're a long way off at the
68 moment.

69 MR. BROWNE, Q.C.: Now, sometimes you undertake
70 construction with a view to improving SAIDI and
71 SAIFI, is that one of the reasons that you undertake
72 particular construction?

73 MR. HUGHES: Yes, that's true.

74 MR. BROWNE, Q.C.: Now, in the case of the Rose
75 Blanche plant, that's a case in point. The Rose Blanche
76 plant cost what to put up there? \$14 million?

77 MR. HUGHES: I thought it was about \$12 or \$13
78 million, but I might be wrong.

- 1 MR. BROWNE, Q.C.: I think you're in the range, \$13.5
2 million, and another million for environment or
3 something like that, does that ring familiar?
- 4 MR. PERRY: There's an RFI on costs for the plants.
- 5 MR. BROWNE, Q.C.: Pardon?
- 6 MR. PERRY: I think there is an RFI that details the
7 capital costs of plants as well, I'm not sure which
8 number.
- 9 MR. BROWNE, Q.C.: Okay, well anyway, we're within
10 a range, that's (inaudible).
- 11 MR. HUGHES: I haven't got a note, Mr. Browne, that
12 tells me how much it is, but it's ...
- 13 MR. BROWNE, Q.C.: Did you measure SAIFI and
14 SAIDI before the construction of Rose Blanche?
- 15 MR. HUGHES: On the ... I'm sure on feeders in that
16 southwest corner, whether it's the Rose Blanche or the
17 Port Aux Basques area, we have the SAIDI and SAIFI
18 numbers. I don't have them in front of me.
- 19 MR. BROWNE, Q.C.: Okay, I'll make it easy for you.
20 Can you go to CA-17(h), I think you'll find something
21 there. Okay, the Rose Blanche feasibility study is there.
- 22 (10:00 a.m.)
- 23 MR. HUGHES: Give me a second, Mr. Browne.
- 24 MR. BROWNE, Q.C.: Hang on now, I'm after referring
25 you to the wrong ... just go to 17(j), will you, Mr. Wells,
26 instead?
- 27 MR. HUGHES: So do you want (j) or (h)?
- 28 MR. BROWNE, Q.C.: And I think I asked two
29 questions ...
- 30 MR. HUGHES: Hold on a second.
- 31 MR. BROWNE, Q.C.: Okay, I'll give you an opportunity
32 to ... okay, 17(j), the first revision, it's two questions I
33 asked really, it's CA-17(j), and CA-17(k). I asked to
34 provide the SAIDI and SAIFI in the Port Aux Basques
35 area since the completion of the Rose Blanche project
36 and you provide that there, and on (k), I asked to
37 provide a copy of the system average interruption, the
38 SAIDI and SAIFI in the same area, prior to the
39 completion of the Rose Blanche project, and I don't
40 know if Mr. Wells can put both CA-17(j) and CA-17(k)
41 on the screen, or share those tables with us on both
42 answers at the same time, or is that asking too much,
43 Mr. Wells?
- 44 MR. HUGHES: It's a bit small on the screen, Mr.
45 Browne.
- 46 MR. BROWNE, Q.C.: Yeah, you're doing pretty good
47 there, Mr. Wells, but in any case, Table 2 gives the
48 numbers before the completion of Rose Blanche, Table
49 1 gives the numbers after the completion of Rose
50 Blanche and we'll see that the reliability was better in
51 the Port Aux Basques area according to SAIDI and
52 SAIFI prior to the completion of the Rose Blanche
53 plant. My question is this, does this not demonstrate
54 to you, Mr. Hughes, that no matter what amount of
55 money is spent in a particular area, in this case it was
56 over \$14 million, there is no guarantee of improvement?
- 57 MR. HUGHES: There's never a guarantee. I mean if
58 you're making the right decisions and you take out
59 storms and stuff like that, you would tend to see
60 improvement. These numbers, and I'm looking on CA-
61 17(j), if I'm reading this correctly have transmission
62 losses in them, so if I'm reading this correctly, you
63 would have losses from Hydro's 214, you would also
64 have load shedding and other things in them.
- 65 MR. BROWNE, Q.C.: Well, the numbers are your
66 numbers because I asked you to compare two
67 comparable charts, so I assume that they are
68 comparable.
- 69 MR. HUGHES: They're comparable. I assume the other
70 one's done the same way, let me just check. They're
71 both done the same way, they are comparable, Mr.
72 Browne, but the question you're getting at, you're
73 better off coming down a couple of levels.
- 74 MR. BROWNE, Q.C.: But yet you came before this
75 Board, your company did, and requested \$14 million to
76 complete this plant on the basis of reliability and
77 improved reliability and here we see no improved
78 reliability at all. Do you have any comment on that, sir?
- 79 MR. HUGHES: Yes, I do. I mean certainly without
80 Rose Blanche the reliability would have been worse.
- 81 MR. BROWNE, Q.C.: How do you know that, sir?

1 MR. HUGHES: Because I know that at times when the
2 transmission lines were down for repairs or outages or
3 stuff like that, we were supplying. In the, to date, this
4 year, Rose Blanche has supplied 23 gigawatt hours.
5 The plan for it for this year was 17 to date. Last year it
6 supplied 17 gigawatt hours. To date it's 23 gigawatt
7 hours, and we expect it's going to be 27. Those
8 gigawatt hours are supplying that area, and if you look
9 at ...

10 MR. BROWNE, Q.C.: And they improve the reliability
11 in that area ultimately, do they, is that what you're
12 stating to us, Mr. Hughes?

13 MR. HUGHES: Some of it will, some of it is energy
14 supply, but there's no doubt that Rose Blanche has
15 helped. In the capital budget there are also some other
16 things about the generation at Port Aux Basques,
17 because the ... if you put all the generation together, the
18 Port Aux Basques and Rose Blanche there are only
19 certain times of the year when you can take full load.
20 Most of the other times you're at half load, so if the
21 transmission goes out, if you like you can save some
22 customers, you can't save them all, and the plant at
23 Rose Blanche has been very successful, you know,
24 we've ... in terms of production, it's been far greater than
25 planned. We did work on some of the controls and the
26 controls over the last few years have been improving,
27 and I think it has helped reliability. The numbers here,
28 I can't tell you either way because they're at too high a
29 level, but if you put all the bits together, I think Mr.
30 Ludlow is right, if you change that generation a bit so
31 you can get it on faster, when, as inevitably happens,
32 the transmission goes out, you will, in my terms, save
33 more customers you were supplying. It's a tough area,
34 but I think ...

35 MR. BROWNE, Q.C.: And I think you're hitting the nail
36 on the head, Mr. Hughes, it is a tough area, so is it
37 realistic to have the same reliability targets for all parts
38 of the province?

39 MR. HUGHES: I think what you should have, Mr.
40 Browne, is a range. Mr. Ludlow can give you the
41 chapter and verse, but I ...

42 MR. BROWNE, Q.C.: Yes, and we have numerous
43 questions for Mr. Ludlow, I can ...

44 MR. HUGHES: Yeah, but I was going to talk in orders
45 of magnitude.

46 MR. BROWNE, Q.C.: Guaranteed.

47 MR. HUGHES: Orders of magnitude. I'm sure he's
48 awaiting them. I believe I'm right in saying that for a lot
49 of St. John's Metro, you've got a reliability of around
50 two-ish on the SAIDI, and that's because you've got a
51 lot of loop systems, different ways we can feed it so
52 you will get reliability. You tend, because a city is
53 always warmer, to be able to help the reliability as well,
54 so you will find that on a radial line that reliability is
55 worse, and I believe, Mr. Browne, you asked a question
56 about radial transmission lines, and I think the question
57 was something along the lines, is reliability worse with
58 radial transmission lines, and it obviously showed it
59 was. Any time you get radial lines, and this area is a
60 tricky area of the province to get decent reliability, and
61 that's why, it's one of the things that's going to be
62 looked at in that transmission study ...

63 MR. BROWNE, Q.C.: Yeah, we'll get to that, and I don't
64 want to get you off on that particular tangent right now,
65 Mr. Hughes, because I wish to ask several questions on
66 that, but can we go to ...

67 MR. HUGHES: But let me just finish the ...

68 MR. NOSEWORTHY, CHAIRMAN: Could you ...
69 excuse me, could you let the witness finish, Mr.
70 Browne, if you just would please?

71 MR. BROWNE, Q.C.: Yeah, well he's getting into areas
72 that I'm not asking about and I wonder about speech
73 versus question/answer, we've been doing pretty good.
74 I just don't want to get into a speech and to interrupt
75 areas of my question, which I'm coming to, Mr.
76 Chairman. I'm just trying to be fair to him and fair to
77 myself at the same time.

78 MR. NOSEWORTHY, CHAIRMAN: Any final
79 comments you wish to make, Mr. Hughes?

80 MR. HUGHES: If you look at a system map for this
81 area, you've got too long radial transmission lines.
82 That makes the area difficult. The weather there is also
83 difficult. Thank you, Mr. Browne.

84 MR. NOSEWORTHY, CHAIRMAN: Thank you, Mr.
85 Browne.

86 MR. BROWNE, Q.C.: And we will get to the
87 transmission study, I can assure you. Can we go to
88 CA-104(a) and (b), please? Once again, these are two

1 SAIDI, SAIFI and SAIDI studies. It's the company
2 average versus the Canadian average, and again, Mr.
3 Wells, I don't know if you're able to put both tables
4 there at the same time. We have here on Table 1, the
5 SAIFI and SAIDI company average for the years 1993
6 to 2000, and I just want you to go to 1996 for a moment,
7 the SAIFI there, what is it stated as there, Mr. Hughes?

8 MR. HUGHES: 3.82.

9 MR. BROWNE, Q.C.: And the SAIDI?

10 MR. HUGHES: 4.22.

11 MR. BROWNE, Q.C.: And indeed, in 2001, the SAIFI
12 is?

13 MR. HUGHES: 3.99.

14 MR. BROWNE, Q.C.: And the SAIDI?

15 MR. HUGHES: 3.73.

16 MR. BROWNE, Q.C.: Okay, so in between those years,
17 1997, 1998, 1999, and 2000, we have four years there,
18 there were budgetary expansions and budgetary
19 measures undertaken by your company in capital
20 expenditure for reasons of construction, that's true?

21 MR. HUGHES: Yeah, there were capital expenditures
22 every year.

23 MR. BROWNE, Q.C.: Every year, and in fact, capital
24 expenditures increased every year, is it not true, over
25 the last number of years?

26 MR. HUGHES: I think it's fair to say in the last five
27 years they were higher on average than they were on
28 the five year prior to that, which I think is what you're
29 asking.

30 MR. BROWNE, Q.C.: But yet, when you look at 2001,
31 despite all that expenditure, you're no better off than
32 you were in 1996, are you, Mr. Hughes?

33 MR. HUGHES: If you want to ... you can always pick
34 years and say that A equals B, but it needn't
35 necessarily. In these numbers this is what an average
36 customer experiences. There is no such thing as an
37 average customer. You get some customers who have
38 got very good reliability, and there are some that
39 haven't. If, and the feeders that Mr. Ludlow is

40 proposing are the ones that, where the SAIDI and
41 SAIFI are not where they should be. Also you've got
42 load shedding in these numbers. What happens is that
43 as the system has grown and the energy sales have, the
44 ... Holyrood is running a bit more, and what you find is
45 that if a unit trips off, we have to balance the system.
46 Normally when a unit trips off, it's normally 50 or
47 100,000 customers and you have to dump them
48 instantly, and that is in the SAIFI and the SAIDI
49 numbers from a company basis. So ...

50 MR. BROWNE, Q.C.: But when you come before this
51 Board, sir, and look for an expenditure based on SAIFI
52 and SAIDI numbers alone, doesn't Table 1 suggest a
53 caution should be undertaken on the part of the Board
54 if they are going to rely just on SAIFI and SAIDI
55 figures?

56 MR. HUGHES: I believe I'm right in saying, and I can't
57 give you the reference, that in some of Mr. Ludlow's
58 evidence, he took SAIDI and SAIFI down to the
59 distribution level, which is exactly what we can control.
60 Now, we work with Hydro and the load shedding and
61 things like that, but I believe in his analysis, he has
62 shown it at the level, and he will no doubt discuss it,
63 because that's the level he will discuss it ... he will
64 discuss it at the level that we should be, what we can
65 control and what we can't control, and this, the
66 question that was asked was answered properly. You
67 asked what's the company average. We answered
68 what's the company average, this is what the customers
69 experience.

70 *(10:15 a.m.)*

71 MR. BROWNE, Q.C.: And if you go to CA-105, Mr.
72 Wells, please? Once again, we're dealing with SAIDI
73 and ... SAIFI and SAIDI statistics and in this instance
74 we're dealing with the Old Perlican/Blaketown area.
75 Look at, can I draw your attention to 2001, from January
76 to December. In Old Perlican, what was the SAIFI there
77 for that period, Mr. Hughes please?

78 MR. HUGHES: 2.26.

79 MR. BROWNE, Q.C.: And what was the SAIDI?

80 MR. HUGHES: 1.95.

81 MR. BROWNE, Q.C.: And for Blaketown?

82 MR. HUGHES: .3884.

1 MR. BROWNE, Q.C.: Okay, and for ... and for up to
2 2002, in those two areas, in Old Perlican, we actually see
3 an improvement there, is that not true? What would be
4 the SAIFI for Old Perlican?

5 MR. HUGHES: So you're saying the ...

6 MR. BROWNE, Q.C.: Sorry, for the January to August
7 2002, it's on the same table, Table 1 in CA-5?

8 MR. HUGHES: You're saying, well the .24 is lower than
9 the 2.26?

10 MR. BROWNE, Q.C.: No, I'm saying, what is the SAIFI
11 interruptions for Old Perlican in 2002?

12 MR. HUGHES: SAIFI, if I'm reading this correctly, is
13 .24.

14 MR. BROWNE, Q.C.: Yes, okay, so they're better
15 numbers for 2002.

16 MR. HUGHES: Yes.

17 MR. BROWNE, Q.C.: Than they are for 2001.

18 MR. HUGHES: Yes.

19 MR. BROWNE, Q.C.: And in fact, if you go to CA-
20 104(c), can you go to CA-104(c) for comparative
21 purposes.

22 MR. HUGHES: Yeah, I've got that in front of me.

23 MR. BROWNE, Q.C.: And you look at the Canadian
24 average of utilities, which you mentioned is something
25 that you look to every now and then as a guide, for
26 2001, what is the SAIFI?

27 MR. HUGHES: 2001, it's 2.41.

28 MR. BROWNE, Q.C.: And for 2001, the SAIDI?

29 MR. HUGHES: 3.67.

30 MR. BROWNE, Q.C.: So in Blaketown and Old Perlican,
31 they're better in those particular years than the
32 Canadian average, is that correct, or am I misreading
33 this?

34 MR. ALTEEN: That's not a right, that's not an
35 appropriate comparison, Mr. Chairman, the numbers in
36 ...

37 MR. BROWNE, Q.C.: Just one second, sir. If Mr.
38 Alteen ... Mr. Alteen will have an opportunity to go
39 over all this with the witness, and if he thinks it's not an
40 appropriate comparison, that's the time for him to bring
41 that up in redirect, during the rehabilitation period, but
42 it is not appropriate for him to interrupt at this particular
43 stage. I asked the ... well it looks the same to me. If
44 they want to bring out further evidence at the relevant
45 time ... otherwise, we're into a discussion rather than
46 questions and answers. I don't think it's an appropriate
47 objection.

48 MR. ALTEEN: Mr. Chairman, 105 does not include loss
49 of supply, it's a distribution feeder reliability statistic,
50 the others are a province-wide statistic of what
51 customers see, and that is indicated in the responses,
52 so for Mr. Browne to put it to the witnesses that these
53 are comparable numbers is just, it's just not true, it's not
54 what the statistics show.

55 MR. BROWNE, Q.C.: Well, he'll have an opportunity
56 say that ... he can't give the evidence, that's not
57 evidence.

58 MR. NOSEWORTHY, CHAIRMAN: Thank you for that
59 clarification. No, thank you for that clarification, but I
60 would agree that Mr. Browne, that he would continue,
61 and on redirect that that clarification be provided, or
62 clarified at that point, thanks.

63 MR. BROWNE, Q.C.: Thank you, Mr. Chairman, and
64 thank you, Mr. Alteen, and indeed if there are, if I'm not
65 comparing correctly, I'm sure that that will be brought
66 out. I find that you people are not shy in telling, and
67 telling the Board if I'm incorrect.

68 MR. HUGHES: I think it's mutual, Mr. Browne.

69 MR. BROWNE, Q.C.: In any case, just on its face,
70 those numbers from Blaketown and Old Perlican look
71 pretty good, don't they? I mean they're numbers you
72 should be proud of, are they not?

73 MR. HUGHES: If you look at the last sentence of 105,
74 and this is what I was talking about, the level that Mr.
75 Ludlow will discuss it at. They're like slices. SAIDI and
76 SAIFI, if you do it from a company basis, you've got a
77 slice of loss of supply, you've then got, and that can be

- 1 generation or transmission, you then get planned and
2 unplanned and so on, so it's like slices. You will find,
3 as I said, Mr. Ludlow, when he's talking about spending
4 money in distribution, will take out the slices that are to
5 do with generation or load shedding, he will take those
6 slices out. I am very pleased that we've trained legal
7 counsel and Mr. Alteen is absolutely right, if you look
8 at the last sentence above the table ...
- 9 MR. BROWNE, Q.C.: I think he's given you the answer
10 (inaudible). He's clever legal counsel.
- 11 MR. HUGHES: Mr. Browne, I do know the business.
- 12 MR. BROWNE, Q.C.: I'm not saying you don't, sir, but
13 (inaudible).
- 14 MR. HUGHES: It's as I explained three questions ago,
15 you do the right slices and whoever has answered 105
16 is trying to be helpful in answering the question to you,
17 and the reason they've answered it this way is that
18 they've taken out, if you like, slices that don't count,
19 and so if you want to know whether you should do
20 something on a feeder basis, then you're going to tend
21 to go down to the distribution slice. On a substation,
22 you may either pick that slice or because you want to
23 rotate load shedding, you might take some of the higher
24 slices, so the person who has answered this question
25 has tried to be helpful and given you the right slice.
- 26 MR. BROWNE, Q.C.: In CA-112, I'm sorry ... CA ... in
27 your capital budget, if you can go to that for a second,
28 sir, page 2 of 2.
- 29 MS. BUTLER, Q.C.: Schedule B?
- 30 MR. BROWNE, Q.C.: It's a table. I'm sorry, it's CA-
31 12(a), CA-112(a), I've got it copied on the wrong page,
32 CA-112(a), if you can go to that for a moment please?
- 33 MR. HUGHES: Do I need the capital budget as well, or
34 not?
- 35 MS. BUTLER, Q.C.: Page 20 of 78 of Schedule B,
36 according to the answer.
- 37 MR. PERRY: That's the 2000 capital budget though.
- 38 MR. BROWNE, Q.C.: Yes, the 2000 capital budget.
- 39 MR. PERRY: We've gone back a couple of years.
- 40 MR. BROWNE, Q.C.: It shows that you made some ...
- 41 MR. HUGHES: Hold on a minute, Mr. Browne.
- 42 MR. BROWNE, Q.C.: Lots of paper.
- 43 MR. HUGHES: Okay, I've got 112 in front of me, CA,
44 I'm on the first page, and I've got 20 of ...
- 45 MR. PERRY: Sorry, Philip, that's referring to the 2000.
- 46 MR. HUGHES: That was 2000, I haven't got the 2000
47 capital budget.
- 48 MR. BROWNE, Q.C.: Okay, in CA-112(a), I asked the
49 table from the 2000 capital budget to be repeated on the
50 page, which it did, which shows money being spent in
51 Blaketown, \$1,122,000, and Old Perlican, and down
52 below you see it in Doyles and Abraham's Cove and
53 these places. That was in the 2000 capital budget, and
54 down below I asked to show me the SAIDI and SAIFI
55 figures after that work was conducted, and if you can
56 just go up a little bit on the screen, Mr. Wells, we see in
57 the ... for the 12 months ended August 31, 2002, what
58 do we see there for Blaketown, Mr. Hughes?
- 59 MR. HUGHES: The Blaketown SAIDI for 12 months
60 ending August 31, 2002, is .90.
- 61 MR. BROWNE, Q.C.: And the SAIFI?
- 62 MR. HUGHES: 1.25.
- 63 MR. BROWNE, Q.C.: And in Old Perlican?
- 64 MR. HUGHES: 1.28, SAIFI was ...
- 65 MR. BROWNE, Q.C.: And the SAIDI?
- 66 MR. HUGHES: .68.
- 67 MR. BROWNE, Q.C.: And do these figures beat the
68 company average?
- 69 MR. HUGHES: Yes, if you look down at the bottom, the
70 company average here and I'm assuming it's done at the
71 distribution level because of the level of the numbers?
72 That's what I said, the slices have been taken out, so
73 the company average at this level, or slice as I've been
74 calling it, is 1.28 for SAIDI, 1.48 for SAIFI.

1 MR. BROWNE, Q.C.: And if you look down in Doyles, 44 looking at, is it possible at a reasonable cost to loop
2 what's the SAIFI and SAIDI for Doyles? 45 them, and if you go up to Wesleyville, that was the
3 MR. HUGHES: If you do the same 12 months, 1.88, 46 purpose of moving the turbine, because what you're
4 2.41. 47 trying to do is improve reliability in these areas, so
5 MR. BROWNE, Q.C.: Yes, and the company average, 48 trying to put a bow on your question, 112, CA-112 is at
6 and these are all comparables, are they, Mr. Hughes, 49 the feeder level, the distribution level.
7 they're your figures? 50 MR. PERRY: And if I could add for the Board's
8 MR. HUGHES: I would assume so, I have no reason to 51 information, if you actually refer back a page to 29(h),
9 think they're not. 52 CA-29(h), there's a little neat table there that shows the
10 MR. BROWNE, Q.C.: And we've seen in previous 53 SAIDI and SAIFI information for ... if you, Mr. Wells,
11 exhibits, good results for both Old Perlican and for 54 could you refer to 29(h) please? There's a table that
12 Doyles in the questions that I've asked you previously 55 compares SAIDI and SAIFI for radial transmission
13 in reference to CA-105, where you will recall the SAIDI 56 systems and non-radial transmission systems.
14 and SAIFI figures were 2.26 for Old Perlican and 1.95 57 MR. BROWNE, Q.C.: Yes, just one moment, yeah, and
15 and .24 and .29. My question is this, sir, why would 58 I'm going to get to that, Mr. Perry, you know, I'm going
16 you do a \$500,000 study in the Old Perlican area, and 59 your way. If you won't jump ahead of me I would really
17 indeed in the area of Doyles, when you have SAIDI and 60 appreciate it.
18 SAIFI figures like this? 61 MR. PERRY: I just want to finish, Mr. Browne, could I
19 MR. HUGHES: Where's the \$500,000? 62 just finish my point?
20 MR. BROWNE, Q.C.: The \$500,000 is the study that 63 MR. NOSEWORTHY, CHAIRMAN: Finish, Mr. Perry.
21 you're suggesting the Board approve in Schedule B, 64 MR. PERRY: Radial transmission systems, SAIDI for a
22 page 33 of 82. You're looking for \$500,000 for a study, 65 five year period, '97 to 2001 inclusive, was 10.61. For
23 which on its face seems like a lot, I don't know what 66 SAIFI it was 6.99, and then if you look and compare it
24 studies are worth these days. It's not a Royal 67 to the non-radial transmission system, the loop system
25 Commission, is it, Mr Hughes? 68 you could call it, the comparison is 4.64 for SAIDI
26 MR. HUGHES: Page 33 of 82 is a transmission study, 69 against 10.61, and 4.23 for SAIFI against 6.99, so clearly
27 and let me get my system map in front of me. Okay, has 70 when we're looking at studying these other systems
28 everybody got a system map or not? 71 that are not looped, that's really why ... the evidence
29 MR. BROWNE, Q.C.: There's a cross-reference map in 72 shows that the performance on those systems are not
30 CA-29(i), CA-29(i), I think there's a map there. 73 as good as the loop systems.
31 MR. HUGHES: It's a bit hard to see but if you look at ... 74 MR. HUGHES: That was the one I was searching for, I
32 there's two areas it's talking about. If you come up, if 75 couldn't remember which one it was.
33 you look at Old PL, which is Old Perlican, right at the 76 MR. BROWNE, Q.C.: Just the rules of engagement
34 end there, and then you come down the east side, you 77 again, sir, Mr. Chairman, can we get the rules of
35 will see that the system isn't looped, and what you've 78 engagement established here with the questioning. I
36 got there is a radial line that goes up to Old Perlican, 79 have asked Mr. Hughes a question, I've worked during
37 and I believe, Grate's Cove is below, is beyond that. 80 the night to prepare these questions. I'm not, there's no
38 What the study is doing is going to look at whether it 81 element of surprise, all these questions are what I
39 is worthwhile to get better robustness of the system, is 82 asked, I asked for comparators, because that's part of
40 to loop it or do something else, and it's the same on, if 83 the due diligence, but when the other witness jumps in
41 you look at page 33 of 82, it also talks about the Port 84 there he is taking away from the natural flow that I have
42 Aux Basques, Rose Blanche, and that's what I was 85 here, so I'd appreciate some direction. I thought that
43 talking about on the radial lines, is what that's also 86 the direction was if I engage a particular witness, the
87 other witness wouldn't interrupt unless he was asked.
88 Those are the rules we had agreed upon during our

- 1 counsel meetings, pre-hearing. Can we have some
2 direction there on that?
- 3 MR. NOSEWORTHY, CHAIRMAN: Counsel, could
4 you, any comments that you would have on that as to
5 what was agreed to?
- 6 MS. NEWMAN: I think that we have to separate here
7 ... the comments of Ms. Butler are accurate in that we
8 have had several meetings and some relating to the
9 capital budget and some relating to the GRA hearing,
10 so there may be some confusion with that. Perhaps it
11 may be best if we stick with the rules themselves which
12 clearly say that counsel is to put a question to a
13 particular witness, and I don't think the rules speak to
14 what happens when a witness is not certain of the
15 answer beyond that.
- 16 MR. BROWNE, Q.C.: Well, the witness could always
17 say he doesn't know the answer, and then we can go
18 with another question because I have separate
19 questions for Mr. Perry.
- 20 MR. NOSEWORTHY, CHAIRMAN: Well, I think from
21 the Board's perspective, I thought we did discuss this
22 yesterday. It's not a direct question to the second
23 witness but there is, if there is a clarification that would
24 add certainly to the answer specifically relating to the
25 question, not to jump ahead or prejudge, Mr. Browne,
26 what your next questions might be, but if there is an
27 area which can be clarified for the purposes of the
28 Board, I see nothing wrong with that in terms of a fairly
29 concise straightforward answer, an add-on to the
30 question at hand.
- 31 MR. BROWNE, Q.C.: And that's fair enough, Mr.
32 Chairman, I guess the witnesses should recognize that
33 they have counsel here who are going to ask questions
34 on redirect, and probably not get too excited if you see
35 it going in a certain direction and say I have to jump in
36 here, because I'm sure your counsel will protect you at
37 the right time.
- 38 MR. PERRY: I was just trying to be helpful for the
39 Board, frankly.
- 40 MR. BROWNE, Q.C.: Sure, I understand.
- 41 MR. NOSEWORTHY, CHAIRMAN: I'm sure, I'm sure.
- 42 MR. HUGHES: I had already mentioned it once, I just
43 couldn't remember which one it was, so Mr. Perry
44 brought it up, so ...
- 45 MR. BROWNE, Q.C.: In any case ...
- 46 MR. NOSEWORTHY, CHAIRMAN: Please proceed.
- 47 MR. BROWNE, Q.C.: But you will admit to me, Mr.
48 Hughes, that the SAIFI and SAIDI statistics for the Old
49 Perlican area and the Blaketown area, and indeed, the
50 Doyles area from the numbers you have given us, are
51 not too bad.
- 52 MR. HUGHES: Yeah, I mean looking at these tables, it
53 looks like what we hoped to happen has happened.
- 54 MR. BROWNE, Q.C.: Well, why would you want to
55 spend more money in that particular area doing a study
56 when the SAIDI and SAIFI don't reflect such a study
57 should be carried out there?
- 58 MR. HUGHES: Because (a), this is close enough I
59 assume everybody (inaudible). There's two things.
60 One is that that area is very exposed, we had a lot of
61 problems with salt this last time.
- 62 MR. BROWNE, Q.C.: Which area is that, sir?
- 63 MR. HUGHES: The Old Perlican area, and we've
64 already had a long discussion about the Rose Blanche,
65 Port Aux Basques area, so the one area, Old Perlican is
66 tricky from a salt area. Rose Blanche we're still working
67 on. The other thing is that if you can loop a system
68 and you can do it economically, it will bring down your
69 operating costs, and one of the things that we've found
70 from that Old Perlican line that we changed was that we
71 built that line to withstand the rigors, for want of a
72 better word of those weathers, and it has shown an
73 improvement in our calls, average calls to that area as
74 shown, and so for two reasons, one, operating costs;
75 one, because of the difficulty of these two particular
76 areas, it's a worthwhile exercise studying it.
- 77 MR. BROWNE, Q.C.: But Mr. Hughes, we ... the
78 ratepayers just gave you \$14 million in the Rose
79 Blanche area to put generation in there to improve
80 reliability for the people of Port Aux Basques. How,
81 where is this study headed? How realistic are we
82 getting to suggest that a study take place out there to
83 determine the cost which we all know (inaudible) will be

1 astronomical of putting in another line there at this
2 point?

3 MR. HUGHES: Well, you don't bring forward ... on this
4 particular area, I happen to have had some discussions
5 with one of the regional managers who did some
6 preliminary work on it, and he took me through what
7 some of the thoughts were on it. Prima facie, it looks
8 like we might be able to change the system at a
9 reasonable price, which would have a good effect on
10 reliability and operating costs. We don't know for sure,
11 but it looks reasonably good. If that is, then everybody
12 would benefit, and we went through the operating cost
13 numbers and we hope that that trend continues, but the
14 point of a study is to find out.

15 MR. BROWNE, Q.C.: Most of the customers there in
16 areas of rural Newfoundland, Old Perlican, and the Port
17 Aux Basques area, would they be all electric, would
18 they have all electric heat? Roughly speaking, what
19 would you say?

20 MR. HUGHES: I've got no idea.

21 MR. PERRY: Mr. Browne, if you give me a second, I
22 can give you the percentages by the area.

23 MR. BROWNE, Q.C.: Yeah, I think I asked the question
24 actually, did I, anyway go ahead.

25 MR. PERRY: Do you want me to answer it?

26 MR. BROWNE, Q.C.: Sure.

27 MR. PERRY: In the Stephenville area, our market share
28 for 2002 is estimated at 44 percent.

29 MR. BROWNE, Q.C.: For electric heat.

30 MR. PERRY: For electric heat, for example, compared to
31 St. John's, it's about 68 percent. I would say the
32 Avalon area is where Old Perlican would be, it's about
33 48 percent.

34 MR. BROWNE, Q.C.: Do you have statistics for the
35 Old Perlican/Blaketown area, would they be on electric
36 heat or alternate heat?

37 MR. PERRY: I just have the total. We have St. John's,
38 Avalon, Burin, Bonavista, so I'm assuming that's
39 lumped in with the Avalon and would be very similar to
40 the rest of the Avalon at 48 percent electric heat.

41 MR. BROWNE, Q.C.: But generally speaking isn't it
42 true that in rural Newfoundland that people have not
43 opted for electric heat, is that something that comes to
44 your mind, Mr. Hughes?

45 MR. HUGHES: I don't want to stretch my geography
46 too much but a lot of it depends on the availability of
47 wood and there's not a lot of wood out at Old Perlican,
48 so it varies. I mean it is generally true what you're
49 saying, Mr. Browne, that in something like St. John's,
50 you would tend to get a fairly high electric heat. In
51 rural Newfoundland you've got a choice between wood,
52 oil, or electricity, and I don't know if somebody heats
53 with propane, I just don't know, but you'd have three
54 choices.

55 MR. BROWNE, Q.C.: I guess it comes back to in that
56 particular area, in Port Aux Basques and in the
57 Wreckhouse area, I guess if you planted underground
58 cable out there in that Wreckhouse areas, probably
59 you'll lose the lights periodically, is that fair comment?

60 MR. HUGHES: Well, I doubt that, but the Hydro
61 transmission line down there, it's a really challenging
62 line to keep decent reliability, it's a pig of a line, and it's
63 ... because it's a very long one, in very windy
64 conditions, it's bleak, the lines are slapped together, it's
65 tough to get the reliability and we've all driven down
66 there. It's a tough line.

67 MR. BROWNE, Q.C.: And that's why I asked you some
68 time ago, sir, where is the plan, where is the capital
69 budget plan, because here in 1996/1998, you came
70 before the Board to say, give us this \$14 million to
71 spend on Rose Blanche, and by doing that we will
72 improve reliability in that area. The Board said fine,
73 gave you the \$14 million. Now you're coming back two
74 years later, having, we're having seen that reliability
75 didn't improve there at all, but other things may have
76 improved, and it's good that you have hydro as
77 opposed to burning oil, I guess, but in any case, you're
78 coming to the Board now and saying, well, it didn't
79 work there so let's do a study now and maybe we need
80 to do the lines out there, and I just wonder where, it
81 sounds haphazard to me. Where is the plan, where was
82 the plan for that area?

83 MR. HUGHES: I think you've got about ... I don't really
84 know where to start on that so I'm going to explain that
85 area. I believe that Rose Blanche did improve reliability.
86 In terms of gigawatt hours, I told you how much it was,
87 and as you said it was, Rose Blanche was justified on

1 two basis, reliability and economics, and although we
2 had a few problems to start with on the controls, I think
3 Rose Blanche has contributed to improving reliability in
4 that area. I don't think we ever said it was a silver
5 bullet, I think that being able to get the generation on
6 quicker in Port Aux Basques will mean that we will have
7 more of the customers on more of the time, and this
8 goes back to one of your other questions, Mr. Browne,
9 is that you will not in this area probably ever at an
10 economic cost, get the reliability as good as St. John's,
11 but I think you've got to get it in within reasonable
12 range.

13 MR. BROWNE, Q.C.: And from a population base out
14 there is there a forecast that shows that we're going to
15 have an influx of population into Port Aux Basques
16 over the coming years, are there any figures there on
17 that?

18 MR. HUGHES: I don't know whether there are or there
19 aren't, Mr. Browne, but we have an obligation to serve,
20 and if there is a customer that should be served, or a
21 group of customers, we have to serve them. We have
22 that obligation. If you look at some of the feeders, you
23 might have a branch off it where a few people are
24 having unacceptable levels of outages. We have to
25 bring those within range, and it's our obligation to
26 serve. That doesn't mean that everybody gets identical,
27 but what they should have is within a reasonable range,
28 they should have decent reliability, and so, you know,
29 whether there's ten people, 1,000 people, or 50,000
30 people, they should all be within the range. It's an
31 obligation to serve.

32 MR. BROWNE, Q.C.: But in Old Perlican they are better
33 than in range, sir, is that not true?

34 MR. HUGHES: It shows we did the right investment.

35 MR. BROWNE, Q.C.: It makes you wonder why you
36 want to do more.

37 MR. HUGHES: Well, I've already explained, Mr.
38 Browne, that there are two reasons for doing it and I
39 showed you on the map and it's consistent to what I've
40 said, and it's consistent to what we've been saying for
41 the last few years.

42 MR. BROWNE, Q.C.: Now, can we go to CA-107(b)
43 please? The company embarked upon a replacement
44 program for distribution of insulators, and I'm not

45 certain and maybe you can help me out with this, was
46 that the faulty porcelain insulator replacement program?

47 MR. HUGHES: Most of them, I believe, were the ones
48 where the, you have the cracks and the faulty cement
49 and everything else and the company went bankrupt.
50 There were some other ones where we improved
51 insulators as well.

52 *(10:45 a.m.)*

53 MR. BROWNE, Q.C.: And the cost of that replacement
54 of insulators, do you have any idea what the cost was,
55 sir?

56 MR. HUGHES: I don't, Mr. Browne.

57 MR. BROWNE, Q.C.: CA-107, can we go to CA-107
58 please? Okay, I asked about the amounts spent on the
59 insulator replacement program in CA-107(a), can you
60 just put that a little bit higher for us, the table, thank
61 you, and the total cost from 1989 to 2000 inclusive as
62 part of that program, was what, Mr. Hughes?

63 MR. HUGHES: \$16 million.

64 MR. BROWNE, Q.C.: \$16 million. Now let's go back to
65 CA-107(b) for a moment please. I asked to show the
66 SAIFI and SAIDI figures prior to spending the \$16
67 million and the SAIDI and SAIFI figures after you spent
68 it and on average, between '92 and '97 you're saying it's
69 the SAIFI figures are what?

70 MR. HUGHES: .38.

71 MR. BROWNE, Q.C.: And the SAIDI?

72 MR. HUGHES: .58.

73 MR. BROWNE, Q.C.: And for 2001 after all the work
74 had been complete, what are they?

75 MR. HUGHES: .22, .39.

76 MR. BROWNE, Q.C.: And .39, so I'm just wondering,
77 we spent \$16 million to get what appears to be a
78 minuscule improvement. Is that what these figures
79 suggest, \$16 million after?

80 MR. HUGHES: There's two things, there's an
81 improvement here. It was killing us in operating costs,
82 so the point of it was twofold; one, to improve

1 reliability, and one to improve operating costs because
2 typically what you have on this is that an insulator
3 fails, you get a pole fire, you've got to dispatch a crew,
4 it normally happens in the worst conditions so you're
5 dispatching in the middle of the night in a storm. If you
6 get an insulator failure, you tend to have a very small ...
7 because what happens, the electricity obviously comes
8 in contact with the top of the pole and it starts burning,
9 I mean that's what happens. Now the electricity may or
10 may not stay on, so that's what happens.

11 MR. PERRY: Again, for the Board's clarification, there's
12 a sentence at the end of that table, on CA-107(b), if you
13 scroll down, Mr. Wells, it says similar SAIFI and SAIDI
14 statistics are not maintained with respect to substations
15 and transmissions, nor are they applicable on that
16 basis, so when Mr. Browne refers to the \$16 million
17 number, it's a big number, \$16 million, but in reality, the
18 true comparison for the table is the \$2.9 million versus
19 the performance in the table. The statistics are not
20 shown for substation and transmission.

21 MR. HUGHES: Thank you, Mr. Perry, you're exactly
22 right.

23 MR. BROWNE, Q.C.: Okay, well it's your stats. I asked
24 you to give me the figures before and after, and that's
25 what you gave me, so that's all I have to rely upon, but
26 in any case, we do see that no great huge improvement,
27 although you were telling us that there was a huge
28 improvement in operating costs.

29 MR. HUGHES: Well, Mr. Perry is right, this is
30 distribution stats. The reason you don't have
31 substation and transmission is that you always do it by
32 customer basis. I said that it was twofold, one was the
33 improvement and one was the operating cost.

34 MR. BROWNE, Q.C.: Mr. Hughes, in CA-116, I asked
35 again, going back to a previous budget, after capital
36 works had been done I asked for the SAIDI and SAIFI
37 figures in a particular area, and this is the Holyrood
38 area, and CA-116, you spent \$400,000 for the work, I
39 asked you what were the SAIFI and SAIDI figures
40 when, before you did the work and you see there,
41 they're what?

42 MR. HUGHES: Sorry, are you on Table 1?

43 MR. BROWNE, Q.C.: Table 1, sir, yes.

44 MR. HUGHES: Holyrood, SAIFI, 1.6, SAIDI 9.

45 MR. BROWNE, Q.C.: Okay, and after you completed
46 the work, Table 2 below?

47 MR. HUGHES: 7.26, 13.98.

48 MR. BROWNE, Q.C.: Okay, and in Trepassey, you
49 spent \$150,000 doing certain work with 680 customers,
50 and the SAIFI figures were what?

51 MR. HUGHES: 2.8, 3.7.

52 MR. BROWNE, Q.C.: And after the work was complete,
53 what were they?

54 MR. HUGHES: 6.74, 3.61.

55 MR. BROWNE, Q.C.: Okay, and in Old Perlican where
56 you want to spend the \$500,000, Old Perlican and Port
57 Aux Basques, Old Perlican you spent ...

58 MR. HUGHES: That's not correct what you said, Mr.
59 Browne.

60 MR. BROWNE, Q.C.: Okay.

61 MR. HUGHES: There is a transmission study that is
62 looking at several areas.

63 MR. BROWNE, Q.C.: Okay, we'll come back to it. In
64 Old Perlican the cost was?

65 MR. HUGHES: I haven't got cost ...

66 MR. BROWNE, Q.C.: \$400,000?

67 MR. HUGHES: Sorry, I didn't realize I had the number
68 in front of me, \$400,000.

69 MR. BROWNE, Q.C.: Okay, and the SAIFI figure?

70 MR. HUGHES: 2.8.

71 MR. BROWNE, Q.C.: And?

72 MR. HUGHES: 8.1.

73 MR. BROWNE, Q.C.: 8.1, pretty good, but then you've
74 improved upon it in the Old Perlican area, haven't you?

75 MR. HUGHES: Yes.

76 MR. BROWNE, Q.C.: What is it there now?

- 1 MR. HUGHES: 1.28, 68.
- 2 MR. BROWNE, Q.C.: And 68, okay, and if we go down
3 to Doyles, you spent \$225,000 and the SAIFI figures at
4 the time were?
- 5 MR. HUGHES: 2.4, 4.4.
- 6 MR. BROWNE, Q.C.: And you improved upon them
7 following that work, the SAIFI and SAIDI figures are?
- 8 MR. HUGHES: For Doyles, 1.88, 2.41.
- 9 MR. BROWNE, Q.C.: 1.88 and 2.41, so there we some
10 improvements and some not after the work was
11 complete, and I guess that ... let's look ...
- 12 MR. PERRY: I have, can I clarify for the Board again,
13 let's look at points one and two underneath the table on
14 CA-16 please. Point number one, Holyrood 01 feeder
15 was severely impacted by lightning storms in May,
16 June and July 2002. When the effect of these lightning
17 storms is removed from the statistics, the SAIFI figure
18 is 2.39 and the SAIDI figure is 2.03. The proposed
19 Indian Cove and Trepassey projects were not
20 completed in 2001. The Trepassey project is being
21 completed as part of the 2002 capital budget, so, you
22 know, the comparisons, the suggestions are just not,
23 on Holyrood and Trepassey are not appropriate. You
24 know, I think we need to read in the complete summary
25 of the table.
- 26 MR. BROWNE, Q.C.: I'm sure the Board will read it all,
27 but we're just making a point there, I guess, and we're
28 finished with this particular theme now concerning
29 SAIFI and SAIDI as justifications for projects, it doesn't
30 work in that particular case, does it, Mr. Hughes?
- 31 MR. HUGHES: Mr. Browne, we quite clearly say what
32 the justification is for projects. Some of them are
33 SAIFI/SAIDI and I think if you look at our track record
34 it's pretty good and lightning storms and everything
35 else, I was waiting for your next question actually for
36 the (inaudible) one, I think it's pretty good. You will get
37 some on obligation to serve and you will get some on
38 productivity and operating costs. I think it holds up
39 very well.
- 40 MR. BROWNE, Q.C.: It's five to, it's been a bit of a
41 morning, can we break until the appropriate time.
- 42 MR. NOSEWORTHY, CHAIRMAN: We'll break until
43 25 after, we'll only take the half hour break if that's
44 agreeable. Thank you.
- 45 *(break)*
- 46 *(11:30 a.m.)*
- 47 MR. NOSEWORTHY, CHAIRMAN: Before we
48 continue with cross, Ms. Newman, are there any
49 preliminary matters?
- 50 MS. NEWMAN: Yes, Mr. Chairman, the Consumer
51 Advocate has filed a notice of motion with respect to
52 question CA-87(e) and Newfoundland Power's
53 response thereto. I propose that this motion be heard
54 tomorrow morning at 9:00 when we begin. I understand
55 that the parties are prepared to do that.
- 56 MR. NOSEWORTHY, CHAIRMAN: Is there agreement
57 among the parties on that? Okay, thank you very
58 much, Ms. Newman, we'll continue with the Consumer
59 Advocate's cross please. Mr. Browne?
- 60 MR. BROWNE, Q.C.: Thank you, Mr. Chairman, Mr.
61 Hughes, yesterday you mentioned about, is it Fortis
62 Energy, what's the company that's in partnership out
63 there in central Newfoundland with Abitibi?
- 64 MR. HUGHES: It's Central Newfoundland Energy owns
65 Fortis' 51 percent interest in Exploits River Partnership.
- 66 MR. BROWNE, Q.C.: And has Fortis to the best of
67 your knowledge any interest in any other rivers or
68 projects throughout the island?
- 69 MR. HUGHES: No, it hasn't. Sorry, let me just clarify
70 that. The water is owned by, the water rights are
71 Abitibi's but it's got an interest in the project.
- 72 MR. BROWNE, Q.C.: And that's the only water related
73 project that it has an interest in?
- 74 MR. HUGHES: That's correct, Mr. Browne.
- 75 MR. BROWNE, Q.C.: Right now I think there's a freeze
76 on in reference to development anyway, is that correct,
77 other rivers such as (inaudible)?
- 78 MR. HUGHES: That's my understanding. The three
79 projects, Granite Canal, the Krueger project, and the

- 1 Abitibi were approved by the Government, I believe by
2 Order in Council, but I'm getting into legal matters.
- 3 MR. BROWNE, Q.C.: I want to move into the Aliant
4 pole purchase which is dealt with in your budget, and
5 I asked several questions on it in reference to CA-36,
6 and if you go to CA-36(a), please, and there ... who is
7 best prepared to answer these questions, is it Mr. Perry
8 or yourself, Mr. Hughes?
- 9 MR. HUGHES: It depends, Mr. Browne. If it is a policy
10 direction question about Aliant, and the reasons why
11 we think it makes sense for the customers then I'm
12 probably better. If it's a numbers, economics, analysis
13 of an RFI, then Mr. Perry is far the better person, so it
14 depends what the question is.
- 15 MR. BROWNE, Q.C.: Sure, and Mr. Perry, you were
16 there when the Aliant pole purchase took place, were
17 you?
- 18 MR. PERRY: I was.
- 19 MR. BROWNE, Q.C.: Okay, I asked in question CA-
20 36(a) how much has this pole purchase to date added to
21 Newfoundland Power's rate base and you answered \$23
22 million, and ultimately how much will it add to your rate
23 base?
- 24 MR. PERRY: The actual purchase, up front purchase
25 itself will add, I think we answered in a later question
26 about \$33 million but that included an averaging of the
27 last year's payment, so if you went on to the next year
28 you're probably in the range of \$35 million from the
29 initial purchase of the poles.
- 30 MR. BROWNE, Q.C.: So ultimately it will be \$35 million,
31 that's the bottom line in how much will be added?
- 32 MR. PERRY: There are ongoing growth in the poles as
33 well as placement of poles, so in fact, what you'll find
34 once you look at the entire, sort of incremental
35 transaction, not just the initial purchase of the poles,
36 the rate base ... if you want to just give me a second I
37 can get you the actual number based on PUB-14.3,
38 Attachment A, there's a detailed schedule, and if you
39 give me a second I can get you the actual number.
- 40 MR. BROWNE, Q.C.: Certainly, thank you.
- 41 MR. PERRY: For example, in 2006, this is on page,
42 Schedule H of the attachment to 14.3, PUB-14.3,
- 43 Schedule H, if you go down to the line, you could
44 continue to expand please into column 2006? If you
45 could go down a little lower, lower please, there is a
46 number there, it's \$45,316,000, that will be the impact on
47 average rate base for that year, 2006. Again, the
48 difference in that number and another question you've
49 asked which is the initial purchase, we answered \$33
50 million, but if you take it through the period you come
51 up with an average impact of \$45 million.
- 52 MR. BROWNE, Q.C.: So that one purchase alone is
53 going to add, by that particular year, to 2006,
54 \$45,316,000 to your rate base?
- 55 MR. PERRY: That is correct.
- 56 MR. BROWNE, Q.C.: Now initially the ... I understand
57 there were two applications made before the Public
58 Utilities Board to get approval for this, and initially you
59 sought approval to put in joint use poles and other
60 poles that had nothing to do with the electrical services
61 for ratepayers, is that true?
- 62 MR. HUGHES: Yes, the reason was, as was stated in
63 the application and I believe I'm right in saying if you
64 read the Board order of that first one, that they agreed
65 that the reasoning we put in was right, was that if you
66 had all the poles together, the customers actually
67 benefited more, and it was easier to manage the poles
68 together. The Board decided that they preferred, even
69 though, and I believe it says in the order about the
70 benefit to the customers, they thought it was better just
71 to have the joint use. We then had another discussion
72 with Aliant, and then it was refiled and so on, but that
73 was the rationale, it was because, (a), we would manage
74 them together, and (b), there was a greater benefit. The
75 Board decided that they prepared to do it the other
76 way.
- 77 MR. BROWNE, Q.C.: And the non-joint use poles, the
78 other poles that were left out, do you own those now?
- 79 MR. HUGHES: They're in related companies, they're in
80 other Fortis companies.
- 81 MR. BROWNE, Q.C.: They're in other Fortis
82 companies, okay. Are they in the numbered company,
83 10000 Newfoundland?
- 84 MR. PERRY: No, they were initially in that company
85 and now they are owned directly by Fortis Inc.

- 1 MR. BROWNE, Q.C.: Now they're directly owned by
2 Fortis Inc. because the numbered company, the
3 liabilities for the numbered company were assumed by
4 Fortis Inc., is that correct?
- 5 MR. PERRY: I'm not aware of the reorganization, but in
6 essence, I think it was would up into Fortis Inc., that
7 company.
- 8 MR. BROWNE, Q.C.: Okay, now those that are not
9 assets, or the non-joint use poles, what systems are in
10 place ... are you guys, are you people servicing these
11 poles and doing work in reference to those poles for
12 Fortis Inc.?
- 13 MR. HUGHES: Where we ... Mr. Perry can get into
14 more detail, but it follows the same principles for
15 everything on inter-company ... if we do work on those
16 poles that are owned by another company, the Fortis
17 company, then we would charge out some of the work.
18 I believe I'm right in saying that the actual staking of
19 the poles is done by a contractor.
- 20 MR. PERRY: Again, the reporting of all those
21 transactions is done on a quarterly basis and submitted
22 to the Board as part of the company's quarterly report.
- 23 MR. BROWNE, Q.C.: And the joint use poles and the
24 other poles, are they generally in the same areas or are
25 they separate and apart?
- 26 MR. HUGHES: I'm not sure I could answer that, Mr.
27 Browne.
- 28 MR. BROWNE, Q.C.: Okay.
- 29 MR. HUGHES: I mean we know which are which,
30 obviously, but I couldn't tell you the, because whatever
31 it is, a couple of years ago, I can't tell you now
32 geographically where the non-joint use ones are.
- 33 MR. BROWNE, Q.C.: Now, do you do the ordering of
34 the poles for Fortis Inc.?
- 35 MR. HUGHES: I would suggest you ask Mr. Ludlow.
36 You're at a level of detail that I just wouldn't know
37 about, ordering of poles.
- 38 MR. BROWNE, Q.C.: You don't know concerning the
39 maintenance of the poles, do you perform the
40 maintenance of the poles for Fortis Inc.?
- 41 MR. PERRY: We have an arrangement with Fortis Inc.
42 to maintain poles on their behalf and we charge them
43 the appropriate rate for maintaining those poles, and
44 again, we report on all that, all the work we do on their
45 behalf on a quarterly basis to the Board, and ...
- 46 MR. BROWNE, Q.C.: And we'll review that perhaps in
47 more detail during the general rate hearing when we get
48 into these inter-company transactions because
49 obviously this is of concern. In reference to ...
- 50 MR. PERRY: Mr. Browne, could I add one more thing,
51 because maybe it gives the ...
- 52 MR. BROWNE, Q.C.: Yes, sure ...
- 53 MR. PERRY: ... Board some more comfort is that, again,
54 Grant Thornton has reviewed our inter-company
55 transactions and ...
- 56 MR. BROWNE, Q.C.: And found them reasonable and
57 prudent.
- 58 MR. PERRY: Exactly.
- 59 MR. BROWNE, Q.C.: Yeah, we understand, reasonable
60 and prudent. The Aliant pole purchase, when you
61 came before the Board it was indicated to the Board that
62 that would be revenue generating from a, from your
63 perspective and it would actually benefit consumers, is
64 that true?
- 65 MR. HUGHES: Yes, that is true, and it's proved to be
66 the case. For example, the \$900,000 that's been part of
67 much debate in the media recently, that wouldn't have
68 been created without the Aliant purchase. If that hadn't
69 occurred, that money wouldn't be available. In the
70 future it becomes part of the revenue requirement so
71 that, there's more revenue than there is cost related with
72 it, so that extra revenue is available for the benefit of
73 the customers.
- 74 MR. BROWNE, Q.C.: So even in terms of your rate
75 base, if you're making a rate of return on your rate base,
76 when the rate of return is figured for the ... was it \$45
77 million ultimately ... and the revenue will still outstrip
78 what you would get in terms of your return on rate
79 base?
- 80 MR. HUGHES: That's correct, and I believe, Mr. Perry,
81 there is some details on that?

1 MR. PERRY: Well, I just can put it in perspective.
2 When we're up to what I call the full run rate for the
3 transaction, we'll be collecting from the cable operators
4 and from Aliant, in excess of \$7 million a year and that
5 \$7 million a year, it's actually \$7.4 million, is more than
6 all the costs associated with the transaction, that is
7 capital costs, that is taxes, that is operating costs, that
8 is profit, it's over and above all of that and in our
9 evidence submitted to the Board when we filed our
10 application, we did two analyses. We did a rate impact
11 analysis which is the impact on rates, and we did a net
12 present value analysis which was required by the
13 Board. The rate impact analysis indicated that over the
14 life of the project there would be around \$400,000
15 annual benefit accruing to customers over the life of the
16 project. That was our estimate at the time.

17 MR. BROWNE, Q.C.: What if the percent that the
18 Board grants you on rate base increases over that
19 period of time? Right now it's in the 10 percent range
20 on rate base, what say if it goes to 12 or 13 percent?

21 MR. PERRY: Well, Mr. Browne, this has been
22 approved by the Board to be included in our rate base.
23 Whatever happens to the return on our rate base will be
24 applied to this amount as well. That's a fact that's
25 eminent.

26 MR. BROWNE, Q.C.: But will we still be, will we still be
27 in the black from a consumer's perspective if the rate
28 base increases?

29 MR. PERRY: Well, I think if ... there is a fair bit of room
30 in the numbers to avail of that possibility, you know, I
31 think that, yes, it will be still attractive for the consumer.

32 MR. HUGHES: Especially on a present value basis
33 because we're getting all these earnings in the years
34 now, so I mean it makes sense now, and it makes sense
35 into the future.

36 MR. BROWNE, Q.C.: So even with an increase
37 respectively in rate base which you are seeking in the
38 other application, the consumers of the province will
39 still have, will still be in the black in reference to this
40 transaction.

41 MR. HUGHES: I think you're mixing terms again. It's
42 not rate ... I think what you're trying to ask, Mr. Browne,
43 is return on rate base, and Mr. Perry is right that
44 because the amount of excess or money available, it's
45 most likely that will be the case.

46 MR. PERRY: And Mr. Browne, if I could add a couple
47 of comments. The Aliant transaction, the purchase of
48 those joint use poles was screwed together really for,
49 by the company. There's a lot of consumer protections
50 built into the transaction. If Aliant gets off a certain
51 number of poles, for example, we can put the poles back
52 to Aliant, they have to actually buy them back. There's
53 an inflation index built into the rental rate that Aliant
54 charges, that we charge Aliant that escalates with
55 inflation. Our operating costs, frankly we, in our
56 economic analysis, we had numbers in there that made
57 sure we could cover incremental operating costs that
58 we would assume, and there was some cushions in
59 those numbers as well, so we made sure that that
60 transaction, both on a rate analysis basis and on an
61 NPV basis was very attractive, and I think the Board
62 saw that when they approved the transaction last
63 summer.

64 MR. BROWNE, Q.C.: Yes, okay, we'll revisit that during
65 the general rate hearing from the inter-company, from
66 the inter-company perspective. Mr. Perry, you were,
67 you came from private industry before you went into
68 the regulated utility industry, is that correct?

69 *(11:45 a.m.)*

70 MR. PERRY: That is correct.

71 MR. BROWNE, Q.C.: Okay, and you worked with one
72 of the Abitibi companies?

73 MR. PERRY: I worked with Abitibi Consolidated Inc.,
74 the parent company, yes.

75 MR. BROWNE, Q.C.: And obviously they weren't in a
76 rate base system.

77 MR. PERRY: No, they were not. I'm not sure what
78 system they're in ... wherever newsprint prices go, they
79 go.

80 MR. BROWNE, Q.C.: Yes, in terms of when you
81 worked there, computers, were they in, was Abitibi
82 Consolidated, were they into the evergreen policy, I
83 think that probably describes Newfoundland Power's
84 policy, in reference to computers, the constant rolling
85 over and renewing?

86 MS. BUTLER, Q.C.: I wonder, Mr. Chairman, if I might,
87 I wonder what relevance it has to the determination
88 that's required of this Board what Abitibi, whether it

1 was a parent company or some other company did, or
2 is even currently doing in relation to information
3 technology?

4 MR. NOSEWORTHY, CHAIRMAN: Mr. Browne?

5 MR. BROWNE, Q.C.: Yeah, I think the relevance, and
6 we may be bringing evidence on it in reference to these
7 points as to what other companies do in terms of
8 computers and fax machines, etcetera, so I think that
9 would be absolutely relevant for the Board, if
10 Newfoundland Power is out there seeking consumers'
11 money to roll over computers all of the time, or cars, or
12 fax machines, or whatever they're doing. I think the
13 Board should be cognizant of what other, what are
14 industry standards, what are other industries doing. I
15 think that would be absolutely relevant. If they're out
16 in left field on it and everyone else is marching to a
17 different drum, I think that's something that the Board
18 should be very cognizant of, that's why I asked the
19 question.

20 MR. NOSEWORTHY, CHAIRMAN: Ms. Greene, do
21 you have a comment?

22 MS. GREENE, Q.C.: I have no comment on this point.

23 MR. NOSEWORTHY, CHAIRMAN: Anything further,
24 Ms. Butler? I think I'll allow a couple of questions on
25 that just for a point of comparison, but not certainly a
26 series of questions. I think the purpose is just to see
27 what perhaps comparables exist with other companies.
28 Sorry, Mr. Browne, I keep ...

29 MR. BROWNE, Q.C.: That's okay, I'm a little hard of
30 hearing.

31 MR. NOSEWORTHY, CHAIRMAN: I think this is a bit
32 further away than I would like, but in any event, I will
33 allow a couple of questions for the purposes of
34 comparison, but I would like you to move through this
35 fairly quickly, thank you.

36 MR. BROWNE, Q.C.: And with all due respect, Mr.
37 Chairman, I think that this is ... what other industries do
38 and what Newfoundland Power does, I think there are
39 points of comparison here, and we may very well be
40 leading evidence on these points. I think it's absolutely
41 relevant, you know, and now we haven't decided fully
42 as to exactly if we will be issuing subpoenas to various
43 people to appear in reference to that, but what
44 Government does in reference to their cars, what

45 Newfoundland Housing does, what Abitibi does, I
46 think is relevant to this Board.

47 MR. NOSEWORTHY, CHAIRMAN: Certainly to the
48 extent that they are general comparisons, but I don't see
49 how we could expect Mr. Perry or other employees of
50 Newfoundland Power to comment on what other
51 policies might be at Government, Housing Corporation,
52 or any others, so ultimately I think Mr. Perry can
53 comment briefly on what his experience might be to the
54 extent that he is aware of it at ACI, but other than that,
55 I really, I can't see a whole series of questions
56 pertaining to other companies that witness don't
57 necessarily have any experience with.

58 MR. BROWNE, Q.C.: Mr. Perry, does Abitibi
59 Consolidated, when you were there, did they have the
60 evergreen policy of rolling over computers every three
61 and four years?

62 MR. PERRY: So Mr. Browne, that's what you're calling
63 the evergreen ... that's what ...

64 MR. BROWNE, Q.C.: Yes, I think someone, some
65 computer person told me that's called an evergreen
66 policy, I don't know if it's correct or not.

67 MR. PERRY: I can't really recall what, in terms of time,
68 whether it was three years or four years. All I can recall
69 frankly is that I did have a new computer at Abitibi. I
70 had two frankly, a laptop and a computer in my office,
71 and if I came up a level, Abitibi, at the time I was there
72 in Montreal, was in the process of replacing its entire
73 financial systems, and they were going with a company
74 called J.D. Edwards which is considered what's called a
75 Tier 1 company, which is all, you know, the bells and
76 whistles, and they were spending in excess of \$100
77 million on that system, and if I compare that to
78 Newfoundland Power, obviously a much smaller
79 company, we went with what's called a Tier 2 system,
80 like a level down, not all the bells and whistles, just
81 what we needed for our operation, we sized it that way.
82 So, you know, Abitibi clearly being a leader in its
83 business wanted to have top notch technology and
84 that's what they went with, but those are sort of the
85 couple of comparisons I can give. I can't say how often
86 they replaced their computers, I just don't know the
87 answer for certain of that.

88 MR. BROWNE, Q.C.: Okay, that's fair enough, if you
89 don't know, you don't know. I notice in the budget that
90 Newfoundland Power is proposing to purchase or to

1 lease 40 fax machines. Mr. Perry, has an analysis, and
2 I think CA-86 makes reference to that. It comes from
3 Mr. Ludlow's evidence, but I'd just like to ask to see if
4 you've got any idea ... CA-86, okay, we can put that up
5 there, and it gives a number of fax machines that you
6 have there. Your fax machines are leased currently, is
7 that correct, Mr. Perry?

8 MR. PERRY: I believe they are, yes. Subject to check,
9 I believe they are.

10 MR. BROWNE, Q.C.: Subject to check, okay. At the
11 end of a lease period, quite often in the lease there's an
12 option to purchase the machine. Is there such an
13 option on your fax machines?

14 MR. PERRY: I don't recall that, Mr. Browne.

15 MR. BROWNE, Q.C.: **Can you undertake to check that**
16 **out for us before Mr. Ludlow takes the stand to advise**
17 **us in writing if there is an option to purchase out those**
18 **fax machines and what the purchase out price would be**
19 **as opposed to the price for leasing new machines?**
20 Okay, thank you. Mr. Perry, in your evidence, in your
21 pre-filed evidence of October 28th, 2002, on page 2,
22 page 4, I think it is, I just have a sheet, an excerpt there
23 ... I'll just give you a moment, it's page 10. On page 10,
24 line 1, can you read that paragraph for us please?

25 MR. PERRY: Approximately \$11 million or 20 percent of
26 the total capital budget is focused on providing
27 electrical service to new customers and meeting
28 increased load from existing customers.

29 MR. BROWNE, Q.C.: And the rest?

30 MR. PERRY: This portion of the budget is driven by
31 the company's forecast of increases in the number of
32 customers and energy sales. A summary of the
33 company's most recent forecast prepared in support of
34 the general rate application is set out in Exhibit BVP-1.
35 The forecast indicates that a number of customers and
36 energy sales will increase by .7 percent and 1.9 percent
37 respectively in 2003.

38 MR. BROWNE, Q.C.: Now, you're aware in this
39 province that we get our generation through hydro and
40 through thermal generation at Holyrood, the generation
41 that you're probably depending upon for these new
42 customers, is that correct?

43 MR. HUGHES: Most of the generation comes from that.

44 MR. BROWNE, Q.C.: Okay, have you done an analysis
45 to show how much this expansion, this customer
46 expansion that we have here, how much that will cost in
47 terms of oil, Bunker C oil to be burned at Holyrood?

48 MR. PERRY: No, we haven't done that analysis.

49 MR. BROWNE, Q.C.: Because I notice that in other
50 parts of your evidence you do those analyses in
51 reference to generation, saying this generation will
52 displace this many barrels of oil at Holyrood.

53 MR. PERRY: Sorry, that's a requirement of the process
54 of justifying generation projects, you have to compare
55 to the alternative, which is, you know, if you shut the
56 plant down then energy will likely have to come from
57 Holyrood, and that's what you compare as essentially
58 the variable cost of running Holyrood, and that's what
59 we complied with when we've analyzed the generation
60 projects.

61 MR. HUGHES: The amount we're talking about here
62 and the bit that Mr. Perry read out, if I can read it off the
63 screen, he's talking about energy sales are increasing
64 by 1.9. Some of that will come from Holyrood, some of
65 it will come from other plants, so it would depend on
66 what time of year and what kind of units were on and so
67 on.

68 MR. BROWNE, Q.C.: But no analysis has been done,
69 and you're ...

70 MR. HUGHES: We are not aware of it anyway.

71 MR. BROWNE, Q.C.: No, and you're aware at this point
72 that the Rate Stabilization Plan from a consumers'
73 perspective has bulged, I think the last time we looked,
74 \$70 million was owed by the consumers of the province
75 into the Rate Stabilization Plan. I don't know if that's a
76 current figure, do you have a current figure?

77 MR. HUGHES: I don't but I believe, subject to check,
78 it's of the order of magnitude that you're talking about.

79 MR. BROWNE, Q.C.: And this expansion here, these
80 new customers, the .7 percent and the 1.9 percent, has
81 any analysis been done to show how much more of an
82 expansion that will cause in the deficit in the Rate
83 Stabilization Plan if these customers go all electric, for
84 instance?

1 MR. HUGHES: It would be minimal because what
2 you've got is that you've got ... first of all, I believe, and
3 Hydro presumably supplied (*phonetic*) us, there's no
4 need for new generation for several years to come.
5 You've got Granite Canal coming on, you've got Abitibi
6 coming on, and you've got Krueger coming on. All
7 those three plants are very efficient. This compared to
8 the system is minimal because Granite, I believe, is of
9 the order of 40 megawatts, and so I would suspect that
10 you will see more hydro based generation in the future,
11 and also at the end of this period I suspect that
12 Holyrood, and I believe Mr. Wells, the CEO of Hydro
13 commented on this in the last year, that it is most likely
14 that when the time for new generation comes, that
15 Holyrood will be repowered with natural gas, probably
16 combined cycle which will be very efficient.

17 MR. BROWNE, Q.C.: And of these new customers that
18 are there for which you are expanding the system in
19 order to accommodate, and there is capital budgetary
20 measures that you are seeking approval for, have you,
21 in view of the fact that we are into a, into the red from a
22 consumers' perspective in the Rate Stabilization Plan,
23 have you any plan in place to try to deal with these
24 customers from a conservation perspective?

25 MR. HUGHES: In terms of ... our conservation is for all
26 customers, not just new customers, we don't sort of
27 discriminate between old and new. We have several,
28 we have "Wrap Up For Savings" (*phonetic*), we have
29 (inaudible) financing, and I believe we either have, or
30 are just about to sign an agreement with the
31 Conservation Corp about financing the Energy Guide,
32 Energy Audits for doing on houses and making them
33 efficient, so we do quite a bit on conservation and
34 energy efficiency. We have several financing programs
35 but we don't only have those for new customers,
36 they're available for all customers.

37 MR. BROWNE, Q.C.: In terms of this expansion, how
38 responsible is Newfoundland Power for attracting
39 customers to electricity? Are you out advertising
40 electricity?

41 MR. HUGHES: What we believe, Mr. Browne, is that
42 customers have the right to make informed choices,
43 they should make the choice. What we've said is that
44 if you've already got a system, it doesn't matter whether
45 it's oil or electricity, it is very unlikely, no matter what
46 the prices are, that someone is going to gain from
47 switching from one to the other. When a system comes
48 to the end of its life or it's a new premises, then we

49 believe that customers should make a choice based on
50 information available.

51 (*12:00 noon*)

52 MR. BROWNE, Q.C.: So you are out there promoting
53 the sale of electricity, is that your answer?

54 MR. HUGHES: We believe that electricity is a good
55 product, we believe it's good from price, we believe it's
56 good for the environment, and where it's responsible
57 for there to be a choice made, we believe that we should
58 say what are the facts concerning electricity, just as the
59 oil companies put out the facts concerning oil.

60 MR. BROWNE, Q.C.: Are you aware that this Board
61 has addressed that very issue and ruled on that
62 particular matter to deter Newfoundland Power from
63 promoting electricity for the purpose of avoiding capital
64 expenditure, are you aware of that?

65 MR. HUGHES: Mr. Browne, you're using the word
66 promoting, I'm saying putting out information, and we
67 do put out information about the conservation, we do
68 put out information about the price of electricity. I
69 think where the Board and somebody presumably has
70 got the information, it was talking about energy
71 marketing and all that kind of stuff which is, I think that
72 was in the period, was it '93 to '97, I think there's a
73 drastic difference to what we're doing now, you can see
74 it in our activities. I believe at that time there was a
75 whole series of television advertisements and so on. I
76 don't see those now, so I think what we're doing is
77 responsible in that we're promoting efficiency, we're
78 promoting conservation, and yet we're also giving the
79 facts because we believe that a customer should be able
80 to choose.

81 MR. BROWNE, Q.C.: Okay, be that as it may, we do
82 have existing orders of this Board, not by this particular
83 panel, but they are existing orders of this Board which
84 address the very issues that we're now discussing in
85 reference to this capital budget, stating that
86 Newfoundland Power has no right to promote the sale
87 of electricity because it will cause further capital
88 expenditure, and you shouldn't be in the business of
89 promoting for that reason, and I'd like to get copies of
90 that order out in case the Board isn't familiar with it, and
91 I plan to ask a few questions about it because I think
92 it's directly on point. Okay, these are excerpts taken
93 from the 1996/1997 hearing where this subject was
94 addressed, and if you look at page 56, the Board started

- 1 with its original order of PU No. 6, 1991, and it's on page
2 56, can you read that for us, Mr. Hughes?
- 3 MR. HUGHES: The part in inverted commas?
- 4 MR. BROWNE, Q.C.: Yes, beginning with "The
5 Board".
- 6 MR. HUGHES: Sure. The Board does not allow
7 advertising expenditures that are solely for corporate
8 image building and do not have any direct link to the
9 supply of service. The Board believes that DSM
10 advertising at Newfoundland Power is in the best
11 interests of its customers. The Board accepts that NP's
12 advertising expense forecasts as reasonable and
13 prudent.
- 14 MR. BROWNE, Q.C.: Okay, and on page 60 of that
15 decision, can you go to page 60, please, and can you
16 read the paragraph beginning with, "The Board's
17 policy"?
- 18 MR. HUGHES: The Board's policy has been to approve
19 reasonable and prudent advertising where it is
20 informative and relating to electrical service. Past
21 policy stated that it should not include promotion
22 advertising that will require an increase in capital
23 expenditures. Order PU-6, 1991, stated that the Board
24 does not allow advertising for corporate image building.
- 25 MR. BROWNE, Q.C.: Okay, so the Board stated that
26 the policy should not promote, should not include, the
27 advertising should not include promotion advertising
28 that will require an increase in capital expenditures, and
29 you're seeking \$11 million for new expenditures. Isn't it
30 important that we take a look at the type advertising
31 that you have done to show that that capital
32 expenditure of \$11 million conforms with the policy?
- 33 MR. HUGHES: I believe we are in full compliance with
34 the spirit and all the orders. I wasn't here in '95 and '96,
35 but I did see some of the television advertisements and
36 some of the campaigns, and I think it is stretching it to
37 the extreme to try and say that what we're doing now is
38 in any way similar, Mr. Browne.
- 39 MR. BROWNE, Q.C.: Well, let's take a look and see
40 what you are doing now. Can we go to CA-56 please,
41 attachment A?
- 42 MR. HUGHES: 56?
- 43 MR. BROWNE, Q.C.: Yes.
- 44 MR. HUGHES: I have it.
- 45 MR. BROWNE, Q.C.: Okay, what to look for in a
46 heating system, and the second paragraph there, you
47 say why it's important and whatever, and then you say
48 electric heat ...
- 49 MR. HUGHES: Can I just ask what date this one is?
- 50 MR. BROWNE, Q.C.: I'm uncertain now. I've asked for
51 these from you guys. I can't ... I think I asked ... CA-56,
52 I asked for a certain period, but I might be able to help
53 you.
- 54 MS. BUTLER, Q.C.: 1998 on.
- 55 MR. BROWNE, Q.C.: 1998 forward, so it's during your
56 time.
- 57 MR. HUGHES: Thank you.
- 58 MR. BROWNE, Q.C.: I haven't gone back farther than
59 1996 because that would not be fair obviously.
- 60 MR. HUGHES: I'm glad you think so, Mr. Browne.
- 61 MR. BROWNE, Q.C.: We have to have our scruples.
62 CA-56, attachment A, beginning with the emboldened
63 words there, electric heat. What do you say about
64 that? Can you read that out for us?
- 65 MR. HUGHES: Electric heat is safe, no flames, fumes of
66 combustible fumes in your home, space saving, no
67 need to give up valuable space for a furnace, tank,
68 chimney or vent, dependable, no waiting for fuel
69 delivery, maintenance fee, no annual maintenance or
70 service fees, environmentally safe, no possibility of fuel
71 oil leaks and subsequent clean up costs.
- 72 MR. BROWNE, Q.C.: Now, where you state that there
73 is no waiting for fuel delivery and no possibility of fuel
74 oil leaks, aren't you, in fact, promoting electricity over
75 oil, which is a direct contravention of the order which
76 tells you not to promote?
- 77 MR. HUGHES: No, I don't think so. I think that they're
78 facts. As you would know, there is ... being a lawyer,
79 there is a tremendous amount of concern at the moment
80 on fuel oil leaks from tanks, and I think all those things
81 are true.

1 MR. BROWNE, Q.C.: Well, we'll just continue on and
2 see, we'll just see how far it gets, how bad it gets. If
3 you go to one, two, three, the fourth, the fifth page in,
4 it's got two little houses there. Yeah, that's it. Building
5 a new home, and here's why you should build an R-
6 2000 home, and of course no one is denying the fact
7 that an R-2000 home would be a conservation thing, but
8 when you say, when you start saying in important
9 things to consider, in the column on your left, and there
10 are many electric heating systems to choose from, in
11 that particular column, why is Newfoundland Power out
12 promoting electricity or partnering with R-2000?

13 MR. HUGHES: I think it's responsible, Mr. Browne, I
14 think that promoting conversation ... I think if you look
15 at those important things to consider, I think any
16 independent financial advisor would say they are the
17 things to consider. We believe, as I said at the start,
18 about that people should choose wisely, and these are
19 ... I mean initial cost of the heating system, that seems
20 a reasonable thing to consider. Operating costs, that
21 seems reasonable, and so do the others. I think it's
22 reasonable.

23 MR. BROWNE, Q.C.: Okay, you think that? Just go to
24 the next ... the follow-up, "Electric heat is", in the next
25 one, Mr. Wells, just continue on.

26 MR. HUGHES: Just give me a second to balance some
27 water.

28 MR. BROWNE, Q.C.: Okay, in that particular advert
29 there, you say on the top of it, what do you say electric
30 heat is? Can you read that out for us?

31 MR. HUGHES: Economical, comfortable, reliable,
32 environmentally friendly and virtually maintenance free.

33 MR. BROWNE, Q.C.: Is that not promoting electric
34 heat? You're advertising out publically, is that it?

35 MR. HUGHES: I think it's true.

36 MR. BROWNE, Q.C.: It might be true, sir, I'm not
37 saying that it's not true, but what I'm saying is that we
38 have an order of the Board stating that you cannot
39 promote electricity or advertise that will cause an
40 increase in capital expenditures.

41 MR. HUGHES: I view it as a huge difference between
42 what was happening and what is happening now. I
43 think this is reasonable, I think electric heat in the

44 absence of natural gas is a very good product for
45 customers to consider. I think all these things are true,
46 and I think that it is, we would be failing in our duty, I
47 think there's a huge difference between the two,
48 because you're going back to a time when there was a
49 lot of television advertising, basically there was an
50 advertising battle, or whatever you want to call it,
51 however you want to characterize it, between the oil
52 companies and Newfoundland Power. I don't view this
53 is in the same league.

54 MR. BROWNE, Q.C.: But sir, these orders have not
55 been rescinded, they're still in place. Just go to the next
56 page, you talk about a battle with the oil companies,
57 just go to the next page. It says replacing your oil
58 furnace, can you read that one out for us please?

59 MR. HUGHES: If your oil furnace is at the end of its
60 useful life and you want to maintain the hot air or hot
61 water system, consider an electric furnace. You can
62 utilize existing duct work and pipes by using electric
63 replacement such as electric hot water radiation furnace
64 or an electric forced air furnace. An electric furnace
65 also has the added advantage of little or no
66 environmental risk. Our response continues to be that
67 it doesn't pay to convert if your current system is not at
68 its useful ... the start up costs associated with
69 removing one heating system and installing another
70 would generally cost you more.

71 MR. BROWNE, Q.C.: Okay, you do have that there, but
72 you're also advertising your availability, are you not, if
73 someone is replacing their oil furnace, to go from oil to
74 electric. Are you not suggesting that with that ad?

75 MR. HUGHES: We're saying that there is a choice and
76 what it says here, people may not be aware of it, that
77 you can utilize your existing duct work and pipes. It's
78 saying choose.

79 *(12:15 p.m.)*

80 MR. BROWNE, Q.C.: But by telling people to choose,
81 sir, are you not promoting the sale of electricity?

82 MR. HUGHES: Mr. Browne, we believe in customers
83 choosing. If you don't believe in customers choosing,
84 that's your opinion. We believe that we are in full
85 compliance with the Board orders, and we believe that
86 this is responsible.

1 MR. BROWNE, Q.C.: But aren't you, in fact, doing
2 exactly what people did in 1996, what your
3 predecessors in office did, by suggesting people get
4 out of oil and get into electric, are you not suggesting
5 that through those ads?

6 MR. HUGHES: I think what we're saying is there's a
7 choice. These are some of the things to consider. I
8 think a lot of the items there, if somebody had an
9 independent advisor or whatever they'd say, you
10 should consider what the costs are, what the
11 environmental things are, these things ... Mr. Browne,
12 I think it's fine.

13 MS. BUTLER, Q.C.: Mr. Chairman, I wonder if I might
14 just make the point, Mr. Browne's last question actually
15 used the term, "ads", and the actual questions, CA-56,
16 used the same term, which was print advertisements,
17 and the answer given indicated that Newfoundland
18 Power does not utilize print advertisements, so these
19 are not print advertisements. I certainly wouldn't want
20 the witness to answer a question using a term that was
21 understandably denied in the answer itself. These are
22 pages that are inserted in the customers' bills.

23 MR. BROWNE, Q.C.: Okay, and who do the customers'
24 bills go to?

25 MR. HUGHES: Well, the customers obviously.

26 MR. BROWNE, Q.C.: Yeah, so virtually the entire
27 province, all your customers in the province, it's more
28 direct advertising, it's even better again.

29 MR. PERRY: I would add to the Board too, that when
30 you think about growth in sales and growth in number
31 of customers, ultimately a growth in sales, there's a lot
32 more going on than people choosing to go to electric
33 heat versus going to oil. You know, as disposal income
34 has been going up in the province over the last few
35 years, people's use of electricity has increased. That's
36 a natural thing that occurs all across the country.
37 People have more money, they don't be as concerned
38 about their dial, and as much as we advertise about
39 conservation and wrap up for savings, and insulation
40 programs, the natural thing to happen is that people do
41 no be as concerned about how much electricity they
42 consume. That's a reality that we're dealing with. Our
43 market share has not moved substantial for four or five
44 years, and the oil companies right now have 46 percent
45 of the market and we have 54 percent of the market.
46 You know, that's where it stands, and you know, I think

47 there's a lot more at play in growth and energy sales
48 than just whether Newfoundland Power is saying that
49 you have a choice or not.

50 MR. BROWNE, Q.C.: Yes, but to come before ... and
51 that might all be true, everything you're saying might be
52 correct, but the Public Utilities Board, and we'll see this,
53 I guess, eventually in our final submissions, operates
54 on certain principles, and one of the ... and that
55 principle is reflected in that particular order, that you
56 cannot promote electricity, particularly in a province
57 where we're using Bunker C fuel out at Holyrood to
58 cause the generation of electricity. But I won't belabour
59 the point, but I just want you to go to one more ad,
60 because I think this is particularly to the point, and
61 you'll find it in your newsletter, "Power Connection",
62 on CA-59.

63 MR. HUGHES: Peter, my binder hasn't got the
64 attachment.

65 MR. BROWNE, Q.C.: You don't have it, Mr. Hughes?

66 MR. HUGHES: I've just got the answer.

67 MR. ALTEEN: 59 is a reference to 56, isn't it?

68 MR. BROWNE, Q.C.: Okay.

69 MR. ALTEEN: Perhaps it's 60.

70 MR. BROWNE, Q.C.: CA-59, yeah, CA-60, I'm sorry, I'm
71 throwing you for a loop there. Please provide copies of
72 your customer newsletter for the period 1998 to the
73 present, CA-60.

74 MR. HUGHES: I have it, Mr. Browne.

75 MR. BROWNE, Q.C.: And can you go to March 2000,
76 and March 2000, sorry, Mr. Hughes ...

77 MR. HUGHES: I have it, Mr. Browne.

78 MR. BROWNE, Q.C.: And March 2000, I think if my
79 memory is correct, that oil prices were high during that
80 period, do you recall that in the year 2000?

81 MR. HUGHES: It's absolutely right, and our call centre
82 was being inundated by calls about it.

83 MR. BROWNE, Q.C.: Okay, so did you get some
84 conversions during that period?

1 MR. HUGHES: I don't think we did actually. What
2 happened was that quite a lot of people who were with
3 oil, brought in electric heaters, and they also, some of
4 them had it, say in the basement, so we did find some
5 things there, but I think the number of conversions has
6 always been very low either way, you know, if you
7 compare it to the number of customers, it's tiny. I
8 haven't got the numbers but I know they've been filed
9 somewhere.

10 MR. BROWNE, Q.C.: Okay, and the March 2000 is
11 headed, what's your heading there?

12 MR. HUGHES: Let's shed some light on oil prices.

13 MR. BROWNE, Q.C.: Now why would you want to do
14 that to begin with?

15 MR. HUGHES: Because our call centre was getting
16 inundated with calls. We're also, all of us live in the
17 community, we were getting asked a lot, the politicians
18 were asking us, we're getting ... as you say, Mr.
19 Browne, oil prices were going off the page, they were
20 increasing, we were getting a lot of calls and everything
21 else, and so we put this out and one of the things we
22 say, the most cost effective heating system is the one
23 you already have.

24 MR. BROWNE, Q.C.: And you do say that, yes, that's
25 correct.

26 MR. HUGHES: Yeah, I mean ...

27 MR. BROWNE, Q.C.: But what do you say in bold print
28 there?

29 MR. HUGHES: Let's shed some light on oil prices.

30 MR. BROWNE, Q.C.: Okay, down below where you
31 talk about the increase.

32 MR. HUGHES: Oil has increased 60 percent since 1997
33 while electricity has risen by only two percent.

34 MR. BROWNE, Q.C.: And down below that, can you
35 read that?

36 MR. HUGHES: If your oil furnace is at the end of its
37 useful life you should consider all available options.
38 Do you want me to keep going or not?

39 MR. BROWNE, Q.C.: Sure.

40 MR. HUGHES: Electric hot air or hot water furnaces can
41 easily replace your oil fired unit while eliminating the
42 need for a chimney and an oil tank. For further
43 information about electrical furnaces contact your local
44 heating supplier.

45 MR. BROWNE, Q.C.: And then in the next column over
46 there on the right hand side, you deal with electricity
47 and value for the long term, you have that, and you use
48 a graph to compare the price of oil with the price of
49 electricity. What is the purpose of doing that?

50 MR. HUGHES: Because people were asking us about
51 the changes. It puts it in historic perspective and we
52 also earlier talked about the oil at Holyrood. What we
53 were endeavouring to do is respond to the, I don't
54 know how many calls, but it was a large, a very large
55 number of calls and discussions and everything else,
56 and letters, that people were doing on the subject and
57 I'm sure the oil prices were taken from some index.
58 People were asking us how it has fluctuated and so on
59 and so that's what we endeavoured to do.

60 MR. BROWNE, Q.C.: Mr. Fitzgerald wants to consult
61 with me for a moment. He's been good so can I have
62 one minute? You don't point out to your customers
63 though, sir ...

64 MR. HUGHES: Mr. Browne, can you start again, I was
65 consulting too.

66 MR. BROWNE, Q.C.: Okay, so you issue this
67 newsletter which goes out to all your customers,
68 virtually the whole province, is that correct, the ...

69 MR. HUGHES: It goes out to ...

70 MR. BROWNE, Q.C.: 220,000.

71 MR. HUGHES: Yeah, and 170,000 residential which I
72 think is about 80 or 85 percent.

73 MR. BROWNE, Q.C.: And you see a need to put this
74 out when oil prices are high, and you do a comparator.
75 Now is that promoting electricity, Mr. Hughes?

76 MR. HUGHES: I think it's fair game. I think it's the, we
77 believe that electricity is a good product, and I think it's
78 shown it. We're within all the Board orders. If you look
79 at the graph, the chart, whatever you want to call it, oil
80 is dotted. We show it going below ... where are we ...
81 they cross over, so we're not saying it's always

1 constantly true that A is cheaper than B. We give very
2 sound advice on the most cost effective heating system
3 is the one you already have. That's not tucked away.
4 I think it's fair.

5 MR. PERRY: I think, you know, if you look at what's
6 happening right now, like you see the advertisements
7 on TV for oil heat, you know, you don't see any
8 advertisements for Newfoundland Power on electricity
9 on TV. You see the ads in the paper for oil heat. You
10 do not see any for Newfoundland Power. We are not
11 advertising the sale of electricity. We're not doing that.
12 We're providing useful information for our customers
13 who are building new homes, who are thinking about
14 converting their systems and saying this is the facts,
15 and they make the choice, and you know, the growth
16 has been, you know, when you look at growth due to
17 new customers, it hasn't been that significant. Over the
18 last ten years we're growing by about one percent per
19 year. I think it's pretty reasonable. Part of the growth
20 also relates to this average use being increased and a
21 lot of the customers are coming into St. John's region
22 which has historically been a more electric heat related
23 region, so there's a lot of sort of dynamics that are
24 happening here that are not being controlled in any
25 way by Newfoundland Power.

26 MR. BROWNE, Q.C.: Sure, and thank you, Mr. Perry,
27 for your opinion. The Board in its order though also
28 invited you to do demand side management initiatives.
29 That is your entitlement, you can go out there and urge
30 conservation, is that not correct?

31 MS. BUTLER, Q.C.: I wonder if you can give me the
32 reference?

33 MR. BROWNE, Q.C.: Sure, it's the order itself.

34 MS. BUTLER, Q.C.: Yeah, what page?

35 MR. BROWNE, Q.C.: Page 60, page 60 of the 1996/1997
36 order, the Board determination, can you read that out
37 for us, Mr. Hughes, Board determination.

38 MR. HUGHES: Okay, Board determination. The Board
39 limits the allowed regulated advertising expense in 1997
40 to \$700,000 maximum. This limit represents a prudent
41 balance between the desires of the Applicant and the
42 benefits to the ratepayers. Regulated advertising
43 expenses should be limited to conservation, safety, and
44 factual consumer information. Advertising directed
45 solely at image building is not a regulated expense. The

46 Applicant should file annually by April 1st of each year
47 a report on its advertising and marketing programs
48 detailing its objectives for the year and quantitative
49 measures of success. The Board accepts the cost of
50 the energy consultants as reasonable and prudent.

51 MR. BROWNE, Q.C.: Have you been doing that, have
52 you been filing your advertising and marketing report
53 each year since that time?

54 MR. PERRY: Yes, yes, we have.

55 MR. BROWNE, Q.C.: You have, and you've been filing
56 a demand side management report, is that the form it
57 takes?

58 MR. PERRY: That's my recollection, yes.

59 MR. BROWNE, Q.C.: But you're coming here looking
60 ... the only ... and to move on after this, you're coming
61 here looking for \$57 million I think it is of ratepayers'
62 money, \$11 million of which you're stating is for
63 expansion, and if you are encouraging the expansion,
64 from a ratepayers' perspective, the current ratepayers,
65 where does it all stop if you're out there advertising
66 electricity?

67 MR. HUGHES: What do you mean what does it all ... I
68 don't understand the premise of the question.

69 MR. BROWNE, Q.C.: Where does it stop? If you're
70 going out there to advertise and you're going to
71 continually, to bill and to increase capital expenditures
72 in that form, where are we headed with this?

73 *(12:30 p.m.)*

74 MR. HUGHES: Well I think there are about five or six
75 points. Firstly, I believe in that order I just read or that
76 bolded part, it said we can provide factual customer
77 information. I think that is factual, and I think other
78 things are prudent. The whole point of demand side
79 management, what ... demand side management is quite
80 a global exercise and the point of demand side
81 management is to, by having programs that either
82 affect, and that can be minimize or reduce or change the
83 patterns of usage, that the rates will be affected. The
84 main way rates can be affected is generation.
85 Generation, if you look at, right across the world,
86 generation has the biggest slice of cost on rates. In
87 Newfoundland we haven't built a generating plant of
88 over 50 megawatts, I think for 15 years plus. The

- 1 energy sales have been about one, two percent. The
2 plants that are coming on at the moment, the three
3 plants, the biggest is Granite Canal, and as we said,
4 that's a good project, it's 40 megawatts and so on, it
5 would be very hard to envisage how a demand side
6 management program could have a beneficial effect on
7 generation because the numbers just don't work. Now
8 one of the subsets of demand side management is
9 conservation and efficiency and I think most people, we
10 certainly believe in it, would agree that conservation,
11 energy efficiency, all those things make sense and
12 that's what we're doing. What we're not doing is things
13 like suggesting we should have time of use meters or
14 something like that, because the cost of putting all
15 those meters in, which may or may not shift demand,
16 would never be realized in a reduction in rates because
17 you're not playing with enough larger factors, and so
18 demand side management is a very large topic.
19 Conservation, efficiency, environment, everybody
20 agrees with that, and we're trying to do our ... it makes
21 sense. This other part doesn't and that's why most
22 jurisdictions have moved away from those whole scale
23 (*sic*), wholesale, sorry, DSM programs. I think what
24 we're doing makes sense, and I think, you know, I mean
25 having known what we did before, what we do now, it
26 strikes me as reasonable, and it strikes me as different.
- 27 MR. BROWNE, Q.C.: But is it lawful, that's the
28 question, I guess.
- 29 MR. HUGHES: Sorry, is it what, sorry?
- 30 MR. BROWNE, Q.C.: Is it lawful, is it in compliance
31 with the Board order. Everything you said might be
32 fine, but does it comply with the order?
- 33 MR. HUGHES: Well, Mr. Browne.
- 34 MR. BROWNE, Q.C.: And of course, that's a matter for
35 argument, and I don't expect you to answer that
36 question. It's probably more rhetorical, but I do have a
37 question for you.
- 38 MS. BUTLER, Q.C.: But it was asked, Mr. Browne.
- 39 MR. HUGHES: Is he allowed to ask rhetorical
40 questions?
- 41 MR. BROWNE, Q.C.: What's that?
- 42 MS. BUTLER, Q.C.: It was asked.
- 43 MR. BROWNE, Q.C.: Okay, go ahead.
- 44 MR. NOSEWORTHY, CHAIRMAN: I'll give the
45 witness the opportunity to comment, yes.
- 46 MR. HUGHES: Mr. Browne, I'm advised, I've looked at
47 stuff, I believe it's not only lawful, it's in the spirit. I
48 mean when I look at the most efficient system is the one
49 you've got, that strikes me as pretty good advice. I
50 don't feel ashamed to read that. I think, it is good
51 advice, I think it was (inaudible) because there are some
52 companies that will try and encourage people to change
53 when it's not beneficial and I think it's both lawful and
54 within the spirit, and I think we as a company always
55 try and do both. We don't nit-pick on the law.
- 56 MR. BROWNE, Q.C.: Mr. Hughes, the, it's in the press
57 that the Government of Ontario is embarking upon a
58 major conservation initiative, have you picked that up
59 at all over the last few days?
- 60 MR. HUGHES: I am aware in general terms what's
61 happening in Ontario.
- 62 MR. BROWNE, Q.C.: Are you aware also that if you
63 work with Newfoundland Hydro, in reference to a major
64 conservation issue, that you, to bring down the usage
65 of electricity in a sensible fashion, that we may not
66 need so much more in terms of capital expenditure?
- 67 MR. HUGHES: But Mr. Browne, this is what I'm saying,
68 is that the last generating plant was 15 years ago. After
69 these three I think, I don't know about Hydro's present
70 estimate, but I think it's about seven years. I would be
71 surprised if it goes backwards. I mean to make a
72 meaningful change you've got to be into big numbers,
73 and it just isn't there. DSM can be very good, you
74 know, in terms of changing generation. Where you
75 have growth rates, one, two, maybe even three percent,
76 it's unlikely to ever pay for itself (inaudible) we do it.
77 So what we try and do is do the things that make sense,
78 conservation, efficiency and so on, and as I said,
79 Granite Canal is coming on, the Abitibi project is
80 coming on, and Krueger, they are all very efficient
81 plants. They're more efficient than Holyrood and, you
82 know, Holyrood is a child of its times. I don't know
83 how old it is, but it's been around for a long time. It was
84 probably a good plant when it was built, but it's coming
85 towards the end of its life. You just haven't got the,
86 you haven't got the quantity to make the difference that
87 you're suggesting.

1 MR. BROWNE, Q.C.: So what kind of signal can the
2 company send out to people to get people to conserve
3 so the system is not strained? Can the company
4 embark upon a conservation advertising campaign? Is
5 that a reasonable ... would that be a reasonable result,
6 that there wouldn't be so much strain on the system if
7 everyone learned to conserve again?

8 MR. HUGHES: Well, (a), I don't think there's a strain on
9 the system anyway, but we do strongly believe in
10 conservation, that's why we're doing more and more
11 with the Conservation Corp. We've been doing these
12 high efficiency water heaters, wrap up for savings, we
13 finance it. I mean I think we do a lot. Certainly, you
14 know, I mean I don't know all the utilities. I think we do
15 as good as others. I think, you know, if you say, take
16 Power Smart. Power Smart fell apart because people
17 didn't believe that it was having the effect on rates and
18 generation that was thought. As I said, it can work, but
19 it doesn't always work, and if you want to affect rates in
20 a major way, you're not going to do it on DSM projects
21 when you've got one percent growth. It ain't going to
22 happen.

23 MR. PERRY: And maybe I can add for the Board's
24 information, if we went to CA-60, to show some of the
25 things the company is doing recently. I think the last
26 copy of our Power Connection newsletter, which was
27 September 2002, can we have that on the screen, please,
28 and the title is "get the most out of your energy dollar".
29 It talks about, do I need more insulation, on the top
30 there. The answer is probably yes. Have you an older
31 home and haven't added insulation since you moved in.
32 You know, are you uncomfortably cold in the winter, or
33 hot in the summer. Have you built or purchased a
34 newly constructed house. Can you see bare concrete
35 with walls in your basement, and it goes on to talk
36 about that. On the page behind it, it talks about wrap
37 up for savings, and on the top of the page, where
38 should I insulate. You know, those are things the
39 company is communicating to customers to try to get
40 them to conserve electric heat use.

41 MR. BROWNE, Q.C.: And sir, that is commendable,
42 and that's what you should be doing, I agree with you
43 totally. And in terms of your television adverts, and we
44 see these two employees coming on every night before
45 the news, and those words are shot at us, reliability,
46 something else and something else. Wouldn't it be
47 more beneficial if you were to tell people in the pre-
48 Christmas season to, when they're purchasing
49 Christmas lights, which they are now, to get five

50 wattage, instead of seven wattage, wouldn't that be a ...
51 would that help bring down ... because, wouldn't it help
52 bring down the strain on the system and repairs to the
53 system ultimately?

54 MR. HUGHES: What you're talking about on a system
55 basis won't make any difference. I believe I'm right in
56 saying in the past, and Mr. Perry is looking, is that we
57 talk about a safe, happy holiday season, and we talk
58 about safety, and I think we have talked several times
59 about energy efficiency, but Mr. Browne, I'm not a
60 Grinch. If people want to put up Christmas lights, I'm
61 going to let them.

62 MR. BROWNE, Q.C.: Oh, I'm not saying don't put them
63 up, we're saying five wattage instead of seven, because
64 I think it brings down their costs by a third, and
65 therefore, it must do some benefit to the system
66 ultimately.

67 MR. PERRY: I think that's a good suggestion, Mr.
68 Browne, but we have communicated to customers, like
69 go to Power Connection, December '98.

70 MR. BROWNE, Q.C.: Yes, December '98, yeah, I ...

71 MR. PERRY: We talk about remember to always unplug
72 your lights when leaving your home or going to bed.
73 You know, that's, I think, a conservation and safety
74 message as well.

75 MR. BROWNE, Q.C.: Sure.

76 MR. PERRY: Obviously the voltage thing, maybe that
77 makes some sense as well. You can see that, just
78 across from ...

79 MR. BROWNE, Q.C.: Probably it's the timing, I think at
80 that point you might have to (inaudible) about the five
81 wattage versus the seven, but I think it came out, it
82 wasn't, the timing wasn't optimal. It came out after
83 people had their trees up.

84 MR. HUGHES: I mean from a conservation efficiency
85 basis, Mr. Browne, having more efficient lights is
86 obviously good. Will it effect the system, the answer
87 is no, and that's the difference.

88 MR. BROWNE, Q.C.: What makes you so certain, sir,
89 that it won't affect the system, if the entire population
90 is trained into a conservation mode again, because

1 admittedly, the entire population is out of it. We don't
2 have the same conservation values that our parents did.

3 MR. HUGHES: Oh, I don't know. I think there are very
4 few people in the world that don't think about
5 conservation and the environment and so on. What
6 they have in some areas is a, you know, they would
7 have more appliances and things like that, but I think
8 everybody is aware of it. I'm not sure that that's
9 necessarily true, and I think most people try and get
10 energy efficient appliances. The fact that that may
11 choose to have two televisions rather than one is their
12 choice, and if they choose to have two televisions, their
13 usage will go up, but whether they have two televisions
14 or one television isn't really an energy efficient item, but
15 Mr. Browne, we will, we can have a look at energy
16 efficient Christmas lights and see if we can put it into
17 Connections for you.

18 MR. BROWNE, Q.C.: Thank you, Mr. Hughes. Can we
19 go to CA-60, and we'll move to another topic.

20 MR. HUGHES: Yes, Mr. Browne.

21 MR. BROWNE, Q.C.: I think I've given you the wrong
22 ... yes, 61, I think it might be, and no ... sorry. You
23 brought down your operating costs and one of ...

24 MR. HUGHES: Which one are we on?

25 MR. BROWNE, Q.C.: Sorry, we're not in either one yet,
26 I'll find it in a minute, but you brought ... you might be
27 able to answer without a reference. You brought down
28 your operating costs and one of the areas that you
29 reportedly brought them down was in meter reading
30 over the summer months. Is that correct, Mr. Hughes?

31 MR. HUGHES: Meter reading costs ... can I answer, I
32 presume I can answer in general terms.

33 MR. BROWNE, Q.C.: Yes.

34 MR. HUGHES: Meter reading costs, we have been
35 pleased over the last few years through utilizing ...
36 sorry, optimization programs, which is really how you
37 read and everything else. We have made some good
38 progress.

39 MR. BROWNE, Q.C.: And are your customers
40 necessarily satisfied with the meter reading that is being
41 conducted to date, or are they phoning complaining or
42 whatever?

43 MR. HUGHES: No, they're pretty satisfied.

44 MR. PERRY: It is, Mr. Browne, one of the areas that
45 when you look at our customer satisfaction questions
46 that we ask, you know, when people get bills, it's a
47 tendency that they're not satisfied, so it's one of the
48 areas that doesn't show as well ... you know, if you ask
49 about reliability and safety and environment it's one
50 thing, but ask, you know, what do you think about
51 meter reading, it's a link to a bill, so the tendency of
52 customers is to give you more of a negative feedback
53 on that.

54 MR. BROWNE, Q.C.: Yes, and therefore, if people are
55 not satisfied with their bill or feel that there may be
56 something at issue with their bill, I imagine that they
57 will call you, is that fair comment?

58 MR. PERRY: That's fair.

59 MR. BROWNE, Q.C.: So that will bring up the calls at
60 your system, is that fair to say?

61 MR. PERRY: I think, you know, the system, that's one,
62 one role of the system is to answer people's, customers'
63 concerns about any issue with their bill.

64 MR. BROWNE, Q.C.: And what is your policy on meter
65 reading?

66 MR. PERRY: I don't understand your question, Mr.
67 Browne.

68 MR. BROWNE, Q.C.: What is your policy, what is your
69 practice on meter reading, do you read 12 months of the
70 year, save for winter storms, if you can't get into
71 someone's yard, or if someone's got a vicious dog or
72 something.

73 MR. HUGHES: What we do is that we read as far as
74 possible. Say, for example, in that year when there was
75 excessive snow, we had to estimate more. We have
76 issued more snow shoes, more other equipment so to
77 do it as much as possible, but the, what will happen is
78 that if we cannot access someone's to read a meter
79 safely, and we can't read it from further away, then we
80 will estimate.

81 MR. BROWNE, Q.C.: And does estimation, when you
82 do those estimates, does that cause a problem from
83 some of your customers which results in calls to
84 Newfoundland Power?

- 1 (12:45 p.m.)
- 2 MR. PERRY: Mr. Browne, I think is an area that Nora
3 Duke, our VP of Customer Service can really give you
4 some good information on. You know, we do look at
5 those kind of things, and I don't have the detail, sort of
6 like how many customers are calling about estimates
7 versus the other issues on their bill, but obviously
8 she's in charge of the call centre, and she could be able
9 to provide you some more useful information on that.
- 10 MR. BROWNE, Q.C.: Is it true that you outfitted your
11 meter readers with binoculars at some point, is that ...
- 12 MR. HUGHES: Yes, it's ... I don't know whether all of
13 them do. Some of them have it and the purpose is, is
14 that in some areas you cannot actually get close, either
15 because there's dogs, or it's locked, or stuff like that, so
16 they use binoculars to read it. Also in the last couple
17 of years, we've also gone to some meters that can be
18 read remotely. I believe, subject to check, the number
19 is about under a thousand, but it has been quite
20 successful, so where it is either not safe or we cannot
21 access it, then we tend to use one of those two things
22 to try and look.
- 23 MR. BROWNE, Q.C.: So there are binoculars still in
24 action out there trained on people's houses or meters
25 by meter readers, is that true?
- 26 MR. HUGHES: As Mr. Perry said, Ms. Duke will have
27 the detail, but my understanding is that on certain
28 routes where they can't access it, they use binoculars
29 to read the meters and so that there's not an estimate,
30 but I'm ... that kind of detail, I wouldn't know, but that's
31 my understanding anyway.
- 32 MR. BROWNE, Q.C.: And you're pointing to Ms.
33 Duke, so we will reserve those questions for her and
34 give her notice now through this hearing that she will
35 be asked concerning meter reading and all that that
36 involves. In your evidence you make reference to
37 being proactive in repairs, I guess, rather than reactive,
38 what do you mean by being proactive?
- 39 MR. HUGHES: Well, an example on that is, on say a
40 power transformer.
- 41 MR. PERRY: Sorry, Mr. Browne, what part of the
42 evidence is it?
- 43 MR. BROWNE, Q.C.: It's there in your evidence, Mr.
44 Hughes' evidence, he refers to being proactive.
- 45 MR. PERRY: Do you know what page?
- 46 MR. BROWNE, Q.C.: Yeah, I'll find it. Mr. Hughes
47 might be able to point it out to us even quicker because
48 it's his evidence.
- 49 MR. ALTEEN: Mr. Perry's also.
- 50 MR. BROWNE, Q.C.: It's Mr. Perry's, yeah, you would
51 think you would be able to help me here. Where is it?
52 Page 6? The top of the page.
- 53 MR. HUGHES: Do you want, are you asking for an
54 example?
- 55 MR. BROWNE, Q.C.: Okay, can you read that
56 paragraph into the record there, page 6, line 1 to 5.
- 57 MR. HUGHES: Over the last several years the company
58 has adopted a more proactive approach to ensuring
59 service reliability by replacing severely deteriorated
60 plant before it can lead to a service interruption. Plant
61 replacements targeted in areas where failure reports are
62 the highest, where deterioration due to age and
63 exposure is more evident and where the consequence
64 of an interruption is likely to be more significant. Do
65 you want me to keep going or stop?
- 66 MR. BROWNE, Q.C.: No, that's okay. So how does
67 that compare with what the policy and practice was last
68 year or the year before?
- 69 MR. HUGHES: Well, it's a continuing process but a
70 good example, and Mr. Ludlow is better able to go to
71 the details of this one, but a really good example of this
72 is power transformers, and ...
- 73 MR. BROWNE, Q.C.: Is what?
- 74 MR. HUGHES: Is power transformers, and the oil
75 analysis, and I'll try and keep it at a level that I'm
76 comfortable with as opposed to dropping ... but by
77 doing an analysis of the oil in power transformers, and
78 also the gasses and the items such as that, you can tell
79 how close a transformer is to the end of its life or
80 possible failure, or it can point out that there's a
81 problem, and a power transformer is obviously a very
82 critical piece of information and we've, in the last recent
83 period, and sometime in the last two years, we've very

1 much improved our analysis and investigation of the
2 oils in power transformers and a power transformer
3 costs about \$1.2 million, so if you can, (a), from a
4 customer outage point of view, catch it before it fails,
5 and also then minimize the failure, you can have a less
6 major, as opposed to a catastrophic failure, so that
7 would be a good example. Another example is, and I'm
8 not sure what the testing is called, but we send the
9 conductor, little bits of the conductor away to get
10 tested as to what's the wear and tear and life and salt
11 corrosion and so on, and so those would be two areas
12 where we are trying to predict where failures could
13 occur.

14 MR. BROWNE, Q.C.: When did you move from a non-
15 reactive approach to a proactive approach, is that new?

16 MR. HUGHES: That's what I was trying to say in ... it's
17 not sort of like a light switch change. What we've been
18 trying to do over the last two or three years is move
19 more to a proactive. What will then happen, if we get it
20 right, is that the asset lives will get longer, and we've
21 seen that on the distribution. The failures will tend to
22 be less catastrophic, and the reliability will come up, so
23 it's a continuing process. I don't think it's fair to say
24 that if you went back to the nineties that it wasn't
25 proactive, I think there was, but I think it's more so now,
26 and we're trying to do it even more. It's, in terms of
27 operating costs, capital minimization, it makes a lot of
28 sense.

29 MR. BROWNE, Q.C.: So are you getting rid of assets
30 therefore before they break, is that what you're doing?

31 MR. HUGHES: No, well, yes and no, in that if you
32 know that an asset is, to use your term, break, you're
33 much better off taking it out under controlled
34 conditions than you are under outage conditions
35 because obviously in a storm or whatever, or some
36 forms of lightning, it would tend to expose the
37 weaknesses in the system, so that's what we're doing.
38 But often you can effect a much cheaper repair. There
39 is one power transformer in the last year where they
40 caught it quite well. I can't remember the one, but I'm
41 sure Mr. Ludlow can give you chapter and verse where
42 it was caught and a catastrophic failure was avoided.

43 MR. BROWNE, Q.C.: Where you're getting rid of
44 assets, or replacing assets on a proactive basis,
45 anticipating that they, that they may fail, what checks
46 and balances have you put in place just in case you
47 may have been wrong and it wasn't going to fail at all?

48 MR. HUGHES: Well normally the testing is done on, by
49 third parties. The oil analysis is sent somewhere, I
50 don't know where it's sent, but it's sent to someone to
51 test it. The same on the conductor, so on those two I
52 believe it's sent away somewhere, I can't tell you the
53 names of the companies it's sent to, and these guys do
54 this all the time, so it's ... we get a ... you know, we ...

55 MR. PERRY: Mr. Browne, it's also based on our
56 engineer's judgement of when it should happen. If you
57 look at, you'll see a picture at some point of the
58 Lockston Penstock, and I think you could have went
59 down and looked at it and said that needs to be
60 replaced. We plugged 2,000 leaks in the last 12 months
61 in that thing so when you look at some of the assets,
62 it's pretty black and white that they need to be taken
63 out of service and replaced and fixed, rather than let
64 them fail.

65 MR. BROWNE, Q.C.: So there are checks and balances
66 in place, I'm not suggesting you let them fail, of course,
67 but there are checks and balances in place to ensure
68 that they are not able to be repaired once you take them
69 out of service, or that they don't have any life in them,
70 be it a transformer or whatever.

71 MR. HUGHES: That's the great thing, you see, Mr.
72 Browne, about the proactive in the oil testing, is that if
73 you can catch it before it's catastrophic, then they can
74 be repaired at a lower cost and put back into service
75 where it makes sense, and that's the great thing about
76 it. On the penstock example, that Mr. Perry was talking
77 about, for several years we've been repairing it by
78 putting patches on, putting plugs and all the rest of it
79 but there comes a time where there are too many holes,
80 and that's what's happened on that one, similar to what
81 happened at Petty Harbour or Horse Chops or any of
82 those.

83 MR. BROWNE, Q.C.: I've exhausted the questions I
84 was planning to ask today, and there may not be any
85 other questions, as a matter of fact, I might be able to
86 put them off to Mr. Ludlow (inaudible) reach Mr.
87 Ludlow, so I'll conclude on that note. Thank you.

88 MR. HUGHES: Thank you, Mr. Browne.

89 MR. PERRY: Thank you.

90 MR. NOSEWORTHY, CHAIRMAN: Did you indicate,
91 Mr. Browne, yesterday, that Mr. Fitzgerald had some
92 questions for these witnesses?

1 MR. FITZGERALD: I don't have any questions of
2 these witnesses, Mr. Chairman.

3 MR. NOSEWORTHY, CHAIRMAN: Okay, thank you
4 very much. Ms. Greene?

5 MS. GREENE, Q.C.: Thank you, Mr. Chair.

6 MR. HUGHES: Could I just have a moment?

7 MR. NOSEWORTHY, CHAIRMAN: Pardon? Yes sir,
8 yes, sure. Ms. Greene?

9 MS. GREENE, Q.C.: Thank you, Mr. Chair, good
10 afternoon, Mr. Hughes and Mr. Perry. I think that the
11 first few questions are for Mr. Perry. They concern the
12 policy with respect to the capitalization of expenses,
13 and so I'll direct my questions to you, Mr. Perry,
14 however, Mr. Hughes, if you'd like to add anything ...

15 MR. HUGHES: Thank you.

16 MS. GREENE, Q.C.: The first question for Mr. Perry is,
17 I wonder if you could explain for the Board what
18 Newfoundland Power's policy is with respect to when
19 it will capitalize an expense as opposed to treating it as
20 an operating expense?

21 MR. PERRY: I can. First of all, this is a matter of
22 judgement, I'll start out and say that, but the criteria
23 that we use is the asset that we're ... in terms of whether
24 we capitalize it or not, if the asset has to provide an
25 enduring benefit into the future, so it's not like a one
26 time, one year kind of thing. If the work extends the life
27 of the asset, that also would indicate that we should
28 capitalize the expenditure, and if it improves the asset in
29 some way, makes it more efficient, is an upgrade, those
30 kind of things, and if you look at, for example, programs
31 we have in, I'll use an example of switch connectors in
32 substations, for example, I think this was one of the
33 questions on one of the RFI's, if we have an initiative
34 that replaces a large number of those connectors in
35 various substations across the province, what we will
36 look at is that, you know, does that program create a
37 substantial betterment, you know, is the asset going to
38 be more useful after we do it. Is it more efficient, does
39 it have a longer life, the same kind of criteria, and this is
40 in compliance with, I think, the Board's (inaudible) the
41 process that we do there, and combines with, I would
42 say, generally accepted accounting principles, between
43 what you should capitalize and what you should not.

44 MS. GREENE, Q.C.: In the explanation you just
45 provided, you didn't mention any limit of materiality or
46 threshold values, do you have an internal guideline
47 with respect to the value of an expense before it would
48 be capitalized?

49 MR. PERRY: No, we do not. I think we have one,
50 subject to check, on small tools. There's a certain level,
51 I think, of below \$1,000, we expense it, and above \$1,000
52 we capitalize, but other than that we do view the nature
53 of the expenditure and decide whether it is actually a
54 capital expenditure or an operating expenditure.

55 MS. GREENE, Q.C.: So when you mention that the
56 work must improve the asset in some way.

57 MR. PERRY: Yes.

58 MS. GREENE, Q.C.: I think at one time you mentioned
59 the word, I'm not sure if it's substantial or significant.

60 MR. PERRY: Substantial betterment.

61 MS. GREENE, Q.C.: And do you tie a dollar value to
62 that?

63 MR. PERRY: No, I think again it's a matter of
64 judgement. You talk about, you know, is the asset
65 providing, I guess, better service for the purpose that
66 it was doing, is it more efficient, have we extended the
67 life of the asset. In terms of IT, does it provide more
68 functionality, give us more, sort of things we can use
69 the software for, for example. You know, it's those
70 kinds of descriptions, you know, things like upgrades,
71 enhancements, those are the ... you know, and
72 obviously it's very difficult sometimes to say, well that's
73 going to be worth \$10,000 or \$50,000, you know, it's just
74 really a review of the nature of the expenditure and
75 what you expect the outcome will be, right.

76 MS. GREENE, Q.C.: If the expense is capitalized as
77 opposed to being treated as an operating expense, how
78 does the net revenue and the net earnings of the
79 company get affected?

80 MR. PERRY: This is, I think, similar questions to what
81 we answered yesterday. I guess if you, all else being
82 equal, forget ... you know, and you look at, you know,
83 if you're going to say, spend \$100,000 on an item and
84 it's being capitalized and let's say it's being depreciated
85 over five years, then essentially just looking at
86 depreciation, it's \$20,000 that goes to expense, but if

1 you expense it, it's \$100,000 that goes to expense, so
2 you know, there are other factors, obviously, that
3 would be similar, which is the cost of the financing for
4 the asset, but you know, simply speaking you've got
5 the \$20,000 versus the \$100,000.

6 MS. GREENE, Q.C.: So when the asset is capitalized
7 and in a rate of return on rate base situation, you earn
8 on the asset, is that correct?

9 MR. PERRY: When the asset is capitalized and goes
10 into our rate base we are allowed to earn on the rate
11 base, that's correct.

12 MS. GREENE, Q.C.: So normally the revenue, the net
13 revenue and the net earnings of the company would
14 increase, all other things remaining constant?

15 MR. PERRY: With that qualification at the end, which
16 is not really the case, but yes, you know, that's how I
17 would have answered the question, all other things
18 being equal, and not changing, which is ...

19 MS. GREENE, Q.C.: And that's the assumption I've
20 asked you to ...

21 MR. HUGHES: It's the potential that changes as
22 opposed to the actual.

23 MS. GREENE, Q.C.: Yes, all other things being equal ...

24 MR. HUGHES: No, no, no, it's a difference between
25 potential and actual because the, if you spent \$100,000,
26 in Mr. Perry's example, you spent it, whether it's
27 operating or capital you spent it and you've obviously
28 got to finance it. To actually earn more money, even
29 though there is the potential, something else must
30 happen, so there's a difference between potential and
31 actual.

32 *(1:00 p.m.)*

33 MS. GREENE, Q.C.: I understand that, and I guess I
34 was just trying to explore to ensure that we were on the
35 same understanding with respect to what's the
36 difference between a capital expense and an operating
37 expense.

38 MR. PERRY: I will add, Ms. Greene, you know, when
39 we look at operating capital, yes, we make the decisions
40 on what should be capitalized and what should not be
41 capitalized, based on those guidelines that I described,

42 but we look at overall costs, you know, when we
43 manage our business and I think as a company we have
44 shown that we do a good job with that, so the
45 decisions as to capital and operating, yes, they're made
46 daily and we believe we do a good job at that, but we
47 also look at the overall costs of both operating and
48 capital.

49 MR. HUGHES: And it's my experience that normally the
50 number of grey occurrences is relatively rare. It's
51 normally pretty obvious. Is it better or is it not better.
52 You know, the number of greys tends to be rare, you
53 know, because the engineers would tend to say, yes,
54 that was a betterment, you know, I mean you wouldn't
55 use betterment if you were discussing something with
56 an engineer, but you've got to say, you know, has it
57 improved, has it ... you know, is it a general, you know
58 ... and my experience is that engineers are pretty direct
59 and they'll tell you yes or no, and you know, the
60 number of greys is fairly low.

61 MS. GREENE, Q.C.: Mr. Perry, I believe when you were
62 explaining the criteria, you mentioned that it is a matter
63 of judgement as to whether an expense is capital or
64 operating, is that correct?

65 MR. PERRY: Yes, that's correct, you know, and in terms
66 of, you know, how, what the expenditure is, and what it
67 relates to, and you know, there's a broad gamut of areas
68 in our business that, you know, you can get involved
69 in so ...

70 MS. GREENE, Q.C.: Yes, originally I used to think that
71 accounting was black and white until we got into some
72 of these discussions at Hydro, so there is a fair bit of
73 judgement sometimes, isn't there, as to what's operating
74 and what's capital?

75 MR. PERRY: I think, you know, it's correct, you know,
76 we make certain decisions, for example, on studies, you
77 know, when do you capitalize a study. Our process is
78 put it in work in progress initially, you know, which is
79 not in our rate base and if a study turns into a project
80 that is going to meet the criteria that I outlined, then,
81 yes, it becomes capitalized. If it doesn't, we write it off,
82 you know, it's an operating expense, but you don't
83 really know what the study will turn into until you do
84 the study and decide on what actions you're going to
85 take so on an initial basis we'll put the study into sort of
86 a work in progress category and then it will move into
87 either operating or capital depending on the final
88 outcome.

- 1 MS. GREENE, Q.C.: And that's similar to our
2 experience, yes.
- 3 MR. HUGHES: Yeah, if you go through sort of the
4 areas, the studies Mr. Perry described, tools as he
5 referred to, that's a more tricky one. It's always hard to
6 say because, on something like tools, but most of the
7 others, you know, are more obvious but tools will, long
8 after we've gone, always be a tricky area.
- 9 MS. GREENE, Q.C.: I'd like now to look at a couple of
10 the specific projects you've included to explore with
11 you the treatment of some of them as capital. The first
12 one I'd like to look at is found on page nine of Schedule
13 B of your application and perhaps if we could also
14 bring up the response to NLH-2, please on the screen?
15 It was page 9 of 82 in Schedule B and the item that I'd
16 like to talk to you about is dam rehabilitation.
- 17 MR. PERRY: Okay.
- 18 MS. GREENE, Q.C.: And I'd also like to look at your
19 response to NLH-2. If you have it there I wanted to
20 talk, discuss with you the work for Blackwood's Dam,
21 it's NLH-2.
- 22 MR. PERRY: Yes, I have it.
- 23 MS. GREENE, Q.C.: And I wonder, Mr. Perry, if you
24 could explain what the work ... first with respect to the
25 three projects that are listed there for dam rehabilitation,
26 do you have any breakdown in the cost between the
27 three?
- 28 MR. PERRY: I don't have that available right now.
- 29 MS. GREENE, Q.C.: Would you be able to provide the
30 amount for the work for Blackwood's please?
- 31 MR. HUGHES: Hold on one second.
- 32 MR. PERRY: I don't know if we've answered that in our
33 filing.
- 34 MS. GREENE, Q.C.: No.
- 35 MR. HUGHES: I think Earl's got it in his presentation.
36 I think it might be in Mr. Ludlow's presentation, I've got
37 a copy, I'm going to have a quick look.
- 38 MS. GREENE, Q.C.: Is that your normal practice is to
39 lump projects together like that that are of like nature?
- 40 MR. PERRY: I think what we were trying to do there is
41 really, yes, put them together and sort of say it's dam
42 rehabilitation. The three hydro systems were Port
43 Union, Tors Cove ... sorry, Port Union, Horse Chops
44 and Seal Cove, they are different systems but the work
45 was very similar, so ... and I can't say, I suppose I can't
46 say whether that's a practice we have that we follow. I
47 really, I can't say that, it's just that they're showing up
48 together on the schedule.
- 49 MR. HUGHES: If I may, Mr. Ludlow, I'm not trying to
50 preempt him, but he has a picture of it showing the rip
51 (inaudible) and everything else so you might want to ...
- 52 MS. GREENE, Q.C.: I don't ... just to describe the nature
53 of the work, it goes to the accounting judgement as to
54 whether something is operating or capital, and I guess
55 this is one issue where Hydro, in reviewing some of
56 your answers, found that the treatment might be
57 different and we just wanted to explore with you what
58 ... and hopefully we will learn how you capitalized
59 expenses and you may learn ... well, not through this
60 hearing but with respect to the dam, I don't know if a
61 picture ... it's not necessary from my perspective.
- 62 MR. HUGHES: Well, actually what he does is he's got
63 a picture of it and he describes what's happening, you
64 know, and I suppose it goes back to Mr. Perry's earlier
65 part that, you know, has got to be substant ... I mean
66 say, for example, a few weeks ago I was out at Seal
67 Cove and up at the Head Pond there, there was some
68 cracks and, you know, stuff like that, it wasn't great and
69 that just needed to be patched. That's not in the same
70 league as something like this. This is much more major
71 and that's why it says that it, it tends ... (inaudible) like
72 tools or studies to be fairly obvious, but I mean it's, you
73 know, it's a rehabilitation of a dam crest, the rip
74 (inaudible) is obviously the rocks, you know, on the
75 top.
- 76 MR. PERRY: Yeah, I was just noting from my notes,
77 Ms. Greene, that you've got to look at the age of these
78 plants, and I've just noticed two here. Seal Cove was
79 built in 1923, and Horse Chops, I think, 1953. I don't
80 have the (inaudible) handy, but so, you know, what
81 we're doing is repairing these dams that were built in
82 excess of, in some cases, 50 years ago, and that's
83 extending the life.
- 84 MS. GREENE, Q.C.: And that's what I'd like to explore
85 with you, if I can continue with the questions. The
86 work for Blackwood's is described as replacement of

1 earth fill and rehabilitation of deteriorated concrete,
2 which is, in your view, is that an accurate description of
3 the work that will be undertaken?

4 MR. HUGHES: From my understanding it is.

5 MS. GREENE, Q.C.: The replacement of earth fill, is this
6 a normal activity with respect to maintenance of dams?

7 MR. HUGHES: You're getting too deep.

8 MR. PERRY: Just ...

9 MR. HUGHES: I mean there's enough civil work
10 happening that you can say it's extending the life, and
11 it's not sort of what I would call a patch or something
12 like that, but as to how often earth fill and that kind of
13 stuff, you're better off asking Mr. Ludlow. I mean ...

14 MS. GREENE, Q.C.: Okay, the service life for this dam
15 is what in your records?

16 MR. HUGHES: You want to know how long its
17 production is or ...

18 MS. GREENE, Q.C.: I wanted to know the service life
19 and ...

20 MR. PERRY: Subject to check, I think we are
21 depreciating our hydro plant dams over about 50 years.

22 MS. GREENE, Q.C.: And this particular work, will it
23 extend that life, and if so, by how much?

24 MR. PERRY: Sorry, Ms. Greene?

25 MS. GREENE, Q.C.: The work that's being
26 contemplated for Blackwood's for 2003, will it extend the
27 existing service life of that dam, and if so, by how
28 much?

29 MR. PERRY: Again, I don't have the answer about how
30 much, but you know, really when you make the
31 decision of capitalizing or not, I don't think you need to
32 know how much that expenditure is going to increase
33 the life of that particular dam, like how many exact years
34 that's going to be. When you look at these hydro
35 plants, you know, first of all, keeping them in service is
36 the right thing to do, given the contribution they're
37 putting into the system.

38 MR. HUGHES: Maybe you could go the other way. If
39 we didn't do it and you kept not doing it, the dam would
40 fail, so you'd have no water, you'd have no generation
41 and so on. Dams, as you know just as well as I do, tend
42 to have very, very long lives and, you know, as you
43 know it's a subject of debate how long they are, but it's
44 incredibly long and civil works like this last a long time,
45 you know, far longer than the 30 years. That doesn't
46 mean that you don't have maintenance in between, but
47 ...

48 MR. PERRY: I just found my notes on that. The
49 depreciation rate that we're currently using is 2.02
50 percent for hydro production and that would include
51 the dams, and that's out of a composite rate of all the
52 things that go into hydro production, and that was
53 submitted by the company, this expert in 19, I think it's
54 a 1996 study, that's the current rates we're under.
55 We've submitted a new study in the GRA, but that's the
56 current rates that we're under.

57 MR. HUGHES: And that's why I said it's 50 years,
58 which is obviously way lower (*sic*), way longer than
59 the average.

60 MS. GREENE, Q.C.: **I wonder if I could have an**
61 **undertaking to provide the information with respect to**
62 **the cost of the work on Blackwood's Dam, the current**
63 **service life of the dam and the extension of the service**
64 **life to be done by this work?**

65 MR. HUGHES: Sure, yeah, we can do that.

66 MS. GREENE, Q.C.: I'd like now to turn to some of the
67 IT projects and I wanted to first look at your policy with
68 respect to that that was provided in response to NLH-
69 31.

70 MR. HUGHES: Do we need part of Schedule B as well
71 or not?

72 MS. GREENE, Q.C.: No, I'm finished with the Schedule
73 B. We may come back to it for some of the IT projects,
74 yes.

75 MR. HUGHES: I was going to open the book at the
76 right page if ...

77 MS. GREENE, Q.C.: NLH-31 first, which is the policy
78 and then I will refer to a couple of specific IT projects to
79 ensure that we understand your answer. The policy
80 there, Mr. Perry is, would that be similar to the one

1 you've just outlined for all assets of Newfoundland
2 Power?

3 MR. PERRY: I think it's similar in nature. Again, if you
4 read the last sentence in that RFI, it says the guidelines
5 is consistent with Newfoundland Power system of
6 accounts which is approved by the Board, so this is ...
7 so the approved written practice that we follow for
8 projects.

9 MS. GREENE, Q.C.: So again, there is no materiality
10 limit, it doesn't have to reach a threshold of any
11 particular dollar amount before it's capitalized, is that ...

12 MR. PERRY: That is correct, that's my understanding.

13 MS. GREENE, Q.C.: I wonder now if we could look at
14 page 66 of Schedule B, and the one that I wanted to
15 discuss is listed as B on page 66, business support
16 systems. It would appear again from that particular
17 description that you lump a number of software
18 enhancements together into one type of project as to
19 indicating them individually, is that correct, similar to
20 the dam work?

21 MR. PERRY: Yes, that is correct.

22 MS. GREENE, Q.C.: And any software enhancement at
23 Newfoundland Power would be capitalized, would it, in
24 terms ... regardless of the value of the enhancement, is
25 that correct, the way I've understood your answers to
26 date?

27 MR. PERRY: I can't answer that 100 percent. I think in
28 general sort of major software changes that will improve
29 our functionality, we do capitalize and they would be
30 listed annually in our capital budget. Whether we, if we
31 make a fix that's \$1,000, and it improves functionality,
32 whether we actually capitalize that, I can't say at this
33 point.

34 MS. GREENE, Q.C.: But if you look at number (b) for
35 example, you've ... further detail was provided in the
36 response to NLH-29 in the attachment B, that appears
37 to be a number of miscellaneous software upgrades.

38 *(1:15 p.m.)*

39 MR. HUGHES: 29?

40 MS. GREENE, Q.C.: 29(b), there was an attachment
41 provided, business support systems project overview.
42 It was a response to NLH-29.

43 MR. HUGHES: No, we were just in the wrong one.

44 MS. GREENE, Q.C.: Oh, sorry.

45 MR. PERRY: Sorry, and what was your question, Ms.
46 Greene?

47 MS. GREENE, Q.C.: Again, based on your answer you
48 said it depended on materiality, I was just pointing out
49 that in your response you, appears to have lumped
50 together a number of what we would have called minor
51 software enhancements to a various number of
52 applications.

53 MR. HUGHES: My ...

54 MS. BUTLER, Q.C.: If we could just get it on the screen
55 for the benefit of the rest of us?

56 MS. GREENE, Q.C.: Sure, NLH-29.

57 MS. BUTLER, Q.C.: Yes, it's in the attachment.

58 MS. GREENE, Q.C.: It's attachment B and when you
59 look at the description of the projects, the total value of
60 the projects for the total of them is listed at \$84,000, but
61 when you look at the various ones that are described,
62 for example, in description ...

63 MR. HUGHES: Mr. Collins is probably the best person
64 to answer but my understanding of the way they do it
65 is that they would have several changes to one piece of
66 software and they would tend to do them together, but
67 Mr. Collins can give you exactly how they make the
68 software changes, but I would assume that ... I think
69 that's right on how they do it.

70 MR. PERRY: Yeah, and Ms. Greene, I don't think I said
71 that it was materiality, I don't think I said it played a
72 role, what I said is that I wasn't 100 percent certain that
73 we capitalized everything we did in terms of if it
74 improved a piece of software. I'm not certain of that.
75 Whether ... you know, I know we do sort of on the
76 major initiatives that we have, but if there's a small
77 change in the system, I'm not as certain whether we
78 actually capitalize the cost of doing that change. I just
79 don't know the answer, I'm just thinking over the course
80 of a year, the amount of work that our IT group would

1 do, I'm not so certain that we would be capitalizing
2 everything they do that actually improves a piece of
3 software.

4 MR. HUGHES: Well, also you get other things like the
5 setting or whatever are already within the software and
6 so you might, they might change that for an individual
7 user and that's not capitalized, that's just operating.

8 MR. PERRY: Again, Mr. Collins, I think, can tell you
9 how he sort of, when he puts together his budget, what
10 he puts in and what he puts out in terms of kinds of
11 capital.

12 MS. GREENE, Q.C.: And just to make sure I
13 understand, you don't have a threshold limit, like
14 \$5,000, or \$2,000. In Hydro's case it happens to be
15 \$25,000, but you don't have a threshold like that?

16 MR. PERRY: Subject to check, I don't believe we have
17 a threshold, no, it's analyzed based on what the work is
18 and the nature of it and whether it agrees to the, the
19 criteria that we've established.

20 MS. GREENE, Q.C.: And the last question with respect
21 to the capitalization of expenses also relates to one of
22 the items on page 68, the Microsoft Enterprise
23 Agreement. The licensing fee attached with that is
24 capitalized by Newfoundland Power, is that correct, the
25 annual licensing fee?

26 MR. PERRY: I think that's not ... I don't know if I'd call
27 it a licensing fee, it's a right to use, and maybe that's
28 mixing legal language, but what we're capitalizing is the
29 250, which is, you know, essentially we used to buy
30 software. Now we don't buy, you know, this is not
31 buying the software, you know, we're actually paying
32 this fee to get the software that allows us to upgrade
33 the software, and what we've done is compared that to
34 the purchase of the software and this was the better
35 approach and therefore, you know, we're capitalizing it
36 because essentially its substance is the same as buying
37 the software. That's how we've looked at that.

38 MS. GREENE, Q.C.: I see, so do you treat this lease as
39 a capital lease?

40 MR. PERRY: I don't see it as a lease first of all, and, no,
41 we don't show it as a capital lease, it forms a part of our
42 assets, you know, software assets, and it's not shown
43 as a capital lease.

44 MS. GREENE, Q.C.: Newfoundland Hydro doesn't
45 capitalize these type of, these as well, so as we
46 mentioned before, I guess it's a matter of judgement so
47 we've gone back to our accountants as well with
48 respect to this. That's why we wanted to explore with
49 you because there did appear to be a number ...

50 MR. PERRY: As we all know in accounting, there are
51 choices and some accountants make some choices,
52 other accountants make other choices. We follow the
53 Board's approved rules on capitalization on substantial
54 betterment. We think that the decisions we've made
55 comply with those rules.

56 MS. GREENE, Q.C.: Oh, the purpose of my questions
57 was to ensure we understood your practices to compare
58 them to ours because we're both regulated utilities
59 before the Board. The next line of questions relates to,
60 again, how you capitalize certain expenses. The first
61 thing I wanted to explore with you is the category of
62 general expenses, capital, and there was an RFI with
63 respect to that NLH-41, and I wonder if you could
64 explain for us what the intent of the general expenses
65 capital is and what is it intended to cover?

66 MR. PERRY: Well, the general expenses capitalized is
67 always a bit of a complicated area. Essentially what it
68 does is recognizes that we're a company that is an
69 operating company as well as a company that's out
70 building assets, and at one point we were capitalizing a
71 substantial amount of what you could call operating
72 costs under the heading of general expenses capitalized
73 because in a lot of cases we're in very much a build
74 mode in the system. There was various reviews done
75 on that and there has been a Board order that the
76 company has complied with that has brought down that
77 overall level of capitalized GEC. We're now in the range
78 of two and a half million dollars as, you know, as an
79 amount that we're capitalizing. When you think about
80 our operating expenses of 50 odd million dollars, that
81 seems fairly reasonable. Essentially what it recognizes is
82 a part of your day to day costs relate to the fact that
83 you're carrying out a capital program, and at this point
84 it's very minimal overall, when you take the percentage,
85 it's a about a little more than five percent over our
86 operating costs. It seems fairly reasonable in terms of
87 how the Board ordered us to come down to that level,
88 and that's what we're following.

89 MS. GREENE, Q.C.: In addition to the costs that are
90 included in that category of general expenses capital,

1 there are other direct costs to the capital program, is
2 that correct?

3 MR. PERRY: Absolutely. When we, well first of all,
4 GEC itself, has a direct component and an indirect
5 component. The direct component is things like if we
6 have planning engineers that are pulling things
7 together, they're not specifically related to specific
8 projects, they can actually charge directly to what's
9 called general expenses capitalized, but I think what
10 Ms. Greene's question is more getting to is our line
11 forces, for example, when they're working on capital
12 projects, we actually capitalize the cost of their salaries
13 to our capital projects, and again, from an accounting
14 perspective, that's a very reasonable thing. These
15 people are actually participating in building that asset,
16 and we're capitalizing their costs for the direct work
17 they do on building those assets.

18 MS. GREENE, Q.C.: There was a response provided
19 with respect to certain of these direct labour costs,
20 that's NLH-42, I wonder if you could look at that? So
21 when you talk about people working directly on the
22 capital, would all of their costs be included in what
23 you've shown on NLH-42?

24 MR. PERRY: When you say all of their costs, what do
25 you ...

26 MS. GREENE, Q.C.: Their salary costs, you just
27 mentioned people are working directly on the capital
28 projects so they are charged to the project, and then
29 could you please first, maybe if you explain what NLH-
30 42, what does that actually provide in response to the
31 question?

32 MR. PERRY: I would say what it does is provide a
33 summary of employees salary charged to capital
34 projects for the period '99 to 2003. It includes temporary
35 employees, so again, it's the employees that would
36 have been working directly on capital projects, and in
37 terms of how much of their salary in terms of what it
38 includes, the benefits that they're paid, I believe it
39 includes some of the benefits, but in cases of things
40 like pensions, that comes in through GEC. I'm not
41 certain of that but subject to check, I think that's how
42 that works, so, you know, I think that, yeah, if you look
43 at the ... in NLH-41, there is a line at the bottom of GEC
44 called company pension plan, \$500,000, so some
45 pension costs are coming in that way, but generally it
46 includes the salary costs of line persons and general

47 forepersons that are working on building the assets that
48 we have in the system.

49 MS. GREENE, Q.C.: So the salary dollars that are
50 shown on NLH-42 for employees salary charged to
51 capital, which is the middle line on the table, that would
52 be employees of Newfoundland Power who are working
53 directly on a capital project, is that correct?

54 MR. PERRY: I think the question asks including
55 temporary, term and contract employees ...

56 MS. GREENE, Q.C.: And the answer was that your
57 workforce doesn't have term or contract employees, so
58 ...

59 MR. PERRY: Right, so my sense is it's just the
60 Newfoundland Power full-time employees along with
61 some temporary employees that we may have from time
62 to time. It does not include contractors.

63 MS. GREENE, Q.C.: Okay, so for these employees,
64 whether permanent or temporary, who are working on
65 a capital project, do they charge their time directly to
66 the project or is it an allocation of their salaries?

67 MR. PERRY: Subject to check, I believe they do charge
68 it directly to the project. We have a list of codes for
69 various projects and they would be, their time would be
70 coded by project.

71 MS. GREENE, Q.C.: So just to ensure I understand the
72 table, you're saying that, for example, last ... in 2001, last
73 year, 26 percent of Newfoundland Power's employees,
74 26 percent of your workforce was full-time on capital
75 projects?

76 MR. PERRY: Yes, that's what the table says.

77 MR. HUGHES: 26 percent of their time.

78 MR. PERRY: Yes.

79 MR. HUGHES: You don't have a person who is capital
80 and a person who is operating, they do both.

81 MS. GREENE, Q.C.: So 26 percent ... yes, that's correct,
82 I phrased my question the wrong way. 26 percent of
83 your employees, of the time would be devoted to
84 capital projects, is that what I should take from ...

1 MR. PERRY: Yes, of the total salaries paid to
2 employees, 26 percent of it has been charged directly to
3 capital projects.

4 MS. GREENE, Q.C.: And that would be done directly
5 through timesheets, if they do the work on the project?

6 MR. PERRY: Subject to confirmation, my
7 understanding it is direct by timesheet, by code of
8 project, to the project.

9 MS. GREENE, Q.C.: In addition to their direct salary
10 costs, would that include, and I think you said earlier
11 you may need to check this, their fringe benefits and
12 other types of costs associated with the labour
13 component?

14 MR. PERRY: Yeah, and what I need to check, I think
15 there's some that's charged directly and some that is
16 picked up through the GEC process, but again, I have
17 to check that.

18 MS. GREENE, Q.C.: So that, the numbers shown on
19 Table 1 on NLH-42 would include fringe benefit costs,
20 is that correct?

21 MR. PERRY: Table 1.

22 MS. GREENE, Q.C.: Those numbers that we just looked
23 at.

24 MR. PERRY: It says total employee salary, again,
25 subject to check, whether that is all, including all
26 benefits charged, you know, the employees earn as
27 well, I would have to check that.

28 MS. GREENE, Q.C.: Mr. Chair, in light of the time, I
29 have a number of other questions related to this type of
30 subject, so I will not finish within the near future.

31 MR. NOSEWORTHY, CHAIRMAN: No, and I think in
32 light of the new hours that we are keeping, I'd like to try
33 and keep to a 1:30 timeframe if possible. After four
34 hours, I'm sure the witnesses would welcome
35 adjournment.

36 MS. BUTLER, Q.C.: Mr. Chairman, the early part of
37 tomorrow morning was dedicated to the argument on
38 the response to CA-87(e), and we were provided with
39 the formal motion this morning, so because it's going to
40 be done the very first thing, and rather than have
41 anybody be taken by surprise, I'll just get Mr. Alteen to

42 pass out the authorities we're going to be relying upon,
43 which are the two Board orders which we feel are
44 consistent, and some portions from the McCaulley text
45 that may be applicable.

46 MR. NOSEWORTHY, CHAIRMAN: Thank you very
47 much, Mr. Hughes, Mr. Perry, thank you, Ms. Greene.
48 We will adjourn and begin at 9:00 tomorrow morning
49 with the motion and following that we'll continue on
50 with cross by Newfoundland and Labrador Hydro.
51 Thank you very much.

52 *(hearing adjourned to November 15, 2002)*