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1 (10:00 a.m.)
 2 CHAIRMAN:
 3 Q. Well, good morning everybody. I'll call this
 4 hearing to order and welcome you all. We are
 5 ready to commence proceedings on the
 6 application by Newfoundland Hydro, the Amended
 7 2013 General Rate Application. I'm Andy
 8 Wells, Chairman for these proceedings, and I
 9 have with me, of course, Vice-Chairman Whalen
 10 and Commissioners Oxford and Newman. I would
 11 now ask the parties to this proceeding to
 12 introduce themselves, I guess starting with
 13 Newfoundland Hydro.
 14 MR. YOUNG:
 15 Q. Thank you, Mr. Chairman, Commissioners. My
 16 name is Geoff Young, in-house counsel with
 17 Newfoundland and Labrador Hydro, and with me
 18 is Mr. Fred Cass. He's external counsel to
 19 Hydro with the firm of Aird & Berlis. And to
 20 his right is Ms. Tracey Pennell. She's in-
 21 house counsel with Hydro.
 22 CHAIRMAN:
 23 Q. I guess next is our consumer representative.
 24 JOHNSON, Q.C.:
 25 Q. Good morning, Chairman and Commissioners. Tom

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1 Johnson appearing as Consumer Advocate. With
 2 me, my colleague, Greg Kirby.
 3 MR. COXWORTHY:
 4 Q. Good morning, Mr. Chair and Tribunal members.
 5 Paul Coxworthy and my colleague, Dean Porter.
 6 We represent the Island Industrial Customers
 7 group which constitutes Corner Brook Pulp and
 8 Paper Limited, NARL Refining Limited
 9 Partnership formerly North Atlantic Refining
 10 Limited, and Tech Resources Limited.
 11 MR. O'BRIEN:
 12 Q. Good morning, Mr. Chairman. Liam O'Brien as
 13 outside counsel for Newfoundland Power and
 14 with me is inside counsel, Gerard Hayes.
 15 CHAIRMAN:
 16 Q. I think that's it. There's no other parties.
 17 MS. GLYNN:
 18 Q. No, no, to the back row.
 19 CHAIRMAN:
 20 Q. Oh, in the back. Oh, my God, I'm sorry.
 21 Excuse me, sir. I'm not used to seeing you in
 22 the bleachers.
 23 O'REILLY, Q.C.:
 24 Q. I've been there before. Good morning, Mr.
 25 Chairman. My name is Tom O'Reilly and with me

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1 is Mr. Denis Fleming. We represent Vale
 2 Newfoundland and Labrador Limited in these
 3 proceedings. We're external counsel for Vale.
 4 CHAIRMAN:
 5 Q. And?
 6 MR. LUK:
 7 Q. Good morning, Chairs and Commissioners. My
 8 name is Senwung Luk. I'm counsel for Innu
 9 Nation, intervenor at this proceeding.
 10 CHAIRMAN:
 11 Q. And is there anybody else?
 12 MS. DAWSON:
 13 Q. Good morning. Genevieve Dawson and I'm
 14 outside counsel for the Nunatsiavut Government
 15 and good morning to everyone and all the
 16 people behind me as well.
 17 CHAIRMAN:
 18 Q. Okay.
 19 MR. DUMARESQUE:
 20 Q. Yes, my name is Danny Dumaresque and I am
 21 another one of your humble intervenors.
 22 CHAIRMAN:
 23 Q. Okay. Thank you very much for that. Board
 24 staff present for these proceedings will be
 25 Cheryl Blundon, our Board secretary, Jacqui

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1 Glynn, our legal counsel, and Maureen Greene,
 2 Board hearing counsel. And there's also some
 3 staff from the Board present, Doreen Dray,
 4 Mike McNiven, Ryan Oake and Sam Banfield are
 5 in the back of the room. I also acknowledge
 6 the presence of Jennifer Grey who will be
 7 assisting us with the electronic reproduction
 8 of evidence. The transcripts will be provided
 9 by Discoveries Unlimited. Glenda Gibbons,
 10 with the assistance of Cheryl Blundon, will be
 11 transcribing the proceedings. We hope to have
 12 the transcripts ready normally by 8:00 p.m.,
 13 depending on how late we sit.
 14 Our regular sitting time is 9 to 1:30
 15 with a half-hour break from 11 to 11:30.
 16 Because we're starting a little later today,
 17 we'll take a break from 11:30 to 12 and sit
 18 until 1:30. We'll normally sit Monday through
 19 Thursdays, except during the cost of service
 20 evidence and the prudence review sections of
 21 the hearing when we sit the full week. The
 22 Board will not sit on Tuesday, September the
 23 15th.
 24 Now quite a bit of work has been done, of
 25 course, already to get us to this point. Some

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1 issues have already been settled, I
 2 understand. However, it's obviously clear
 3 with the volume of work and the issues being
 4 settled, the hearing schedule is still
 5 scheduled to run for many weeks. And if
 6 there's any questions or anything you have,
 7 please contact -- any questions, please
 8 contact Cheryl anytime during the proceedings.
 9 So now I will ask our Board solicitor, Jacqui
 10 Glynn, our legal counsel, to proceed.

11 MS. GLYNN:

12 Q. Thank you, Mr. Chair. Good morning to the
 13 Panel and to the parties and to all the
 14 members of the public in attendance today.
 15 On July 30th, 2013, Newfoundland and
 16 Labrador Hydro filed their 2013 General Rate
 17 Application with the Board for a full review
 18 of its costs and rates and requesting for new
 19 rates to be effective on January 1st, 2014.
 20 The Board held a pre-hearing conference on
 21 September 12th, 2013 to identify the
 22 intervenors and to set the procedures and the
 23 schedule for the hearing of the application.
 24 Following the pre-hearing conference, time was
 25 allowed for request for information and for

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1 responses to be filed, as well as for expert
 2 reports by the intervenors. Several hundred
 3 RFIs were issued. Responses to the RFIs were
 4 delayed and the original schedule was extended
 5 to allow Hydro sufficient time to answer the
 6 significant number of RFIs. The expert
 7 reports were filed and RFIs on those reports
 8 were asked and answered. On June 6th, 2014,
 9 as the parties prepared to enter settlement
 10 discussions, and a month before the hearing
 11 was scheduled to commence, Hydro advised the
 12 Board and the parties that it would be filing
 13 an amended application in the fall of 2014.
 14 On November 10th, 2014, Hydro filed an
 15 Amended 2013 General Rate Application. The
 16 Amended Application reflects updated
 17 financial, load, generation and fuel forecasts
 18 and proposed a test year revenue requirement
 19 for 2014 and 2015. Hydro proposed revised
 20 rates for its Industrial Customers to be
 21 effective on January 1, 2015 and for the
 22 remaining customers on February 1, 2015. The
 23 Application proposes, based on the fuel price
 24 at the time of filing, a rate increase of 10.3
 25 percent for Newfoundland Power, 26.8 percent

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1 for Island Industrial Customers and 2.1
 2 percent for the Labrador Interconnected
 3 System.
 4 On December 15th, 2014, the Board
 5 published notice of the Amended Application.
 6 The Board did not hold a further pre-hearing
 7 conference as the same rules of procedure
 8 apply to the same intervenors. The Board did
 9 allow further intervenors to register at that
 10 time and on January 16th, 2015, the Board
 11 confirmed the participation of the Nunatsiavut
 12 Government as an intervenor.
 13 A significant number of RFIs were once
 14 again asked and answered over the winter and
 15 spring of 2015. Numerous revision to existing
 16 RFI responses were also filed. Amendments to
 17 the expert reports were filed in June of this
 18 year and RFIs again were asked and answered.
 19 The parties held settlement discussions
 20 over this summer, which resulted in some of
 21 the issues related to the Island
 22 Interconnected System being settled. The
 23 parties have a copy of that settlement
 24 agreement and it has been entered onto the
 25 record as Consent Exhibit No. 1. The matters

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1 agreed upon cover a wide range of topics from
 2 rate design to cost of service, to future
 3 reporting requirements and I congratulate the
 4 parties on successful negotiation of these
 5 issues. However, as noted by the Chair, there
 6 are still numerous outstanding issues to be
 7 examined throughout this hearing.
 8 Since the filing of the original
 9 application in July of 2013, Hydro submitted
 10 interim rate applications. The Board has
 11 approved a deferral account for Hydro's
 12 proposed 2014 revenue requirement and also
 13 approved interim rates which became effective
 14 on July 1, 2015.
 15 Notice of the start date for this hearing
 16 was published in papers throughout the
 17 Province, starting on August 22nd, 2015. Any
 18 member of the public who wishes to participate
 19 in the hearing may do so by filing a letter of
 20 comment or by making a presentation to the
 21 Panel. Please contact the Board secretary,
 22 Ms. Cheryl Blundon, by October 9th, 2015 to
 23 register your intention to participate.
 24 Today, the parties will make opening
 25 comments and depending on the length of those

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1 remarks, we will start to hear evidence from
 2 Hydro’s witnesses. Hydro will present its
 3 case over the remainder of this week and the
 4 following two weeks. Cost of Service experts
 5 are scheduled to appear from September 28th to
 6 October 9th. The hearing will break the week
 7 of the Thanksgiving holiday. On October 19th,
 8 2015, the Board will present its witness on
 9 inter-corporate transactions, Mr. Brad Rolfe,
 10 and then Hydro will complete its case before
 11 the other parties present their witnesses.
 12 In February of this year, the Board
 13 advised that a prudence review of certain of
 14 Hydro’s expenditures would be completed as
 15 part of this investigation into the GRA.
 16 Intervenors from the Board’s investigation and
 17 hearing into the supply issues on Island
 18 Interconnected System, as well as from the
 19 Black Start and the installation of the 100-
 20 megawatt combustion turbine processes were
 21 invited to apply for limited intervenor status
 22 in this GRA to participate in the issues
 23 related to the prudence review only.
 24 Mr. Danny Dumaresque and the Grand River
 25 Keepers of Labrador submitted intervenor

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1 submissions. The Grand River Keepers have
 2 recently withdrawn their intervenor submission
 3 from the GRA, but Mr. Dumaresque remains a
 4 limited intervenor for the prudence review.
 5 Oral evidence on the prudence related issues
 6 is scheduled to commence on November 2nd,
 7 2015. However, Mr. Dumaresque will make his
 8 opening remarks on prudence today.
 9 The Board has been advised that Ms.
 10 Yvonne Jones, an intervenor, will have very
 11 limited, if any, participation in this hearing
 12 and that the Towns of Labrador, another
 13 intervenor, as well will have limited
 14 participation.
 15 The normal order of presentation and
 16 questioning will be Newfoundland and Labrador
 17 Hydro first, followed by Newfoundland Power,
 18 the Consumer Advocate, the Island Industrial
 19 Customers, Vale, the Innu Nation, the Towns of
 20 Labrador if present and Yvonne Jones if
 21 present, then the Nunatsiavut Government,
 22 Board Hearing counsel and then the
 23 Commissioners. The order will be changed
 24 slightly for the presentation of the Cost of
 25 Service witnesses and the order of appearance

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1 and questioning for the prudence review will
 2 be determined at a later date.
 3 Mr. Chair, I confirm that the Application
 4 has been properly filed. The appropriate
 5 notices have been published and the
 6 appropriate procedures established. There are
 7 no preliminary matters which I have been made
 8 aware of and you may ask the parties for their
 9 opening statements.
 10 CHAIRMAN:
 11 Q. Okay. We will proceed to opening statements,
 12 commencing with Newfoundland Hydro.
 13 MR. YOUNG:
 14 Q. Thank you, Mr. Chair. Good morning,
 15 Commissioners. Hydro’s duty as an electrical
 16 utility is to provide safe and reliable
 17 service to its customers at reasonable cost.
 18 The purpose of this General Rate Application
 19 is to provide Hydro with electricity rates
 20 that will provide the necessary revenue to
 21 carry out that duty. Those rates must provide
 22 Hydro with sufficient revenues to ensure its
 23 reasonable expenses can be paid and must
 24 provide Hydro with sufficient margin so that
 25 Hydro can access debt in the marketplace on

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1 reasonable terms. These requirements are set
 2 out fully in the Public Utilities Act and the
 3 Electrical Power Control Act (1994).
 4 As the Board and the Intervenors are
 5 aware, it’s taken us some time and a
 6 considerable amount of effort to get to this
 7 stage where this General Rate Application
 8 actually commences before this Board in the
 9 oral stage. We are very pleased to be here.
 10 A great deal of information has already been
 11 provided. Both the pre-filed evidence and the
 12 RFIs, request for information, have included
 13 numerous updates and revisions and the record
 14 for this hearing is indeed a huge one. To put
 15 it into some perspective, Hydro’s last GRA had
 16 under 600 RFIs. It’s 2001 GRA, which at the
 17 time was considered very large and an onerous
 18 one, had just over 1,000 RFIs, and
 19 Newfoundland Power’s last GRA had
 20 approximately 800. In this hearing, Hydro has
 21 provided full and comprehensive pre-filed
 22 evidence for its application, but subsequent
 23 to that has responded to approximately 2300
 24 requests for information and on top of that
 25 has provided updates and revision to about 550

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1 of those. Those aren't official numbers.
 2 They're my count. By any measure, that's more
 3 than two or three times the amount of data and
 4 information that is normally filed or
 5 traditionally filed in a GRA.
 6 At this stage of the hearing, Hydro is
 7 providing witnesses who will give testimony
 8 supporting Hydro's application and the
 9 requirements that I spoke about a moment ago
 10 as set out in the Public Utilities Act and the
 11 Electrical Power Control Act.
 12 Hydro's lead witness will be Mr. Ed
 13 Martin, Hydro's President and Chief Executive
 14 Officer, who will provide evidence on Hydro's
 15 major policy initiatives, challenges and
 16 opportunities. Following Mr. Martin, Hydro
 17 will be providing as witnesses a number of its
 18 senior management financial and technical
 19 leaders and its external experts, who will
 20 provide evidence on their respective areas of
 21 responsibility and knowledge. Testimony on
 22 most of these areas of responsibility can be
 23 best provided through panels of witnesses.
 24 This is a tried and true regulatory practice
 25 that allows for evidence and information to be

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1 provided in an efficient and meaningful manner
 2 on matters that require broad ranges of
 3 expertise and knowledge. Information on the
 4 composition of these panels and their
 5 respective areas of responsibility has been
 6 provided to the Board and to the Intervenor.
 7 As has been discussed, some of the
 8 issues, primarily Cost of Service matters,
 9 have been settled and those settled issues are
 10 before the Board in the Settlement Agreement
 11 which Hydro and the parties are proposing the
 12 Board adopt. And while the range of issues
 13 contained in this Settlement Agreement is
 14 narrower than in some results presented to the
 15 Board in previous GRAs, Hydro believes that
 16 Hydro and the parties have achieved
 17 significant hearing efficiencies through the
 18 settlement efforts, enabling this hearing to
 19 be shorter and more efficient than it
 20 otherwise would have been. We'd like to add,
 21 the parties came to the settlement process in
 22 a businesslike and open manner and the areas
 23 of possible resolution were identified quickly
 24 and dealt with through earnest and open
 25 discussions and Hydro, in its connection,

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1 would like to extend its gratitude to the
 2 parties and to Board counsel who assisted in
 3 that process. Incidentally, these discussions
 4 are ongoing. There is some opportunity and
 5 some possibility that additional settlements
 6 might be resolved over the next few weeks in
 7 due course, but until that's signed, I won't
 8 speak further about that.
 9 As I have said, a very large part of the
 10 work required for Hydro's General Rate
 11 Application has been done already, but now we
 12 are pleased to be here appearing before the
 13 Board for the oral part of the hearing. Hydro
 14 is committed to making this hearing as
 15 efficient and as productive as possible. We
 16 look forward to working with the Board and
 17 with the parties to make sure that happens.
 18 And I guess my final comment is, Mr. Chair,
 19 for the most part, Mr. Cass will be counsel
 20 speaking on behalf of Hydro, so you won't have
 21 to put up with me that much longer. Thank
 22 you.
 23 CHAIRMAN:
 24 Q. Newfoundland Power, I think is next.
 25 (10:15 a.m.)

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1 MR. O'BRIEN:
 2 Q. Yes, thank you, Mr. Chairman and
 3 Commissioners. I'll try to be as brief as I
 4 can. First and foremost, I guess,
 5 Newfoundland Power is Newfoundland and
 6 Labrador Hydro's largest customer. It
 7 purchases over 85 percent of Hydro's annual
 8 production of electrical energy for resale to
 9 Newfoundland Power's customers on the Island.
 10 In the last year alone, Newfoundland Power
 11 purchased over 400 million dollars worth of
 12 electrical energy from Hydro. This is by far
 13 Newfoundland Power's largest single annual
 14 expense and it represents approximately 60
 15 percent of Newfoundland Power's costs of
 16 serving its own customers.
 17 As an intervenor in these proceedings,
 18 Newfoundland Power's impetus is to ensure that
 19 the rates charged by Hydro are just and
 20 reasonable. As we've already heard, there's
 21 been a lot of water under the bridge since
 22 2007 when Hydro was last before this Board in
 23 a General Rate Hearing with a request for
 24 changes in electrical rates. We've seen
 25 changes in industrial loads, as well as

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1 changes in the cost of fuel, both of which
 2 have had significant effects on the rate
 3 stabilization plan.
 4 We've seen a variety of government
 5 directives on electrical policy and rates
 6 addressing issues spanning from Hydro's
 7 allowed rate of return on equity to the
 8 allocation of surpluses accumulated under the
 9 rate stabilization plan. The former could
 10 have significant impact on rates going
 11 forward, whereas the latter resulted in more
 12 than one round of litigation, the end of which
 13 we're only now seeing on the horizon.
 14 We've seen a GRA filing which took us up
 15 to the eve of a public hearing last June only
 16 to be replaced with the Amended filing we have
 17 before us, which delayed us over a year
 18 getting here to where we are now. And as it
 19 stands, the record certainly is a large one,
 20 as my learned friend said, and it does show a
 21 mismatch between Newfoundland and Labrador
 22 Hydro's purported costs and those which it
 23 recovers in its present rates. There's no
 24 doubt about that. There's no question that a
 25 general rate case for Newfoundland and

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1 Labrador Hydro is long overdue.
 2 As far as the public hearing is
 3 concerned, Newfoundland Power does have
 4 specific interests in a variety of legal and
 5 technical issues arising out of the cost of
 6 service study recently performed by Hydro, as
 7 well as other items such as the Rural Rate
 8 Deficit, but the bulk of Newfoundland Power's
 9 participation in the hearing will be focused
 10 on three key issues.
 11 First of all, it's clear from the
 12 evidence on the record that Hydro's costs have
 13 been steadily rising since the last General
 14 Rate Hearing. The revenue requirements sought
 15 to be recovered in rates in the 2014 test year
 16 is 132 million dollars higher than what was
 17 put forward in 2007. The requirements for
 18 2015 are 232 million dollars more than what
 19 was put forth in the test year for 2007.
 20 Hydro forecasts that its operating costs will
 21 have increased by almost 50 percent in the
 22 last eight years. Quite simply, these
 23 increases appear high to Newfoundland Power.
 24 So on behalf of its customers, we'd like to
 25 gain a better understanding as to the reasons

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1 for the increases and the processes which
 2 Hydro has in place for managing costs in the
 3 future.
 4 Secondly, while these costs have been
 5 rising, we've seen a decline in reliability of
 6 service provided by Hydro. That was most
 7 evident in the recent supply disruptions in
 8 2013 and 2014. Newfoundland Power's customers
 9 have had to endure stress and inconvenience as
 10 a consequence of these deficiencies and we'd
 11 like to gain a better understanding into how
 12 the deficiencies will be addressed in the
 13 future and the effect of any renewed focus on
 14 reliability on rates.
 15 But lastly, there's been a major
 16 organizational change in Newfoundland and
 17 Labrador Hydro with the creation of the energy
 18 corporation known as Nalcor, and that's
 19 occurred since the last GRA. Newfoundland
 20 Power is seeking a better understanding of how
 21 management decisions are made within this new
 22 structure. And most importantly, we're
 23 interested in whether or not the manner in
 24 which these decisions are made can have an
 25 impact on rising costs and declining

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1 reliability.
 2 Newfoundland Power is merely here to
 3 represent its own customers' interests. Our
 4 customers expect reliable service at least
 5 cost in accordance with the Electrical Power
 6 Act. Ultimately, it's the rate payer who will
 7 bear Hydro's cost of providing service and
 8 this hearing will determine how much those
 9 costs will be passed on. We trust
 10 Newfoundland Power's participation in the
 11 proceeding will be helpful to the Board in
 12 making its determinations. Those are my
 13 opening statements.
 14 CHAIRMAN:
 15 Q. Thank you.
 16 JOHNSON, Q.C.:
 17 Q. Mr. Chairman, Commissioners, as the Consumer
 18 Advocate, I represent General and Domestic
 19 Customers of both Newfoundland and Labrador
 20 Hydro and Newfoundland Power throughout the
 21 Province in this General Rate Application.
 22 The customers of both utilities are directly
 23 affected by this application and more
 24 generally, by Hydro's performance in providing
 25 generation and transmission services, and of

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1 course, Hydro has its own domestic customers
 2 as well who are directly impacted.
 3 In common with the other parties, I look
 4 forward to participating in the hearing and
 5 representing customers in the various issues
 6 raised by Hydro's application. I'll be brief
 7 in these opening comments.
 8 The central theme it appears to me that
 9 runs through this General Rate Application is
 10 that Hydro's controllable costs have been
 11 increasing at an alarming pace, but Hydro's
 12 service has been deteriorating. On the cost
 13 side, customers understand that costs
 14 increase, but they also expect that they will
 15 be closely controlled. In Hydro's case, costs
 16 have not been closely controlled. To
 17 illustrate, Hydro's gross salary costs are up
 18 over 43 percent on an inflation adjusted basis
 19 over the period 2007 to forecast 2015.
 20 Operations and maintenance costs are up 33
 21 percent on an inflation adjusted basis. And
 22 corporate relations costs are up 35 percent
 23 over the same period. Finance department
 24 costs are up nearly 20 percent. I emphasize
 25 that these are the percentage increases after

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1 removing the effects of inflation. These are
 2 very large increases in costs that have grown
 3 since Hydro's 2006 GRA. No business in
 4 private market competition could sustain this
 5 level of growth in costs and where a monopoly
 6 exists, the regulatory system and its
 7 attendant processes have to provide the
 8 scrutiny and check on utility management.
 9 Meanwhile, as these cost increases are
 10 occurring, the service Hydro has been
 11 supplying has not been meeting reasonable
 12 expectations. The supply disruptions and
 13 system failures of the winter of 2014 which
 14 led to widespread outages were the subject of
 15 an exhaustive Board investigation and remains
 16 subject to a pending final report from the
 17 Board. These events shook the confidence of
 18 customers in Hydro and created widespread
 19 hardship and inconvenience.
 20 But even before these events, in 2013
 21 Hydro did not meet a single key performance
 22 indicator on reliability. It reported on
 23 eight reliability related key performance
 24 indicators for 2013 and missed on all eight,
 25 some by wide margins. Additionally, Hydro's

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1 residential customer satisfaction slipped
 2 significantly from 92 percent in 2010 to down
 3 around 80 percent in 2012.
 4 Hydro bears the onus of demonstrating in
 5 this proceeding that the cost to be recovered
 6 in the proposed rates are appropriate to
 7 ensure safe, reliable and least cost
 8 electricity supply. Hydro states in its
 9 Application that it will demonstrate that this
 10 is the case, but they have not done so based
 11 on the information provided. There is a
 12 difference between saying that the evidence
 13 will demonstrate that the cost to be recovered
 14 are reasonable and actually proving it.
 15 The Consumer Advocate shall submit that
 16 the Board should, at the end of the day,
 17 impose a reduction in Hydro's test year's
 18 revenue requirement, including a reduction in
 19 the form of a productivity allowance, as the
 20 Board applied to Hydro in the early 2000s.
 21 On the reliability and customer
 22 satisfaction side, it is clear that there must
 23 be improvement by Hydro. Hydro itself no
 24 doubt concurs. The real issue will be how
 25 this will be achieved. This will require

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1 close monitoring and oversight of Hydro's
 2 plans and more importantly, their execution.
 3 In this regard, the Board's final report on
 4 the outage and supply investigation will, I
 5 believe, be a key element.
 6 This Application is predominantly, though
 7 not exclusively, about revenue requirement and
 8 its appropriate level and what customers need
 9 to get in return for funding that revenue
 10 requirement. Hydro is asking for a lot, but
 11 has not been delivering a lot. This
 12 proceeding needs to restore the balance so
 13 that customers get what they are entitled to,
 14 namely efficient management and operation of
 15 Hydro's regulated operations, consistent with
 16 safe, reliable and least cost power.
 17 Those are my opening comments.
 18 MR. COXWORTHY:
 19 Q. Thank you, Mr. Chair. The Island Industrial
 20 Customers Group certainly share the concerns
 21 that have been expressed by Newfoundland Power
 22 and the Consumer Advocate with respect to the
 23 increasing costs and the alarming rate of
 24 increasing costs that have been incurred by
 25 Hydro, as well as concerns regarding the

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1 reliability challenges which Hydro has
 2 confronted in recent years. However, in these
 3 opening remarks, the Industrial Customers wish
 4 to focus upon the interests and challenges of
 5 the Industrial Customers as consumers of Hydro
 6 power and in particular, the importance to the
 7 Industrial Customers of rate stability and
 8 rate predictability on a go-forward basis.
 9 If I may briefly describe the Industrial
 10 Customer Group and their specific interests.
 11 Teck Resources is phasing down as an
 12 Industrial Customer of Hydro, but does retain
 13 an interest to the extent that there are
 14 legacy issues to be addressed with respect to
 15 interim rates in these proceedings and to the
 16 extent that it does continue to pay and
 17 purchase power, granted in diminished amounts,
 18 as an Industrial Customer.
 19 Corner Brook Pulp and Paper and N-A-R-L
 20 Refining, which I'll refer to as NARL
 21 Refining, have been and remain substantial
 22 Industrial Customers of Hydro and have a keen
 23 and very substantial interest in how issues
 24 with respect to the interim rates that they
 25 are paying now and with respect to their

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1 future rates are addressed in this General
 2 Rate Application. Both Corner Brook Pulp and
 3 Paper and NARL Refining, as well as Teck to
 4 the extent of its operations in this Province,
 5 are in the business of producing and selling
 6 commodities in very competitive international
 7 markets. Both of them, as was Teck, are
 8 substantial employers in this Province and
 9 substantial contributors to the overall
 10 economic welfare of the communities and
 11 regions in which they are located and to the
 12 Province as a whole.
 13 It has been over eight years since the
 14 last General Rate Application by Hydro. This
 15 is unprecedented length of time between
 16 general rate applications in the period since
 17 Hydro's regulation by the Board has been
 18 instituted. While we do not propose to
 19 revisit in these opening remarks or in the
 20 upcoming hearing all of the reasons behind the
 21 extended period of time that has elapsed
 22 between this General Rate Application and the
 23 last one, the Industrial Customers Group do
 24 wish to underline the high degree of
 25 uncertainty which they were confronted with by

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1 being subject to interim rates for almost all
 2 of this eight-year period. They were exposed
 3 to the possibility of very dramatic
 4 readjustment of rates and consequent
 5 liabilities and with uncertainty as to even
 6 what rules would apply to that readjustment.
 7 Rates which have attached to them such a
 8 degree of uncertainty over such a long period
 9 of time cannot be said to be reasonable.
 10 Retail customers could not be expected to face
 11 such uncertainty about electrical rates. It
 12 is no more reasonable to expect Industrial
 13 Customers to do so.
 14 (10:30 a.m.)
 15 The Island Industrial Customers Group
 16 does acknowledge that to a significant extent
 17 this rate uncertainty was mitigated by the
 18 direction given by the Provincial Government
 19 to the Board in the fall of 2013. However,
 20 while that Government direction drew a line
 21 under any continuing rate uncertainty for the
 22 period prior to September 2013, the Industrial
 23 Customers still confront considerable
 24 uncertainty about rates and the possibility of
 25 rate shock in respect of interim rates in

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1 place since September 2013 and future rates.
 2 This continuing uncertainty about how much
 3 Industrial Customers will ultimately have to
 4 pay for electrical power as an integral and
 5 vital input to their operations is plainly not
 6 conducive to their budgeting and their future
 7 planning for their operations. Evidence does
 8 not need to be called for the Board to take
 9 notice that prices for commodities, such as
 10 those produced by the Industrial Customers,
 11 have endured a wide and rapid fluctuations in
 12 recent months and years. Uncertainty about
 13 the Hydro rates that the Industrial Customers
 14 will have to pay can only compound the
 15 difficulties faced by the Industrial Customers
 16 in this turbulent economic climate.
 17 Therefore, the Island Industrial Customer
 18 Group respectfully requests that the Board
 19 consider the negative impact of rate
 20 uncertainty and rate shock when deciding upon
 21 the various issues in this General Rate
 22 Application which will impact upon the rates
 23 that Industrial Customers will pay.
 24 That is the opening statement of the
 25 Industrial Customers. Thank you, Mr.

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1 Chairman.
 2 CHAIRMAN:
 3 Q. Thank you. Vale.
 4 O'REILLY, Q.C.:
 5 Q. Thank you, Mr. Chairman. The Vale
 6 Newfoundland and Labrador Limited certainly
 7 endorses much of what has been said by counsel
 8 for the Industrial Customer Group with respect
 9 to the effect that Hydro rates has on its cost
 10 of operations. Vale, Mr. Chairman, is a new
 11 industrial customer within the industrial
 12 customer class since Hydro's last GRA. When
 13 in full production, Vale will be Hydro's
 14 largest industrial customer on the Island, and
 15 as such this places Vale in a somewhat unique
 16 position in relation to the other industrial
 17 customers within that class. As a case in
 18 point, the transmission line and terminal
 19 station serving Vale is a newly installed
 20 asset and as a result of an anomaly in the way
 21 that Hydro calculates specifically allocated
 22 charges to its industrial customers, Vale is
 23 being charged almost three times what would
 24 represent an equitable charge. Further, as
 25 Vale's load is growing as it ramps up its

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1 production, any of Hydro's past expenses that
 2 may be deferred for recovery in future years
 3 contains the possibility for intergenerational
 4 inequity.
 5 Mr. Chairman, this GRA process, as others
 6 have commented, has been lengthy and complex.
 7 The original application was filed in July of
 8 2013, seven years after Hydro's last GRA. In
 9 November of 2014, a substantial amendment to
 10 this Application was filed which resulted in
 11 considerable additional work having to be
 12 performed. In addition, the present GRA has
 13 been complicated by numerous related
 14 applications by Hydro, such as the 2013
 15 Industrial RSP Application, several interim
 16 rate applications, two cost recovery
 17 applications and two deferral applications, as
 18 well as the prudence review. As a result,
 19 many hours have been spent on this process,
 20 which has been very costly for Vale. Vale
 21 however looks forward to participating in this
 22 hearing in the hope that these issues will be
 23 given a full hearing and viewing through the
 24 regulatory process. Thank you, Mr. Chairman.
 25 CHAIRMAN:

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1 Q. Mr. Luk.
 2 MR. SENWUNG LUK:
 3 Q. Good morning, Chairs and Commissioners. Innu
 4 Nation is pleased to be at this hearing to
 5 participate along with all the other parties
 6 in this important process for the future of
 7 this province. As you may know, Innu Nation's
 8 traditional territory is in Labrador, and at
 9 present there are two Innu Nation communities
 10 in Labrador; Natuashish and Sheshatshiu.
 11 Sheshatshiu is inland and is part of the
 12 Labrador Interconnected System, and Natuashish
 13 is a community on the coast, it is an isolated
 14 community that's diesel powered, and at
 15 present it is not regulated by the Board.
 16 So as such, they have different interests
 17 in this hearing. I'll start off with the
 18 interest of Sheshatshiu. Sheshatshiu, as I
 19 said earlier, is a community on the Labrador
 20 Interconnected Rate and its interests are
 21 mainly restricted to two points. First, a
 22 rural deficit allocation that is fair to
 23 customers on the Labrador Interconnected
 24 System, and second, the calculation of the
 25 rate base for the Labrador Interconnected

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1 System that is consistent with safe reliable
 2 power at least cost. Now with respect to the
 3 rural deficit allocation, Innu Nation
 4 acknowledges that for Labrador Interconnected
 5 customers, including Sheshatshiu, to pay into
 6 the rural deficit is part and parcel of the
 7 power policy of this province, and Innu Nation
 8 is aware that concomitantly if we are
 9 successful in our application to have
 10 Natuashish treated as a regulated community,
 11 then Natuashish would benefit from the rural
 12 deficit subsidy as well. That being said, as
 13 Sheshatshiu pays into the rural deficit, Innu
 14 Nation is asking for the Board to settle on an
 15 allocation of the rural deficit that is fair
 16 as between Newfoundland Power's customers and
 17 Labrador Interconnected customers. As Hydro
 18 has modified its initial method for allocation
 19 of the rural deficit in response, in part, to
 20 Innu Nation's concerns that the initial method
 21 was unfair, Innu Nation is now supportive of
 22 the way that the rural deficit is allocated in
 23 Hydro's Application, and will make submissions
 24 to that effect.
 25 Now secondly, with respect to the rate

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1 base for the Labrador Interconnected System,
 2 there are two specific submissions that Innu
 3 Nation anticipates making. The first is with
 4 respect to the Labrador City distribution
 5 upgrade. We anticipate calling evidence
 6 showing that this distribution upgrade is of
 7 benefit only to Labrador West customers. As
 8 such, this upgrade should be reflected only on
 9 the bills of Labrador West customers and not
 10 Labrador East customers, perhaps as we'll
 11 argue through the vehicle of a rider on
 12 Labrador West customers bills. Our second
 13 concern with respect to the rate base in the
 14 Labrador Interconnected System is the Labrador
 15 West Transmission Project. Innu Nation
 16 anticipates calling evidence showing how this
 17 project, which is meant only to supply to non-
 18 regulated customers, will actually have
 19 adverse effects on the rates of regulated
 20 customers. We are aware that this project has
 21 been suspended, but even so it potentially
 22 will have large negative impacts on the rates
 23 of Labrador Interconnected customers even
 24 before the next GRA.
 25 Now Sheshatshiu has the privilege of

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1 regulation by the Board, of having the Board
 2 make sure that Hydro is spending only money
 3 that it needs to, to make sure that the
 4 electricity infrastructure in the community is
 5 being prudently managed and that safe,
 6 reliable, and least cost power is being
 7 delivered. The Board has ordered that
 8 Natuashish evidence be adduced at a separate
 9 proceeding, and hence Innu Nation no longer
 10 plans on calling witnesses at this present
 11 proceeding to give evidence on the situation
 12 in Natuashish. However, Innu Nation would
 13 like to note at this time that Natuashish is
 14 asking only for the same privilege that its
 15 sister community, Sheshatshiu, has that ever
 16 other community in this province has, that of
 17 having its electricity services regulated by
 18 yourselves, the Commissioners.
 19 Like any community of around a thousand
 20 residents Natuashish is not well equipped to
 21 operate its own electrical system or to
 22 supervise Hydro in its operation of an
 23 electrical system. The potential for
 24 catastrophic failure is ever present and the
 25 stakes are extremely high for an isolated

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1 Labrador community with a long and cold
 2 winter. We ask that the Board keep the
 3 urgency of the situation in mind as it settles
 4 on what the separate proceeding on the
 5 Natuashish evidence will look like.
 6 Now if Natuashish becomes part of the
 7 regulated system, as we submit it should be,
 8 Innu Nation expects that it would become part
 9 of the Labrador Isolated System. Innu Nation
 10 expects to make a brief submission about the
 11 Labrador Isolated System mainly relating to
 12 the paradoxical effect of a rural deficit
 13 allocation method that results in much higher
 14 Labrador Interconnected rates. Because all
 15 Labrador isolated communities, that is with
 16 the exception of Natuashish, benefit from a
 17 government subsidy through the Northern
 18 Strategic Plan that brings their first block
 19 rates down to the Happy Valley Goose Bay rate,
 20 a dramatic increase in the Labrador
 21 Interconnected rate would also lead to a
 22 dramatic increase in the Labrador Isolated
 23 Lifeline Block rate, and insofar as a rural
 24 deficit allocation method or a large increase
 25 in the rate base in the Labrador Isolated

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1 System would have the effect of increasing
 2 Labrador Interconnected rates, it would have a
 3 flow through effect on these Northern
 4 Strategic Plan subsidy, and hence also
 5 increase Labrador Isolated rates.
 6 Innu Nation anticipates making
 7 submissions to the Board urging it to avoid
 8 such a result. Finally, Innu Nation will
 9 briefly lead evidence on integrated resource
 10 planning. Given the potential for cost
 11 savings from a better planned and more
 12 efficient electrical system, we will submit
 13 that this GRA is the right time for the Board
 14 to request that Hydro begin an integrated
 15 resource planning process. Innu Nation looks
 16 forward to participating in this important
 17 process and hope that our evidence and
 18 submissions will be of assistance to the Board
 19 in implementing safe reliable power at least
 20 cost throughout the Province of Newfoundland
 21 and Labrador.
 22 This concludes Innu Nation's opening
 23 statement. Thank you.
 24 CHAIRMAN:
 25 Q. Thank you.

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1 MS. GENEVIEVE DAWSON:
 2 Q. Good morning, Chair and Commissioners. As I
 3 indicated before, I represent the Nunatsiavut
 4 Government as outside counsel. For those who
 5 are not aware, the people of Nunatsiavut are
 6 Inuit. The Inuit have occupied the
 7 circumpolar regions of this world for more
 8 than 5,000 years. The Inuit are one of the
 9 founding people of Canada. The five
 10 communities in Nunatsiavut are Nain, Hopedale,
 11 Makkovik, Postville, and Rigolet, with a total
 12 population of 2,534.
 13 We're here today because Newfoundland
 14 Hydro has asked the Public Utilities Board for
 15 an increase in rates for the isolated Labrador
 16 communities noted above. The residents of
 17 Nunatsiavut cannot afford these increases. It
 18 is not a matter of luxury or inconvenience,
 19 but survival, meaning many of our constituents
 20 will have to make a choice of whether to turn
 21 up the heat or eat. It is that simple. The
 22 Consumer Advocate has spoken to the
 23 unreasonable costs of Newfoundland Hydro and
 24 that will no doubt be emphasized over the next
 25 several months.

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1 It is the position of the Nunatsiavut
 2 Government that the rate increase proposed by
 3 Newfoundland Hydro is unjust and unreasonable
 4 in the circumstances. The Nunatsiavut
 5 Government, therefore, requests that the
 6 Public Utilities Board not approve the
 7 recommended rate increase suggested by
 8 Newfoundland Hydro.
 9 10:45 A.M.
 10 Our witnesses will speak to you about the
 11 economic conditions faced by the residents of
 12 Nunatsiavut. We will speak to how we feel
 13 Newfoundland Hydro could do a better job of
 14 education on more effective energy
 15 conservation, and we will also make
 16 representations to you on alternate energy
 17 sources. My final comment is one of passing
 18 interest on perhaps the issue of equity. The
 19 people of Nunatsiavut find it very interesting
 20 that they will have no direct benefit by this
 21 huge undertaking of Muskrat Falls. At the end
 22 of the development, other than maybe a few
 23 jobs short term, the residents of Nunatsiavut
 24 will not have renewable energy, but will still
 25 rely on diesel and see no benefits from this

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1 major undertaking by Nalcor and/or
 2 Newfoundland Hydro. In fact, the rising
 3 mercury rates on the lakes next to or adjacent
 4 to Nunatsiavut will have a negative effect on
 5 the residents and the communities of the Inuit
 6 of Labrador. Thank you.
 7 CHAIRMAN:
 8 Q. Mr. Dumaresque.
 9 MR. DANNY DUMARESQUE:
 10 Q. Mr. Chairman and Commissioners, last evening
 11 during dinner, I took a call from an 85 year
 12 old lady here in town. She called to tell me
 13 that she had been living now for the last
 14 twenty years in her own home, and that her
 15 former husband's pension had been reduced by
 16 40 percent because the company that he was
 17 with went bankrupt and the benefits were
 18 denied, and at this point in time she has been
 19 grappling with staying in her own home, she
 20 has become increasingly concerned about the
 21 cost of electricity. As you know, in July of
 22 this year there was a net impact on her and
 23 tens of thousands, everybody on the Island of
 24 Newfoundland, a 3.1 percent, and now we are
 25 talking about another substantial increase by

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1 Hydro to be followed with, as per your
 2 direction, Newfoundland Power on October 16th
 3 will be coming forward with a rate
 4 application, and we all know that the
 5 financial tsunami of Muskrat Falls is a couple
 6 of years away. The increase in the
 7 electricity rates is too much for this 85 year
 8 old lady to assume. Obviously, the income is
 9 not going up to meet these requirements and
 10 she represents tens of thousands of people in
 11 this province, tens of thousands of people in
 12 this province that are on fixed incomes, that
 13 are pensioners, that are minimum wage earners
 14 and that are losing their jobs under the
 15 current economic situation.
 16 I told her last evening that I would come
 17 here today to say, no, that I would insist to
 18 the Public Utilities Board to reject this rate
 19 application because we have seen report after
 20 report, including the Board's own report and
 21 the Board's consultants report, that have
 22 conclusively said that the reason that we are
 23 here today is because Hydro just failed to get
 24 its act together, and I submit to you that
 25 these rate payers should not have to pay for

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1 the incompetence and the mismanagement of
 2 Hydro. Now as your legal counsel has pointed
 3 out to you, I have been only authorized to
 4 participate in the Prudency Review, and I
 5 thank the Board for initiating this Prudency
 6 Review, and I certainly look forward to
 7 participating in this review.

8 I would like to have a few words to say
 9 about that review, and obviously the most
 10 blatant thing about the review and the
 11 conclusion of Liberty is that six of the right
 12 projects that they looked at they said were
 13 imprudently spent the money, some 27 million
 14 dollars was imprudently spent by Hydro, that
 15 they failed to do the required maintenance,
 16 they failed to plan properly, and the
 17 conclusion has been that 27 million dollars
 18 that they are asking for to be recovered here
 19 in this rate application should be denied.

20 I also want to deal with the aspect, the
 21 project of the Prudency Review that Liberty
 22 failed to acknowledge as a poor and very much
 23 a waste of money, in my opinion, and my
 24 objective here is to illustrate that the new
 25 combustion turbine was not a cost effective

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1 project, that the project has been rife with
 2 poor management decisions, and the rate payers
 3 of this province should not bear the
 4 responsibility of these poor management
 5 decisions. In Chapter Two of Liberty's
 6 Prudency Report, it was dedicated to the issue
 7 of prudence surrounding the new 100 megawatt
 8 combustion turbine. As noted on page 7 of the
 9 report, the prudency analysis covered in this
 10 chapter included the quality of the underlying
 11 supply and management processes and decisions,
 12 whether the new Hydro CT should have been
 13 installed sooner, the choice of the machine
 14 and the strategy for installation, the quality
 15 of project management and the prudence of cost
 16 expended. The bulk of Liberty's analysis in
 17 this chapter focused on the first point, the
 18 supply planning process. This issue is
 19 examined in detail on page 8 through 11.
 20 However, the issue of machine choice and cost
 21 were not covered in depth, warranting only two
 22 paragraphs and three paragraphs respectively
 23 on pages 13 and 14 of each topic. It is these
 24 two issues that I wish to address in greater
 25 detail today.

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1 In Chapter Two of Liberty's Report, the
 2 issue of choice of machine is very briefly
 3 discussed. It appears that this section, that
 4 Liberty only considered machine choice in
 5 terms of Hydro's choice to install a 100
 6 megawatt generator instead rather than its
 7 initial consideration to install a 50 megawatt
 8 combustion turbine. Liberty noted that the
 9 doubling of the unit size compared with
 10 earlier plans proved to have considerable
 11 value. However, it appears Liberty did not
 12 review machine choice in terms of whether
 13 there were alternative machines available, and
 14 if so, whether these machines posed better
 15 more reliable options than the unit that was
 16 ultimately procured. I believe there were
 17 better, more cost effective, and more reliable
 18 machine options available than the 100
 19 megawatt generator that was actually procured,
 20 which I will discuss in a moment. In Chapter
 21 Two of Liberty's Report, the issue of project
 22 costs is briefly discussed. In this section,
 23 Liberty exams whether Hydro's Capital Cost of
 24 119 million for the new CT are prudent, which
 25 by the way is now increased to 125 million,

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1 when it's compared to similar projects. What
 2 Liberty does not examine and where they have
 3 failed us is whether these costs incurred for
 4 the new CT are reasonable for the specific
 5 machine acquired, and whether these costs fall
 6 in line with fair market values for the
 7 specific machine.

8 In February of 2014, Hydro has confirmed
 9 that they knew that this specific unit, this
 10 specific combustion turbine generator,
 11 including the balance of plant electrical and
 12 mechanical, was available through a broker in
 13 Houston, Texas, for 22 million dollars or
 14 nearest offer. I repeat, Hydro knew in
 15 February of 2014 that this unit, this seven
 16 year old turbine and generator, which had been
 17 sitting in a warehouse in Tennessee for years
 18 and advertised around the world for years, but
 19 nobody would buy it, it was being offered for
 20 22 million dollars or nearest offer. So here
 21 we have a situation, obviously this unit was
 22 owned by a utility that would have written off
 23 a fair value, a fair part of that value, and
 24 there's no question in my mind as a
 25 businessman that nobody would refute that you

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1 could go down and talk to the owner and be
 2 able to get this unit for probably 50 percent
 3 of what they were asking, if not less, but
 4 obviously that did not happen, and the
 5 question has to be answered, why, why did we
 6 not go down and try to negotiate the purchase
 7 of this machine, but instead go to issue a
 8 contract for 100 million dollars which is now
 9 115 million dollars that we have given this
 10 company from the US.

11 The Public Tender Act at Section 3.1
 12 states, "Where a public work is to be executed
 13 under the direction of a government funded
 14 body for goods or services to be acquired by
 15 the government body, the government funded
 16 body shall invite tenders for the execution of
 17 the acquisition". This is the process that
 18 Hydro undertook to acquire and install the
 19 Holyrood CT. Hydro held a very short tender
 20 process, ultimately accepting the lowest bid
 21 of some 99 million dollars. A contract was
 22 subsequently signed between Hydro and
 23 ProEnergy of Missouri, USA, on May 16, 2014.
 24 The unit that was ultimately acquired was a
 25 machine encompassing a seven year old turbine

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1 and a five year old generator. One of my
 2 first concerns with the acquisition of this
 3 unit was that it was not new. I was concerned
 4 about its reliability. On August 5, 2014,
 5 Hydro stated that a third party inspection of
 6 the unit was completed between April 28th and
 7 May 1st to evaluate the condition and
 8 suitability of the unit for use. On June 4th,
 9 CEO Martin confirmed that an independent
 10 engineer's report had been done on the unit
 11 and that a deep inspection had been carried
 12 out. However, the deep inspection was, in
 13 fact, only a five page report outlining a
 14 casual third party visual assessment of the
 15 unit. No internal integrity checks of the
 16 unit were completed. Further, speaking to the
 17 units unreliability is on March 4th, three
 18 months after the in-service date was
 19 guaranteed by the contract, when 200,000
 20 people were in blackness at -24 degrees here
 21 in St. John's, and at 6 a.m. when this unit
 22 was required, she would not start. The record
 23 will now also show that on April 18th, when
 24 checking, it was unavailable. August 6th and
 25 the 7th, this unit again was unavailable, and

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1 on August 11th, when they tried to get this
 2 unit available, it failed to start. So the
 3 reliability of this unit is very much in
 4 question today. As I will discuss, this unit,
 5 while it should have provided greater
 6 reliability, obviously it is certainly very
 7 much in doubt.

8 When Hydro Vice-President, Mr. Anderson,
 9 was quoted in the media as stating that the
 10 unit in terms of its cost, stated in the media
 11 that the unit cost 23 million dollars, it is
 12 simply untrue, and I would like to pose the
 13 question to the Board as to why rate payers
 14 are not being given the complete information
 15 for the cost of the unit. As you know, they
 16 have provided in confidence to the Board a
 17 breakdown of what was paid for the complete
 18 unit, as well as the separation between that
 19 and the installation cost, and while I have
 20 abided by the request of the Board to not give
 21 that detail, I certainly will indicate today
 22 that the mechanical aspect separated from the
 23 installation cost was some 45 million dollars,
 24 nowhere close to the 23 million dollars that
 25 Mr. Anderson certainly told the people of this

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1 province. Extensive research that I have
 2 done, including sworn testimony from a
 3 regulatory auditor, and the most current
 4 estimated value from the leading industry
 5 representative, and reference to Gas Turbine
 6 World Handbook, has shown that the value of a
 7 brand new unit, same units, would now cost in
 8 the order of some 32 million dollars.
 9 11 A.M.

10 On November 19, 2014, the appraisal
 11 company, R. W. Beck, was requested to perform
 12 an appraisal to determine the appropriate and
 13 estimated fair market value of some assets in
 14 Missouri. These assets were three DF01A 100
 15 megawatt combustion turbine, precisely the
 16 same units, the same model, the same capacity
 17 as we have now paid 115 million dollars to
 18 have installed at Holyrood. In this point of
 19 reference, as I said, the same unit. These
 20 three units were manufactured in 2001 and
 21 2002, these units were subsequently kept in
 22 storage before being installed three years
 23 later in 2004. The condition of these assets
 24 were verified to be in mint condition and
 25 these assets were assessed a fair market value

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1 in November, 2004, of 70.7 million dollars or
 2 23.5 million dollars per plant. Further
 3 testimony at the regulatory procedure with a
 4 regulatory auditor with the Missouri Public
 5 Service Commission showed that the cost
 6 incurred in purchasing - the cost installed
 7 and purchasing these same precise models,
 8 D501A GT units in June, 2005, was a total cost
 9 of 117 million dollars. Therefore, the total
 10 cost of procurement, engineering, and
 11 construction of these brand new units was
 12 approximately 39 million dollars per unit.
 13 That is US dollars, and on April of 2014, our
 14 conversion rate at that time was 108, so give
 15 it 10 percent more and you're up to around 45
 16 million dollars for the purchase, the
 17 engineering, the installation of brand new
 18 units. We have turned around and has now
 19 since paid 115 million dollars of tax payers
 20 money for a seven year old turbine and
 21 obviously one with not a very good performance
 22 record to date.
 23 So as discussed earlier, the Public
 24 Tender Act, yes, it states that work is to be
 25 executed under the direction of the government

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1 funded body when acquiring these assets,
 2 however, the Public Tender Act also notes a
 3 number of exceptions to this provision, and at
 4 Section 3.2 the Act states, "Notwithstanding
 5 Subsection 1, the government funded body is
 6 not required to invite tenders", not required
 7 to invite tenders when there is a specific
 8 situation where in the opinion of the head of
 9 the government funded body inviting a tender
 10 would not achieve the best value and the
 11 government funded body has, through the
 12 Minister responsible for it, obtain the
 13 approval of the Lieutenant Governor in Council
 14 to carry out a request for proposals as
 15 prescribed by the regulations instead of a
 16 tender call. The Public Utilities Board in PU
 17 Order 16 granted approval for the expenditure
 18 of the 119 million dollars for the purchase
 19 and installation of the CT unit. It is
 20 important to note here that among the
 21 available tenders was one put forward by
 22 Mitsubishi where it offered four brand new 25
 23 megawatt combustion turbines at approximately
 24 115 million dollars. Acquiring four brand new
 25 units would allow for greater reliability from

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1 the newer units, more flexibility in power
 2 generation and supply by having the option to
 3 only engage one or two machines if necessary,
 4 and greater assurance of quality in terms of a
 5 two year manufacturers warranty. We have no
 6 manufacturers warranty on this machine that we
 7 have paid 115 million dollars for.
 8 MR. CASS:
 9 Q. Excuse me, Mr. Chair, I apologize for
 10 interrupting Mr. Dumaresque, I apologize, we
 11 are in the Board's hands, of course, but what
 12 I'm hearing sounds much more like points that
 13 can be made when the Prudence Review occurs,
 14 either in evidence or in closing argument. It
 15 doesn't sound a lot like an opening statement.
 16 Again we're in the Board's hands, I just
 17 wanted to observe that the Prudence Review
 18 will take place at the appropriate time, and
 19 points can be made then and there will be an
 20 opportunity for closing argument. It doesn't
 21 sound like an opening statement. Thank you.
 22 CHAIRMAN:
 23 Q. All right, I'm kind of mindful of what counsel
 24 for Newfoundland Hydro has said, Mr.
 25 Dumaresque. I mean, there certainly will be

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1 an opportunity to make these - I just thought
 2 now we were going to have - I use the word
 3 "brief", obviously, that's not quite accurate
 4 now, but I do think that the point made by
 5 counsel for Hydro is appropriate. I mean, we
 6 were just trying to set the stage, we weren't
 7 trying to perform the full play, I guess.
 8 MR. DUMARESQUE:
 9 Q. I'm thirty seconds away from concluding, Mr.
 10 Chairman. While I appreciate the comments,
 11 certainly in the context of where I am, I'm
 12 about 30 to 60 seconds away. Pursuant to the
 13 Liberty Group Prudence Review of Hydro's
 14 decisions and actions final report dated July
 15 6, 2015, Liberty concluded its review
 16 according to whether Hydro's decisions and
 17 actions were reasonable in the context of
 18 information that was known or should have been
 19 known at that time. On the issue of machine
 20 cost and project cost, I do not believe that
 21 it can be said that Hydro has made prudent
 22 decisions and actions. Hydro ought to have
 23 known that the procurement and installation of
 24 a secondhand unit at a cost of nearly 126
 25 million dollars would not provide the best

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1 value and the most reliability to rate payers
 2 than a brand new unit with full manufacturers
 3 warranty. So for the reasons I have
 4 discussed, I believe Hydro has been imprudent
 5 in this regard, as they have been in the other
 6 27 million dollars that Liberty has concluded,
 7 and that the rate payers should not have to
 8 bear the cost of this project, and over the
 9 time that the Board will allocate, of course,
 10 to the Prudency Review, there are many, many
 11 questions that must be answered, but as I said
 12 right from the outset, the most fundamental
 13 one is this; when you know that the unit would
 14 be available for 22 million or nearest offer
 15 from a broker and its been sitting in a
 16 warehouse in Tennessee for nearly six years,
 17 why would you go down, why would you sign a
 18 contract and spend 115 million dollars of our
 19 money. We will get those answers, and I hope
 20 to prove to you and the Board that these costs
 21 are not prudent and they should not be saddled
 22 on the rate payers, and people like this lady
 23 that I spoke to last evening will be able to
 24 get some comfort that the Board will exercise
 25 its power and stop the abuse of tax payers,

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1 and rate payers money more particularly, in
 2 projects like the purchase of this 100
 3 megawatt generator. Thank you for your time.
 4 CHAIRMAN:
 5 Q. Thank you. I guess, we're ready to proceed
 6 now with -
 7 MS. GLYNN:
 8 Q. We were going to break around 11:30, so it
 9 might be -
 10 CHAIRMAN:
 11 Q. Yes. I thought that, but I was afraid to
 12 bring it up, you know. I thought it may be a
 13 good idea to break now, but I thought I was
 14 the only one thinking like that. So we'll
 15 break and we'll start with Hydro at - how long
 16 do you want to break for?
 17 (11:10 A.M.)
 18 MS. GLYNN:
 19 Q. Fifteen minutes is good.
 20 CHAIRMAN:
 21 Q. Okay, fine, thank you.
 22 (RECESS)
 23 (11:30 A.M.)
 24 CHAIRMAN:
 25 Q. I guess we're ready now to start with Hydro.

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1 I understand some of you are cold, but we're
 2 trying to conserve energy. Sir, the show is
 3 yours.
 4 MR. CASS:
 5 Q. Yes, we have Hydro's first witness, Mr. Martin
 6 here, and he's ready to be sworn, sir.
 7 MR. EDWARD MARTIN (SWORN) EXAMINATION-IN-CHIEF BY MR.
 8 FRED CASS:
 9 MR. CASS:
 10 Q. Mr. Martin, you are the President and CEO of
 11 Newfoundland and Labrador Hydro, are you?
 12 MR. MARTIN:
 13 A. That's correct.
 14 MR. CASS:
 15 Q. Can you please give us your perspective on
 16 what's been happening at Hydro and how you see
 17 things unfolding in the future?
 18 MR. MARTIN:
 19 A. Well, first I'll provide some history in terms
 20 of where we've come from, and what's been
 21 happening over the past several years, and
 22 using that as a basis, I'll provide some
 23 perspective on what the next three to five
 24 years holds, and then a short summary of what
 25 post-three to five years might be looking

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1 like. So when I first arrived in this role,
 2 understanding that the purpose of the business
 3 was certainly a customer focus, and it was
 4 really - you know, Newfoundland and Labrador
 5 Hydro exists to provide cost effective,
 6 reliable, safe, environmentally prudent
 7 electricity to the customers here in
 8 Newfoundland and Labrador, and also from a
 9 company perspective, to ensure the long term
 10 viability of Newfoundland and Labrador Hydro
 11 for the same reason.
 12 So in that context, upon my first review,
 13 I noted several key things. One, the safety
 14 performance of the company was at an
 15 unacceptable level. The second thing I
 16 noticed was that the infrastructure was aging
 17 significantly, and under-invested at that
 18 point. Demand growth was on the horizon, new
 19 generation was going to be required rapidly,
 20 and had not been addressed at that point. The
 21 financial position of the company was one of
 22 the worst in the country, and the Holyrood
 23 plant, the emissions record at the Holyrood
 24 plant was totally unacceptable from a sulphur
 25 dioxide NOx particulate and GHG perspective.

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1 So those were the issues I was faced with
 2 initially. I had to address each of these
 3 issues, myself and the leadership team of the
 4 company, and that's what we've been doing.
 5 First from an aging infrastructure
 6 perspective, it's no secret that the
 7 generation assets, the majority of those
 8 assets of Newfoundland and Labrador Hydro are
 9 well over 40 years of age reaching the end of
 10 their useful life, including most importantly
 11 Holyrood. The transmission infrastructure
 12 which was put in place at the same time in
 13 general as the generation was also well over
 14 40 years, the majority of it was well over 40
 15 years old, and also approaching end of useful
 16 life. Life cycle curves for these assets were
 17 clearly projecting and approaching significant
 18 decrease in reliability and would require
 19 significant investment to ensure that that did
 20 not happen, was arrested and maintained
 21 preferably. So unless there was significant
 22 refurbishment and replacement expenditures,
 23 combined with increasing maintenance costs, it
 24 was clear that reliability would be rapidly
 25 declining on the generation and transmission

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1 system and distribution system that
 2 Newfoundland and Labrador Hydro was
 3 responsible for.
 4 Our next step was evident. We took a
 5 step back, established the condition based
 6 assessment for all of the assets, we developed
 7 a comprehensive 20 year outlook for each of
 8 those assets, we prepared an initial budget
 9 and a schedule against this plan over a 20
 10 year period, we then stood back and resourced
 11 the plan understanding what level of resources
 12 would be required to carry it out, we
 13 optimized that resource levelling, and we
 14 established the plan and locked it in place.
 15 This plan has yielded an outlook which has
 16 more than doubled our capital expenditures for
 17 sustaining capital from 2005 of approximately
 18 35 million. We've more than doubled that per
 19 year and that will continue over time. It's
 20 an absolutely requirement to maintain these
 21 assets and keep them at a point where they
 22 offer acceptable reliability to the customer.
 23 In addition to additional capital,
 24 regular annual maintenance work is increasing,
 25 it has to increase, the assets need it. The

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1 increase in ongoing maintenance costs will
 2 continue to increase as these assets continue
 3 to age and we seek to maintain their
 4 reliability.
 5 The second point with respect to demand
 6 growth, demand projections clearly indicated
 7 more electricity was required for the future.
 8 It indicated then and it still indicates it
 9 now. New generation would be required with
 10 supporting infrastructure. So throughout the
 11 decision process, a decision was made to
 12 address this need through the combustion
 13 turbine that was recently pushed into service
 14 and the Muskrat Falls Labrador Island Link
 15 Project. These projects were sanctioned, and
 16 as I mentioned, they're either in service with
 17 respect to the new combustion turbine or
 18 they're under construction as we speak with
 19 Muskrat Falls and the Labrador Island Link.
 20 We have accomplished these efforts and
 21 initiatives which are required in the context
 22 of safety performance significantly improving
 23 over that same period of time. Last year for
 24 the first time in Newfoundland and Labrador
 25 Hydro's history, there was zero lost time

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1 incidents. From an environmental performance
 2 perspective, Holyrood emissions have been
 3 significantly reduced in respect to the
 4 sulphur dioxide NOx and particulate. GHG is
 5 still the same issue it was in the past, needs
 6 to be dealt with. Now in addition to that
 7 with respect to our ISO 14001 certification,
 8 we've increased our record of meeting our
 9 annual targets from an average of 75 percent
 10 to now we are sustained meeting those targets
 11 in between a 98 to 100 percent level each
 12 year.
 13 The key reliability indicators for direct
 14 customer service have stabilized. We are
 15 focused there on measures maintaining the
 16 ability to supply the customer. I offer, for
 17 example, some of the key performance measures
 18 that we are tracking. With respect to the
 19 bulk transmissions system, we're looking at
 20 the 230 KV system in two parts. Part A, the
 21 transformer and circuit breaker performance,
 22 we are outperforming the Canadian average, and
 23 on the 230KV transmission system, we're
 24 generally aligned with the CEA averages, more
 25 volatility, but over time aligned.

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1 The second thing that we've been looking
 2 at is how are we doing with respect to the
 3 system average interruption frequencies and
 4 the duration of those frequencies at the
 5 direct customer level, the direct residential
 6 customer level over time. When we adjust for
 7 Hurricane Igor and the major sleet storm of a
 8 couple of years ago, and when we take out the
 9 January events of the past two years, to
 10 compare how we're doing overall, in those
 11 cases our duration of outages directly to the
 12 customers is less than the Canadian average
 13 and the frequency is slightly more than the
 14 Canadian average, less than one additional
 15 outage per less.

16 The generation availability for Hydro for
 17 our hydro system, for our hydro assets, is
 18 favourable compared to the rest of the country
 19 and generation availability for Holyrood is
 20 favourable when we adjust for the 13 and 14
 21 events compared over the longer haul, the
 22 generation available for Holyrood is not as
 23 favourable as the hydro, but still on average
 24 similar to other jurisdictions.

25 The financial position of the company has

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1 improved. Our debt equity structure has been
 2 reduced. It's gone from one of the worst in
 3 the country, 83 percent debt equity, we are
 4 currently at 72 to 74 percent with our target
 5 to be in that same range, below 75 percent
 6 over time. Our capital execution performance
 7 has improved significantly compared to
 8 national standards in that time frame. Our
 9 customer service, I heard one of the
 10 intervenors mention that our customer service
 11 ratings have reduced from 92 to 80 percent. I
 12 believe we're talking about our distribution
 13 system at Newfoundland and Labrador Hydro, I
 14 would like to note that in 2014, our customer
 15 service rating increased from 80 percent to 84
 16 percent, and I would also like to indicate or
 17 remind people that the Canadian average is 55
 18 percent.

19 From a cost perspective, there's been a
 20 lot happening by design. Up until 2013, we
 21 maintained increases within inflation around
 22 the 2 to 2.5 percent. Subsequent to 2013, we
 23 have made an increase, but I'd like to put
 24 that in context. If you look at our total
 25 2015 test year request of 662 million dollars,

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1 if you break that out into what I term
 2 "generally uncontrollable" because it's an
 3 outcome at this stage, from that 662, if you
 4 take off the projected fuel purchases of 270
 5 million, power purchases of 63 million,
 6 depreciation of 68 million, return on equity
 7 of 33 million, and interest of 89 million,
 8 you're left with an operating and maintenance
 9 portion which is 138 million. That 138
 10 million is 44 million greater than 2007. So
 11 from 2007 to 2015, we've increased the
 12 operating and maintenance portion by 44
 13 million, and if I break out that 44 million,
 14 the majority of that is people costs, system
 15 equipment maintenance, and a range of other
 16 costs. The system equipment maintenance is
 17 increasing and will continue to increase based
 18 upon the life cycle of the assets and the age
 19 of the assets.

20 From the people perspective, which is the
 21 major portion of that, some of that is salary
 22 increases which are competitive, but there is
 23 an allowance in there for additional people.
 24 Approximately 50 people, and that is comprised
 25 of five to six people to operate the new CT,

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1 which is a given, and then the remainder is a
 2 combination of increased operating people to
 3 handle the increasing work around the age of
 4 the assets, and there's some additional
 5 administrative people to handle the
 6 significant burdens that come with the
 7 increasing work. I believe that from a cost
 8 perspective, it's that element of the people
 9 portion which is going to be the main focus of
 10 this GRA, and our people are here with the
 11 data and information prepared to deal with
 12 that. So that will be dealt with obviously by
 13 the Board, but I believe that's where the
 14 focus will be, and from that perspective, when
 15 I come back to the cost on top of, as I
 16 mentioned, the other elements that had to be
 17 improved, I believe that we are in the proper
 18 place where we should be with cost to maintain
 19 what we have to maintain here.

20 So in this context, where we have evolved
 21 from, we've done what we said we're going to
 22 do, and we will continue to do that. Going
 23 forward, first if I look at the next three to
 24 five years, we're focused on three key things;
 25 (a) maintaining safety performance and culture

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1 at the standards we've currently achieved, the
 2 second thing, executing our asset management
 3 plan which is intact, published and being
 4 executed as we speak for existing assets, and
 5 doing that with respect to continuing to
 6 increase capital outlay as we've outlined, and
 7 increasing the operating expenses to a level
 8 which is prudent, cost effective, but still
 9 targets to making sure that we can maintain
 10 the asset base properly. All of this with our
 11 eyes on the cost and the right balance between
 12 cost and reliability, safety, and the
 13 environment and maintaining the long term
 14 viability of the company.
 15 (11:45 A.M.)
 16 The third thing we're focused on in the
 17 next three to five years is planning and
 18 preparing for integration of Muskrat Falls
 19 Labrador Island Link and the Maritime Link.
 20 It's a major change, it's a fundamental change
 21 for the province, it's a fundamental change
 22 for Eastern North America. Newfoundland and
 23 Labrador will for the first time be connected
 24 to Eastern North America in two ways, and
 25 although new for Newfoundland and Labrador, we

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1 need to restructure and prepare for
 2 integration in a fashion that other
 3 jurisdictions have been doing for many, many
 4 years, and those are the jurisdictions we're
 5 looking to to understand what has to happen.
 6 We need to make sure that we properly
 7 integrate a significantly new large generator
 8 and transmission structure into the
 9 Newfoundland and Labrador system, and we also
 10 need to integrate Newfoundland and Labrador
 11 into the North America system with all that
 12 entails with respect to NERC standards, FERC
 13 standards, FERC open access requirements and
 14 other things. That work is underway and will
 15 be complete and ready for the integration time
 16 frame of Muskrat Falls and the Labrador Island
 17 Link and the Maritime Link.
 18 Longer term, in conclusion, post-
 19 integration, we're focused on Newfoundland and
 20 Labrador Hydro's customer needs. It looks
 21 like we will not be requiring additional
 22 generation for Newfoundland and Labrador
 23 customers for an extended period, therefore,
 24 attention clearly turns to maintaining our
 25 safety performance and ensuring that we manage

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1 the existing assets we have at that time in a
 2 cost effective manner, but ensuring the proper
 3 reliability longer term.
 4 MR. CASS:
 5 Q. Thank you, Mr. Chair. That concludes the
 6 Examination-in-Chief of Mr. Martin.
 7 CHAIRMAN:
 8 Q. I guess, we'll start with Newfoundland Power.
 9 MR. EDWARD MARTIN, CROSS-EXAMINATION BY MR. LIAM O'BRIEN:
 10 MR. O'BRIEN:
 11 Q. Thank you, Mr. Chair. Good morning, Mr.
 12 Martin.
 13 MR. MARTIN:
 14 A. Good morning.
 15 MR. O'BRIEN:
 16 Q. I don't believe we've met before. My name is
 17 Liam O'Brien. I'm outside counsel for
 18 Newfoundland Power. One of the first things,
 19 I guess, I'd like to discuss with you, I
 20 guess, it's in the forefront since your last
 21 GRA, is the organizational structure of
 22 Nalcor, Hydro, and how that works. Perhaps if
 23 we could bring up RFI PUB-NLH-138. I believe
 24 this is the second revision of that, if we
 25 could bring that up.

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1 MR. MARTIN:
 2 A. What number is that again, 108?
 3 MR. O'BRIEN:
 4 Q. 138, PUB-NLH-138. That'll be on your screen
 5 there in a second, Mr. Martin. So this
 6 particular question, Hydro was asked to
 7 provide a complete organizational chart for
 8 the corporate structure of Hydro only. Now
 9 there's an attachment to that, if we could go
 10 to the first page, we're looking at a
 11 leadership team there of Hydro, and that's the
 12 leadership team as it exists right now, is
 13 that correct, for Hydro?
 14 MR. MARTIN:
 15 A. Can you push it up on the screen a little bit
 16 there, please?
 17 MR. O'BRIEN:
 18 Q. Yes, sure.
 19 MR. MARTIN:
 20 A. That's correct.
 21 MR. O'BRIEN:
 22 Q. Okay. We've seen in the evidence a
 23 description, I guess, and answers to a number
 24 of RFI's about a matrix organizational
 25 structure. Can you explain to me what that

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1 means, what the matrix organization is versus,
 2 say, a linear organizational structure?
 3 MR. MARTIN:
 4 A. I'm not sure what you mean by "linear", but I
 5 will describe the matrix to the best of my
 6 ability.
 7 MR. O'BRIEN:
 8 Q. Sure.
 9 MR. MARTIN:
 10 A. If we put it in context of Newfoundland and
 11 Labrador Hydro, when we were asked to evolve
 12 portions of the company into the energy
 13 company, we did that, and then we looked at
 14 the way to most effectively provide services,
 15 you know, and in a cost effective manner to
 16 Newfoundland and Labrador Hydro. The way we
 17 did that is that we identified the positions
 18 that were servicing Newfoundland and Labrador
 19 Hydro almost exclusively, and we had those
 20 positions clearly remain within Hydro and
 21 directly charged to Hydro. In situations
 22 where we saw that there would be positions
 23 that previously were servicing only Hydro and
 24 Churchill Falls Labrador Corporation, and some
 25 other companies that existed that were

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1 residing in Hydro, but now would potentially
 2 service other entities as well, we took those
 3 out of Hydro and placed them into a separate
 4 structure and the intent there was in an
 5 instance where an individual was servicing
 6 both the Newfoundland and Labrador Hydro and
 7 another company, we wanted to ensure that if
 8 there was any idle time or non-allocated time
 9 for that individual, that that would rest
 10 outside of Hydro and not within Hydro. So we
 11 were trying to provide a cost effective manner
 12 where extra costs that may not be allocated
 13 were not allocated to Hydro. So in essence,
 14 that's what you have, a matrix organization.
 15 You have absolutely almost totally dedicated
 16 to Hydro, they reside in Hydro, work in Hydro;
 17 otherwise, it's a shared service model where
 18 you allocate cost from one entity to another
 19 to provide the necessary services to support
 20 that particular entity. In our case, for the
 21 ones that we left outside of Hydro, we let the
 22 unallocated cost rest outside of Hydro from a
 23 cost effective perspective.
 24 MR. O'BRIEN:
 25 Q. Was there a concern at the time, and maybe

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1 I'll ask you to take me through the historical
 2 background of that as to when you started the
 3 process, but was there an actual concern that
 4 there was unallocated time in Hydro at that
 5 time for any individuals that needed to be
 6 addressed with this type of a matrix?
 7 MR. MARTIN:
 8 A. You asked for two things there. The first one
 9 about the time line itself, I would suggest
 10 that I'd defer that to one of the other
 11 witnesses who has a much more detailed time
 12 frame there, and I believe that will be
 13 discussed in the evidence at that point, but
 14 with respect to unallocated time, yes, on
 15 initial assessment at Hydro, I saw a
 16 combination things. I saw many areas were
 17 very, very organized and fully employed, but I
 18 saw other areas where I felt that there was
 19 significant additional capacity that wasn't
 20 being utilized.
 21 MR. O'BRIEN:
 22 Q. Okay, and when you talk about the time line, I
 23 guess, my reason for asking about that is I
 24 would have understood, and you can correct me
 25 if I'm wrong, that you would have been

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1 involved at the outset in this organizational
 2 structure where Nalcor was created and how
 3 this matrix organization got established,
 4 would you have been one of the key persons
 5 involved in discussions at that time?
 6 MR. MARTIN:
 7 A. Yes.
 8 MR. O'BRIEN:
 9 Q. And what's your recollection as to how this
 10 all came to be, was this your idea?
 11 MR. MARTIN:
 12 A. Yes.
 13 MR. O'BRIEN:
 14 Q. Okay, so it's something that you had - when
 15 you came on to Newfoundland and Labrador
 16 Hydro, you came on initially as the President
 17 and CEO, is that right?
 18 MR. MARTIN:
 19 A. Of Newfoundland and Labrador Hydro, that's
 20 correct.
 21 MR. O'BRIEN:
 22 Q. And that was before Nalcor was created, before
 23 the energy corporation was created?
 24 MR. MARTIN:
 25 A. That's right.

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<p>1 MR. O'BRIEN: 2 Q. And was it your impetus, I guess, at that 3 point that when you saw some of these possible 4 concerns over allocation of time and cost 5 resources and that kind of thing, it was your 6 idea to look into this type of a matrix, is 7 that right? 8 MR. MARTIN: 9 A. It was my idea to look into a matrix, but not 10 because I saw areas that were being under 11 utilized, there's other ways to deal with 12 that. 13 MR. O'BRIEN: 14 Q. Okay. 15 MR. MARTIN: 16 A. Let me step back again for a second, and look 17 at prior to the Energy Corporation. 18 MR. O'BRIEN: 19 Q. Sure. 20 MR. MARTIN: 21 A. A shared services model is not new to 22 Newfoundland and Labrador Hydro. You know, I 23 was also appointed President and CEO of 24 Churchill Falls Labrador Corporation, as well 25 as several other smaller generally dormant</p>	<p>1 described; if they're wholly dedicated, they 2 stay; if they're not, we'll take them out and 3 allocate them back if they do provide service, 4 but once again I repeat the intent was to make 5 sure the unallocated costs were not left 6 sitting in Hydro for the benefit of any other 7 corporation, they were outside of that being 8 absorbed by the other companies. 9 MR. O'BRIEN: 10 Q. I'm going to ask you just about the principles 11 behind how you set up the - I know you've 12 indicated that this organization structure has 13 evolved, and I presume will continue to evolve 14 as you look at this down the road, is that 15 correct? 16 MR. MARTIN: 17 A. It will continue to evolve, absolutely. 18 MR. O'BRIEN: 19 Q. Yes. When you initially looked at it, you 20 were asked - Newfoundland and Labrador Hydro 21 was asked to produce some documents. I 22 understand there was no external process or 23 review that you relied upon in setting up the 24 organization, this was an internal process, is 25 that right?</p>
<p>Page 74</p> <p>1 organizations at the time, but the shared 2 service model existed for many years with 3 respect to CF(L)Co and Newfoundland and 4 Labrador Hydro. The cost allocation procedures 5 were there, that's "a", "b", and I had worked 6 in other organizations where in some cases 7 they had a shared services, in other cases 8 they didn't, but when I looked at it on the 9 whole and looked at the evolution of where the 10 company was going, I determined the most 11 effective cost allocation methodology and cost 12 containment methodology for Newfoundland and 13 Labrador Hydro would be a matrix organization 14 as we move forward. I didn't suggest or I'm 15 not suggesting it will remain a matrix type of 16 organization over time. That evolution will 17 unfold as time goes on, but in the interim as 18 we expanded the operation, I knew that there 19 was some capacity there. I didn't want to 20 start increasing people and increasing 21 resources when I knew there was existing 22 capacity, so when we looked at protecting the 23 interest of Newfoundland and Labrador Hydro 24 customers first and foremost, we said, well, 25 the most effective way to do this is as I</p>	<p>Page 76</p> <p>1 MR. MARTIN: 2 A. Yes, it was. 3 MR. O'BRIEN: 4 Q. I'm going to ask that we bring up PUB-NLH-316. 5 Mr. Martin, that's an RFI response to a 6 question from the Board as to asking to 7 provide copies of any internal analysis, 8 studies and reports, memorandums, that sort of 9 thing that were produced. I'm going to ask if 10 we can turn to Attachment 3 of that document. 11 In this document, there's a number of 12 attachments to it. This is one here. If we 13 go to page one of that, maybe we can scroll it 14 up so that Mr. Martin can see it. Does that 15 document - it appears to be a PowerPoint 16 entitled Organizational Structure, and if we 17 can scroll it up a little bit more, we might 18 see the date on it for November of 2008. Is 19 that something that you would have produced to 20 the Board of Directors, or it's a Board of 21 Directors document? 22 MR. MARTIN: 23 A. I would have produced that to the Board of 24 Directors. 25 MR. O'BRIEN:</p>

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1 Q. And presented it as a PowerPoint presentation,
 2 I guess, in terms of options for structure, is
 3 that correct?
 4 MR. MARTIN:
 5 A. That's correct, yes.
 6 MR. O'BRIEN:
 7 Q. Okay. Can we turn to page 11 of that
 8 document? Mr. Martin, that page actually
 9 scrolls down a little bit more, but if we
 10 start at the top, there appears to be a number
 11 of organization design guiding principles. I
 12 presume these are the types of principles that
 13 you wanted to capture with the structure that
 14 was being proposed to the Board of Directors,
 15 is that right?
 16 MR. MARTIN:
 17 A. That's correct.
 18 MR. O'BRIEN:
 19 Q. Okay. Perhaps we can just quickly go through
 20 a few of those. Like, number one here, "We
 21 share a common core, identity is reflected in
 22 our vision, our goals". That's with respect
 23 to all of the lines of Nalcor, is that right,
 24 is that how that -
 25 MR. MARTIN:

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1 A. That's correct, but in that common vision,
 2 goals, values, and such, there were specific -
 3 each entity had a specific subset of that.
 4 MR. O'BRIEN:
 5 Q. Sure, okay. So on top of the common goals,
 6 each entity would have their own specific ones
 7 as well?
 8 MR. MARTIN:
 9 A. That's correct.
 10 MR. O'BRIEN:
 11 Q. And when we look down to number two here of
 12 that design guiding principles, the line of
 13 business mandates are clear and separable.
 14 Why would that be important in the structure?
 15 MR. MARTIN:
 16 A. Because if you have separate entities, you
 17 want to make sure they're focused on the right
 18 things.
 19 (12:00 p.m.)
 20 MR. O'BRIEN:
 21 Q. Okay. And number three, "the clear single
 22 point of accountability exists for each line
 23 of business." What does that -- what's that
 24 principle dealing with?
 25 MR. MARTIN:

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1 A. You can point to one person who's accountable
 2 for the ultimate performance of each line of
 3 business.
 4 MR. O'BRIEN:
 5 Q. So for Newfoundland and Labrador Hydro, is the
 6 structure set up so that there is one
 7 particular individual who is the clear single
 8 point of accountability for their operations?
 9 MR. MARTIN:
 10 A. Yes, there is.
 11 MR. O'BRIEN:
 12 Q. And who's that?
 13 MR. MARTIN:
 14 A. Currently it's Rob Henderson.
 15 MR. O'BRIEN:
 16 Q. Okay. So number four then, "the decision
 17 making boundaries are clear and appropriately
 18 match authority with accountability." What
 19 does that mean to you? What was the intent, I
 20 guess, with that?
 21 MR. MARTIN:
 22 A. It means that the individual understands what
 23 they're accountable for and are able to put,
 24 you know, a mental ring around what they're
 25 expected to deliver, so they understand that,

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1 and with respect to the authority that they're
 2 given from a financial and decision making
 3 perspective, we ensure that they have enough
 4 authority that matches the accountability they
 5 have, so they can run the business
 6 effectively.
 7 MR. O'BRIEN:
 8 Q. Okay. And that could be across any individual
 9 in the particular entity, not just the single
 10 point of accountability? Is that right?
 11 MR. MARTIN:
 12 A. That's a general principle from top to bottom,
 13 yes.
 14 MR. O'BRIEN:
 15 Q. Yeah, general principle, okay. All right.
 16 And Mr. Martin, your particular role, you're
 17 President and Chief Executive Officer of
 18 Newfoundland and Labrador Hydro as you've
 19 indicated. You're also President and CEO of
 20 other lines of businesses within Nalcor, as
 21 well as the Nalcor entity itself. Is that
 22 right?
 23 MR. MARTIN:
 24 A. That's correct.
 25 MR. O'BRIEN:

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1 Q. Was there ever an indication early on in this
 2 process when the organizational structure was
 3 being discussed internally and with the Board
 4 of Directors of having a separate individual
 5 as president and CEO of each line of business
 6 for Nalcor?
 7 MR. MARTIN:
 8 A. Did you say discussed with the Board?
 9 MR. O'BRIEN:
 10 Q. Yeah. Was that ever a consideration?
 11 MR. MARTIN:
 12 A. I don't recollect discussions with the Board,
 13 but I certainly was thinking about it.
 14 MR. O'BRIEN:
 15 Q. Were you? Okay. And why is that?
 16 MR. MARTIN:
 17 A. It's a particular model that had to be
 18 explored.
 19 MR. O'BRIEN:
 20 Q. Okay. Would that be something that was
 21 explored specifically with respect to
 22 Newfoundland and Labrador Hydro where that was
 23 a regulated entity versus the other lines of
 24 businesses which were not?
 25 MR. MARTIN:

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1 A. I think all of them.
 2 MR. O'BRIEN:
 3 Q. All of them?
 4 MR. MARTIN:
 5 A. Um-hm.
 6 MR. O'BRIEN:
 7 Q. Okay. And it never occurred obviously. Why
 8 was that?
 9 MR. MARTIN:
 10 A. Never is a long time.
 11 MR. O'BRIEN:
 12 Q. Okay. No, I won't ask whether it will.
 13 MR. MARTIN:
 14 A. We're obviously -- as I mentioned earlier, if
 15 you put this in context, I came in primarily
 16 initially to run Newfoundland and Labrador
 17 Hydro and CF(L)Co with a mandate to expand the
 18 business. So first order of the day was
 19 Newfoundland and Labrador Hydro from this
 20 perspective and I just went through in my
 21 opening remarks how I handled that, and that
 22 was the primary focus and we are where we are
 23 today and we've accomplished what we said we
 24 were going to accomplish and will continue to
 25 do so.

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1 The other pieces which we will call
 2 growth pieces, I was asked to do that, but I
 3 made it clear that that was in the context
 4 that the base business of Newfoundland and
 5 Labrador Hydro would be the key focus and once
 6 again, I refer back to my opening remarks.
 7 That's how that has evolved.
 8 So when you start a -- when you look then
 9 at evolving the businesses and growing larger,
 10 it's hard to envision where that's going to
 11 go. Whether it be expanding Muskrat Falls and
 12 Labrador Island Link, if that had been a
 13 different decision, I'm sure things would be -
 14 - would look somewhat different. From the
 15 other entities that Newfoundland and Labrador
 16 -- sorry, Nalcor is managing, they may or may
 17 not have evolved. It was unclear as to how
 18 they would evolve at the time, naturally. It
 19 was my job to evolve it.
 20 So to me, it was clear that you don't,
 21 you know, start with massive organizations
 22 assuming that, putting presidents in place,
 23 vice-presidents, expanding the cost base of
 24 Hydro, as well as other jurisdictions, without
 25 exactly knowing where it's going to land. We

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1 said no, that's not going to happen. First
 2 off, we have to focus on Hydro and make sure
 3 we got that going where it has to go, primary
 4 focus. The second thing is we set the vision
 5 and values and longer term goals for what
 6 we're trying to achieve in the other
 7 companies. We put our plan in place and we
 8 evolved. And until the point I believe that
 9 each of those companies would require a
 10 separate structure to be effective both from a
 11 decision making authority and cost
 12 perspective, we said we'll do that when and if
 13 the time is right. But we needed to evolve
 14 things first and we're still in that process
 15 and everything is still in review as we move
 16 ahead with this thing.
 17 But until we know exactly what we want to
 18 do, we want to make a change, it will stay the
 19 way it is, and I do revert back to
 20 Newfoundland and Labrador Hydro is the key
 21 focus and things are evolving and just to
 22 expand on it somewhat, the next two years is
 23 going to be critical for further evolution of
 24 Newfoundland and Labrador Hydro's
 25 organizational structure. As I mentioned in

<p style="text-align: right;">Page 85</p> <p>1 my opening remarks, the company generation 2 base is going to fundamentally change with the 3 closure of Holyrood, Muskrat Falls and 4 Labrador Island Link, and the Maritime Link in 5 play, connected to the rest of North America 6 for the first time. It's going to evolve into 7 a different entity. It will reflect entities 8 similar to it across the rest of the company 9 that are also interconnected. This will just 10 be us for the first time. All that work is 11 ongoing.</p> <p>12 In addition to that, some of the other 13 companies have expanded. We'll put that aside 14 for a moment. You look at Newfoundland and 15 Labrador Hydro in that context, I see changes 16 coming and not prepared to talk about what 17 they are just yet, but we're going to have to 18 finalize our plans, you know, within this year 19 to give us the opportunity to put an 20 organizational structure and framework in 21 place that's going to be prepared to receive 22 Muskrat Falls and Labrador Island Link and 23 begin the closure of Holyrood in the 2017-2018 24 timeframe. That's clear. So all that work is 25 under way and there'll be another step in the</p>	<p style="text-align: right;">Page 87</p> <p>1 and a company like Newfoundland and Labrador 2 Hydro. Your first job is to make sure that's 3 protected and that's managed properly. 4 Everything else is an after thought to that. 5 So from that perspective, I'm just going back 6 to what I said earlier. It was all considered 7 at the time, but this was a matter of 8 evolution, looking after the core business and 9 then seeing how the other things developed 10 over time, and at each stage in that 11 development at regular periods, and I believe 12 there's going to be some testimony offered and 13 has been offered with respect to the timing of 14 the organizational changes that have occurred 15 at Newfoundland and Labrador Hydro, in the 16 context of Nalcor, that's been laid out in a 17 series of phases. I think it's on the record. 18 If not, it's going to be discussed. And each 19 of those phases has backup and thoughts and 20 reasons for those changes, all designed to 21 lead us to a point where when we make the 22 changes, it's effective and we're not 23 disrupting what we're trying to achieve. 24 We're just evolving it to the next level in a 25 planful fashion.</p>
<p style="text-align: right;">Page 86</p> <p>1 evolution of that in the near future.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. So it's possible, I guess, from what you've 4 said, that there may be a situation where you 5 have a president and CEO of Newfoundland and 6 Labrador Hydro who is different from the same 7 individual who is president and CEO of Nalcor 8 and president and CEO of the other lines of 9 business? That's a possibility in the future?</p> <p>10 MR. MARTIN:</p> <p>11 A. That's a possibility in the future.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. But in terms of when you look back to 2008, I 14 guess, when Nalcor sort of started to evolve, 15 that wasn't a decision you made at that time 16 to have a separate individual as a president 17 of each line of business?</p> <p>18 MR. MARTIN:</p> <p>19 A. That's correct. I mean, it's a bit of an 20 overused term, but you know, I do believe in 21 doing things in a thoughtful and methodical 22 way, well thought out. I've heard the term 23 before from an organizational development 24 perspective, you're looking for evolution, not 25 revolution. You know, you have an asset base</p>	<p style="text-align: right;">Page 88</p> <p>1 MR. O'BRIEN:</p> <p>2 Q. Okay. So, and just I'd like to turn back to 3 what you had mentioned before, when you first 4 came on with Newfoundland and Labrador Hydro, 5 and this is, I guess, from your direct 6 evidence, the key focus was Newfoundland and 7 Labrador Hydro, when Nalcor came about, but 8 the key focus was still Newfoundland and 9 Labrador Hydro for you. Is that correct?</p> <p>10 MR. MARTIN:</p> <p>11 A. That's correct, and still is.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. And still is, okay. Now you've indicated that 14 some of the other lines of businesses for 15 Nalcor were evolving and some were dormant, is 16 that right, at the time?</p> <p>17 MR. MARTIN:</p> <p>18 A. Yes, and I would like to take a moment to put 19 a couple of things in context from a focus 20 area, and I referred to this in my earlier 21 comments. Newfoundland and Labrador Hydro's 22 perspective, we obviously have to provide 23 electricity to customers. So when I look at 24 Newfoundland and Labrador Hydro and the 25 responsibilities that are entailed there with</p>

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1 respect to my current roles, it does touch on
 2 CF(L)Co obviously because CF(L)Co does provide
 3 electricity to customers of Newfoundland and
 4 Labrador Hydro in Labrador currently. It
 5 touches, you know, directly -- it doesn't
 6 touch, it's integral with Muskrat Falls,
 7 Labrador Island Link Development. In essence,
 8 Newfoundland and Labrador Hydro is responsible
 9 for finding their way through additional
 10 generation that's required, making the
 11 decisions to do that. We did that. The
 12 selection was Muskrat Falls Labrador Island
 13 Link, but that in essence is a Hydro decision.
 14 We structured it on separate companies for
 15 financing and other purposes, but that really
 16 is an asset that is going to be servicing the
 17 customers of Newfoundland and Labrador Hydro
 18 for generations, and my expectation is
 19 Newfoundland and Labrador Hydro, in some form,
 20 will -- and we'll talk about that would be
 21 later, not today but later when we evolve the
 22 organization -- Newfoundland and Labrador
 23 Hydro will be a key component of operating
 24 that asset. So when I look at Newfoundland
 25 and Labrador Hydro and its focus on the

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1 customer and the focus on what I do, we have
 2 to look at it in terms of Newfoundland and
 3 Labrador Hydro, Muskrat Falls Labrador Island
 4 Link, you know, the CF(L)Co portion of the
 5 organization, all designed with a primary
 6 focus of looking after the customers in
 7 Newfoundland and Labrador Hydro.
 8 MR. O'BRIEN:
 9 Q. Okay. So in terms of going forward then, when
 10 we talked about earlier about a single --
 11 clear, single point of accountability for each
 12 line of business, now you've indicated that
 13 your main focus was Newfoundland and Labrador
 14 Hydro at the start and it remains your main
 15 focus. Is that right?
 16 MR. MARTIN:
 17 A. That's correct.
 18 MR. O'BRIEN:
 19 Q. And where does that leave you in terms of the
 20 single line of accountability then? You've
 21 indicated Mr. Henderson is that for
 22 Newfoundland and Labrador Hydro. But if
 23 that's your key focus, Mr. Henderson does
 24 report to you, does he not? He's accountable
 25 to you?

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1 MR. MARTIN:
 2 A. That's right, yes, he does.
 3 MR. O'BRIEN:
 4 Q. So where does that put you in terms of that
 5 principle, the single line of accountability?
 6 MR. MARTIN:
 7 A. Well, I'm in the president and CEO role, and
 8 you know, my view, I guess you're getting down
 9 to review of, you know, what's a leadership
 10 philosophy in terms of how you run a company.
 11 Even if that's not your question, I'm going to
 12 share my thoughts on it in any event.
 13 MR. O'BRIEN:
 14 Q. You go ahead and give me your thoughts.
 15 MR. MARTIN:
 16 A. And the way that works in my -- the way I run
 17 the operation is I think delegation to an
 18 accountable person is critical. I also
 19 believe that delegation without proper
 20 framework is anarchy that can happen. So from
 21 that perspective, I'll just walk through the
 22 way that we have structured our
 23 responsibilities and delegation of authority
 24 and empowerment perspective to circle back to
 25 say why it was clear what I do and what Mr.

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1 Henderson does.
 2 MR. O'BRIEN:
 3 Q. Sure.
 4 MR. MARTIN:
 5 A. And when I first entered the company, that's
 6 one of the first things we did. You start off
 7 and need to get alignment with respect to what
 8 you're trying to achieve in the long run.
 9 Some call it vision. I don't want to get into
 10 all kinds of terminology. You basically say
 11 here's where we are, here's where we need to
 12 go. In addition to that, you get alignment
 13 throughout the company with respect to your
 14 values and those values are designed to give a
 15 person who's in a decision making role
 16 parameters in terms of how to make that
 17 decision, in terms of I or any other leader
 18 doesn't need to be involved, provided we're
 19 all aligned on the parameters and how those
 20 decisions are going to be made.
 21 Once we achieved alignment on that, which
 22 we did, the next step is to put medium term
 23 goals in place that are going to be required
 24 to achieve that and we broke our main goals
 25 into: A. being a safety leader; B. being an

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1 environmental leader; C. operational
 2 excellence; D. focus on our people; and E. the
 3 focus on the community. And within those
 4 goals, we indicated what we wanted to achieve
 5 over time and we put a five-year time horizon
 6 on that. Then we broke it down and said "what
 7 are the objectives within each of those goals
 8 that are required to achieve that over a five-
 9 year period?" and you can't do all things to
 10 all people in one year, so you force the
 11 people to take those objectives and spread
 12 them over five years so that you're not
 13 focused on everything at the one time.
 14 There's a spread out of that focus.
 15 So you have your goals, you have your
 16 objectives and you have that at the leadership
 17 level and you cascade that down so every
 18 individual in the organization has those
 19 objectives that they can see a line of sight
 20 right back through to the goals and the long
 21 term vision you're trying to achieve. Put
 22 that aside.
 23 (12:15 p.m.)
 24 That only works when you can measure it.
 25 So at that stage, we re-instituted the

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1 performance management system that every
 2 individual responsible for those objectives
 3 has an annual plan that says "here's my
 4 objectives that support the objectives of the
 5 next level" et cetera, and that fits into the
 6 five-year plan which we can relate right back
 7 to the goals, vision and values, and you put
 8 that performance measurement in place and you
 9 measure that each year. And the measurement
 10 tool is a performance enhancing tool but it's
 11 also a tool to be able to make adjustments.
 12 If you're making it, good. Should you make
 13 more? If you're not making it, what's the
 14 problem? It's not necessarily the individual,
 15 although it could be, but in my experience,
 16 the majority of the time it's maybe things
 17 needed to be adjusted to a more reasonable
 18 timeframe.
 19 So in that context, I come back to Mr.
 20 Henderson and myself, the relationship there.
 21 I'm more focused on the vision, establishing
 22 the values, participating in the goals,
 23 understanding how Mr. Henderson, his
 24 objectives and we align them, is that going to
 25 achieve the goals, and once we have that in

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1 place, I say "Rob, that's your business now,
 2 do it" and I manage at that point through the
 3 performance measurement process and if things
 4 are going well, I don't dip in. All that's
 5 doing is, you know, destroying, clouding his
 6 accountability, which is an improper thing to
 7 do for the organization. If there's an issue,
 8 he provides a recovery plan. If that makes
 9 sense to me, we agree and he goes and achieves
 10 it. If he's not coming up with a solution, he
 11 asks me for help, we get together and together
 12 we find a solution to move forward, find that
 13 solution, put it back in the plan and start
 14 the process again.
 15 So as I mentioned earlier, it's
 16 empowerment but within a framework that is
 17 measurable.
 18 MR. O'BRIEN:
 19 Q. Okay. So in terms of oversight then for you,
 20 this last part of your answer, that's your
 21 oversight with respect to Mr. Henderson, is
 22 it, and that's your oversight with respect to
 23 Newfoundland and Labrador Hydro itself, is it?
 24 MR. MARTIN:
 25 A. That's correct.

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1 MR. O'BRIEN:
 2 Q. In terms of your oversight for Mr. Henderson.
 3 You don't put your fingers into the pie unless
 4 Mr. Henderson asks for your assistance?
 5 MR. MARTIN:
 6 A. Well, there's two ways, you know. And Mr.
 7 Henderson, I'm not picking on Mr. Henderson.
 8 MR. O'BRIEN:
 9 Q. No, no.
 10 MR. MARTIN:
 11 A. Using an individual. He can ask for help or
 12 he can get help whether he likes it or not, if
 13 the performance measures aren't being adhered
 14 to.
 15 MR. O'BRIEN:
 16 Q. Sure. So those are the two -
 17 MR. MARTIN:
 18 A. But in Mr. Henderson's case, he's very astute
 19 and we're always working hard to make sure
 20 that we're aligned.
 21 MR. O'BRIEN:
 22 Q. How about things like operating budget and
 23 that kind of thing? You approve that yourself
 24 in your role as president and CEO? Is that
 25 right?

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1 MR. MARTIN:
 2 A. Yes, I do.
 3 MR. O'BRIEN:
 4 Q. So you have final say before the Board of
 5 Directors on that? Is that right?
 6 MR. MARTIN:
 7 A. That's correct.
 8 MR. O'BRIEN:
 9 Q. And how does that work practically for you?
 10 How does that work?
 11 MR. MARTIN:
 12 A. Probably in a similar fashion. As I mentioned
 13 in my remarks earlier -- well, maybe I'll give
 14 you an example. In my view, if you give an
 15 executive at my level a list of 75 projects
 16 and a set of operating costs, you know, that
 17 range across several hundreds of people and
 18 just give it to ask for an approval, that's of
 19 no use to me. You know, that's not what I do.
 20 What I ask for is what's the framework and
 21 that's why, you know, I poured a tremendous
 22 amount of effort and time upfront into the
 23 long term asset management plan. As I stated
 24 earlier, the way that works in Hydro, it's an
 25 asset driven organization obviously, customer

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1 focused but as far as the day-to-day
 2 operations go, it's an asset management
 3 organization. So I spent a huge amount of
 4 time in the early days making sure each asset
 5 was listed, making sure that each asset had a
 6 condition assessment or an operations
 7 assessment against it. We built a 20-year
 8 plan and we put that in a control document and
 9 armed with that 20-year plan from a capital
 10 and operating perspective, that will drive the
 11 resources required to do it and those
 12 resources will drive the budget. And if folks
 13 say we haven't got enough people, well in that
 14 context, I'll say "well, is the plan correct
 15 from a reliability and safety perspective?"
 16 and they say yes, and I say "well, you're
 17 going to have to get the people" because the
 18 decisions were made upfront in terms of what
 19 has to happen with these assets and that's
 20 what drives the budgets.
 21 So my questions are -- when a budget
 22 comes to me, I'm not asking for all of it.
 23 I'm saying "does this plan match the original
 24 asset management plan?" If the answer is yes
 25 and we're within the cost and schedule

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1 parameters, it's a ten-minute conversation at
 2 that point. If there's a change, then I say
 3 "let's focus on the changes" and we spend time
 4 going through the changes of that plan,
 5 explaining through a management of change
 6 process why the changes were made and
 7 oftentimes an example would be take a capital
 8 project, for instance, if there was a budget
 9 there to open up one of the units at Holyrood
 10 for a maintenance check and they found things
 11 there that were better or worse than expected
 12 and there had to be a focus on that and then
 13 had to be resources applied to that and it had
 14 to be done because winter's coming, but that
 15 meant we had to defer something else over
 16 here, I'd say "well, explain that. Is the
 17 deferral okay? Are we risking any
 18 reliability?" You go through the process,
 19 make sure the Holyrood is done. You might
 20 move some work around. You would revise the
 21 long term asset management plan as a control
 22 document and you would move forward and ever
 23 happen again. So we focus really on the
 24 change in the long term asset management plan
 25 and if that works, we document it. I approve

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1 it and we move on. And we know that there is
 2 a -- and I have requested an annual -- not an
 3 annual -- in a two to three-year timeframe, I
 4 like to have a new overview of that plan to
 5 make sure all the things that are happening,
 6 all the condition assessments, all the new
 7 information is imposed and we'll do a major
 8 revision to the plan every two or three years
 9 in the same fashion. And that's how I
 10 control, you know, the budget process.
 11 On the more operating side, and we'll see
 12 in this GRA there's more people being
 13 requested, significantly more compared to
 14 other years, but in that context, it's a
 15 similar situation. I'll ask in what category,
 16 what areas, why, what are the age of the
 17 assets, what are the life cycle curves looking
 18 at. If you know typical bathtub maintenance
 19 curve is that a new asset, you know, will have
 20 a significant amount of reliability issues
 21 until you work the bugs out. Then you go
 22 through a period of time where it's very
 23 stable, which we've had for probably from the
 24 '70s to the '90s, and then as the asset
 25 reaches the end of its life, the problems

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<p>1 begin again, and you have typical published</p> <p>2 curves for assets like ours in terms of what</p> <p>3 the reliability outlook would be. We have to</p> <p>4 arrest that by virtue of doing additional</p> <p>5 maintenance, operations refurbishment. So I</p> <p>6 ask the folks to demonstrate to me in those</p> <p>7 areas where you're adding resources, what is</p> <p>8 the reason. If the reason is reliability</p> <p>9 based upon solid evidence, not much of a</p> <p>10 choice at that point. We have to go for it.</p> <p>11 And that's the basis of how we've approved the</p> <p>12 current increases and in the future, if it</p> <p>13 continues, that will be the basis of how we do</p> <p>14 the future.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. So you're heavily involved in that type of a</p> <p>17 process, are you, in approving that budget and</p> <p>18 going through that process?</p> <p>19 MR. MARTIN:</p> <p>20 A. I'm heavily involved upfront. I'm heavily</p> <p>21 involved if there's changes. I'm not heavily</p> <p>22 involved if they're doing what they said</p> <p>23 they're going to do.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. So you're not involved in the management of</p>	<p>1 measures.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Okay. And you'll have a look at that yourself</p> <p>4 and you'll be involved with that? If there's</p> <p>5 questions at that point in time, you'll have</p> <p>6 them?</p> <p>7 MR. MARTIN:</p> <p>8 A. Absolutely.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Okay. I'd like to ask you a few questions,</p> <p>11 Mr. Martin, just about the leadership team</p> <p>12 itself and we looked at that prior just as to</p> <p>13 who's involved, but before I get into that I</p> <p>14 assume you would agree with me in general that</p> <p>15 leadership is important for a regulated</p> <p>16 utility? No question on that?</p> <p>17 MR. MARTIN:</p> <p>18 A. I wouldn't limit it to a regulated utility.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. No, fine.</p> <p>21 MR. MARTIN:</p> <p>22 A. I just generally agree leadership is</p> <p>23 important.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Okay. Your leadership team itself, there are</p>
<p>1 that budget over time, are you, like on an</p> <p>2 annual basis after you've approved it?</p> <p>3 MR. MARTIN:</p> <p>4 A. That's part of their performance measures.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. Yeah, okay.</p> <p>7 MR. MARTIN:</p> <p>8 A. So if we say "here's the budget", so over the</p> <p>9 course of the year then, present a budget,</p> <p>10 they're within budget, they're happy, I'm</p> <p>11 happy and we don't talk too much. If they're</p> <p>12 not meeting the budget, well, then I get</p> <p>13 involved. It has to be explained and that's</p> <p>14 when I dip in or if the budget is</p> <p>15 substantially less, that has to be explained</p> <p>16 as well and that's where I get into the actual</p> <p>17 engagement of it.</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. And throughout the year then, do you review</p> <p>20 them on a quarterly basis? How do you look at</p> <p>21 it yourself? What's your oversight in that</p> <p>22 regard?</p> <p>23 MR. MARTIN:</p> <p>24 A. We have a monthly leadership team meeting</p> <p>25 where we review all of the performance</p>	<p>1 members of that team who are within the Nalcor</p> <p>2 entity. There are members of that team who</p> <p>3 are within the Newfoundland and Labrador Hydro</p> <p>4 entity. Is that correct?</p> <p>5 MR. MARTIN:</p> <p>6 A. That's correct.</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. Okay. So each member in the Nalcor entity may</p> <p>9 have roles that have responsibilities for</p> <p>10 other lines of businesses in Nalcor, not just</p> <p>11 Newfoundland and Labrador Hydro? Is that</p> <p>12 right?</p> <p>13 MR. MARTIN:</p> <p>14 A. That's correct. That's the nature, and as we</p> <p>15 talked about earlier, the matrix.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. Of this matrix organization.</p> <p>18 MR. MARTIN:</p> <p>19 A. Sure.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. And we've seen in the evidence that they would</p> <p>22 charge into Newfoundland and Labrador Hydro</p> <p>23 for their time on a bill rate, that sort of</p> <p>24 thing?</p> <p>25 MR. MARTIN:</p>

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1 A. That's correct.

2 MR. O'BRIEN:

3 Q. Okay. I want to ask you a bit about the time

4 spent by the leadership team with respect to

5 Newfoundland and Labrador Hydro. And if we

6 could pull up PUB-NLH-228, 228? And this one

7 is a revision too, sorry, in December 19th,

8 2014, a second revision of that.

9 MS. GRAY:

10 A. There's actually a fourth one, I think.

11 MR. O'BRIEN:

12 Q. There's a fourth one?

13 MS. GRAY:

14 A. Yeah.

15 MR. O'BRIEN:

16 Q. Okay. Well, let's pull up the fourth one.

17 And can we go to the attachment to that? So

18 here we see what I understand to be the

19 leadership team for Newfoundland and Labrador

20 Hydro for those members that sit in Nalcor.

21 Is that right? We don't see, for example, the

22 VP of Newfoundland and Labrador Hydro there,

23 anyone that might sit in -

24 MR. MARTIN:

25 A. I see what you're saying. Yeah, agree.

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1 MR. O'BRIEN:

2 Q. You agree? Okay. Now I want to ask you just

3 about you see the hours of service or support

4 services charged to Newfoundland and Labrador

5 Hydro from 2008 up to 2013. Those would be --

6 actually, we've got actuals going up to 2015.

7 That can't be an actual, but 2014 anyway. And

8 we've got forecasts for 2015, 2016. I presume

9 that's the chart there. My understanding was

10 actually '14 and '15 were forecasts, but the

11 way this chart looks is that '16 is a

12 forecast. But let me ask you about the hours

13 charged for yourself, from 2008 to 2013. So

14 we see that, say for example, 2011 there's

15 133.5 hours there. Would that represent the

16 number of hours you spent on Newfoundland and

17 Labrador Hydro itself?

18 MR. MARTIN:

19 A. That would represent the hours charged in to

20 Newfoundland and Labrador Hydro.

21 MR. O'BRIEN:

22 Q. And how would that differ from -

23 MR. MARTIN:

24 A. Well, it gets back to what I mentioned earlier

25 about a matrix type of organization where the

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1 goal was, in my mind, to protect Newfoundland

2 and Labrador Hydro from the extent possible of

3 unallocated time.

4 MR. O'BRIEN:

5 Q. Okay.

6 MR. MARTIN:

7 A. So in my particular case, I made the decision

8 early on that -- and as I mentioned earlier in

9 my remarks, my initial focus was on improving

10 safety performance, improving environmental

11 performance, improving the financial position

12 of Hydro, massive amount of time in the asset

13 management and execution, both capital and

14 operating of Hydro, and that's where we spent

15 our time. In addition to that, we had to look

16 at what the upcoming needs of power and

17 electricity were for the Province of

18 Newfoundland and Labrador and that would

19 entail, you know, making a decision on what

20 generation and transmission we were going to

21 add to meet that.

22 Now, the work I did on that was also

23 focused on CF(L)Co.

24 MR. O'BRIEN:

25 Q. Okay.

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1 MR. MARTIN:

2 A. You know, there's no question about that, in

3 terms of the asset management and safety. I

4 won't get into that now, but it was the same

5 kind of process. But the decision I took was

6 let's continue that work, but let's not burden

7 Hydro with it. But obviously if I'm working

8 on safety, working on environmental, I mean,

9 Newfoundland and Labrador Hydro has the vast

10 majority of the employees. It has the vast

11 majority -- it had the vast majority of the

12 work. Muskrat Falls decision was being made

13 on behalf of Hydro to provide generation and

14 all of that work and asset management, the

15 primary focus was Hydro. The execution of

16 that was Hydro. And all that work that I had

17 mentioned, in addition to ensuring that the

18 financial viability of the company was

19 improving, the majority of that time was for

20 Hydro and I just didn't charge that into

21 Hydro. It was benefitting other organizations

22 and I let it sit in Nalcor.

23 (12:30 p.m.)

24 MR. O'BRIEN:

25 Q. Okay, so -

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<p>1 MR. MARTIN: 2 A. I didn't think it would be--it wasn't 3 necessary or reasonable to charge all of that 4 to Hydro. 5 MR. O'BRIEN: 6 Q. I sort of interrupted, I didn't mean to 7 interrupt you. 8 MR. MARTIN: 9 A. Pardon me? 10 MR. O'BRIEN: 11 Q. I didn't mean to interrupt you there. The 12 asset management piece then, when would that 13 have been done? Like you indicated that there 14 was a - 15 MR. MARTIN: 16 A. We started that process in 2007, 2008. It's 17 continued to evolve over time. It's a 18 continuous process, so it's not a start and 19 finish piece of work. From 2009 to 2012, '13, 20 there was significant detailed work with 21 respect to identifying the assets, doing 22 condition assessments, reorganized--one of the 23 organizations that happened in Newfoundland 24 and Labrador Hydro was around, you know, 25 organizing the company around what I would see</p>	<p>1 been charged to Hydro, but a lot of the 2 overall planning, the framework documents, the 3 process, the design of the organizational 4 changes across all companies, a lot of that 5 work would not be charged into Hydro. 6 Anything that impacted significantly what was 7 going on across multiple companies, I wouldn't 8 have charged in. 9 MR. O'BRIEN: 10 Q. And these are assets of Newfoundland and 11 Labrador Hydro that you're talking about, 12 though, management of Hydro assets in 13 particular? 14 MR. MARTIN: 15 A. That's correct. 16 MR. O'BRIEN: 17 Q. Not assets of another corporation. 18 MR. MARTIN: 19 A. Well also CF(L)Co. 20 MR. O'BRIEN: 21 Q. Okay, so a certain portion of this or a large 22 portion could be in CF(L)Co? 23 MR. MARTIN: 24 A. It wasn't put there either. 25 MR. O'BRIEN:</p>
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<p>1 effective asset management, execution 2 strategy. At that point we also poured effort 3 into changing our capital execution processes. 4 We made some personnel leadership changes and 5 put in a whole new program around capital 6 execution, which is beginning to show 7 significant results right now. So all of that 8 would have happened more so in detail in the 9 2009 to 2012, '13 timeframe. 10 MR. O'BRIEN: 11 Q. But that work on asset management, we don't 12 see that included in what you charged into 13 Newfoundland and Labrador Hydro? 14 MR. MARTIN: 15 A. Certainly not all of it, if it's there, I 16 mean, I, you know, I would see some of it 17 probably there and when I say "some of it", 18 I'm thinking about when we adjusted the 19 organization, for instance. I did take time 20 with some of my leadership team to go on the 21 road to various entities throughout the 22 province that we own and operate to meet with 23 the people and explain it and, you know, put 24 my stamp of encouragement, we'll say, on the 25 whole situation. Some of that time would have</p>	<p>1 Q. Well where would it have been put? 2 MR. MARTIN: 3 A. It rested in Nalcor Energy Corporation. 4 MR. O'BRIEN: 5 Q. Okay. 6 MR. MARTIN: 7 A. Wasn't charged out to any of the subsidiary 8 companies. 9 MR. O'BRIEN: 10 Q. And how about the remainder of the members of 11 the leadership team in Nalcor? 12 MR. MARTIN: 13 A. But the fact you asked that question, are you 14 getting what I'm saying there? 15 MR. O'BRIEN: 16 Q. I think I am, what you're saying is that - 17 MR. MARTIN: 18 A. Like when you asked the question, sorry, it 19 doesn't make no sense to me, really, so maybe 20 - 21 MR. O'BRIEN: 22 Q. Well I'm trying to get a sense of whether or 23 not this particular attachment accurately 24 reflects the hours the leadership team would 25 provide in terms of leadership to Newfoundland</p>

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1 and Labrador Hydro. Now I understand your
 2 testimony is, your evidence is you spent a
 3 fair bit of time, a large amount of hours on
 4 asset management over this timeframe, that was
 5 a large piece of your up-front involvement,
 6 right.
 7 MR. MARTIN:
 8 A. Asset management, safety, environmental
 9 improvements, all the things I've mentioned.
 10 MR. O'BRIEN:
 11 Q. Yes, so that was part of your--and that may
 12 not be -
 13 MR. MARTIN:
 14 A. Plus the Muskrat Falls, Labrador Island Link,
 15 you know, getting ready for that decision
 16 which is directly to Hydro, but in that
 17 context, yes.
 18 MR. O'BRIEN:
 19 Q. Okay, and I guess what I'm trying to see is
 20 whether or not the entire leadership team, the
 21 same thing would apply to them. If we look at
 22 actual hours in, say from the grand total for
 23 the leadership team, not including
 24 Newfoundland and Labrador Hydro's members of
 25 the leadership team, in 2008 we have 3300

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1 hours, but that gradually declines down to
 2 1300 hours, 1361 in 2013, is that reflective
 3 of a gradual decline in the leadership's role
 4 in Newfoundland and Labrador Hydro for those
 5 members?
 6 MR. MARTIN:
 7 A. No, I think that's a gradual decline or it's a
 8 gradual improvement in the cost being charged
 9 into Hydro for work that has been done to
 10 benefit several organizations in the context
 11 that it was a decision I took as not to burden
 12 Newfoundland and Labrador Hydro with costs
 13 that would remain unallocated and also in
 14 cases where costs were benefiting more than
 15 one organization, we didn't burden Hydro with
 16 that. Could we have? Yes. I made the
 17 decision not to, you know, cost-based
 18 decision, I thought it was reasonable to do it
 19 that way, all entities were benefiting. We
 20 charged direct hours in, but hours that were
 21 being spent on the things I mentioned, safety
 22 across all corporations, environmental
 23 improvements, asset management improvements,
 24 asset management execution, deciding on what
 25 additional electricity requirements, and how

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1 it was going to be met for the Province were
 2 going to be determined, the financial
 3 integrity of the company, including Hydro.
 4 Those things were spanning many organizations.
 5 I left that, a large portion of that at
 6 Nalcor. It was a cost-based decision, I
 7 thought it was reasonable.
 8 MR. O'BRIEN:
 9 Q. Okay, and how about the remainder of the
 10 leadership team? Would there have been a
 11 similar decision made with respect to their
 12 involvement?
 13 MR. MARTIN:
 14 A. Yes, there would. My instinct would be is
 15 that they may have more direct charges because
 16 they would be involved in the broader
 17 perspective of where we're headed with the
 18 organization and designing it, with me, but on
 19 a day to day pieces of it, they would have
 20 dipped more in. In cases where it was a
 21 direct Hydro benefit, I would expect that they
 22 would, in general, probably charge more over
 23 time, but a large portion of the time with
 24 these folks would also be retained in Nalcor
 25 in the same fashion as I described for myself.

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1 MR. O'BRIEN:
 2 Q. So I guess we cannot, from looking at this
 3 particular attachment, we cannot assume that
 4 this is the level of leadership provided by -
 5 MR. MARTIN:
 6 A. If you assume that, you'd be absolutely wrong.
 7 MR. O'BRIEN:
 8 Q. Well that's what I'm asking, that was the
 9 point of my question, okay. So we can't say
 10 from an hourly perspective or a percentage
 11 perspective how much time the leadership team
 12 spends on Newfoundland and Labrador Hydro
 13 itself, other than to have, save for yourself,
 14 tell us how much you spend and the other
 15 leadership members to tell us exactly how much
 16 they spend. Is that fair to -
 17 MR. MARTIN:
 18 A. That's fair.
 19 MR. O'BRIEN:
 20 Q. Okay. The forecast here -
 21 MR. MARTIN:
 22 A. But I think we also need to make a point that
 23 it is, as a principle in Hydro, Newfoundland
 24 and Labrador Hydro, and extended to Nalcor
 25 that we target charging less to Newfoundland

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1 and Labrador Hydro in cases where there's any
 2 question where we can, regardless of the
 3 effort being expended, then it would be to the
 4 whole incorporation for the stated purpose of
 5 not burdening Hydro and making sure that if
 6 there is any question, the costs are not going
 7 to Hydro, they're going elsewhere, although
 8 they may be benefiting Hydro as well as our
 9 corporations.

10 MR. O'BRIEN:
 11 Q. And is that, when you say a "principle",
 12 that's not a document that's sent out to
 13 members of the leadership team, that's a
 14 principle that you've established within the
 15 team?

16 MR. MARTIN:
 17 A. That's correct.

18 MR. O'BRIEN:
 19 Q. Okay. Let me ask you then about the forecast
 20 while we still have this RFI up. It appears
 21 if you look at your own hours here, there's
 22 forecast for 2016 of 560.5 hours, but that
 23 matches exactly 2014 and 2015 and I believe
 24 the earlier versions of this document had 2014
 25 and 2015 as forecasts as well where they were

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1 test years. So those are all forecasts, I
 2 guess I understand that the actual shading is
 3 not that it's forecasts, it's that something
 4 has changed. So it appears to be a jump from
 5 what would be charged in for you, from 2013 to
 6 2014, '15 and '16, is that a function of a
 7 change in principle now that you would be
 8 charging your fulltime in to Newfoundland and
 9 Labrador Hydro or is it that you're going to
 10 be spending more time in your leadership role
 11 at Newfoundland and Labrador Hydro? Can you
 12 expand on that?

13 MR. MARTIN:
 14 A. More to the latter. I think, you know, look
 15 at the time that's going to be spent with
 16 Newfoundland and Labrador Hydro in terms of
 17 finalizing and implementing the organization
 18 that will be in place to take Newfoundland and
 19 Labrador Hydro from, you know, a utility that
 20 services Newfoundland as an island and
 21 Labrador as a separate portion, bringing the
 22 organization, aligning it and getting it
 23 prepared to be interconnected within the
 24 Province, as well as interconnected with east
 25 and north America, making sure all of the

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1 appropriate, as I mentioned FERC and NERC and
 2 those types of national things are in place
 3 and making sure it's up and running to a point
 4 that when we basically insert Muskrat Falls,
 5 Labrador Island Link and Maritime Link into
 6 the Province, we're ready to go. It's a very
 7 very large undertaking. It happens with large
 8 projects. It's nothing that I haven't seen
 9 before, but I know it takes a large amount of
 10 time and effort and that's where the effort
 11 should be focussed in this particular
 12 timeframe and I know it's going to take
 13 significantly more time, as it should, to get
 14 there.

15 MR. O'BRIEN:
 16 Q. Okay, so you expect in 2014 onwards that your
 17 hours spent and perhaps you can tell us for
 18 2014 did you spend more hours than you did in
 19 2013? You'd know that by now.

20 MR. MARTIN:
 21 A. Yes, I have.

22 MR. O'BRIEN:
 23 Q. Okay, and how about 2015 up to now?

24 MR. MARTIN:
 25 A. And when I say 2014 to 2013, I should make a

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1 distinction, not more hours in the same
 2 context. In 2014, obviously we had the
 3 situation surrounding the outages at Holyrood.
 4 If I go back and remember, I indicated to you
 5 I was doing work that covered many
 6 organizations and it benefited Hydro, usually
 7 it would benefit Hydro the most because just
 8 of the size of the company, I would refrain
 9 from charging that into Hydro. But remember I
 10 mentioned about direct charges, if I was in
 11 the field or if I was directly charging to
 12 Hydro to implement something, then I would
 13 charge more. So in 2014 there's no question
 14 that I was directly involved in specific Hydro
 15 business with respect to all of the different
 16 interfaces here, with the consultants and also
 17 dealing with, you know, internal
 18 investigations and such surrounding that, that
 19 would drive 2014 more. So it's not a change
 20 in time I spent, it would be a change in time
 21 that I could see was one hundred percent
 22 directed to Hydro that I knew it was properly
 23 charged directly in, no questions asked.

24 MR. O'BRIEN:
 25 Q. Okay, so that takes us to 2014 and that's

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1 understandable, I guess, in terms of a
 2 difference between 2013 and 2014 because we
 3 see almost a four hundred percent sort of
 4 increase here, but that's where you're
 5 expecting that that time has come from, it's
 6 largely focussed on Newfoundland and Labrador
 7 Hydro, that time you spent.

8 MR. MARTIN:
 9 A. Exclusively.

10 MR. O'BRIEN:
 11 Q. So going forward then, you wouldn't expect in
 12 2015 and 2016 to have the same time focussed
 13 with sort of reliability issues or anything
 14 like that, you're now focussed more on looking
 15 forward into the future.

16 MR. MARTIN:
 17 A. That's correct, so I made an allocation of
 18 time, you know, suggesting that the amount of
 19 time I spent in 2014, for whatever reason,
 20 directly in Hydro, and it was substantial and
 21 I made an estimate that that would be a
 22 similar, but for different reasons, not for
 23 reliability reasons but for, as you mentioned,
 24 primarily the preparation of the organization
 25 to receive Muskrat Falls, Labrador Island Link

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1 and Maritime Link and be ready to go when
 2 Muskrat Falls comes on line.

3 MR. O'BRIEN:
 4 Q. Have you made a recent change in sort of
 5 leadership in terms of hiring on another vice
 6 president to look specifically at moving
 7 forward and the integration issues, that sort
 8 of thing?

9 MR. MARTIN:
 10 A. We're in the process of determining that, so
 11 I'm not prepared to speak about that right
 12 now, but I will be when the work is done.

13 MR. O'BRIEN:
 14 Q. And maybe I'll ask in particular Mr.
 15 Humphries, like Mr. Humphries' role, what's
 16 his particular role? That's a fairly recent
 17 role, is that right?

18 (12:45 p.m.)

19 MR. MARTIN:
 20 A. I understand what you're saying, yeah. So Mr.
 21 Humphries' role, so prior to the Muskrat Falls
 22 sanction, we'll say, Mr. Humphries was
 23 responsible primarily for, you know, long-term
 24 system planning and so system planning would
 25 be, you know, obviously determining what

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1 transmission and generation requirements have
 2 to happen throughout time with adjustments
 3 have to be made in primarily. And there's a
 4 system's operations which is more focussed on
 5 the day-to-day operations where many things,
 6 but primarily, say in the wintertime, the cold
 7 time of the year, what units have to be turned
 8 on and off day to day and those types of
 9 things. So obviously one is a longer-term
 10 focus; one is more of a day-to-day focus,
 11 although it's not crystal clear like that. So
 12 it's a step one, once Muskrat Falls was
 13 sanctioned, I took a look at what I would see
 14 as a phase-one adjustment. We had to begin
 15 the planning to receive Muskrat Falls and the
 16 Labrador Island Link. We had to maintain a
 17 day-to-day operations for Newfoundland and
 18 Labrador Hydro, naturally, but a lot of the
 19 personnel and a lot of the thinking crossed
 20 over much more when you're looking at
 21 Integrated and Muskrat Falls into that system.
 22 So it's an interim step and I asked Mr.
 23 Humphries to step back and assume both the
 24 system operation's role and the system
 25 planning role in the interim. He would still

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1 be accountable to Mr. Henderson for the system
 2 operating piece and he would be accountable to
 3 Mr. Henderson for the planning for the Hydro
 4 piece, which would be probably more specific
 5 to shorter term transmission at this point
 6 because the Muskrat Falls decision had been
 7 made, but at the same time I asked him to take
 8 on the initiation of the planning for long-
 9 term integration of Muskrat Falls and Labrador
 10 Island Link. So it's a temporary, you know,
 11 interim role that is designed to bring all of
 12 the necessary minds and brains and thoughts
 13 and experience together to get this to a point
 14 where we're going to move to the next step
 15 very soon and I expect what's going to happen
 16 is the system operation's piece, specific
 17 Newfoundland and Labrador Hydro on a day-to-
 18 day basis will move solely back into Hydro.
 19 Obviously any type of planning that's required
 20 for Hydro to move back into Hydro, it will be
 21 a significantly different perspective.
 22 Muskrat Falls is coming on which is going to--
 23 and Labrador Island Link is going to take us
 24 well into the future, but there still will be
 25 some planning for it, directly for Hydro, and

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1 then we'll evolve into what is going to be the
 2 transition organization to take us over the
 3 next couple of years prior to the start of
 4 Muskrat Falls.
 5 MR. O'BRIEN:
 6 Q. So Mr. Humphries' position now is vice-
 7 president of system's operation and planning?
 8 MR. MARTIN:
 9 A. Right.
 10 MR. O'BRIEN:
 11 Q. And that's a Newfoundland and Labrador Hydro
 12 role, that's not in the Nalcor entity?
 13 MR. MARTIN:
 14 A. That's correct.
 15 MR. O'BRIEN:
 16 Q. Okay, and is his role then a long-term role
 17 where you talk about your further involvement,
 18 I guess, in 2015, 2016 in terms of
 19 integration, is that not his role now in a
 20 large part, is he taking over some of that
 21 slack now?
 22 MR. MARTIN:
 23 A. So all that Mr. Humphries and myself and
 24 others are working through those design
 25 elements right now. So we have what we need

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1 in place right now with Mr. Humphries, you
 2 know, handling both with the clarity in terms
 3 of how that's being executed and now we're
 4 planning for that next stage. We're not
 5 totally finalizing that yet, but we're close.
 6 When that's finalized, then we'll be able to
 7 indicate how that will look.
 8 MR. O'BRIEN:
 9 Q. And I do note in one of the RFIs there's an
 10 indication there's going to be some further
 11 organizational structure changes and head of
 12 Muskrat Falls phase-one coming in and then
 13 you've already testified to that, that there
 14 are plans. I won't ask you to discuss those
 15 plans at this point. I understand, but you're
 16 hoping, I take it, something by the end of the
 17 year or early next year, is it, the timeline
 18 on those?
 19 MR. MARTIN:
 20 A. Hope wouldn't be the term I would use, it
 21 would be a term that when it's appropriate and
 22 the time is right, we're going to make a move.
 23 MR. O'BRIEN:
 24 Q. Okay, all right.
 25 MR. MARTIN:

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1 A. It's not a matter of hope.
 2 MR. O'BRIEN:
 3 Q. It's not a matter of hope; it's a matter of
 4 when it's necessary.
 5 MR. MARTIN:
 6 A. And when it is the right time.
 7 MR. O'BRIEN:
 8 Q. All right. Let me ask you about Newfoundland
 9 and Labrador Hydro and how this organizational
 10 structure works for Newfoundland and Labrador
 11 Hydro as a regulated entity, different and
 12 apart from how it works, say from the
 13 perspective of CF(L)Co or from the perspective
 14 of the construction company, that kind of
 15 thing. How does it work for the regulated
 16 entity? Is it something that you're more
 17 focussed on, you must be focussed on reliable
 18 service, you must be focussed on goals such as
 19 efficient service, least-cost service, that
 20 kind of thing, that may not be the same
 21 interest that you see across the other
 22 entities, is that right?
 23 MR. MARTIN:
 24 A. They're similar, I think in Newfoundland and
 25 Labrador Hydro's case, I think it's clear

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1 that, you know, customer service is the key
 2 stakeholder and customers are key
 3 stakeholders, customer service is critical.
 4 Once again that's in combination though with
 5 safety, reliability, cost effectiveness. I
 6 look at the other entities, the key
 7 stakeholder there would be more of a
 8 shareholder type of arrangement in terms of
 9 providing a return to the shareholder. So I
 10 would say that would be the distinction. But
 11 below that, you're running both as a business.
 12 MR. O'BRIEN:
 13 Q. Sure.
 14 MR. MARTIN:
 15 A. So once you establish a stakeholder, that's
 16 going to impact your decision making. But
 17 when you get down to, you know, safety, I
 18 think it's common to everything, environmental
 19 performance is common to everything. I mean,
 20 these are your licenses to operate no matter
 21 who your stakeholder is, that has to be
 22 fulfilled. Asset management is exactly the
 23 same for all organizations, you know, without
 24 asset management, I mean, that's what we do,
 25 that's where the entity exists. With respect

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1 to financial strength and performance, I think
 2 there you'll see different debt equity
 3 structures potentially, you know, debt equity
 4 structure at Hydro would be more focussed on a
 5 combination of making sure the company is very
 6 strong from a balance sheet perspective and
 7 presents itself well in the financial markets
 8 for financing. But also debt is less
 9 expensive than equity, so you want to probably
 10 finance as much as you can within reasonable
 11 parameters for debt because that benefits the
 12 customer. Some of the other entities, outside
 13 of the customer focus, it may be more of a
 14 focus on equity and debt to provide your
 15 shareholder with more reasonable returns, so
 16 that would be a distinction, but financial
 17 strength is critical in both cases, emphasis
 18 on your people. It's critical in both cases,
 19 there's no distinction and you have you, you
 20 know, hire and train the best of you're not
 21 going to succeed and with emphasis on the
 22 community, there could be different focusses
 23 there, I mean Hydro's emphasis on the
 24 community and community relations would be
 25 more focussed on the safety and environment,

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1 you know, themes, when you're dealing with the
 2 community and trying to participate in the
 3 community, where some of the other entities
 4 there could be, you know, there could be a
 5 different focus. You see what I'm saying is
 6 there may be similar things -
 7 MR. O'BRIEN:
 8 Q. I think I get what you're saying.
 9 MR. MARTIN:
 10 A. - but it's always overlaid with the fact that
 11 Newfoundland and Labrador Hydro's key
 12 stakeholder is the customer.
 13 MR. O'BRIEN:
 14 Q. Right, but there's certainly, I guess, where
 15 both are businesses, there's certainly key
 16 similarities as running both as a business,
 17 one being a regulated company, Newfoundland
 18 and Labrador Hydro verses the non-regulated
 19 lines of business. I guess there must be a
 20 need for leadership to balance those interests
 21 when making decisions, is that right?
 22 MR. MARTIN:
 23 A. Absolutely.
 24 MR. O'BRIEN:
 25 Q. Okay. And how is it then when you have

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1 members of the leadership team who sit in
 2 Newfoundland and Labrador Hydro and members
 3 who sit in Nalcor who may have roles which
 4 touch other lines of businesses in Nalcor, how
 5 do you balance those interests in making
 6 decisions as a leadership team?
 7 MR. MARTIN:
 8 A. Very simply put you make it clear, as I
 9 mentioned earlier, what your outcomes are
 10 expected for each organization. The critical
 11 pieces, you establish the values that these
 12 people will operate under and many of those
 13 values touch upon honesty and openness and
 14 transparency and safety and doing the right
 15 then. And then you make it clear what drives
 16 each organization and then obviously you hire
 17 professional people who understand when
 18 they're operating, they're operating in the
 19 best interests of the company that they're
 20 dealing with at the time they're making that
 21 decision.
 22 MR. O'BRIEN:
 23 Q. So practically then, say if a conflict arises,
 24 how do you deal with that?
 25 MR. MARTIN:

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1 A. First of, it would be rare, if you have your
 2 goals and objectives in place, you know what
 3 you're trying to achieve, you know what your
 4 drivers are and I keep going back to it, you
 5 look at your business from a safety,
 6 environmental business performance, financial
 7 performance, people in the community, and you
 8 lay out your goals, short and long-term and
 9 you measure those goals and you know what the-
 10 -these are indicating what the outcomes have
 11 to be. In those cases you have clarified
 12 accountability is a responsibility, that's
 13 what you do upfront and then the people when
 14 they're making their decisions, they adhere to
 15 that. If it comes down to a conflict, you
 16 know, in the case it does, which is rare
 17 because you've dealt with that upfront, then
 18 reasonable people have to get together and
 19 work that out. If it doesn't work out,
 20 eventually it comes up to me and in my case,
 21 as I've indicated before, I think it's clear
 22 that Newfoundland and Labrador Hydro and a
 23 customer focus would trump an unclear
 24 situation, that's just the way it has to be,
 25 that's our primary focus, it's our base-

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1 operating business and that's where it goes.
 2 MR. O'BRIEN:
 3 Q. And are there any policies in place for
 4 dealing with conflicts or anything like that?
 5 Clear processes, anything like that that you
 6 can tell me?
 7 MR. MARTIN:
 8 A. I think the policies and procedures and we
 9 have in place and our goals and objectives in
 10 our performance management system, that's what
 11 that is, that's what that exists for is to
 12 provide those guidelines, exactly.
 13 MR. O'BRIEN:
 14 Q. Okay. So in terms of, say, because I did see
 15 in one of the RFIs there was a conflict of
 16 interest guideline, which doesn't really touch
 17 on how the organizations intermingle, it
 18 touches more so on if there's an employee who
 19 has an interest outside of Nalcor or outside
 20 of Hydro, then there's a conflict of interest
 21 guidelines, but is there anything to deal with
 22 a situation where there's a conflict between
 23 Newfoundland and Labrador Hydro and Nalcor?
 24 MR. MARTIN:
 25 A. I think, as I mentioned, that's the purpose of

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1 the policies and procedures that are in place,
 2 the framework we have with respect to the
 3 values, goals and objectives in our
 4 performance measurement system. You would
 5 overlay that with, you know, with the
 6 principles of what's in the conflict, you
 7 know, of interest guidelines, but we also have
 8 a code of ethics. You know, it's that suite
 9 of information that governs how these
 10 decisions will be made and you make the right
 11 decision, and Newfoundland and Labrador Hydro
 12 and the customer focus is critical, we made
 13 that clear from the outset and it remains the
 14 same now.
 15 MR. O'BRIEN:
 16 Q. Is there anybody, any key person who is tasked
 17 with making sure on a go-forward basis say
 18 that the principles of the organization, those
 19 key design principles we talked about are sort
 20 of met with going forward and that there's no
 21 conflicts, is there anybody tasked with that
 22 role or is this a leadership thing?
 23 MR. MARTIN:
 24 A. It's inherent leadership, you know, that's, I
 25 have to repeat myself, that's why we prepare

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1 the framework of the leadership and why we
 2 document things the way that we do and a lot
 3 of it comes down to quality of your people and
 4 adherence to your values and then these people
 5 are expected to run the business
 6 professionally and ethically, that's the way
 7 it goes.
 8 MR. O'BRIEN:
 9 Q. And the reason I ask that is that I did note
 10 in one of those attachments about one of the
 11 earlier, I guess, PowerPoint presentations
 12 back in 2008, there was a mention of one of
 13 the key principles for success was the matrix
 14 guardian and I've seen mention of a matrix
 15 steward, that kind of thing, does that type of
 16 individual exist within Newfoundland and
 17 Labrador Hydro or Nalcor?
 18 MR. MARTIN:
 19 A. Yeah, I think, you know, if you look at the
 20 individual who helps me at the corporate
 21 level, who works the most closely with me at
 22 the corporate level and provides, you know,
 23 information perspective, experience and such
 24 and would be, I would see as that guardian
 25 would be the vice-president of human resources

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1 and organizational effectiveness.
 2 MR. O'BRIEN:
 3 Q. And is this an individual that you rely on
 4 sort of for assistance in that regard or is it
 5 a specific designation?
 6 MR. MARTIN:
 7 A. I would say we share leadership in that realm.
 8 (1:00 p.m.)
 9 MR. O'BRIEN:
 10 Q. Okay. I wonder if we could bring up NPNLH-
 11 058? And perhaps if we could go down to
 12 lines--just scroll down, so this particular
 13 question deals with the background behind the
 14 transfer of employees back in 2008 that you
 15 indicated some employees were transferred into
 16 Nalcor. If we could go to page 3 and right
 17 down there to line 8, maybe we'll start at
 18 line 6, "The company's experience is that the
 19 impact of such transfers has been a beneficial
 20 one from a cost and productivity/resource
 21 optimization standpoint. However, any
 22 potential for a negative impact on regulated
 23 activities is monitored by the appropriate
 24 Hydro supervisors and managers and addressed,
 25 if necessary, through a work load or job scope

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1 adjustment, process change, the hiring of
 2 additional resources or some other appropriate
 3 action." So when we're talking about this
 4 transfer of employees from Newfoundland and
 5 Labrador Hydro into Nalcor, what potential
 6 negative impacts were considered at that time?
 7 In order to monitor them, I'd presume you
 8 would have to consider what possible impacts
 9 were there.

10 MR. MARTIN:
 11 A. Yeah, I think what we're getting at there is
 12 that say the expectation on the initial
 13 assignment was that the individual would spend
 14 virtually all of their time with Newfoundland
 15 and Labrador Hydro. We were considering the
 16 case where maybe the initial assessment was
 17 incorrect.

18 MR. O'BRIEN:
 19 Q. Okay.

20 MR. MARTIN:
 21 A. Maybe something changed elsewhere and we had
 22 to ask that employee because of specific
 23 experience to deal with a problem at CF(L)CO
 24 or maybe somewhere in the project,
 25 unanticipated or maybe a mistake at the

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1 outset. We made sure that--we're just making
 2 sure that the supervisors and managers were
 3 watching that to make sure that the timesheets
 4 and allocations, you know, were clear. So we
 5 wouldn't want someone to be entirely charged
 6 into Hydro, ended up doing work elsewhere more
 7 than expected and the time wasn't being
 8 charged out of Hydro.

9 MR. O'BRIEN:
 10 Q. Just to be fair though for your answer, Mr.
 11 Martin, this sort of RFI talks about the
 12 individuals are transferred from Hydro to
 13 Nalcor, as opposed to those that stayed in
 14 Hydro, so would the potential negative impacts
 15 be that they were charging back too much into
 16 Hydro, is that sort of based on what your
 17 response -

18 MR. MARTIN:
 19 A. Yes, I understand your point, that would be
 20 the case, that's correct, yes.

21 MR. O'BRIEN:
 22 Q. And were there any other potential impacts
 23 considered at that time?

24 MR. MARTIN:
 25 A. Well I would have to say they weren't charging

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1 enough would be, you know, it would have to be
 2 another consideration.

3 MR. O'BRIEN:
 4 Q. And how was that monitored?

5 MR. MARTIN:
 6 A. That's where your supervisor and manager, you
 7 know, comes into the situation, so they have
 8 to approve the timesheets. So there has to be
 9 an understanding of what the individual is
 10 doing and making sure, generally speaking,
 11 that's where the time went.

12 MR. O'BRIEN:
 13 Q. And are you aware of any situations where a
 14 negative impact did arise that had to be dealt
 15 with?

16 MR. MARTIN:
 17 A. I'm not aware but honestly I probably wouldn't
 18 necessarily be made aware myself.

19 MR. O'BRIEN:
 20 Q. And you may not be the person to ask that
 21 question to, so to be fair.

22 MR. MARTIN:
 23 A. I wouldn't be the person to ask that.

24 MR. O'BRIEN:
 25 Q. Yes, okay. And we talk about the decision

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1 making in the leadership milieu where we have
 2 some employees in Nalcor and some leadership
 3 employees in Newfoundland and Labrador Hydro.
 4 I want to ask you practically about a couple
 5 of things in that regard, one of which is in
 6 the recent 2016 Capital Budget Application
 7 there is an indication that the TL267 project,
 8 the transmission line project from between Bay
 9 D'Espoir to Western Avalon Terminal is going
 10 to be provided by the Lower Churchill, the
 11 project management, engineering and
 12 construction management services for that
 13 project is going to be provided by the Lower
 14 Churchill management corporation, that's one
 15 of Nalcor's corporations, is that right?

16 MR. MARTIN:
 17 A. That's correct.

18 MR. O'BRIEN:
 19 Q. And this would be work done on one of
 20 Newfoundland and Labrador Hydro's assets?

21 MR. MARTIN:
 22 A. That's correct.

23 MR. O'BRIEN:
 24 Q. Transmission line, in fact, this is one of the
 25 largest, if not the largest regulated project

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1 approved by this board, is that right?

2 MR. MARTIN:

3 A. I think so, yes.

4 MR. O'BRIEN:

5 Q. A significant project.

6 MR. MARTIN:

7 A. Yes, it's a big project.

8 MR. O'BRIEN:

9 Q. Would Newfoundland and Labrador Hydro have had

10 the employees and the expertise to have done

11 that project themselves?

12 MR. MARTIN:

13 A. Well that's the nature of what's happening

14 here is that Newfoundland and Labrador Hydro

15 over time has had the expertise with respect

16 to, you know, project management, engineering

17 and construction management with respect to

18 transmission lines and work. With the

19 sanction of Muskrat Falls and Labrador Island

20 Link and the pre-work to sanction, we took

21 that expertise and seconded them to the

22 Muskrat Falls Labrador Island Link Project,

23 couple of reasons. They had the expertise

24 benefits the project, but also you want your

25 people getting the experience and background

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1 on these large projects so that when they come

2 back in to the organization, obviously they

3 have requisite expertise. So it's these same

4 people what we're saying here now, we want to

5 make sure that these same people are -- and

6 their expertise, knowledge and experience is

7 going to be used with respect to Newfoundland

8 and Labrador Hydro's construction of the line.

9 So that's what is intended to do is make sure

10 we bring the Hydro expertise back into Hydro

11 for the regulated utility work and don't leave

12 them out in Muskrat Falls Labrador Island

13 Link, although that is really benefitting the

14 customers in the long run as well. But we're

15 at a stage there now where we're comfortable

16 that that expertise will have to be remade

17 available directly to Hydro. So that's what

18 this is intended to do. The mechanism, I'm

19 not sure how folks are going to do that, but

20 that's the intent of the wording is to make

21 sure we get that requisite expertise in the

22 Hydro world to make sure they're executing

23 that project properly.

24 MR. O'BRIEN:

25 Q. Well, let me ask you, just in terms of how

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1 that decision got made. Was there any

2 analysis as to whether or not this would be

3 least cost for the customer? And this is

4 where I'm looking at sort of potential

5 conflicts between one line of Nalcor and

6 Hydro. How was that decision made in the

7 leadership -- by the leadership team?

8 MR. MARTIN:

9 A. So let's -- you know, if we could just break

10 it into two pieces. We have to -- obviously

11 the line is required. We're making a case for

12 it. It's in for capital application. And

13 there has to be a certain amount of work done

14 within Hydro, Newfoundland and Labrador Hydro,

15 to prepare -- to understand the need, to

16 prepare the application, do the upfront

17 preliminary work and to get the application

18 submitted. That historically would be -- and

19 I believe it should be driven by Newfoundland

20 and Labrador Hydro with any type of expertise

21 that may be required to support that

22 application. At that point, upon approval,

23 then that same team or that same group would

24 proceed to make a decision as to whether to

25 construct, engineer, build, how it's going to

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1 happen. Historically within Newfoundland and

2 Labrador Hydro, they have engineered,

3 construction managed these jobs and I expect

4 that will be the same. But at this point,

5 we're making sure that we're getting to that

6 level, as they have historically, to get the

7 line approved and take it to the next level.

8 I said to the folks "make sure that same level

9 of expertise that's available, make sure it's

10 reinserted into Hydro to handle this line".

11 How it actually gets structured, that'll be up

12 to the construction execution people, Pat's

13 group and those types of things. So I'm

14 looking at this, taken from my perspective, I

15 said "make sure the expertise is available to

16 Hydro. Make sure, as we've done historically,

17 it's working well and make sure it's cost

18 effective." Now how that happens, how it

19 works after that, that would be up to the

20 relevant vice-president who's responsible for

21 that execution.

22 MR. O'BRIEN:

23 Q. Okay. So are you aware of any analysis done

24 at this point in time, in terms of your

25 leadership team at Newfoundland and Labrador

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1 Hydro, as to whether or not this is the least
 2 cost effective approach or is that something -
 3 MR. MARTIN:
 4 A. I'm not personally aware. That wouldn't mean
 5 if it's done or not done from that
 6 perspective.
 7 MR. O'BRIEN:
 8 Q. And is there someone we can ask about that,
 9 other than yourself?
 10 MR. MARTIN:
 11 A. Absolutely.
 12 MR. O'BRIEN:
 13 Q. Who would that be?
 14 MR. MARTIN:
 15 A. That would be John McIssac.
 16 MR. O'BRIEN:
 17 Q. John McIssac, okay.
 18 MR. MARTIN:
 19 Q. That's correct.
 20 MR. O'BRIEN:
 21 Q. And is Mr. McIssac going to testify in these
 22 particular hearings? I didn't see his name on
 23 the list.
 24 MR. YOUNG:
 25 Q. He's not on the schedule list at this time.

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1 MR. O'BRIEN:
 2 Q. No, okay.
 3 MR. YOUNG:
 4 Q. I think I could probably defer or would
 5 suggest that we should probably discuss this
 6 with counsel for Newfoundland Power.
 7 MR. O'BRIEN:
 8 Q. That's fine with me.
 9 MR. YOUNG:
 10 Q. It could go to operations perhaps.
 11 MR. O'BRIEN:
 12 Q. Yeah, that's fine with me.
 13 MR. YOUNG:
 14 Q. We'll try to get the best evidence we can.
 15 MR. O'BRIEN:
 16 Q. Yeah. And we can have a discussion on that.
 17 Okay. All right. Move along to another
 18 question for you, Mr. Martin, in terms of
 19 decision making, I guess, with respect to the
 20 leadership team. One of the issues that is in
 21 contention, at least from Newfoundland Power's
 22 perspective, has to do with the debt guarantee
 23 fee that's paid by Newfoundland and Labrador
 24 Hydro to the Provincial Government, and that
 25 particular fee, the evidence indicates in 2014

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1 will be 3.7 million, in 2015 over four
 2 million. I'm not going to ask you the details
 3 about -- or your opinion from a legal
 4 perspective on whether or not it should or
 5 shouldn't be paid. What I want to know is
 6 from a decision making perspective and
 7 leadership perspective, was that even
 8 discussed by the management team and
 9 leadership team of Newfoundland and Labrador
 10 Hydro as to whether or not it should be paid?
 11 MR. MARTIN:
 12 A. Yes, it was.
 13 MR. O'BRIEN:
 14 Q. It was, was it?
 15 MR. MARTIN:
 16 A. Um-hm.
 17 MR. O'BRIEN:
 18 Q. Okay. So then, and who would have been part
 19 of those discussions?
 20 MR. MARTIN:
 21 A. Obviously the key person there would be the
 22 chief financial officer.
 23 MR. O'BRIEN:
 24 Q. Chief financial officer, okay. And I presume
 25 you've come to the conclusion that it will be

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1 paid. I won't ask whether or not it's your
 2 opinion that legally it should be paid.
 3 MR. MARTIN:
 4 A. Could you -- what's the -
 5 MR. O'BRIEN:
 6 Q. Based on the filing that Newfoundland and
 7 Labrador Hydro is asking for, its revenue
 8 requirement to include those two amounts.
 9 MR. MARTIN:
 10 A. Is there a question in there?
 11 MR. O'BRIEN:
 12 Q. No, I just -
 13 MR. MARTIN:
 14 A. I'm sorry, I'm missing the question.
 15 Apologize for that.
 16 MR. O'BRIEN:
 17 Q. I'm not going to ask you your opinion, but I
 18 presume that's what the outcome of the
 19 discussions were, was that this should be
 20 paid?
 21 MR. MARTIN:
 22 A. That's correct.
 23 MR. O'BRIEN:
 24 Q. Okay. And was there any consideration at that
 25 point in time as to whether or not there was a

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<p>1 conflict between Newfoundland and Labrador 2 Hydro as a regulated entity paying that bill 3 and the shareholder of Nalcor, being the 4 Provincial Government?</p> <p>5 MR. MARTIN: 6 A. Can't recall a conflict. I would say that 7 from my perspective my input was generally 8 guidance that make sure that the debt 9 guarantee is appropriate and it matches, you 10 know, what would be seen as reasonable and 11 make sure it meets those parameters. At that 12 point, I turned it over to CFO and said you 13 know, deal with it.</p> <p>14 MR. O'BRIEN: 15 Q. Okay. All right. Now Mr. Martin, I want to 16 ask you some questions. You've indicated in 17 your opening remarks, you made some comments 18 about the operating and maintenance costs. In 19 Newfoundland and Labrador Hydro's evidence, 20 there's an indication that Newfoundland and 21 Labrador Hydro strives to keep costs within 22 inflationary levels. Is that accurate?</p> <p>23 MR. MARTIN: 24 A. Yes.</p> <p>25 MR. O'BRIEN:</p>	<p>1 MR. O'BRIEN: 2 Q. So inflation - 3 MR. MARTIN: 4 A. And then we would end up focusing on what 5 those changes are.</p> <p>6 MR. O'BRIEN: 7 Q. Okay, inflation is a key aspect of the 8 budgetary process for you?</p> <p>9 MR. MARTIN: 10 A. It's one aspect, one key aspect.</p> <p>11 MR. O'BRIEN: 12 Q. Okay, and you have indicated, and the evidence 13 has indicated that there will be an increase 14 of 44.8 million dollars in operating cost 15 that's on a gross basis from 2007 to 2015, is 16 that right?</p> <p>17 MR. MARTIN: 18 A. That's correct.</p> <p>19 MR. O'BRIEN: 20 Q. And we understand from the evidence that when 21 adjusted for inflation, that figure is roughly 22 33.2 percent above and beyond inflation?</p> <p>23 MR. MARTIN: 24 A. I don't have those numbers at my fingertips 25 right now.</p>
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<p>1 Q. And how is it that Newfoundland and Labrador 2 Hydro does that? Is that part of the 3 budgeting process?</p> <p>4 MR. MARTIN: 5 A. It is, and the way that works -- and once 6 again, put that in context, you know adhere to 7 reliability safety, cost effectiveness. 8 There's a lot of parameters that go into it, 9 but when budgeting, once we knew the asset 10 management plan which put a long term plan in 11 place, that drives the budgeting process, and 12 if there's not significant changes - if 13 there's significant changes to the plan that 14 don't drive a budget adjustment more than 15 inflation, then we focus on the plan. A 16 budget, I'm not too concerned about because we 17 would have approved the longer term budget. 18 So when the budget comes out, I would - the 19 instructions there, if there's nothing changed 20 in the asset management plan, and you're 21 within inflation, I would say talk to me about 22 what's happening, but my focus would be less 23 than if there was something larger than 24 inflation if the asset management plan hadn't 25 changed.</p>	<p>1 MR. O'BRIEN: 2 Q. And maybe to be fair, if we could pull up NP- 3 NLH-315. 4 MR. MARTIN: 5 A. If we've said that, I'm okay with that. I just 6 don't have the numbers in front of me right 7 now. Normally when we get into these 8 inflation things, I'd like to have one of the 9 accounting people give you the numbers.</p> <p>10 MR. O'BRIEN: 11 Q. No, and I'd like to be fair to you, just so 12 you can see that - here we are. We see the 13 question where operations and management costs 14 have increased from 93.4 million in 2007 to 15 138 in 2015, or 48 percent. The percentage 16 increase on an inflationary basis is 33.2?</p> <p>17 MR. MARTIN: 18 A. Yes. 19 (1:45 P.M.) 20 MR. O'BRIEN: 21 Q. So that's above and beyond already adjusted 22 for inflation? 23 MR. MARTIN: 24 A. Right. 25 MR. O'BRIEN:</p>

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1 Q. So, I mean, that's an average of over 4
 2 percent a year beyond inflation over that time
 3 frame, you would agree with me, a simple
 4 calculation?
 5 MR. MARTIN:
 6 A. A simple calculation, assuming it's true.
 7 MR. O'BRIEN:
 8 Q. Yeah. So who's responsible for managing these
 9 costs for Newfoundland and Labrador Hydro?
 10 MR. MARTIN:
 11 A. Accountable, Rob Henderson is accountable and
 12 responsible. Maybe I should put these in
 13 context, though. I think I talked about this
 14 a little bit earlier, and I put this in the
 15 context of the overall change in costs, like,
 16 2015 year, 662 million.
 17 MR. O'BRIEN:
 18 Q. That's correct.
 19 MR. MARTIN:
 20 A. Of that 662 million, 270 million is fuel, 63
 21 million is power purchases, 68 million is
 22 depreciation, 33 million is a return on
 23 equity, and 90 million is interest. So that
 24 leaves 138 million in operating and
 25 maintenance costs. If we look at the

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1 operating and maintenance costs of 138,
 2 approximately 98 million of that is operating
 3 expenses that were at the 2007 level. Now
 4 that 98 has gone up to 138, which gives - or
 5 130 odd, which gives us that 44 million that
 6 you're talking about. Break out that 44
 7 million, about 30 to 32 million of that are
 8 people costs. I'll come back to that in just
 9 a moment.
 10 MR. O'BRIEN:
 11 Q. Yeah.
 12 MR. MARTIN:
 13 A. Approximately 4 million is system equipment
 14 maintenance costs, and the remainder of about
 15 10 million we classify as "other", which I'll
 16 come back to in just a moment. If we look at
 17 the people costs, a portion of that - a
 18 portion of the increase is additional salary
 19 increases and such for the employees, a
 20 portion is an amount for employee future
 21 benefits which is a number that we get and
 22 receive based upon actuarial adjustments for
 23 future benefits, and a portion - and the
 24 majority of that would be additional people.
 25 I'll use rough numbers again because I don't

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1 want to be held to the exact numbers, but if
 2 you look at the additional people, there's
 3 approximately 50, and of that 50, five to six
 4 are related to the new combustion turbine
 5 which is in place and has to be operated, and
 6 the remainder of those people, the majority of
 7 them are people in the operations in the field
 8 who our people have assessed based upon our
 9 long term asset plan, the service life of
 10 these assets, the aging assets, and the
 11 increased maintenance and such is going to
 12 have to happen on these assets, as well as
 13 supporting the more than doubling, in some
 14 cases close to tripling, of the capital
 15 program. These are the people that we're
 16 going to need to service those increased
 17 requirements. That evidence is going to be
 18 discussed more, I think, throughout this
 19 hearing. So that's the primary driver of the
 20 44 million, and of the 31, the primary driver
 21 are these additional people, and we'll discuss
 22 that as we go. The system equipment
 23 maintenance is also an outcome of what is
 24 required from additional expenditures on the
 25 equipment, reflecting the age of the equipment

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1 and what the maintenance curves are indicating
 2 to us is going to be required. So these are
 3 not items of a frivolous nature, these are
 4 things that have to happen to keep the lights
 5 on. Then the third piece is the other
 6 operating expenses of - and a change is about
 7 10 million, and of that change, the lion's
 8 share of that is professional services and
 9 that's a combination of general rate
 10 application and Board related costs, you know,
 11 that are inherent in terms of a hearing such
 12 as this and other ones that are ongoing, as
 13 well as we have put in extra allowances for
 14 consultants for additional condition
 15 assessments. As we see, the deterioration of
 16 these assets continue, we're getting ready for
 17 an updated asset management plan and also
 18 we're seeing is that there's many areas where
 19 we're seeking additional and more
 20 comprehensive assessments to prepare, and
 21 that's what primarily that's being driven by
 22 as well. I understand that Mr. Henderson and
 23 others are going to delve into those pieces in
 24 more detail throughout this hearing.
 25 MR. O'BRIEN:

1 Q. Let me ask you in terms of the primary driver
 2 of people, you said 32 million. I understand
 3 that on an inflationary basis the salaries
 4 have increased, salaries and benefits have
 5 increased by 43 percent since 2007. Is there
 6 anything Newfoundland and Labrador Hydro does
 7 to manage that increase?

8 MR. MARTIN:

9 A. Absolutely, and you have to look at salary
 10 increases and benefits increases in context.
 11 So you look at what you - your people are
 12 obviously critical assets. We need to hire
 13 highly qualified people, we need to hire the
 14 best. It's an ongoing situation. The
 15 majority or a large portion of our people are
 16 nearing retirement age, so we're having to
 17 attract new people at various levels in the
 18 organization, entry, mid, and senior, and we
 19 are competing in an environment over the past
 20 eight to ten years in Newfoundland and
 21 Labrador and Atlantic Canada, Canada, and the
 22 United States, which has been a very
 23 aggressive market from a cost perspective. So
 24 what we have done is looked at once again a
 25 combination of cost containment, but cost,

1 MR. MARTIN:

2 A. Absolutely not. Every utility - and I
 3 wouldn't limit it to utilities. I think in
 4 other facets of business across the country,
 5 it's the same situation, has been the same
 6 situation in many, many industries.

7 MR. O'BRIEN:

8 Q. And is it your opinion that an increase of 43
 9 percent above inflation over that time frame
 10 is evidence of reasonable management of those
 11 costs?

12 MR. MARTIN:

13 A. Absolutely. We wouldn't have done it if it
 14 wasn't.

15 MR. O'BRIEN:

16 Q. I'm about to get into another area here, Mr.
 17 Chairman. I wonder whether or not this might
 18 be a good time to break.

19 CHAIRMAN:

20 Q. I commend you for your timing, sir. Thank you
 21 very much. So we'll adjourn until tomorrow
 22 morning at 9 o'clock.

23 (UPON CONCLUDING AT 1:30 P.M.)

1 reliability and safety are all intertwined.
 2 We have to have the right people. So to be
 3 able to maintain all of those parameters, we
 4 put a Human Resources Plan in place which
 5 outlined what we have to do to continue to
 6 compete and to continue to attract employees
 7 and retain, and that has led us to stay within
 8 the parameters that keep us competitive to the
 9 extent possible, and in some cases,
 10 particularly with some of our skilled trades,
 11 we've had to make some adjustments that kept
 12 us competitive with other utilities in
 13 Atlantic Canada, and also in Newfoundland and
 14 Labrador's case, kept us competitive with Fort
 15 McMurray, Western Canada, and other projects
 16 that were happening, mega projects that were
 17 happening here, to retain and attract the
 18 people. So what we've done is put together a
 19 comprehensive plan that controls costs, but in
 20 the context of attracting people to maintain
 21 reliability, safety, and long term operations
 22 for the company.

23 MR. O'BRIEN:

24 Q. That's not something that you as a utility are
 25 the only utility that faces, I take it?

1 CERTIFICATE

2 I, Judy Moss, do hereby certify that the foregoing is a
 3 true and correct transcript of hearing in the matter of
 4 Newfoundland Hydro's General Rate Application, heard on
 5 the 9th day of September, 2015 at the Public Utilities
 6 Board Boardroom, St. John's, Newfoundland and Labrador
 7 and was transcribed by me to the best of my ability by
 8 means of a sound apparatus.

9 Dated at St. John's, NL this

10 9th day of September, 2015

11 Judy Moss

12 Discoveries Unlimited Inc.

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