(9:00 a.m.)
CHAIR:
Q. Good morning everyone.
MR. O'BRIEN:
Q. Good morning.
CHAIR:
Q. First we will go to Ms. Glynn to see if there are any preliminary matters.
MS. GLYNN:
Q. No preliminary matters that I'm aware of, Mr. Chair. I think we can turn it right over to Mr. Simmons.
CHAIR:
Q. Mr. Simmons, good morning.
SIMMONS, KC.:
Q. Thank you very much and good morning, Mr. Chairman, panel members, counsel, Mr. Murray. When we left off yesterday, Mr. Murray, I had asked you some questions concerning Section 1.14 of the Newfoundland Power application and in particular there was a statement in there that Newfoundland Power's business risks in 2023 remain largely consistent with the risks at the time that Newfoundland Power had filed its

previous General Rate Application for 2022/2023, and I had asked you if I was correct in understanding that those were the same risks that had been in play last time, that there's a GRA, and you told me that there was one exception, you said and correct me if I'm wrong on this, you said that after the previous GRA had been filed, Hydro had filed its 2022 Reliability and Adequacy Report and that you said that that changed the perception or the understanding of the reliability of the LIL, so you saw that as a change in the risks since the previous time, and we talked about that already. And I also asked you if one other change was that there's now more certainty around rate mitigation and you said yes, and that was a short-term change in risk; whereas you described the LIL concerns as a longer term change in risks, so do I have that basically right, where we left that off?
MR. MURRAY:
A. Mostly, you know, I would say that, you know, even with the rate mitigation

announcement, it goes to 2030 so there's no certainty beyond 2030 and, you know, we just take the view of risk and our debt holders and investors, they look at risk as long term, you know, our bond holders are buying 30-year bonds, so they look at the long term, not just the short term.
SIMMONS, KC:
Q. Right, okay, and when we left off yesterday, I had asked to go to the order of the Board following that last GRA, which is PUB 2022 and if we can key that one up please? And I would like to go to page 4 and that's page No. 4 and I apologize, I don't have the pdf page number. It's the one, it's Section 2.1 headed "Capital Structure and Return on Equity." There we go. So, Mr. Murray, I don't want to read through this with you, but I'm just going to outline a couple of points and where I'm coming to with this is I'm going to be asking you what's different now, compared to the last time this—the last GRA that was done, what's different concerning the appropriate Newfoundland Power's views of the appropriate return on

equity, so what are we talking about, you're looking for a higher return on equity in this GRA than had been awarded in the previous GRA. So that's where I'm going with it, but I just want to go through a few points here and what the Board has said in their order. So, first it opens in lines 3 and 4 saying that for the 2022/2023 test years, Newfoundland Power had proposed a return on equity of 9.8 percent. Now, that's substantially the same as what Newfoundland Power is looking for now, which is 9.85 percent, correct?
MR. MURRAY:
A. yes.
SIMMONS, KC:
Q. Right, so the ask is the same now as it was then, the common equity ratio is 45 percent, it's been that way for awhile. The proposal now is to continue the common equity ratio of 45 percent, right?
MR. MURRAY:
A. Yes, correct.
SIMMONS, KC:
Q. Okay, and in lines 13 to 17 just describe

that there was a settlement agreement and the result of the settlement agreement was that the parties, including Newfoundland Power, proposed to the Board to actually approve a return on equity rate of 8.5 percent which is the same as it had been for the previous couple of GRAs, right?
MR. MURRAY:
A. That's correct, yes.
SIMMONS, KC:
Q. Now I know there can be to and fro and give and take when settlements are negotiated and I don't want to know anything about what went into that settlement agreement, but am I correct also that even when the parties agree to that, it's still up the Board to look at what's been proposed in the Settlement Agreement and apply the principles of what is a just and reasonable return for the company and what is least cost and most reliable for the ratepayers when they're looking at what the parties have proposed, is that your understanding?
MR. MURRAY:
A. That would seem reasonable, yes.

SIMMONS, KC:
Q. Right, okay, and that's set out, too, I think, in paragraph—as we move down there, but I want to bring you down now to the paragraph that begins at line 32. The Board notes at lines 34 and 35 that the proposed rate of return of 8.5 and equity ratio of 45 percent were the same as were used and set in Newfoundland Power rates in the last two rate applications, so that would be, we're now three rate applications in the past have all used those same rates. And it refers to the evidence that was provided by the experts in the '22/'23 application. Mr. Coyne, I think, was Newfoundland Power's expert and we'll also be hearing from him as Newfoundland Power's expert at this hearing, correct?
MR. MURRAY:
A. Yes, Concentric Energy Advisors.
SIMMONS, KC.:
Q. Correct, and his recommendation last time round was for 9.8 percent, again substantially the same as his recommendation this time which is 9.85 percent, right?

MR. MURRAY:
A. The numbers are similar, correct.
SIMMONS, KC:
Q. Okay, very close.
MR. MURRAY:
A. Yeah.
SIMMONS, KC:
Q. And we'll hear from Dr. Booth on behalf of the Consumer Advocate, last time round he recommended 7.5 percent and I think if you looked at his report, that's pretty much the same as what he is recommending now.
MR. MURRAY:
A. I believe it's 7.7 he's recommending.
SIMMONS, KC:
Q. Okay, very close. And we go to the next page, please, in line 2 and 3, the Board makes the statement that "Dr. Booth and Mr. Coyne agree that there had not been a material change in Newfoundland Power's business risks since 2018" which was an earlier time period. Now, is it Newfoundland Power's position now that there also has not been a material change in the business risks since the last GRA, '22 and

'23?
MR. MURRAY:
A. Well it's in line with what I had previously mentioned yesterday with respect to the 2022 report on the reliability and adequacy report which is different from what was our understanding and what was on the record prior to that.
SIMMONS, KC:
Q. And you've identified that as being a longer-term concern, rather than a shorter-term concern for the 2025 and 2026 test years which is what's being used to set rates in this application.
MR. MURRAY:
A. Well it's both because, you know, an event due to the reliability of the LIL can happen next year, not going to happen after the GRA, it could happen, our concern is it could happen anytime in the future.
SIMMONS, KC.:
Q. Right, so an event could happen, there could be an outage, but that's not going to affect what's happened in this hearing with the setting of the rates which are based on the

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forecast for ’25 and ’26, right?
MR. MURRAY:
A. I don’t draw that same connection, I mean, I indicated it has to do with our risk, we haven’t included any costs related to such an event, but when you look at the risk, it does impact the risk of the company.
SIMMONS, KC:
Q. And if we just skip down to paragraph beginning at line 23, this is where the Board makes its decision and it was satisfied to accept the recommendations that had been in the Settlement Agreement for the 8.5 percent common equity ratio, an 8.5 percent return on equity and 45 percent common, 45 percent capital structure. So, I’d like to just bring you briefly to one other document on the same theme and that’s one of the RFIs, it’s NLH-NP-52 please? This was a question posed by Hydro to Newfoundland Power and it was a request for information concerning the return on equity rates that had been requested by Newfoundland Power in the, actually in the last four general rate applications, dating

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back to 2013, and it lists the consultant’s recommendations and it lists the final return on equity award and it lists the common equity component. And if we look at the last three general rate applications from 2016 up ‘til 2022, Newfoundland Power’s ask for substantially the same, 9.5, 9.5, 9.8 and now it’s 9.85, do you see that?
MR. MURRAY:
A. Yes, I do.
SIMMONS, KC:
Q. And the consultant recommendations were—Newfoundland Power’s consultant recommendations matched what Newfoundland Power’s ask was in each case, correct?
MR. MURRAY:
A. That’s correct, yes.
SIMMONS, KC:
Q. And the final award of the Board was the same in each of those cases, 8.5 throughout, correct?
MR. MURRAY:
A. In 20—yes, I mean, 2019 and 2022 were settlements, the 2016 was an order from the court.

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SIMMONS, KC:
Q. So once again, aside from what you told us about the long-term risks related to LIL reliability, what’s different now compared to when the last GRA or even the previous two GRAs was done, that justifies the Board making a different decision that they made before which was based on substantially the same asks for return on equity and the same expert recommendation on return on equity, why should they do something different than 8.5 percent now?
MR. MURRAY:
A. You know, the 9.85 recommendation is Mr. Coyne’s testimony and evidence. Mr. Coyne and Concentric Advisors will be here to present their rationale on that. You know, it’s been long recognized the 45 percent equity by the Board, you know, due to our small size and cost flexibility and limited growth is important and the higher return on equity, you know, which Concentric will speak to, is looking at a fair return standard and the risk profile of Newfoundland Power to similar utilities and

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what is an appropriate return under the fair return standard.
SIMMONS, KC:
Q. So aren’t those just all the same arguments that were made last time?
MR. MURRAY:
A. You know, Mr. Coyne and Concentric is looking at what has been the change since the last time and equity returns in North America have gone up since our last rate case.
SIMMONS, KC:
Q. Uh-hm.
MR. MURRAY:
A. So under the fair return standard, looking at what is a comparable return for comparable risk for Newfoundland Power.
SIMMONS, KC:
Q. Okay, so the underlying reason then for the request to increase the return on equity is that equity is more costly in the capital markets now than it was last GRA, is that the reason?
MR. MURRAY:
A. Well, I’ll let Concentric, you know, Energy

advisor speak to that because that's their recommendation.

SIMMONS, KC:

Q. And from your seat as the CEO of the organization, it sounds like you are deferring to the opinion of your expert at Concentric on whether a return on equity increase is needed by Newfoundland Power and you're not offering me any other reason for that, other than the opinion of Mr. Coyne, do I have that right?

MR. MURRAY:

A. Well Concentric Energy advisors have done the comparison of Newfoundland Power to utilities of similar risks, that's the work that they've done to come up with the recommendation of the 9.85.

SIMMONS, KC:

Q. Okay. So if I were to suggest to you that what Newfoundland Power is actually asking the Board to do right now, is to reconsider its last decision, saying that the last decision was not correct, the rate of return was set too low, reconsider that decision and make a different decision than had been

made at the last GRA, would I have that right?

(9:15 a.m.)

MR. O'BRIEN:

Q. I don't think that's a fair question given there was a settlement in the last two GRAs, in terms of the Board having different information in front of them with a settlement from the parties, so there is a different focus at that time when the Board accepting a settlement versus making a full-on order at that time, so I don't think it's fair to say that he's saying the Board had it wrong at that point.

CHAIR:

Q. I don't think the witness has to accept the scenario of the first option.

MR. MURRAY:

A. Yeah, I mean, you know, the Board is being asked to view the evidence in front of it as part of, you know, these proposals, you know, we're not asking the Board to make a decision based on past decisions. We're asking them to look at the evidence that's provided in this General Rate Application

and evaluate the evidence that's before them now.

SIMMONS, KC.:

Q. Thank you, Mr. Murray. I have a couple of questions for you just regarding a load growth and in your direct evidence yesterday, you referred to the provincial economic outlook which you said remained weak. You said the economic indicators in Newfoundland and Labrador lag behind the rest of Canada, including historically low forecast housing starts, and the annual customer connections were decreasing and that that made the company growth outlook more challenging going forward. You recall that, you know, I can bring you to the transcript if you want to have a look at what you said yesterday.

MR. MURRAY:

A. No, that's correct.

SIMMONS, KC:

Q. Okay, so I would like to bring up RFI PUB-NP-45 please? So this was actually a question from the Board about Newfoundland Power's capital plan, but when you turn over

to the second page of it, at paragraph 6, there's a comment here regarding forecasts and beginning at 6, Newfoundland Power's answer is "While customer connections are forecast to decline over the next five years"—which you've told us—"system load growth driven by residential development in urban areas, electrification of heating systems and electric vehicle adoption is forecast to offset that decline." So I take it then that Newfoundland Power's position on changing load in the future is that your concerns about the decline in the number of housing starts are expected to actually be offset by increasing electrification and by increase of load from electric vehicles, is that correct?

MR. MURRAY:

A. Yeah, we are seeing an offsetting factor from that, we are seeing lower housing connections, but the forecast allows for, you know, what we've seen for electrification from the, you know, government grant system for convergence from oil to electric and electric vehicle

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adoptions, so those are in the current forecast that is, that was part of the forecast that was settled.

SIMMONS, KC:
Q. Right, and not only are they in the forecast, Newfoundland Power's view is that they offset their anticipated design in new residential connections, that's what is stated here, so I presume that would be your evidence?
MR. MURRAY:
A. That would seem reasonable, yes.
SIMMONS, KC:
Q. Okay. Newfoundland Power, in making its assessment about housing starts, I think uses Conference Board of Canada data.
MR. MURRAY:
A. That's correct, it's been a longstanding practice to use Conference Board of Canada as the Board has accepted for many GRAs, yes.
SIMMONS, KC:
Q. Yes, and there are other economic projections available and in particular, I think, the provincial government does

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econometric projections which include, you know, provincial economic growth and things like housing starts as well, you're aware of that, I presume?
MR. MURRAY:
A. I'm aware that they do a forecast, I'm not sure what data they use or what the basis of their assumptions are.
SIMMONS, KC.:
Q. And would you know whether or not Hydro uses the provincial government data versus Conference Board of Canada when they're doing load forecast?
MR. O'BRIEN:
Q. Mr. Chair, I understand forecast is settled in this matter and we seem to be going down the road now, it's one thing to talk about it in terms of risk, but if we're talking about it in terms of what the forecast is and what it should be, I mean that issue was part of the settlement agreement already, so opening up lines of questions on that, I'm a little bit concerned about where this is taking us.
CHAIR:

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Q. Mr. Simmons, if you could just provide more context to your questions so we know we're not rehashing the debate about the forecast.
MR. O'BRIEN:
Q. That would be helpful.
SIMMONS, KC:
Q. Sure, it relates to the risk issue, Mr. Chairman, because in the evidence yesterday I understood Mr. Murray to say that declining residential connections, which would mean declining growth in load, were a future risk factor for Newfoundland Power, so I just wanted to explore, just a little bit, the basis for that conclusion and that there is probably other data out there that could be considered as well.
MR. O'BRIEN:
Q. Again – sorry, Mr. Chair, you go ahead.
CHAIR:
Q. I think it's fair—I was going to say I think it's fair in the context of discussing risk to discuss the metrics of the economy.
MR. O'BRIEN:
Q. And, Mr. Chair, to take that point, I don't disagree in the context of risk, but in the

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context of looking at what other metrics are out there that may affect what the actual load forecast is, I don't think that's fair because now we're getting into what the load forecast is versus what it should be and that's a settled issue.
CHAIR:
Q. I agree with you, Mr. O'Brien, I think the context of the discussion should stick to risk aspect of the forecast, not so much whether the reason was of the forecast itself, if that's okay.
SIMMONS, KC:
Q. And in that context, I really just have one more question for you, Mr. Murray, and since your evidence that you gave yesterday was related to Newfoundland Power's assessment of its risk, the question I was coming to was is there any particular reason why making that assessment Newfoundland Power chooses to rely on the Conference Board of Canada data, rather than look at the provincial government data, or would you know that?
MR. MURRAY:

Q. You know, to my understanding it's been longstanding practice and actually ordered by the Board, I'm going to say a few decades ago, that Newfoundland Power use the Conference Board of Canada for its forecasting model.
SIMMONS, KC:
Q. Thank you. I'd like to move on, please, to some questions on the executive compensation issue.
MR. MURRAY:
A. Sure.
SIMMONS, KC:
Q. And I believe there are four people in your organization that fall into the executive category, that would be yourself, the VP of Customer Operations, the VP of Finance, and the VP of Engineering and Energy Supply. Those are the four, I think:
MR. MURRAY:
A. Yes, that's correct, as I indicated yesterday we're a relatively small executive team.
SIMMONS, KC:
Q. Now, I had a look at the biographies on the

Newfoundland Power website. I just want to run through with you quickly what some of the backgrounds of some of these people are and I just want to identify where they have come from when they have come into those executive positions. And in your case, you've been with Newfoundland Power, you say, since 2002.
MR. MURRAY:
A. Yes, that's correct.
SIMMONS, KC:
Q. And you've been on the executive team, you said yesterday for eight years?
MR. MURRAY:
A. Since 2014, yes.
SIMMONS, KC:
Q. Okay, yeah. And you were in the position of VP Operations before you became CEO?
MR. MURRAY:
A. Yes, Customer Operations.
SIMMONS, KC.:
Q. So you weren't recruited from outside the Newfoundland Power or Fortis organization into the CEO position, you're someone who kind of grew through some of the positions

within the organization, right?
MR. MURRAY:
A. That would be correct, yes.
SIMMONS, KC:
Q. Mr. Mullins is VP Customer Operations, would you know how long he's been with Newfoundland Power, approximately?
MR. MURRAY:
A. I believe since 2011.
SIMMONS, KC:
Q. Yeah, and would you know whether he had moved up through different positions within the company before becoming VP Customer Operations?
MR. MURRAY:
A. Yes, he would have moved through, you know, I think he started in Engineering and moved on to Operations and moved to his current role.
SIMMONS, KC:
Q. Right, so he wasn't recruited into the VP position from outside of Newfoundland Power or Fortis organization, right?
MR. MURRAY:
A. That's correct, yes.

SIMMONS, KC:
Q. Same with Ms. London, she, I think, had held positions at Fortis for sometime, is that right?
MR. MURRAY:
A. That's correct, yes.
SIMMONS, KC:
Q. And she moved through Fortis over to Newfoundland Power?
MR. MURRAY:
A. Yes, I believe around 2017.
SIMMONS, KC:
Q. Right, and so she wasn't recruited from outside, I'll say the Fortis family, into her VP position, she came from within the organization as well?
MR. MURRAY:
A. Yes, that's correct.
SIMMONS, KC:
Q. And the same thing for Mr. Chubbs, I believe, he's been with Newfoundland Power for some time and moved through progressive positions and I believe he actually went to Maritime Electric for a short time?
MR. MURRAY:

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A. Yes, I believe he was Maritime Electric from 2016 to 2018, I believe—or no, 2018 to 2020 and then came back to Newfoundland Power.
SIMMONS, KC:
Q. And Maritime Electric is another company, I'll say, within the Fortis family, it's a related company, right?
MR. MURRAY:
A. That's correct, yeah. I think actually the first one I said was right, 2016 to 2018, sorry.
SIMMONS, KC:
Q. So all four of you then have come up through the Fortis organization one way or another, none of you were recruited from outside that organization into the executive positions you hold?
MR. MURRAY:
A. Of the current executive team, yes.
SIMMONS, KC:
Q. Can we go to the Korn Ferry Report, please? And I'd like to go to page 8 of the pdfs, which is page 7 of the report. This is a section of the report, Mr. Murray, that speaks of the methodology for selecting

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comparative companies for use in determining Korn Ferry's recommendations for the compensation for Newfoundland Power executives, I believe. Are you familiar with this report? You've read this, I presume?
MR. MURRAY:
A. Yes, I'm familiar with it, yes.
SIMMONS, KC:
Q. In the paragraph, the first paragraph, one thing we take out of that is that Korn Ferry has used, in the second line, it says "390 commercial industrial organizations of a total database have been selected for this review", so it appears they have had a large selection of comparative companies, and then the next paragraph it says, "Korn Ferry believes it's reasonable for Newfoundland Power to compare itself to the list of organizations in appendix C"—which is at 390—"because"—and they give two reasons. And the second bullet is "The organizations are comparatively classified as private sector commercial industrial and NFP competes for its executive resources with

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organizations across the breadth and depth of business sectors across Canada." So that's an assumption that Korn Ferry has used when they prepared that report. Would you regard that assumption as completely correct in Newfoundland Power's case, given that all the current executive have come up through the organization and have not been recruited on the larger Canadian market?
MR. MURRAY:
A. You know, that statement is there, you can ask Mr. Ma when he's here next week, I believe, but you know, what I will add is that this practice, this comparative group has been used since 1998, I believe, and there have been executives in the past that were recruited from outside of Newfoundland Power, the current executive team is, you know, recruited from within Fortis and Newfoundland Power, but there are executives in the past that have been recruited from outside.
SIMMONS, KC:
Q. Okay, thank you. Can I have RFI, PUB-NP-173 please?

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MR. MURRAY:
A. Which number was that again?
SIMMONS, KC:
Q. It's PUB NP-173. It's a fairly short one, so probably deal with it on the screen. This was a question that had been asked by the Board about the composition of this comparator group that we saw referred to in the section of the report that we read a moment ago, and the answer to this is that, of the comparator group, there's only—of the 390, there's only three electrical utilities, there's only three Atlantic Canada organizations and there's no Newfoundland and Labrador organizations at all there. So, my question is has Newfoundland Power, either at the Board level or any other level, has there been any consideration of whether given the lack of electrical utility organizations in that group and the lack of Atlantic Canada organizations and the lack of Newfoundland and Labrador organizations, whether that is an appropriate comparator group to be using for setting compensation levels for

Newfoundland Power executive?
MR. MURRAY:
A. You know, Mr. Ma can speak to this in more detail, but I believe there was another RFI, you know, where he responded that if you look at the utility sector across Canada, you know, it's mostly crown corporations and municipal owned utilities, there's very few privately owned, investor owned utilities in Canada to make a comparator group. When they look at what is the most appropriate comparator group for Newfoundland Power, this is the comparator group that was developed or, I shouldn't say developed, that they recommended back in 1998 and has been accepted by, you know, the Board in all GRAs since then as a comparator group for Newfoundland Power. But again as I indicate, Mr. Ma can provide more detail on that when he is present.
SIMMONS, KC:
Q. And this also may be a question better answered by Mr. Ma, but I'll put it to you anyway because you're the CEO and I think you seem well informed on these issues, why

wouldn't it be appropriate to make comparisons to publicly owned, public utilities and only compare to private public utilities? From the ratepayer's point of view there's no difference between the two.
MR. MURRAY:
A. Mr. Ma would best answer that question. I know there was an RFI, I believe, where he responded to that, I can't recall which one it is.
(9:30 a.m.)
SIMMONS, KC:
Q. Can I have RFI PUB-NP-171 please?
CHAIR:
Q. Just before you jump to that one, did you want to point one out before the question?
MR. MURRAY:
A. No, I don't recall which one exactly it was, to be honest.
CHAIR:
Q. Okay, well we'll move on, thanks.
SIMMONS, KC:
Q. And your counsel will have an opportunity, I'm sure in re-direct to bring you to anything else that he wants on that topic.

This is another RFI that was, with questions asked by the Board, and it does in the answer to question No. 1 discuss the comparator group and it's similar to what you've actually just said in your evidence here, that it says that comparator group is a broad selection of commercial industrial organizations on a national level and it says "In discussion with Newfoundland Power, the selection criteria was originally recommended by Korn Ferry in '97, approved by the board of directors beginning in '98, and used continuously ever since." So does the Board reapprove the comparator group that's going to be used every time one of these reviews is done, or were they only involved back in '97 and approved it in the original approach?
MR. MURRAY:
A. To my knowledge, I can't speak for, you know, years back, but to my knowledge I don't believe they've reviewed the comparator group. Korn Ferry has continued to recommend the commercial industrial group as the comparator group that has been

accepted by the Board since.
SIMMONS, KC:
Q. So can you tell me a little bit more about what the Board's role actually is here, because do they, for example, would you know whether they have the ability to—whether they make the final decision on what's the appropriate comparator group? For example, could they direct Korn Ferry to choose a different or a modified comparator group here, or do they just defer to Korn Ferry's expertise and rely just on their recommendations?
MR. MURRAY:
A. They rely on Korn Ferry to provide the recommendation of the appropriate comparator group.
SIMMONS, KC:
Q. Uh-hm, and to your knowledge they recently haven't reviewed that because they haven't gotten into looking at whether the comparator group is the composition of it, have they, or whether it's appropriate, remains appropriate under the circumstances?
MR. MURRAY:

A. Not to my knowledge, no.
SIMMONS, KC:
Q. I have a few questions for you regarding the short-term incentive plan and we'll go to RFI PUB-NP-32 please? And in particular I'm going to go over to, it's probably page 4 of the pdf. So I'm going to ask you a few questions, this is a useful table just to guide some of the questions I'm going to ask you. But from my review of this response to request, I'll just give you sort of a few points of what my understanding is of the way the short-term incentive program works and if you need to look in more detail at the RFI, that's fine, or you must just be able to explain if I've got it wrong. So the short-term incentive payments, bonus payments, they are set up as percentages of base salary and they are based on both the corporate performance of the business as a whole and also on the executive personal performance and it's executive compensation I'm looking at now, and for the CEO and the VPs, the weighting is 70 percent is the overall corporate performance and 30 percent

is their personal performance. Is that right so far?
MR. MURRAY:
A. That's correct, yes.
SIMMONS, KC.:
Q. Okay. And there is what's called a target performance which, if it's achieved, the bonus is 50 percent of base salary for the CEO and 35 percent for the Vice-Presidents, is that right?
MR. MURRAY:
A. That is correct.
SIMMONS, KC.:
Q. And depending on how good or bad the performance is compared to those indicators there could be no bonus, the maximum bonus would be equal to double the base salary?
MR. MURRAY:
A. To the percentage of the 50 or 35.
SIMMONS, KC:
Q. Right, okay. Now, this is the table that shows, I think the criteria that are used to assess the corporate performance that's on the chart we've got on the screen there now, right?

MR. MURRAY:
A. That's correct.
SIMMONS, KC:
Q. And so, the minimum performance level achieves a 50 percent payout, which is 50 percent of base salary, right?
MR. MURRAY:
A. Can you restate that please?
SIMMONS, KC:
Q. So there's a column that's headed "Minimum 50 Percent", there's "Target 100 Percent", there's "Stretch 150 Percent" and there's "Maximum 200 Percent". I'm just asking you to explain to me, if you can, what those percentages refer to, that's a percentage of what?
MR. MURRAY:
A. Oh, it refers to, if you see the weighting?
SIMMONS, KC:
Q. Yes.
MR. MURRAY:
A. So the weighting on the far right is 30 percent, so that is the target on the weighting, so for example, if the earnings target was hit at 49.2 million, then the

weighting of 100 percent would apply to the 30 percent.
SIMMONS, KC:
Q. And how are—and there's different sorts of targets here, for example, earnings, that 46.7 million for minimum, 49.2 million for target, that's the earnings of the company in any particular year, right?
MR. MURRAY:
A. That's for 2024.
SIMMONS, KC:
Q. For 2024. And other things, like under safety, there's different measurements that go in there in order to quantify what the criteria are to determine whether that target is met for something like safety.
MR. MURRAY:
A. That's correct.
SIMMONS, KC:
Q. So who determines these criteria that we see in this table? Who sets the numbers, who sets the percentages for safety performance?
MR. MURRAY:
A. That's set by the Board.
SIMMONS, KC:

Q. Does the Board use any outside expertise in the way they go about, similar to the way they go to Korn Ferry for compensation data? Do they use any outside expertise to set what these criteria should be?
MR. MURRAY:
A. Not to set the targets. They use Korn Ferry for the overall strategy of the incentive program in terms of the percentages, but not in terms of the actual targets.
SIMMONS, KC:
Q. So how do they go about setting the targets then?
MR. MURRAY:
A. You know, a lot of it is based on historical data and looking for improvement over time, depending on the target and difficulty in setting the targets, so for example, controllable operating cost per customer would be based on the business plan which the company prepares, you know, the previous year as part of our July board meeting that those numbers are set and a target is set as part of that board meeting with respect to looking at our forecast for the following

year and our business plan, what the total control operating cost per customer is.
SIMMONS, KC:
Q. Right, so it would seem then that the choices the Board makes when it determines these criteria will have a significant impact on whether bonus is achievable by the executive, the lower the targets are set, the greater the chance that the executive chance achieve their bonus, correct?
MR. MURRAY:
A. I'm not sure what you mean by the lowest the target –
SIMMONS, KC:
Q. Well if the target is set relatively lower or higher, it will make it less, more or less likely that the bonus target can be achieved?
MR. MURRAY:
A. Yeah, you know, the board, you know, looks at targets from previous years and how difficult it is to set targets and, you know, they're trying to ensure that they're making the targets, you know, achievable but at a, you know, we're not making sure it's

easy, put it that way, and so if you look at, for example, safety, they would look at, your know, our previous three year average and compare looking at our trends over time to see what is an appropriate target, given where we are with our safety program.
CHAIR:
Q. Excuse me, Mr. Simmons, Mr. Murray, just for clarity so everybody understands, could you be just clear when you're referring to the board of directors versus the Board, some people may not be clear which board you are referring to. That would be helpful, thanks.
MR. MURRAY:
A. Yeah, in all my discussions I'm referring to the Newfoundland Power board.
SIMMONS, KC:
Q. And my questions likewise, Mr. Chair, have been of the Newfoundland Power board.
CHAIR:
Q. Because earlier the board was referred to as our board, so –
SIMMONS, KC:
Q. Yeah, we always need to think about what the

transcript looks like. One other thing I wanted to ask you about concerning this is that some of the bonuses and this was touched on yesterday, I think in the cross-examination, some of these bonuses are included, I treat it as, or allocate it as regulatory and some non-regulatory, so the ones that are accounted to regulatory will go into Newfoundland Power's forecast expenses for the test years and will find their way through to being paid for by the ratepayers. The non-regulatory ones are paid for by the shareholders, right?
MR. MURRAY:
A. Yes, that's correct.
SIMMONS, KC:
Q. Okay, and bonuses that result from achieving the targets in the stretch column and the maximum column, those are treated as non-regulatory, do I have that right?
MR. MURRAY:
A. Yes, that's correct. It depends on the category, so financial earnings and regulatory are only up to 50 percent is included in rates and everything above that

is to the shareholder and for the other targets, it's up to 100 percent in rates and anything above that is to the shareholder.

SIMMONS, KC:

Q. Right, so certainly for up to the payment of the target bonus, in all these categories the ratepayer has an interest, I'll say, in these bonuses since they're the ones that are paying either fully for safety reliability and customer satisfaction criteria being met and 50 percent for the earnings in regulatory criteria being met. So if we look at the first one, earnings one, how does this system of paying the executive a bonus for achieving higher earnings, how does that incentivise action or behaviour that is for the benefit of the ratepayers?

MR. MURRAY:

A. You know, as we talked about yesterday the financial health of Newfoundland Power is important to customers, you know, our credit metrics are important to maintaining our credit rating and meeting earnings is a big part of that and ensures that we have access

to debt at our lowest possible costs, which in long term benefits customers by keeping our costs low overall. If we, you know, don't achieve our earnings, our credit metrics and credit rating would be at risk, which would cost customers more.

SIMMONS, KC:

Q. The safety reliability and customer satisfaction criteria, why is it necessary to provide an extra financial incentive to the executive to achieve the goals of safety reliability and customer satisfaction? Isn't that part of the core job for which the base salary is paid?

(9:45 a.m.)

MR. MURRAY:

A. You know, I firmly believe in incentives in driving performance in order to look at our performance over the long term, our reliability has been consistent over the last decade, if you go back, you know, two decades ago our reliability was a lot worse than it is today.

MR. MURRAY:

A. -- Similarly, for customer satisfaction it

had been fairly consistent, which shows that, you know, the organization is focused on making sure we're delivering strong results for customers. That in the end benefits customers by providing better customer service, better reliability, and you know, if you look at our safety record, it has improved, you know, a fair bit over the last decade or two and these all drive better outcomes for customers, and I think an incentive program is a big part of driving results in any company.

MR. SIMMONS:

Q. Could we go to the next page please? This is a table I think which shows the criteria for the personal portion of the incentive program in your case, and I – well, first question is: the portion of the bonus that's related to achieving the personal targets, does that find its way into regulated rates?

MR. MURRAY:

A. Yes, it is part of the 70/30 split that we talked about earlier. So, you know, anything for the 70/30 split up to the calculation of regulated and then to

unregulated and then it is part of that component.

MR. SIMMONS:

Q. So, it's – for purposes of determining who's paying for it, ultimately, it's treated the same way as the corporate criteria?

MR. MURRAY:

A. You know, it's part of the 7 – the 70/30 split is part of the overall calculation up to the limit, yes.

MR. SIMMONS:

Q. Okay. I think I understand that. And I see that many of these are described – the payout is described as being subjective. Maybe you can just explain to me what that means and how that works for determining whether the personal objectives have been met.

MR. MURRAY:

A. Yeah, so the difference here, you know, I would say if you look at reliability and customer service, for example, you know, under the corporate target there's a – that is a one-year target for that particular year 2024. But if you look at reliability and customer service here, it is more subjective because it is looking at what is the company doing, what am I doing as the president and CEO to drive long-term results of reliability and customer service in the long term, looking out the next two, three, four years so that, you know, the executive is not incented to be only looking at short-term incentives. It's looking at short term, as well as the long term.

MR. SIMMONS:
Q. Who makes the decision that the criteria have been met?
MR. MURRAY:
A. The board of directors.
MR. SIMMONS:
Q. Does the board have a committee or do they do that as a whole?
MR. MURRAY:
A. It's done by the HR and Governance Committee, yes, but ultimately the final approval is by the entire board.
MR. SIMMONS:
Q. Do they get the benefit of any kind of outside or independent expertise or

evaluation in making those decisions?
MR. MURRAY:
A. You know, they get their evaluation from board meetings throughout the year, other meetings and interactions with the executive and others throughout the company. So, they have a number of things. But you know, the corporate targets are largely quantitative in nature. So, they're based on the company results at the end of the year and on the, you know, if you want to call it the personal targets, they use a number of different factors.
MR. SIMMONS:
Q. I think we heard yesterday from you that bonuses have been paid to the executive, people in the executive positions, every year I think since 2014. I understand that correctly?
MR. MURRAY:
A. That's correct, yes.
MR. SIMMONS:
Q. Okay. And do you know what level they're generally paid at?
MR. MURRAY:

A. If you look back, you know, over the last couple of years, if I recall, I think prior – in 2022, the numbers we had there yesterday was just over I think it was 100 percent because there was a – some of the corporate targets that were for that – in that year in particular, I believe reliability was a zero because we didn't meet our reliability target, but the overall target was 100 percent, and I believe last year it was about 115 percent last year.
MR. SIMMONS:
Q. Okay, so that – I'm sorry. So, that's 115 percent of what?
MR. MURRAY:
A. Of the 50 or 35 percent target.
MR. SIMMONS:
Q. Okay, all right. So, I'm going to suggest to you that given the history of the payment of the bonuses since 2014 that it would seem that there's little risk to the executive of not achieving their bonuses here. How would you respond to that?
MR. MURRAY:
A. You know, as I indicated, there's – it's a

combination of years, depends upon the year. I believe in 2022, as I indicated, the – and last year, the operating cost per customer target was not met, the reliability. So, you know, the targets are not achieved in every year, in terms of the corporate targets. When you do the combination of them all, it has resulted in close to 100 percent payout.
MR. SIMMONS:
Q. Okay, all right. Thank you very much. I don't have any other questions for you, Mr. Murray.
MR. MURRAY:
A. Thank you.
CHAIRMAN:
Q. So, we'll move on to the IBEW next.
MS. DING:
Q. No questions, Commissioner. Thank you.
CHAIRMAN:
Q. So, it's over to Ms. Greene.
GREENE, KC:
Q. Thank you, Mr. Chair. Good morning, Mr. Murray.
MR. MURRAY:

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A. Good morning, Ms. Greene.

GREENE, KC:

Q. Before I begin my questions, I had one for clarification or a follow-up from questions this morning by Mr. Simmons. It relates to your view of the risk of reliability in the short term, and you had indicated there was some change from the last rate case when you were here relating to the LIL as a result of the update filed by Hydro in 2022, and I just wonder why – if you could explain why the reliability of the LIL also is considered to be a short-term risk for Newfoundland Power, as well as a long-term risk, and how that updating forms that decision?

MR. MURRAY:

A. Yeah, if you back, you know, prior to 2022, there wasn't really an acknowledgement from Hydro in terms of the risk of outages to the LIL. It was following the 2022 update to the Reliability and Resource Adequacy Report that it was acknowledged about the risk coming from the Haldar Report and other factors, I guess. And that was around the

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time the decision was made that Holyrood would be required to be back up to the LIL until at least 2030 there. So, you know, that was the biggest – we had always had the view that this was required and that the LIL was not reliable. We've held that view for a long time, but this was the first time that it was really acknowledged by Hydro that it required backup. So, that's kind of the real premise of why it solidified around that time, and we still have that view. And you know, the view there is that, you know, if you look over the history of the last three or four years, in pretty much every winter, there's been two or three extended outages on the LIL due to ice storms or material damage that have – you know, some of them have been a week or more longer. And fortunately, they happened in a time period where weather was warmer and Holyrood was operational, so there wasn't any customer outages as a result. But we view that that risk, under the right circumstances, with peak weather conditions could be a lot different.

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GREENE, KC:

Q. So, in your view or in the view of Newfoundland Power, it continues to be a short-term risk as well as a longer-term risk? Is that my understanding of your answer?

MR. MURRAY:

A. That is correct, yes.

GREENE, KC:

Q. Okay. So, I do have a number of different issues to review with you today, Mr. Murray. But first, before we start, I wanted to get the context of the increases that will arise for customers following the current Newfoundland Power proposals that we have before the Board.

MR. MURRAY:

A. Um-hm.

GREENE, KC:

Q. So, in the current application that we – why we're here in the room, Newfoundland Power have indicated they're requesting a 5.5 percent increase as of July 1, 2025. Is that correct?

MR. MURRAY:

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A. Yes, that's correct.

GREENE, KC:

Q. And one of the reasons why it's 5.5 is that Newfoundland Power decided not to follow the normal practice of fully rebasing power supply costs, and we can come – we will come to the reasons as to why not, but if they had done the normal practice, the actual increase Newfoundland Power would be looking for is 9.8 percent. Is that correct?

MR. MURRAY:

A. With rebasing, yes, that would be correct.

GREENE, KC:

Q. At the current wholesale rate?

MR. MURRAY:

A. That's correct.

GREENE, KC:

Q. And Newfoundland Power also ask for a 1.5 percent increase for 2024 as well. Is that correct, and that is still before the Board?

MR. MURRAY:

A. Yes, that's the Return on Rate Base Application, which is still before the Board, correct.

GREENE, KC:

Q. And we also have before the Board, the July 1 RSA Adjustment for July 1 of this year of 9.3 percent?

MR. MURRAY:

A. That's correct, which is largely related to the 2.25 and the RSA for supply cost for last year.

GREENE, KC:

Q. And if we added all of those up, we would get over 20 percent increase, and if we add on the 2.25 to come from Hydro next year on July 1, 2025 arising from rate mitigation, we're almost up to a 23 percent increase in rates for customers between where we are now and July 1, 2025. Is that correct?

MR. MURRAY:

A. Those numbers sound correct, yes.

GREENE, KC:

Q. In your time at Newfoundland Power have you ever – do you recall a rate increase being proposed by Newfoundland Power of that magnitude in that short period of time?

MR. MURRAY:

A. Well, they're not all Newfoundland Power's -

GREENE, KC:

Q. No, the 2 – I'll give you that.

MR. MURRAY:

A. Yes.

GREENE, KC:

Q. We take off the 2.25, you're still up to 18 percent increase.

MR. MURRAY:

A. Yes, and you know, I would clarify is that a number – part of those increases is due to the RSA which is power supply cost, which is a flow-through to Newfoundland Power, yes.

GREENE, KC:

Q. But it's still increases the customers will pay?

MR. MURRAY:

A. That's correct, yes.

GREENE, KC:

Q. Okay. So, do you recall any other time we have been looking at that type of increase in customer rates in that short period of time, in your time with Newfoundland Power?

MR. MURRAY:

A. Not in my time in Newfoundland Power, no.

GREENE, KC:

Q. Okay. I can tell you that in the time, many

rate cases now, that I have never seen such a significant increase being proposed in such a short period of time. Are you aware that in the past, the Board has considered a 10 percent increase for customers as a rate shock? Anything above 10 percent would be considered a potential rate shock?

MR. MURRAY:

A. Yes, I'm familiar with the concept from the Board in the past, yes.

GREENE, KC:

Q. So, to begin with, and I wanted to put it into context as to why we're all here and what we're talking about, when you looked at those numbers as CEO, what instructions did you give to your staff, if any, to look at what your proposals were to see how they could be reduced in any way?

MR. MURRAY:

A. You know, we're always looking at making sure that whatever we're doing is keeping our costs as low as possible, you know, which is part of the reason why we proposed to do the wholesale rate sooner than later. You know, we feel that making the wholesale

rate and the marginal cost reflect what the actual cost of power is the wholesale rate now to Newfoundland Power on the second block is 18 cents, which is not reflective of marginal cost of four or five cents, and while, you know, there will be an impact of setting that correctly, the sooner that is done, the better that is for customers in the long run to ensure that the price signal for energy is in line with the actual marginal cost. So, you know, making sure we're doing those things. In terms of Newfoundland Power, you know, we're always looking at our cost with respect to our capital and operating to ensure that we're only proposing projects that are required to provide service to customers. You know, as I mentioned yesterday, you know, a lot of our system was built in the '60s and '70s and, you know, in our view, if we don't keep up with replacement of our aging assets, it will be more costly if we don't do it in a timely manner, and you know, take – make sure that we are replacing assets before they fail in a timely manner. Otherwise

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what happens is we end up having to deal with a lot of failures and things like that in emergencies, which actually end up being more costly for customers. So, there's a lot of balance that has to happen to ensure that we are doing enough to keep rates as under control as we can without trying to, you know, skirt around our duty to ensure that we are doing what is appropriate for customers in the long run. And I know it is some short – there's a lot of short-term increases, but we are certainly making every effort to keep those as low as possible.
GREENE, KC:
Q. You mentioned – you referred to the – one of the ways was to change the wholesale rate just to reflect marginal cost. However, that won't substantially reduce the rates that customers are looking at between now and July 1, 2025 if all of the proposals are approved, will it? So, that will not do much to reduce the customer rate impact?
(10:00 a.m.)
MR. MURRAY:
A. It won't in the short term, but it will, you

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know, directly after that, it will have an impact.
GREENE, KC:
Q. So, it won't significantly impact the 23 percent I just talked about?
MR. MURRAY:
A. No, it won't, but if we don't do it sooner, it will have – you know, could make – draw out the increases further.
GREENE, KC:
Q. And in your response as to my question as to if whether you had taken any specific action or directed anything to be done differently, I take it from your answer, and I don't want to put words in your mouth, that you didn't. You looked at what you normally do. These things that you talked about, balancing capital and what you need to do to reinvest, all of that would be your normal business. So, I didn't get a sense that there was anything that wasn't business as usual from your response.
MR. MURRAY:
A. You know, I'd say we're looking at, you know, making sure that what we're doing is

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only what is necessary when it comes to our capital, making sure we're keeping on top of our operating to keep our reliability. We don't want, you know, reliability to slip as well. You know, we have no – if you look back at our last couple of GRAs, we had some big savings. You look back at 2017 when we introduced AMR, we were able to reduce our operating costs in that year by two million. In 2021, we were able to reduce through the LED Street Light Program our operating by 1.8 million. Those costs have carried forward. You know, as your operating costs – you know, we built in those savings over time, it becomes more difficult to find additional large blocks of saving as time goes on.
GREENE, KC:
Q. So, we'll move on from the context to talk about some of these costs that are driving the increase and how they changed since the last time we were in the room. But first I wanted to talk about corporate performance and how you evaluate your corporate performance. So, I wonder please if you

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could bring up PUB-NP-009, Attachment A. Now, we've already looked at these in a different light when Mr. Simmons took you to the corporate targets in the STI plan, but here we look at them as corporate performance measures and are these some of the metrics that you use as CEO to evaluate how well Newfoundland Power is performing?
MR. MURRAY:
A. Yes, these would be some of them. There's – you know, there's more besides this, but yes, this would be some of them.
GREENE, KC:
Q. What would the others be that you use? These are the ones you report to the Board to measure performance. Is that correct?
MR. MURRAY:
A. That's correct, yeah.
GREENE, KC:
Q. The Board, the Public Utilities Board.
MR. MURRAY:
A. That's correct, yeah.
GREENE, KC:
Q. Okay.
MR. MURRAY:

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A. You know, when we look at customer service, we have a number of other targets around response time, the outages. We also look at our frequency of outages. We look at our response times at our Contact Centre, our response times to street light outages, a number of different customer metrics that we also measure. You know, how long it takes us to complete a new service connection for customers. There's a number of other service targets as well that we focus on for customers.

GREENE, KC:

Q. But these are the corporate performance measures that end up in the Short-Term Incentive plan as the targets for which you receive a bonus?

MR. MURRAY:

A. These are the targets for the Short-Term Incentive Plan, that's correct.

GREENE, KC:

Q. These are the ones you report to the Public Utilities Board for your performance?

MR. MURRAY:

A. That's correct.

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GREENE, KC:

Q. There's been a couple of changes since we last looked at these. The first is the Quality Leading Indicators and can you explain why that has been added as a new metric and how it gets evaluated?

MR. MURRAY:

A. Yes. As I indicated, I think we spoke about this briefly yesterday, you know, best practice right now around safety is -- you know, the All Injury Frequency Rate is more of a lagging indicator. Best practice in the industry now is to have a lagging and a leading indicator, and we have added two leading indicators. One is the quality of incident investigations and the other is the quality of job planning around our fieldwork.

GREENE, KC:

Q. And the next one that there is a change on is the Cash Flow from Operating Activities has been removed as a measure for the 2024 corporate performance and in the Short-Term Incentive Plan. Can you explain why it was removed?

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MR. MURRAY:

A. Yes. The Cash Flow has been removed because, you know, it's largely -- discovered over the last few years, it's become largely beyond management's control. You know, the – for example, the wholesale rate has impacted our cash flow. So, it's beyond management's control to control the sales and the wholesale rate. So, we find that, you know, it's difficult to have targets that are beyond management's control because there's very little that management can do to actually have an impact on the target. So, for that reason, it was removed from the list.

GREENE, KC:

Q. And one of the reasons you weren't able to meet the metric is because in this – when we look at some of your metrics, you weren't going to make the target, and the credit rating agencies pointed out, it was because you had not planned to recover your costs, to rebase, to recover what was in the balances and the Energy Supply Cost Variance and part of the reason you wouldn't meet it

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in '24 was because of the decision not to rebase. Isn't that correct?

MR. MURRAY:

A. I'm not sure whether you're referring to the rebasing in '25, in '24 for -

GREENE, KC:

Q. No, '24 for your target.

MR. MURRAY:

A. For targets?

GREENE, KC:

Q. You weren't going to rebase when you filed this application.

MR. MURRAY:

A. Yeah, it's not due to that. It's due to the fact that, as I indicated, it is beyond management's control and targets that are – you know, it's difficult to have a target, to incent a target that management has little control over.

GREENE, KC:

Q. We'll come back to that when we go into some of your metrics in the Short-Term plan. When I look at some of these, I see, for example, the Regulating Operating Cost per Customer, we see in 2022, your plan was 244.

Your actual was 258. So, you didn't meet the target in that year. And when we look to 2023, we see again that the plan was 255 and your actuals was 265. So, for two years in a row, you didn't meet the metric or your target of what the cost per customer was. Another one is SAIDI. Both of these, of course, affect customers. We see, when we go up to safety that – or SAIDI, you didn't meet that in 2020 and in 2022. So, my question is: when you see that you aren't meeting an annual target, what action do you, as CEO, direct to your staff to address the fact you haven't met your target and how it can return back to meeting the target in the next year?

MR. MURRAY:

A. So, dealing with the SAIDI first. So, when you look at SAIDI, you know, it is impacted by a lot of things. SAIDI is impacted a lot by weather. So, you know, in the years where we did not meet our target, we're, you know, constantly watching our target as the year goes on and we will look at ways to try and achieve our target at the end of year,

which could be, you know, reducing planned outages or something like that. But if there are a lot of significant storms, you know, big storms in that year, it can make the target hard to achieve. But we're always looking at our response time. In those years where the target was not met, you know, our response time and to outages was similar to previous years, it was largely due to weather events.

When you look at the Regulated Operating Cost per Customer, you know, that target in 2022 was set, we were using the GDP deflator that we had talked about yesterday. The GDP deflator in our 2021 GRA was forecast to be 5.8 and over the '22 and '23 year was more like 17 percent. So, the target was set before we knew the impacts of inflation and as a result, what you're seeing there is the impact of inflation on the target. So, the target was set when inflation was not forecasted to be as high and the actual inflation was much, much higher. So, as a result, those targets were not achieved in those years.

GREENE, KC:

Q. And have you taken into account when you see the 2024 target where it's higher again, for example, for Regulated Operating Cost, when we see inflation is coming down?

MR. MURRAY:

A. You know, that is accounting for, you know, the increases in cost over the last couple of years and the target would have been set based on our forecast from our business plan last July, in terms of our operating cost per customer for 2024.

GREENE, KC:

Q. If we look at your operating cost, operating costs are 10 percent of your overall revenue requirement? Is that correct?

MR. MURRAY:

A. That's correct, yes, approximately.

GREENE, KC:

Q. And of the 5.5 percent that you are proposing in this current application, approximately 1.6 percent is a result of the increase in operating cost? Is that correct?

MR. MURRAY:

A. Yes, that's correct.

GREENE, KC:

Q. Okay. I wonder if we could go to PUB Additional Information Request No. 2, Schedule B, Attachment 1. So, here it's a table of your operating costs over the period from 2022 to 2026 forecast and of course, you're asking for rates to be set based upon your 2026 test year. So, we see when we were last here for a general rate application, the 2023 test year was used to set rates, the current rates? Is that correct?

MR. MURRAY:

A. Yes, that's correct.

GREENE, KC:

Q. Okay. So, at that time, gross operating costs were 68.956 million and now we see that Newfoundland Power want to increase gross operating cost in their current proposal to 81.6 million, which is about an 18 percent increase in costs from the operating costs that are in your test year, your current rate, to your proposed rates.

MR. MURRAY:

A. So, you're referring to the 2023 forecast year?

GREENE, KC:

Q. No, the test year that's there, 2023 test year.

MR. MURRAY:

A. Oh, the 68?

GREENE, KC:

Q. The 68.9

MR. MURRAY:

A. Yes.

GREENE, KC:

Q. 69 million.

MR. MURRAY:

A. Yes, that's correct. As I indicated earlier, the test year was based on, you know, the previous inflation that was proposed in the '21, which was 5.8 percent, which was much higher.

GREENE, KC:

Q. Again, when you looked at that in preparing for the application and said whatever the reason, we'll come to a contribution of inflation to the various operating cost, did you, as CEO, say, "customers are looking at

more than a 20 percent increase. Our operating costs are going up by 18 percent" -- of that, 54 percent is labour cost? Is that correct?

MR. MURRAY:

A. That's correct, yes.

GREENE, KC:

Q. Okay. Did you give any specific direction to your staff, for example, to keep any cost back to the '23 level, whether it was training, whether it was travel, any of those items that are discretionary items?

MR. MURRAY:

A. You know, when we look at our cost, we built our forecast from the forecast year and you know, we put in what are known measurable changes were above inflation, which were – some of them are significant, unfortunately, when it comes to the insurance and software, and in other areas, they are inflated at the GDP deflator with known savings and measures, and we built in our operating savings, productivity, similar as we have in other GRAs.

GREENE, KC:

Q. So, business as usual again?

MR. MURRAY:

A. I wouldn't say business as usual, but you know, we've tried to make sure our costs are as low as possible.

(10:15 a.m.)

GREENE, KC:

Q. I wonder if we could go now to PUB-NP-141C, Attachment C. And here the question was how Newfoundland Power have performed, because it's always a question that comes up in every rate case, how did they compare their actual financial performance with respect to what they had included in their test year on which rates are set. And if we scroll right down to the bottom, we can see that for the last two test years – it's hard to see on this because we have to go up to the top to see the years, but in the 2019 test year or 2020 it's called there, and in the 2017 test year, your actual operating costs actually came in slightly below your test year forecast.

MR. MURRAY:

A. Can you -

GREENE, KC:

Q. 2017, when you go down to the total, which again we have to go right to the bottom, you can see the test year was 59.9 and you came in at 59.68. For the next GRA again, you came in below what you had forecast. In 2014, you were a bit higher at three percent. But when we come to 2023, which is the test year in which rates are currently set, we see there about more than a six percent increase over what you have forecast when we were last here.

MR. MURRAY:

A. That's correct.

GREENE, KC:

Q. At what time during the year did you realize that you were going to be above what you had in rates? When did you realize you were going to so far exceed what had been included?

MR. MURRAY:

A. I would say, you know, it was probably around midyear that we realized where the costs were, and if you look at it, it's mostly on the non-labour side. Labour was within 400,000 of the forecast and is largely on the non-labour.

GREENE, KC:

Q. And again, when you realized that at midyear when you look at your budgets and see how you're doing compared to your forecast and compared to what you have in your revenue requirement, did you give any action to reduce any costs?

MR. MURRAY:

A. You know, when we looked at our operating cost, we looked at some things – you look at there beyond our control, such as some of the higher ones, which is the other company fees, and large of it is due to the inflation we talked about earlier. We saw a lot of inflation in contractor prices, as well as materials and supply costs, and you know, given the lateness in the year, it's difficult to reduce that significantly more than what the numbers are there shown.

GREENE, KC:

Q. And then when you did your forecast for this application, you based it off your actuals? When you looked at your budget for your

operating cost for '25 – '24, '25 and '26.

MR. MURRAY:

A. When the application was filed in November, we had nine months of actuals. So, it would have been based on the nine months of actuals for 2023.

GREENE, KC:

Q. Okay. Another way to look at how your operating costs have been increasing is to look at the operating costs per customer in the trend. I wonder if we could please go to NLH-NP-011. And Newfoundland Power has said that you have reduced your operating costs on an inflation adjusted basis over the last ten years and yes, we – can you scroll up a bit please? Yes, you can see that in this trendline. This figure includes your 2023 actuals and then what is forecast. So, we do see a decrease from 2013 down to 2021, but now we see the costs are going up again. We saw it in some of the numbers we just looked at for your operating cost. So, again, coming back to the size of the increase customers are looking at, the trend of the increasing

cost, does that cause you any concern, as CEO, and in fact, if we remove – if we only looked at the last four years, we would see an increasing trend in costs, which would signal that there is less control on costs in the current period than there has been in the previous period.

MR. MURRAY:

A. I wouldn't say there's less control on the operating costs. It's largely being driven by inflationary pressures. If you look at our – and largely on the, you know, the non-labour side, if you look at our non-labour cost, 75 percent of the increase is across three items, which is, you know, other company fees, insurance and software, and some of those are increasing at significantly more amounts than the other factors. So, you know, I would say that it is not that the costs are increasing beyond management – you know, management is not managing their costs. It is that we are seeing significant increases in certain areas that we did not see in the past.

GREENE, KC:

Q. So, the reason is solely, in your view, due to inflationary pressures?

MR. MURRAY:

A. A large part of it, yes.

GREENE, KC:

Q. And I understand Mr. Chubbs is the person who will speak in detail about some of the specific increases in some of your operating costs that lead to these significant increases?

MR. MURRAY:

A. That's correct.

GREENE, KC:

Q. You just mentioned costs that weren't labour, but if we go to your labour costs there, 54 percent of your operating cost? Is that correct?

MR. MURRAY:

A. That's correct, yes.

GREENE, KC:

Q. Okay. And it seems that you have three distinct groups of employees that you looked at – you look at in different ways when you're setting their compensation, their salaries and any other benefits

attributable. Is that – and those three groups would be your unionized group, your management group and then your executive and your directors. There are three distinct groups for compensation purposes. Is that correct?
MR. MURRAY:
A. Yes, that's correct.
GREENE, KC:
Q. With respect first to the Union, I wonder if we could go to PUB-NP-031, Table 1. And what we have here, at an aggregate level, is the average salary for each of these groups. So, that's PUB-NP -
MR. MURRAY:
A. 31, yes, yeah. Just give me one second. I want to get the full –
GREENE, KC:
Q. Sure.
MR. MURRAY:
A. Okay. Yes, yeah.
GREENE, KC:
Q. I wanted to go through with you how compensation is set for each of these groups that you seem to treat as three distinct

groups for compensation purposes. Sorry, Mr. Browne, I'll try to speak up. First for the Union, you have two bargaining units, clerical unit and a craft unit. Is that correct?
MR. MURRAY:
A. That's correct, yes.
GREENE, KC:
Q. And so, when we see this line there for Union, this only gives us the average salary for various reasons, but to give us an overall picture of the average salary paid for the Union group, which would include your craft and your clerical, and that's – in average salary, that's only the base salary? Is that correct?
MR. MURRAY:
A. Yes, that's correct.
GREENE, KC:
Q. Okay. So, the average salary by 2026, the year in which rates you're proposing be set, the average Union salary will be approximately $100,000?
MR. MURRAY:
A. Correct.

GREENE, KC:
Q. 99,814.
MR. MURRAY:
A. Correct, yes.
GREENE, KC:
Q. Okay. In looking at how you set the compensation for the Union, is it fair to say that you do a comparison of various trades to what is being paid by the other Atlantic utilities?
MR. MURRAY:
A. You know, it's collective bargaining that is done in comparison, yes, to the other Atlantic utilities.
GREENE, KC:
Q. Okay. I wonder if we could look at Table 2. So, Table 2 shows the current wages to what I would call key trades positions in the Union for any utility. Is that correct? Your power line technician, your power system operator, these are the standard positions or trades that are used for comparison purposes among the Atlantic utilities. Is that correct?
MR. MURRAY:

A. Yes, that's correct.
GREENE, KC:
Q. Okay. Now, do you want to indicate what is there for Newfoundland Power for the current rate? There's a footnote there you might -
MR. MURRAY:
A. I'm not sure of your question.
GREENE, KC:
Q. Oh. I believe that those rates include what your current proposal is to the Union. You have not reached agreement with your craft Union yet? Is that correct?
MR. MURRAY:
A. That's correct, yes. Those are based on the tentative deal that was reached in September of last year.
GREENE, KC:
Q. So, what's included in your first column is the proposed rate, not your actual current rate, because it includes a proposed increase which the Union have not accepted yet?
MR. MURRAY:
A. That's correct.
GREENE, KC:

Q. Okay. So, when I look at those, I see that Newfoundland Power generally trends to be the highest paid for the union worker, except for the power system operator for Nova Scotia Power and the materials handler for Nova Scotia Power, and I should have said New Brunswick Power. So, for your power system operator, you're paid higher than Hydro, Maritime Electric, but not quite as high as Nova Scotia Power, New Brunswick Power. When we look at the number of employees in each trade, I assume that the highest number of people in any trade would be for the power line technician. Is that correct? You would have more power line technicians than you would materials handlers, for example?

MR. MURRAY:

A. Yes, we'd generally have an equal number of power line technicians and power line lead hands, which would be the highest number.

GREENE, KC:

Q. Okay. So, if we looked at – and you've already said that – and it is bargaining and I don't plan to get into bargaining, but

traditionally, what the utilities do in Atlantic Canada, they look at what each other pays for the trades and that's what is used at a high level for comparison purposes. Is that correct?

MR. MURRAY:

A. Yes, that's correct. I mean, we're trying to – you know, the objective is to be competitive within the Atlantic Canada market. You know, if you look at Newfoundland over the last, you know, I'm going to say decade or so, there's been a lot of large projects which have tended to have slightly higher wages here in Newfoundland as a result.

GREENE, KC:

Q. And in fact, Mr. Murray, subject to check, if you want to check, if we look back to the three previous rate cases when you were here, we would have seen a similar picture where generally Newfoundland Power hourly wage rates for the trades were higher than the others, except for the poor power system operator.

MR. MURRAY:

A. That would be correct, yes, and as I indicated, like it's largely due to the – you know, Newfoundland has had a lot more larger projects than the other Atlantic Provinces, so it's tended to have trades are technically slightly higher.

GREENE, KC:

Q. Okay. And as I said, those are not your current rates, but those are what you have proposed for the current round of bargaining. So, that's one group of your employees. The second group that I wanted to go to next is the executive, and Mr. Simmons did cover some of my potential questions, but I still have a number with respect to executive compensation.

(10:30 a.m.)

GREENE, KC:

Q. Yesterday when Mr. Fitzgerald was questioning we talked about how much was in revenue requirement, but I want to bring you to PUB-NP-033. The one we looked at yesterday only included what was in revenue requirement that customers pay for the executives and the directors. This RFI

asked what was included in the question paid as bonuses or incentive payments, and we looked down below and it includes all of the incentive and performance based payments. So, I assume that this would include the performance payments you pay to your managers, is that correct, as well as your bonuses to your executives and your directors?

MR. MURRAY:

A. Yes, that's correct.

GREENE, KC:

Q. Okay. So, the total amount customers will pay, or forecasted to pay, if it's all approved, is $1,547,000.00, including all the ones that are regulated?

MR. MURRAY:

A. That's correct.

GREENE, KC:

Q. Okay. And that's an increase from 2023 where it was $1,365,000.00, that's the forecast?

MR. MURRAY:

A. Yes, that's correct. That is, you know,

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conflated at, you know, your labour inflation before our efficiency, one percent efficiency, yes.
GREENE, KC:
Q. First I was going to talk about the short-term incentive plan, so I will go back to PUB-NP-032, attachment A, which Mr. Simmons referred to, I believe. And I wanted you to explain what your role is as President and CEO in setting these performance targets for the directors and the executive, and the role of the Board.
MR. MURRAY:
A. So, my role would be, you know, review the targets. A lot of these targets have been longstanding, so, you know, they move forward from year to year, so, looking at the target, looking at the target in previous years, and the data around the target. I would make proposal recommendation to the Board as to what the target should be, you know, could be set at for the next year. The Board will then take that recommendation or proposal and do their

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own review of it and finalize the targets.
GREENE, KC:
Q. So, you have a role in recommending the target. And also when we come to the subject ones, what role would you have with respect to the other Vice Presidents and whether they have met their--and the directors. Whether they have met their personal targets? Do you have any role with respect to whether they have met their personal targets?
MR. MURRAY:
A. I would only for the Vice Presidents. For the directors, the individual Vice Presidents would look at those targets for those directors. I would look at the Vice Presidents and provide my recommendation to the Board.
GREENE, KC:
Q. So, the recommendations that go to the Board for action, and approval, or rejection, come from you for the Vice Presidents, and I assume the Vice Presidents' recommendations for their staff, for their directors, feed

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into you as well. Is that correct?
MR. MURRAY:
A. That would be correct, yes.
GREENE, KC:
Q. Regulatory performance is shown as a target for 2024. It had been in as a target in previous STI's but removed. Can you explain why it was removed, and why it has been added back?
MR. MURRAY:
A. Yes. It was removed, I believe, around 2017 when it was replaced with the cash flow target, and as I indicated, you know, the cash flow was removed for 2024 due to the, you know, view that management has little control over the actual cash flow. It can be, you know, either highly above target or below target, and management has very little influence over that. So, when it was removed it was decided to replace it with the regulatory target which was previously familiar to this Board, and we felt that it was still a good indicator and incentive for the executive.

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GREENE, KC:
Q. I'm not sure I understood why it was first removed. Why did you remove it?
MR. MURRAY:
A. At the time it was felt that cash flow was important and, you know, in ensuring that we could manage the cash flow of the company, but as we learned over time, it was something that management did not have a lot of control over so it was decided to be removed.
GREENE, KC:
Q. And how regulatory performance gets evaluated; can you explain how you propose to evaluate performance?
MR. MURRAY:
A. It would be based on, you know, all of the regulatory proceedings. You know, regulatory is a big driver of, you know, a lot of the business incentives at Newfoundland Power. So, we would look at each of the individual regulatory filings and make an evaluation on the outcomes and success of those filings.

GREENE, KC:
Q. And again, it would be your evaluation whether that metric was met or not that would go to the Board of Directors?
MR. MURRAY:
A. I would provide guidance to the Board for them to make their final recommendation, approval, yes.
GREENE, KC:
Q. If we look at earnings, which is there under Financial, and we see the targets--first, perhaps, you have set a stretch target of 51.7 million. Can you explain what that is?
MR. MURRAY:
A. Basically a stretch target is for achieving over the target for the year. So, the 100 percent is the 49.2 million, and the stretch basically for Newfoundland Power is essentially at the 150 level, is the upper limit of our band. Anything above our band would be not achievable because that would go into excess earnings. So, for Newfoundland Power the stretch would only be to actually 150 because that is roughly

around the limit of the band.
GREENE, KC:
Q. Can we just go to Exhibit 5 for a moment where we see your forecast for 2024? I'm sorry, it must be Exhibit 3. Can you please scroll to the bottom? Here we see $51,169,000.00 as your earnings in the forecast.
MR. MURRAY:
A. Can you scroll up there, please?
GREENE, KC:
Q. So, that's for 2024 forecast, right? That's what you're forecasting your earnings will be?
MR. MURRAY:
A. Can you just scroll up another little bit, tiny, please? Thank you. Good. Okay. You can just scroll back down now, thank you.
GREENE, KC:
Q. So, now if we go back to what we just had on the screen for the corporate performance measures, what you have in there as a stretch is actually what you're budget forecast is, 51.7 million. I'm just trying

to understand how--you recommend these targets to the Board I understood from your previous answer.
MR. MURRAY:
A. Yes. I'm just--just give me a second, Maureen, to try and think what is going on there for a second.
GREENE, KC:
Q. Because I want you to explain why meeting your budget would be a stretch.
MR. MURRAY:
A. I'm not 100 percent sure. I'd have to get back to you on that one, but I think what may be going on there is that a target was set at our business plan last year, which was in July. If the target has changed because of that, then the target would be adjusted to reflect what our actual forecast is now. So, subject to check, I would have to verify that, that the target would be adjusted based on what we now know, because when the target was set it was in July of last year, which was before we set our-- before we filed our GRA in November. So, if

that is the case, the target would be adjusted to reflect our actual forecast that is here. So, subject to check, I will confirm that.
GREENE, KC:
Q. All right. Now you've raised another interesting question. How do you review these targets during the year, and change them during year?
MR. MURRAY:
A. Only if it would be something like that. So, we would--so, for example, for safety and reliability, and those targets, there would be no adjustments, but if for some reason--maybe on this financial target if there was an adjustment with newer information, it may be adjusted to reflect known changes that were there. So, I would have to confirm that, subject to check.
GREENE, KC:
Q. So, normally then--let's stay with earnings. What would you set your target at 100 percent to be? Would it be your--meeting your budget? Would it be exceeding your

budget? Is the minimum--why wouldn't the minimum be to meet your forecast earnings for the year based on your budget approved for the year?

MR. MURRAY:

A. That's what it would be, but as I indicated, that is set in July. So, the target that was set for 2024 was set from the July business plan in 2023. If there were differences in that it may have to be adjusted at a later time.

GREENE, KC:

Q. And you will check to see? And I'd like to know when the last time you--did you adjust targets in '23 during the year, or '22 during the year? And when we looked at what your forecast had been for '23, prior, I guess you would have had that before you set your target. You were even then forecasting you would make 47.6 million. Anyway, I'd like to know when--first what--did you just say that the minimum target is normally meeting your budget, or did I misunderstand your answer?

MR. MURRAY:

A. Can you repeat that question?

GREENE, KC:

Q. How do you set the minimum target for earnings, is it your forecast budget, or is it something else?

MR. MURRAY:

A. The minimum target for earnings is--just give me a second.

GREENE, KC:

Q. In any year how do you--what do you use as your minimum target?

MR. MURRAY:

A. Yes, just give me one second.

GREENE, KC:

Q. Ms. Glynn has reminded me, Mr. Murray, that I should ask you for an undertaking.

MR. O'BRIEN:

Q. I've been writing this down waiting for it.

GREENE, KC:

Q. I get so into my questioning I forget to ask. An undertaking to respond as to if you have adjusted your targets, what years have you adjusted them, say the last five, and

when do you adjust them, and on what basis do you adjust them.

MR. MURRAY:

A. So, on the earnings, the earnings target, the plus or minus 50, is set at plus or minus five percent.

GREENE, KC:

Q. Of what? You'll have to tell me.

MR. MURRAY:

A. Of the target, of the 100 percent target.

GREENE, KC:

Q. Maybe I need a coffee at this time, but what is your target, is it your forecast budget for the year? When you set normally 2024 target, what did you look at to set your target? You're saying--I want to know how you normally pick your minimum and your target, that's all. Is your target your budget normally when you set these, and a stretch should be meeting them, doing better than –

(10:45 a.m.)

MR. MURRAY:

A. We'll confirm as part of the undertaking,

but it is, I believe, what you're saying, with the return at 8.5 percent.

GREENE, KC:

Q. So, you will in the undertaking explain how the minimum target and stretch are set for earnings?

MR. MURRAY:

A. Yes, we will.

GREENE, KC:

Q. Okay.

CHAIR:

Q. Excuse me. I'd like just to add something for clarity. Within that response could you explain what return on equity would be for the minimum relative target because I assume the target would be at a certain level, and if you're dealing with dollars, but could you also express in the term of equity for the Board?

MR. MURRAY:

A. Sure.

CHAIR:

Q. Thank you.

MR. O'BRIEN:

Q. So, we're looking at how minimum target and stretches are set for earnings, explain what ROE is used in that context, and the earlier commentary or request you had was--you had given five years or something. I just wanted to be sure what -

GREENE, KC:

Q. In the last five years at what time have you adjusted the target for earnings at any time during the year, and if so, when and on what basis.

CHAIR:

Q. And I believe it was both in dollars and in ROE, Mr. O'Brien. Thank you.

GREENE, KC:

Q. And that would be either minimum target or stretch or set, what's the basis for setting them because, as I said, when I looked at them in comparison to what your financial plans were for the year, it seemed a bit odd to have a stretch of meeting your budget.

MR. MURRAY:

A. Yeah, that is--there's something going on there. We'll figure it out.

MS. GLYNN:

Q. So, everyone is clear on the undertaking?

MR. O'BRIEN:

Q. Yes, clear as mud. Read the transcript tonight.

GREENE, KC:

Q. Now, if it's based on 8.5 percent ROE, you have always achieved your ROE that has been approved by the Board, is that correct?

MR. MURRAY:

A. Yes, that's correct.

GREENE, KC:

Q. So, even if you set a target for your budget at eight and a half, Newfoundland Power has always achieved meeting that eight and a half percent target? Okay. So, what's the risk there for not making the earnings depending on how your set your target?

MR. MURRAY:

A. Well, I guess the risk is not achieving our earnings.

GREENE, KC:

Q. But then the answer becomes tell me when you last didn't achieve your earnings?

MR. MURRAY:

A. I'm not sure, probably 20 years ago or so.

GREENE, KC:

Q. Oh, I think it's longer than that, Mr. Murray.

MR. MURRAY:

A. Twenty or 25, yes.

GREENE, KC:

Q. Okay. So, we talked about bi-regulatory performance was added back. So, how well you do in this hearing will affect all of your bonuses next year, is that correct?

MR. MURRAY:

A. It would appear so, yes.

GREENE, KC:

Q. Okay. And when we look at another one of interest to customers--we've already looked at the controllable operating cost per customer, which unfortunately is trending up. How do you set that target again? It's tied to your budget, is it?

MR. MURRAY:

A. Yes, it is, and it's set to target our budget and removes a couple of costs which

are, I'll just confirm that for you, you know, things that are beyond our control, such as CDM and OPEBs. So, there's a couple of things like that that are just removed for--that are beyond management's control.

GREENE, KC:

Q. With respect to SAIDI, when we looked at the corporate performance measures we saw that that had not been met in certain years in the last--the period that we looked at, the recent past. How do you set your target then for the next year? You don't meet the target from the previous year.

MR. MURRAY:

A. Just let me--one second again. Every liability target right now currently is a five year average. So, if we--you know, if we don't set the target, or meet the target in that year, it continues at the five year average. So, the target would be, you know, possibly slightly higher the next year depending upon what the average is. So, it is on a five year average that that is set.

GREENE, KC:

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Q. And you didn't meet SAIDI in 2020 or 2022. So, those two years where you didn't meet your target would go into the five year average. So, your target is getting lower because you have two years not meeting target and that gets reflected in two years out of five in your average.

MR. MURRAY:

A. No, it gets slightly higher because you got to--the actual numbers are what are used in the average, so it would get slightly higher over that period, but our long-term--like, if you look at our SAIDI, I believe, on like a five year or 10 year average, it is basically the same. It is about 2.6, 2.7, over the five year or the 10 year period.

GREENE, KC:

Q. I guess my point was when you see that you don't meet a target, you don't take any action to try to meet the target, you lower your target by taking into account the previous two years where you didn't meet it; when you set your targets for your corporate STI.

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MR. MURRAY:

A. You know, look, some targets could have improvement factors, it depends upon the target. A lot of the targets now are getting tighter. You know, if you look at SAIDI, like I indicated, our long-term average performance is consistent, but you're going to have variability from year to year. So, our average is around 2.6, 2.7. Some years you're going to have variability where it's going to be 2.5. Some years you're going to have variability where it's 2.9. It's a very tight target now. As performance has improved, it becomes more challenging that way.

GREENE, KC:

Q. I wonder if we could just go to your personal performance targets. Can you talk about your role in setting these targets, and the Board's role in setting these targets?

MR. MURRAY:

A. My personal targets are largely set by the Board.

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GREENE, KC:

Q. You don't have any recommendations or input into them?

MR. MURRAY:

A. No.

GREENE, KC:

Q. Okay. And how are they evaluated?

MR. MURRAY:

A. They would be evaluated, you know, based on my interactions with the Board through Board meetings. You know, they have interactions with other executive and senior management team. So, they would, you know, use those factors in your evaluation, and also, you know, provide them with my views on where we've progressed in these topics as well.

GREENE, KC:

Q. And for you 30 percent is personal, achieving your personal objectives, is that correct -

MR. MURRAY:

A. That's correct, yeah.

GREENE, KC:

Q. - of your bonus, and for the directors, or for the Vice Presidents, it's also the same?

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MR. MURRAY:

A. Yes, that's correct.

GREENE, KC:

Q. And we don't have performance measures for the individual Vice Presidents for the personal, but can you explain how they are set and what your role is in setting them and evaluating performance?

MR. MURRAY:

A. Yes. So, similarly--similarly for the Vice Presidents I would largely recommend their personal targets. You know, some of them may be subjective, some of them may be quantitative, but largely on the personal targets, as for myself, it is more focused on long-term objectives and long-term performance, whereas the quantitative, the 70 percent, is focused solely on performance in that year, and this--for the individual targets it would focused on what are the Vice Presidents doing to drive performance over the longer term on their individual targets.

GREENE, KC:
Q. And you would have a significant role to play with respect to the evaluation, I assume what the reliability performance as a corporate measure, and on the personal performance objectives for the individual Vice Presidents, is that correct?
MR. MURRAY:
A. For reliabilities, is that what you said?
GREENE, KC:
Q. For all of the personal targets, the 30 percent for Vice Presidents, where they're set for personal targets, you would make recommendations--you would make recommendations to the Board about your evaluation of the Vice Presidents' achievement of those personal objectives?
MR. MURRAY:
A. Yes, that's correct.
GREENE, KC:
Q. Okay. We already looked at the total amount, including managers, as in the revenue requirement of one million and a half for payment over and above your base

salary for additional performance, and we looked yesterday at what is paid for the directors and the executive. Have you considered or looked at what customers should pay, and what gets included in revenue requirement, versus the practice in other jurisdictions?
MR. MURRAY:
A. I know--I'm familiar with Maritime Electric because I am on their Board, and I know in PEI the full amount is covered in customer rates. Similarly, I know in Alberta it is similar there, and in BC I think it's a bit similar to us in that the financial target is, I believe, capped there at a certain level.
GREENE, KC:
Q. And when you say the full amount for PEI and Alberta, was it, you don't include the long-term incentive plan, do you?
MR. MURRAY:
A. No, that's correct.
GREENE, KC:
Q. Because in addition to your short-term

incentive plan, the executive receive a long-term incentive plan, which we have no information on the record as to what that is because that is not regulated, is that correct?
MR. MURRAY:
A. I believe it's in the Korn Ferry Report, but it's non-regulated, yes.
GREENE, KC:
Q. I wonder if we could go to NLH-NP-114. Here we see the short-term incentive payments that were made to the executive and the directors for 2022 and 2023, and if we look, for example, at the first line, which is, well, for you, Mr. Murray--can you explain what the 57.4 percent is that we see there for 2023, the actual payment?
MR. MURRAY:
A. Yes. So, what that would be is--you know, you take the corporate targets, which is the 70 percent, and you take the total scoring on that, and I believe in 2023 that was 115 percent, and then you take the personal target at 30 percent and what the total

scoring was on that, and the 57.4 is that times the 50 percent. So, that would be the total amount, and then the regulated amount, you know, is shown down below, which is what is regulated and what is non-regulated as we described earlier.
GREENE, KC:
Q. So, for the regulated it's up to 100 percent of the targets, except for financial performance and regulatory performance?
MR. MURRAY:
A. And last year it would have been cash flow.
GREENE, KC:
Q. Now, if we look at 2022, when we went through your corporate performance measures we saw that the company didn't meet three of the corporate performance measures that it had set for itself for the year, and in 2023 they didn't meet two of the six corporate performance measures, but yet we still see significant payments to the executive. Can you explain? I assume it has to do with the weightings, that even if you don't meet half your targets you still get the significant

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bonus.
MR. MURRAY:
A. It would be due to weighting. So, if you look at--for example, in 2022 I believe we did not meet the regulatory or the operating cost, but on safety, for example, say the target could have been 150 percent of the target. So, it's the total of the combined targets that would result in the calculation.
(11:00 a.m.)
GREENE, KC:
Q. It's 11:00 o'clock, Mr. Chair. I'm not finished on compensation yet, but it's 11:00 o'clock.
CHAIR:
Q. Sure. I think it's time for a break. Thank you.
(BREAK – 11:00 a.m.)
(RESUME AT 11:31 a.m.)
CHAIR:
Q. Back to Ms. Greene.
GREENE, KC:
Q. Thank you, Mr. Chair. You had mentioned

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earlier today that managers also receive pay for performance above their salary, can you explain how that gets evaluated, on what basis they're evaluated and who does the evaluation?
MR. MURRAY:
A. So, I think what you're referring to is Pay for Performance which is for managerial employees and largely that is tied to individual performance. So, it's for individual management people and it's guided toward technical competence--excuse me, guided toward technical competence. Just give me one second, please. It's guided toward their technical competence, execution of results in that particular year and their own personal self-development and self-growth in their role. And that would be--depending upon the individual, it could be evaluated by their supervisor, their manager. So, it's a combination of different people.
GREENE, KC:
Q. And how would the evaluation translate into what the actual pay is? You say they're

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evaluated by their supervisors, does that get recommended to a vice-president or a director or is it left at the supervisory level? And what's the maximum type of Pay for Performance that somebody could receive?
MR. MURRAY:
A. It would be done by the individual supervisor, manager and would roll up to directors and eventually would roll up to the executive for final review. In terms of the amounts, Mr. Chubbs can speak to that when he's on the stand; you can talk to Mr. Chubbs to make sure the numbers are correct. So, he can speak to that.
GREENE, KC:
Q. Okay. And Mr. Simmons has already ask you about what benefits customers receive for the payments to managers, directors and executive over and above their base salary. And I wondered if you wanted to add anything to that at this point in time, to explain your perspective as to why any amount should be included in the revenue requirement for these types of payments.
MR. MURRAY:

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A. It's all about driving outcomes for customers and for the business. When you look at the manager level and that as I indicated, performance there would be directly tied to, say for example, somebody in our engineering roles or something like, it could be tied to the delivering of projects. So, if we're rebuilding substations and everything, substations or transmission lines or our customer connect project we talked about, it would be focused on delivering successful outcomes on those projects with respect to the budget, the timelines and schedule. So, they're always focused on outcomes that have customer benefit to them and driving the business and our performance.
GREENE, KC:
Q. And as I think Mr. Simmons also said, but isn't that expected of them for their base salary to perform to what's required? If they're required to manage a project, they should be managing it to complete it as part of their job without any additional incentive?

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MR. MURRAY:
A. No, I don't agree fully with that. I mean, it is part of compensation package. If you look at our managerial compensation, it is meant to be competitive in the market. So, it is not only driving the results which also is a big part of that, but is also an important component of retention of employees as well as hiring of employees. So, you know, there's a lot of competition for employees and this is part of the overall compensation package for employee hiring and retention, as well as driving outcomes for customers.
GREENE, KC:
Q. So, as CEO, you believe that to ask customer to pay a million and a half dollars for these additional payments is reasonable and customers would support such payments?
MR. MURRAY:
A. Yes, that's correct.
GREENE, KC:
Q. I'd like now to move to the base salary for directors and executives. Mr. Simmons took you to some discussion of the peer group

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that is used by Newfoundland Power to set the base salary. Because of course--why is the comparator peer group such an important decision with respect to the determination of salaries?
MR. MURRAY:
A. Are you referring the 390 comparator group from Korn Ferry?
GREENE, KC:
Q. Yes, or the fact that a commercial industrial national group is used to determine the appropriate salary ranges.
MR. MURRAY:
A. Yes, so Mr. Ma can directly answer this question, but at a high level, you know, this is the comparator group that Korn Ferry has recommended to Newfoundland Power as being the appropriate market comparator for executives and directors within in the company. And as I said, Mr. Ma can really provide the rationale as to why this is the appropriate comparator group.
GREENE, KC:
Q. And I'm sure there will be questions for him on that, but I'm asking you, in your role as

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CEO, in your role and recommending salary ranges because I assume that you do recommend to the Board of Directors some input into compensation for your executive and your directors. You yourself have to be satisfied with what the salary is in comparison to what you think a relevant pairs, don't you?
MR. MURRAY:
A. Well, we rely upon, you know, our compensation consultant, if you want to call it that, to provide us that background. I mean, I'm not a HR expert in my role, so we rely upon the consultant to provide us with that opinion.
GREENE, KC:
Q. So, you're totally deferring to your consultant as to the reasonableness of the salaries you pay your executive, is that what I take from your answer?
MR. MURRAY:
A. Yes, that's correct.
GREENE, KC:
Q. Okay. Mr. Simmons, took you to PUB NP173. I don't think we need to go back there, but

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it showed limited, extremely limited number of companies that were electrical utilities. I'd like to actually go to Appendix C of the Korn Ferry report which shows the organizations that are in this Canadian Commercial Industrial group. And when I went through the list and I certainly don't plan to go through each company here, there's a tremendous number of retail companies, manufacturing companies, virtually no electrical utilities, no organizations in Newfoundland, very few in Atlantic Canada. And in your role as CEO you would view this as your comparable peer group?
MR. MURRAY:
A. You know, as I indicated, Mr. Ma will speak to that, but I agree with that. Maybe go back to page 12 in that report. One more page, I think. That's it, yes, right there. So, when they look at the comparator group, they're not looking at the companies. They're looking at the, you know, this is what they look at in this table down below. So, they're making a comparison of these

accountabilities, if you want to call them, which is know how, problem solving and accountability to determine the Korn Ferry Hay Points for the role. So, they're looking at executives in similar organizations and their role in the organization. They're not comparing companies to companies; they're comparing responsibilities of positions to responsibilities of positions to determine what is an appropriate comparator for each of the executives at Newfoundland Power. To determine what the Hay Points are and based on that, that is where they come up with their recommendations on appropriate salary and other components of the compensation.

GREENE, KC:

Q. And the peer group would include companies that have Hay Points, that use Hay for their evaluation purposes. How can they compare positions in those organizations unless they also use this system of evaluation?

MR. MURRAY:

A. Well, that is my understanding; that's what they do. So, Mr. Ma can explain that.

GREENE, KC:

Q. You mentioned, or in discussion with Mr. Simmons, he took you to that one of the rationale for this group is the fact that you must compete on a national level. Is that correct?

MR. MURRAY:

A. That's correct, yes.

GREENE, KC:

Q. Okay. And he asked you about the current executive. And I'd like to ask you about past executive. In your 20 years, you came in 2002 was it?

MR. MURRAY:

A. Um-hm.

GREENE, KC:

Q. So, in your period of time with the company, how many members of the executive have come from outside of the Fortis Group of Companies?

MR. MURRAY:

A. So, about the same time I joined in 2002, Barry Perry joined the company as CFO. He came from Abitibi Consolidated. A few years prior to that, Philip Hughes came in as CEO

of the Company from, I believe it was Duke Energy at the time.

GREENE, KC:

Q. So, now we're about to about 1990's for Mr. Hughes.

MR. MURRAY:

A. Late '90s, I believe. I also believe Mike Mulcahy in the mid 2000s or before 2010 came from outside, not exactly sure where. And there was a number of other executives that came from within the Fortis Group as well prior to that, such as Karl Smith and a few others.

GREENE, KC:

Q. Okay, so Mr. Hughes was back in the '90s, I remember him from previous hearings. Mr. Mulcahy, what role was he—his name I don't recall.

MR. MURRAY:

A. I believe his role was, at that time we had a larger executive team, I think we have five or six, so our executive team has gotten smaller over time and I believe he was VP of Customer Service and HR, I believe at the time.

GREENE, KC:

Q. Okay, so say in the last 23, 25 to 30 years, you've have three executive come from outside the Fortis Group of Companies?

MR. MURRAY:

A. That would seem about correct, yes. There were a number of others, as indicated, from within the Fortis Group as well.

GREENE, KC:

Q. And would it be a similar response for the director level?

MR. MURRAY:

A. Director level, you know, recently were hired a director of HR, joined us two, three years ago from outside, from Vale. Prior to that, I can't recall anyone else in the last 10, 15 years. That would be the most recent; that was director of HR.

GREENE, KC:

Q. So, it was such a rare occurrence, you can actually recall the individuals in terms of who comes from outside. For the managerial group, do you know what the comparator groups that are used to set compensation for your managers?

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MR. MURRAY:
A. There's a number of different groups that are used for the manager group. I'm not the best person to answer that. I would say it would be either Ms. London or Mr. Chubbs.
GREENE, KC:
Q. Okay, subject to check because it's on the— there are two comparator groups. One is composed of a national group and the second is composed of a group of electrical utilities and energy solutions companies they're called. Is that familiar to you, the groups that are used for managerial compensation.
MR. MURRAY:
A. I will take that subject to check. Like I said, I haven't been as close to that in recent years.
GREENE, KC:
Q. And in the second comparator group, there are a number of electrical utilities, again subject to check, I may not have them all, but there's BC Hydro, Toronto Hydro, Emera, Hydro One, Hydro Quebec, Nova Scotia Power, Ontario Power. So, those are a number of

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electrical utilities that are in one of the two peer groups that are used for your managers. Again, you can take it subject to check. So, the fact that you do have a peer group that includes a significant number of utilities for managers, but not for executives and directors. Again, as CEO responsible for the overall performance of the company, why would there be that difference and are you comfortable with it?
MR. MURRAY:
A. The only comment there, our compensation practices have been long standing, these comparator groups we've been using for many years now. You know, I'm not familiar with— excuse me, I'm not familiar with the rationale as to the selection of them originally when it was done a number of years ago. So I really can't comment in terms of the appropriateness that way, but Ms. London is more familiar with it and can speak to you about it.
GREENE, KC:
Q. Again, subject to check, the increases recommended for the managers in '22, '23 and

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'24 were less than for executives and directors, the base salary line adjustment.
MR. MURRAY:
A. Um-hm.
GREENE, KC:
Q. Again, as CEO--I'm not asking you to get into the detail, I will with Mr. London on that--is that, from your perspective, reasonable? And if so, why and how?
MR. MURRAY:
A. Well, when we do annual salaries every year, we look at the market comparator in that year and all salaries are adjusted with the, you know, in the management, director, executive level, are adjusted based on the market comparator for that particular year. They don't provide forecasts for long term as to where salaries are going in two, three, four years, time. They generally provide it late in the calendar year for the upcoming year. So, typically in November when we get the November/December we get the market comparator groups and we look at the individual groups to determine what the adjustments are for the coming year.

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GREENE, KC:
Q. But for the last three years they have been lower for managers and directors and executive, subject to check.
MR. MURRAY:
A. Yes, and I would assume that that's because the market comparator is in line with what those market comparators were for the different groups.
GREENE, KC:
Q. So, the selection of the appropriate comparator group is very important, isn't it?
(11:48 a.m.)
MR. MURRAY:
A. I'm not sure what you mean.
GREENE, KC:
Q. It leads into what the increases--who you compare you to, and you use a different comparative group than is used for managers. You use it for your executive and your directors.
MR. MURRAY:
A. Yeah. You know, it's a good question for Mr. Ma as indicated. I'm not an HR expert,

so -
GREENE, KC:
Q. But he's not your consultant for your managers, so I won't be able to ask him about the managers, will I?
MR. MURRAY:
A. I assume not. I guess he is the director and HR consultant, yes.
GREENE, KC:
Q. And again I'll ask Ms. Paige (sic.), and maybe you know, why you use a different consultant for executive and directors versus your managers to rate the compensation?
MR. MURRAY:
A. I'm not aware. As I indicated, it has been practice for many years, and that's the groups that we use.
GREENE, KC:
Q. You're relying on the fact that this comparative group was approved by your Board of Directors, I believe was it '97 or '98?
MR. MURRAY:
A. Yes, that's correct.
GREENE, KC:

Q. Okay. And approved by this Board by well for use in that rate case back then, is that correct?
MR. MURRAY:
A. That's correct, yes.
GREENE, KC:
Q. Okay. Subject to check, are you aware that at the time the Board approved this comparative group they had information provided on the record with respect to how the compensation for commercial/industrial group compared to a comparative group of electrical/utilities and a comparative group of Newfoundland companies?
MR. MURRAY:
A. Yeah, I'm not familiar. I wasn't at Newfoundland Power back then.
GREENE, KC:
Q. Okay. Subject to check, it is in Board Order--I can bring it up with you want, but it's Board Order number PUB-36 (1998-1999). So, at the time the Board approved the use of this group, they had information that showed what the results would be from the use of a commercial/industrial group that

you now use in comparison to an electric/utility peer group and a Newfoundland peer group, subject to check. So, my question to you as well is do you believe that that information would be relevant and useful for the Board to have at this point in time to review as to whether that peer group continues to be reasonable some 25 years later?
MR. MURRAY:
A. You know, my thoughts would be that a lot has changed in 25 years. You know, Mr. Ma can probably comment on appropriate comparative groups. I know he did provide some comments around the challenges with electric utilities because there's very few in Canada that are--you know, when you remove the Fortis companies and that, there are very few private investor owned utilities in Canada to compare to.
GREENE, KC:
Q. And you come back, as Mr. Ma did in his--and he will speak to his RFI responses, but--and reply to Mr. Simmons. Why is the significance of privately owned versus

publicly owned so important for the executive and the directors, but yet you use them; you use public electrical utilities in the peer group for your manager group. They're in one of the peer groups that are used. So, why would it be different?
MR. MURRAY:
A. As I indicated to Mr. Simmons, it's a question for Mr. Ma.
GREENE, KC:
Q. Okay, but you feel comfortable with that's the approach--as CEO, that that is the approach for Newfoundland Power, that that's how you do it?
MR. MURRAY:
A. That's correct.
GREENE, KC:
Q. Have you, or have—have you asked Korn Ferry to look at the reasonableness of the peer group for the executive and directors in recent years?
MR. MURRAY:
A. Not to my knowledge, no.
GREENE, KC:
Q. In one of Mr. Korn Ferry's responses he

actually mentioned that it was reviewed for 2024.

MR. MURRAY:
A. I think maybe what he is referring to is it wasn't a review of the comparator group; it was a review of the HAY points for the executive. Is that correct? Do you have the RFI that I can look at?

GREENE, KC:
Q. Not at this point. I thought I--I didn't think I was going to have to go there. So, to your knowledge Korn Ferry hasn't reviewed the appropriateness of the peer group in recent times; they just continue to use it because it's been used in the past?

MR. MURRAY:
A. Not to my knowledge. You know, you can ask Mr. Ma and he can--he can direct you to that.

GREENE, KC:
Q. And you haven't asked them to do that?

MR. MURRAY:
A. Not in terms of the comparator group. As indicated, he did review the HAY points of the executive recently, but that's--not the

comparator groups.

GREENE, KC:
Q. I want to come now to how the positions of the executive are evaluated, and if we could actually go back to the screen that you just--thank you. You explained that this is what's taken into account by Korn Ferry now in establishing points for a position that allows them to compare a position across industries based on the number of point that the position has for know-how, problem solving, accountability, and then the sums. Is that correct?

MR. MURRAY:
A. Yes, that's correct.

GREENE, KC:
Q. And there was an evaluation done of the current executive positions in 2023, is that correct?

MR. MURRAY:
A. Yes, that's correct.

GREENE, KC:
Q. Okay. And if we could go, please, to PUB-31, attachment C, page 9. Okay. Could we scroll up, please? Well, it's addressed to

Dear Gary. So, this letter is addressed to you, Mr. Murray?

MR. MURRAY:
A. Yes, that's correct.

GREENE, KC:
Q. And it gives the results of a re-evaluation of the three positions, the three executive positions, at Newfoundland Power that was done as of June 2023, is that correct?

MR. MURRAY:
A. Yes, it is.

GREENE, KC:
Q. Can you explain why you asked Korn Ferry to do that, please?

MR. MURRAY:
A. Yes. The reason that was done was when I became CEO in 2020 I had responsibility in my former role as VP of Customer Operations. I also had responsibility for HR. When the roles were changed there was no evaluation done to move the HR responsibilities to Ms. London. So, I asked Korn Ferry to review the changes and responsibilities that occurred as a result of that to determine if the pay points were still appropriate with

the removal of the HR from the VP of Customer Operations and moving it to the VP of Finance and CFO, who was also responsible for regulatory, so they done a review at that time.

GREENE, KC:
Q. The Human Resources function, was that always within Customer Operations?

MR. MURRAY:
A. No. It became--prior to that it was--prior to--I believe when Ms. Perry went to Fortis--previous to that Ms. Perry was responsible for HR, but when she moved to Fortis it became under my responsibility.

GREENE, KC:
Q. So, HR previously reported to Finance as well, prior to -

MR. MURRAY:
A. Previously, yes.

GREENE, KC:
Q. And how did this evaluation work? Did Korn--did you meet with Korn Ferry, as an example, and talk about the roles of the individuals? So, could you please describe the process that led to the re-evaluation?

MR. MURRAY:
A. Yes, it was a combination. I met with Korn Ferry. Can you just scroll down to the bottom for a second to see who signed the letter? Yes. So, I met with Bill Bowen, as well as Wiclif Ma, and both of them were--it was, I guess, a Teams call, and we discussed the changes and what were the responsibilities of the different CFO's, and also provided them with some information for them to complete their evaluation.
GREENE, KC:
Q. Now, if you could scroll up. We see all three Vice Presidents now have the same number of points, is that correct?
MR. MURRAY:
A. Yes, that's correct.
GREENE, KC:
Q. And this is a change from before?
MR. MURRAY:
A. Yes. If you go--previously I believe what it was is the Customer--VP of Operations had slightly higher HAY points, and the VP and CFO had slightly lower. So, essentially it was a transfer of HAY points from the

Customer Operations to the CFO role. And my understanding of it is with the HAY points, and Mr. Ma can explain to you, it's basically a pie. It's a set number of points, and if responsibilities move or change, then it's basically a plus or minus between the roles.
GREENE, KC:
Q. And in terms of this evaluation, what was your role in providing information or a meeting with Korn Ferry on making recommendations?
(12:00 p.m.)
MR. MURRAY:
A. Well, I didn't provide any recommendations, I just provided them with the responsibilities of the executives prior to the changes and what their new responsibilities were, and they evaluated it from there.
GREENE, KC:
Q. Your position isn't listed here, so there was no change in the number of points assigned to the President and CEO, is that correct?

MR. MURRAY:
A. Yes, that's correct.
GREENE, KC:
Q. And, of course, because of the increase in points for the VP of Finance, that would have led to a more--a larger salary increase than otherwise would have been for that position in 2024, would it?
MR. MURRAY:
A. Yes, and it also resulted in a reduction in the VP of Customer Operations. As I mentioned, the HAY points basically came down for the VP of Operations, went up for the CFO role; so the same thing for the salaries and incentives.
GREENE, KC:
Q. But it didn't result in any change because he was--that person was a known incumbent in that role, is that correct, Mr. Mullins?
MR. MURRAY:
A. Mr. Mullins, yes.
GREENE, KC:
Q. The last--subject to check again, in the 2016 General Rate Application was the last time we saw the HAY points assigned for the

executive of Newfoundland Power, and I don't think we need to go there, but it was curious to me that the number of points, which if you go back, it's for know-how and accountability, and problem solving. That's what they use to compare across all the organization; that the HAY points for each of the three executive positions were higher than what we're showing here. It was VP Operations was 1628, VP Finance 1560, VP Regulation and Planning 1560. So, a significant difference, and I was--again, it was one of those curiosities, like how you set the target when you looked at your performance. Has the nature of the operations in the company changed so that the executive doesn't--they don't need as much know-how and problem solving as before? It was just a--I just wonder how this process works. Is it objective, or is it judgmental, or -
MR. MURRAY:
A. No, it is not objective, it is very--my understanding of the HAY points it's very regimented. Mr. Ma can explain that. I

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mean, without seeing the number in front of me--if you had something to show me, I might be able to speak to it, but –

GREENE, KC:
Q. If we want to, we can bring it up.

MR. MURRAY:
A. Without seeing it, no, I would say that Mr. Ma is best to speak to about this.

GREENE, KC:
Q. As I said, it was just a curiosity, I would have thought unless the nature of the business had changed it would still require the same amount of know how on problem solving, et cetera, and again, it just reflects how compensation is set at Newfoundland Power's base salary and STIs, I'd like now to go to another topic which is the return on equity that Newfoundland Power is asking for in this rate case. We've already heard that Newfoundland Power is requesting that the return on equity be set at 9.85 percent, on a common equity of 45 percent and that is an increase from the 8.5 percent currently approved by the Board and in effect since 2016. First, as CEO have

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you been satisfied with the financial performance and the financial integrity of Newfoundland Power in your time as President and CEO?

MR. MURRAY:
A. I would say yes.

GREENE, KC:
Q. Okay, and they've had no difficulty in attracting the necessary capital, is that correct?

MR. MURRAY:
A. Well we do have, you know, we have a very limited number of investors that invest in our bonds. You know, our last bond offering there was less interest than we had seen in previous bond, bond ask.

GREENE, KC:
Q. But you've still been able to attract capital on terms, it hasn't been a particular problem for you.

MR. MURRAY:
A. Not to my knowledge, but Ms. London can speak to it in a little more detail.

GREENE, KC:
Q. Yes, and we will be asking Ms. London more

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questions about it.

MR. MURRAY:
A. Yes.

GREENE, KC:
Q. That increase from 8.5 to 9.85 accounts for 1.6 percent of the 5.5 percent you're looking for in this particular application, is that correct?

MR. MURRAY:
A. Yes, that's correct.

GREENE, KC:
Q. And if we go to the undertaking No. 1, which shows 2023 actuals, and if we scroll down we see that actual earnings for last year under "Earnings Applicable to Common Shares" is 48 million, eighty-seven thousand dollars, a bit higher than—your actuals were a bit higher than your forecast. Now if we can go to Exhibit 5 and we scroll down, the last column over is your forecast 2026 year and that is what you are using to propose new rates and the rate increases, is that correct? Your 2026 test year.

MR. MURRAY:
A. Yes, that's correct.

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GREENE, KC:
Q. Okay, and for earnings applicable to common shares, we see there 63 million, six hundred and fifty-one thousand dollars. So the increase from what you actually earned last year to what you are proposing to earn if everything that you have asked for gets approved, is an increase of 15 million, .65, 15.65 million and that's over a 15 percent increase in your profit, is that correct?

MR. MURRAY:
A. Yes, that's correct.

GREENE, KC:
Q. So, we've already answered some questions about this and you deferred to Concentric, but I want to ask as CEO and President and explaining to ratepayers why you are asking for that significant increase in your ROE knowing that there was going to be in excess of 20 percent increase in customer rates by July 1, 2025, how did you, as President and CEO, satisfy yourself that it was reasonable to do that?

MR. MURRAY:
A. You know, as I indicated earlier, the

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recommendation on the return on equity comes from Concentric advisors. I mean, they look at what Newfoundland Power's risk is compared to similar utilities and based on the fair return standard, what a fair return is for Newfoundland Power and that is where the recommendation comes from.
GREENE, KC:
Q. Yes, and that is a recommendation of your consultant and you are deferring to the consultant and what I guess I'm suggesting is isn't there a role here for the executive at Newfoundland Power knowing that that recommendation of 9.85 and 45 percent would put you at the highest ROE, common equity, pretty much in Canada for an electrical utility, that you feel reasonable and comfortable in coming forward with it and saying, oh, that's the consultant?
MR. MURRAY:
A. We take the recommendation of consultant, I mean, we're not cost, coming out of cost of capital expert and based on the recommendation and the fair return standard, that is the recommendation for a fair return

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for Newfoundland Power.
GREENE, KC:
Q. Part of that is based on the risk that Newfoundland Power has, is that correct?
MR. MURRAY:
A. Yes, that's correct.
GREENE, KC:
Q. Korn Ferry, sorry, Concentric have indicated that they believe that you were above average business risk, is that correct?
MR. MURRAY:
A. Yes, that's correct.
GREENE, KC:
Q. Do you have any view on that, I mean, you're familiar with the other electrical utilities in Canada, you must have some personal view as to how your operations compare to others.
MR. MURRAY:
A. You know, I know a bit, I guess, but I mean, Korn Ferry did a more of a detailed assessment of the risk compared to other utilities. You know, I personally, we did not do an evaluation of the risk of all the other utilities in terms of their mechanisms and everything else, so you know, we do rely

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upon the consultant to do that analysis of the risk of the other utilities in Canada to provide us with that view point.
GREENE, KC:
Q. To your knowledge has any other Canadian utility considered above average risk?
MR. MURRAY:
A. I don't know the answer to that question.
GREENE, KC:
Q. But you believe that you are riskier than average, an average utility, you as a primarily a transmission and distribution utility?
MR. MURRAY:
A. That's correct, yes.
GREENE, KC:
Q. With respect to that increase of 9.85, you also know that it's most unlikely the Board will accept 9.85, don't you?
MR. MURRAY:
A. Well I guess that's to be determined.
GREENE, KC:
Q. Well if we look at history as some indicator of the future, when Concentric also recommended significantly higher ROEs than

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were approved by the Board and in fact we'll look at his evidence, it might be that he's also recommended that another jurisdiction and it hasn't been accepted, so given that, I come back to your total reliance on an advisor whose recommendations have not been accepted by this Board when they last reviewed it in a contested hearing in 2016 and also when Newfoundland Power accepted a lower rate of return than recommended by its consultant in a settlement agreement of the last two GRAs.
MR. MURRAY:
A. Yeah, well I guess we're asking the Board to evaluate it now, given the circumstances in 2024, you know, back in 2016, you know, returns were declining across Canada. Currently returns are increasing and, you know, we're asking the Board to evaluate what is a fair return for Newfoundland Power.
GREENE, KC:
Q. Yes, I was just going back to the reasonableness of total reliance on a consultant whose recommendations have not

been accepted in the past and whether, as CEO, you would have some personal view as to what the appropriate profit level is to seek from customers at this point in time, as they're looking at the 20 percent increase, more than a 20 percent increase.

MR. MURRAY:
A. You know, we're relying on our cost of capital expert's recommendation.

GREENE, KC:
Q. I wanted to go back for a moment, I'm turning to some other topics, I wanted to go back to NLH-NP-011.

MR. MURRAY:
A. Okay.

GREENE, KC:
Q. Okay? And when we talked about this before, you had, we talked about how the trend in operating costs per customer had declined, but now we see an increase. You mentioned that inflation is the primary reason, I think, for the drive in the operating costs, is that correct?

MR. MURRAY:
A. That's correct, yes.

GREENE, KC:
Q. I wanted to point out that that figure it is inflation adjusted if you wanted to read through it. So even with inflation adjusted, the trend is up, definitely up.

MR. MURRAY:
A. Yes, that's correct.

GREENE, KC:
Q. So inflation, it is exceeding, even with inflation adjusted based on inflation, we still see the trend up.

MR. MURRAY:
A. Yes, as I indicated, you know, 75 percent of the non-labour cost is being driven by, you know, three areas that are much higher than inflation which is the insurance cost, software, cyber security and other company fees, those are the main drivers of the non-labour component.

GREENE, KC:
Q. And of those three main components, is Mr. Chubbs the witness who will testify to specific increases in each of those categories?

MR. MURRAY:

A. That's correct, yes.

GREENE, KC:
Q. And will Ms. London speak to any increase in specific operating cost or is it all Mr. Chubbs?

MR. MURRAY:
Q. Mr. Chubbs to my knowledge.

(12:15 p.m.)

GREENE, KC:
Q. I wanted to turn now to the capital plan and if we could bring up PUB-NP-045. And here, if you go back up, scroll up to the question please? This was with respect to your critical areas of focus for the next five years and I did want to ask you what you will see as the priorities for the next five years from a capital perspective and then I wanted to ask a little bit about a longer-term perspective. So what does Newfoundland Power see as the primary focus or priorities for the next five years in their capital planning and why?

MR. MURRAY:
A. You know, as I mentioned yesterday, a lot of our assets were built in the '60s and '70s.

They are reaching end of their life in aging, you know, if you look at, you know, if you look at our poles, over 13 percent of our poles are currently beyond their useful life and over the next, you know, decade, we see another 13 percent that will be, exceed their useful life. Similarly with substations, over 35 percent of our power transformers have exceeded their useful life. So, you know, we do have a lot of equipment that is nearing the end of its life and we have seen that in the last number of capital budget, and it continues that more and more of our budget is to replacement of aging assets, to continue to maintain reliability to customers. So the biggest driver would be largely around asset replacement. You know, another driver would be some things in the near term in the '25, '26 timeframe. We're proposing to, our asset management system which we use to manage a lot of these assets is coming to the end of its life, so we will be replacing that asset management system. You know, those are the key drivers, I would say, in

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terms of the next couple of years in terms of our focus on capital.

GREENE, KC:

Q. Are there any capital plans in there for any electrification initiatives?

MR. MURRAY:

A. Mr. Chubbs would be the best one to answer that. I believe there may be a small amount for some upgrades, but I don't think it is—so Mr. Chubbs would be the best to answer it.

GREENE, KC:

Q. We hear a lot in the news today about the pressures for all of Canada and all of the grid with respect to the greening initiative and with respect to electrification initiatives and what it means, so how is Newfoundland Power preparing for that and taking it into account. One question was is there anything in the five-year capital plan or my next one was going to be how do you see then unfolding for the future and what implications, if any, would it have for your capital first, and then operating?

MR. MURRAY:

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A. Yes, so Mr. Chubbs can get into the detail on that if you ask him, but high level, I would say that in the near term we will see growth, growth from electrification would mainly be on our secondary side of the system, so that would mainly be on the secondary wire pole mounted transformers, those types of things, that we would have to replace and as I mentioned yesterday, like a pole mounted transformer we have seen as increased by nearly 60 percent in recent times, so you know, those are the types of things that would be driving pressure here. And it would also be on, you know, some load growth resulting from that electrification initiative. I don't think it would be in the short term, but in the longer term it would be on our power transformers, it would have an impact on, you know, overloading our power transformers, requiring the larger power transformers and upgrades to the distribution lines to prevent the lines from being overloaded as well. But, you know, that would be more, I would think, into the latter part of this than the nearer part.

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GREENE, KC:

Q. And in the longer term what is Newfoundland Power doing to prepare for these possible impacts on your infrastructure?

MR. MURRAY:

A. We've been looking at the impacts on our secondary wire and, you know, pole mounted transformers. With our GIS system and our metering system now, we're able to see parts of the system that may be getting overloaded and we can continue to monitor that so we can address it in a timely manner. So, you know, we are looking into that now and it will evolve as time goes on.

GREENE, KC:

Q. But there's no specific--capital spending in the five year plan and you are continuing to look at it for the longer term implications, is that how I understand your answer?

MR. MURRAY:

A. No, there is some in the five-year plan. I can't specifically say how much. I don't think it's significant, but Mr. Chubbs can answer that question.

GREENE, KC:

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Q. All right, thank you, Mr. Murray, that concludes all my questions.

MR. MURRAY:

A. Thank you.

MS. GLYNN:

Q. Back to the Commissioners if they have any questions.

COMMISSIONER NEWMAN:

Q. No questions.

COMMISSIONER O'BRIEN:

Q. No questions.

CHAIR:

Q. I've got one I'd like to touch on. Could we go back to, I think it's PUB-32, attachment A and the 2024 compensation targets.

MR. O'BRIEN:

Q. Which page, Mr. Chair?

CHAIR:

Q. That table there is fine. Just noticing a couple of items, reliability and I was looking at the stretch targets and the maximum targets and so there's incentives to exceed, continue to improve SAIDI, so SAIDI, I think explains that SAIDI currently is very good compared to Canadian average, is that fair?

MR. MURRAY:

A. That's correct, it's about 40 percent below in our comparator group within CEA.

CHAIR:

Q. And so there's an incentive and these incentives were stretched and maximum can be paid for by consumers because they're non-regulated costs, but there's incentives to further improve SAIDI beyond what the target would be going forward, and also just those customer operating costs there's also stretched targets for further improvements there as well, controllable operating costs per customer. So here's my struggle, the savings, you can reduce operating costs, based on my understanding, and improve SAIDI by making additional capital investments because you can reduce your operating costs if you make your system stronger, buy newer capital, right, that's the way I kind of look at it, that's one way of reducing operating costs. If you've got high operating costs and some areas making capital investments could be the right thing

to do, could be the least cost way as well, right. So you can reduce operating cost to investment in capital and you can improve SAIDI through investments in capital. So it appears that there's an incentive to spend more on capital because you can—for the senior management because they can get increased STI benefits, so I'm just struggling with where's the incentive to manage capital costs?

MR. MURRAY:

A. So on the reliability, you know, I would say we're not incented to improve reliability. Our targets are set to maintain reliability and, you know, in the calendar year, you know, you can't really make any investments in the particular calendar year that will have an impact of these results, I would say, so investments that you're making in SAIDI would probably improve it—or capital, may have an impact on SAIDI down the road, but our experience has been that the investments we are making is maintaining reliability essentially at the level that it's at. Like I said, our five-year, ten-

year average is about 2.6, 2.7. There's variability, but the variability is largely related to storms. You know, if we have a good weather year, then we could be a little bit below the 2.6. If we have a bad weather year, you know, there was a few years we missed it, we're above the target. So it's more—weather is probably a bigger factor in it than that and, you know, our focus on capital is maintaining the appropriate amount of capital to maintain our current levels of reliability and service to customers. And I think with our reliability at that 2.6, 2.7 over ten year shows that the level of investment we're doing is helping to maintain it, it's not improving it.

CHAIR:

Q. Yeah, I recognize it may not be declining currently, and it seems to be stabilized, but if the stretched targets for the senior management—and those stay the same year over year, is always an improvement, I just want—and similarly with the controllable operating costs, and I believe I noticed

there is also, I think there was in, when we were looking at yours, it was enhanced reliability would be one of your targets as well, so there's incentive to exceed targets as well. I just want to, it seems like all of those things are targeted towards improved reliability based on the stretch in maximum payouts. There doesn't appear to be any kind of an incentive to manage capital investment within your targets for the executives. How does that fit into your targets for your executive?

MR. MURRAY:

A. Well, you know, managing capital is a tough one to have a target on in the sense that, you know, we propose the capital that is required and it can be variable from year to year, so, you know, if we have a large project, say, that we have to upgrade a hydro plant that has a—which can be bumpy, you know, you can have a normal capital spending and then if you have a 15 million dollar expenditure, a 20 million dollar expenditure because of size of one or two single projects, it can drive your capital up. I mean, we only propose projects that are required to maintain service to customers, connect new customers, maintain reliability. You know, we don't propose any capital that is in excess of what we view is that, so target capital is a hard one to have an incentive on. If you look across utilities across Canada, I'm not familiar with any of them that have incentives on capital for that reason.

CHAIR:

Q. Okay, I was thinking maybe it was a way of looking at capital costs per customer as some form of long-term inflation adjusted average or something. It just seems like it may be able to provide more of a balance rather than just an incentive focused solely on operating and improved reliability, but it would also be considering the capital side because the capital side also drives costs too and it just doesn't seem to be reflected in the targets.

MR. MURRAY:

A. Yeah, and the control and operating costs per customer, I mean, is driven at—that does

have a benefit to customers. I mean, if we lower our operating cost per customer, then that would be into our forecast going forward which will have a lower cost next year. So that one directly benefits customers by having a lower operating cost per customer.

CHAIR:

Q. I acknowledge that, but if it is achieved through increased capital investment that you can reduce operating costs and you can, that may be a longer term effect, but it can be partly offset. All right then, thanks for that.

MS. GLYNN:

Q. So now we go to whether there's any questions from the parties based on the Board's questions.

MR. O'BRIEN:

Q. I don't have any re-direct at this point and I don't have any questions arising from the Chair's questions.

MS. GLYNN:

Q. Dennis?

FITZGERALD, KC:

Q. Nothing arising.

GREENE, KC:

Q. Nothing arising.

MS. GLYNN:

Q. So we are done with Mr. Murray. We will start with Ms. London, so I wonder if we should take a five-minute break.

CHAIR:

Q. Sure, we'll take a five-minute break.

(BREAK – 12:28 p.m.)

(RESUME – 12:36 p.m.)

CHAIRMAN:

Q. So, there's no preliminary matters?

MS. GLYNN:

Q. No, there isn't.

CHAIRMAN:

Q. So, just over to Mr. O'Brien.

MS. GLYNN:

Q. You have to swear or affirm.

CHAIRMAN:

Q. Oh, sorry.

MR. O'BRIEN:

Q. She's going to be affirmed.

MS. PAIGE LONDON, AFFIRMED

CHAIRMAN:

Q. Back to you, Mr. O'Brien.

MR. O'BRIEN:

Q. Okay. Ms. London, will you please introduce yourself to the Board, please?

MS. LONDON:

A. Good afternoon. I'm Paige London. I'm the Vice-President of Finance and Chief Financial Officer at Newfoundland Power and I've been in this role since 2017.

MR. O'BRIEN:

Q. Do you adopt Sections 3 and 4, Finance Rate Base and Revenue Requirements, as your testimony?

MS. LONDON:

A. Yes.

MR. O'BRIEN:

Q. Are there any changes that you wish to make to the pre-filed testimony and exhibits at this time?

MS. LONDON:

A. No, there are not.

MR. O'BRIEN:

Q. Ms. London, can you comment on the company's financial performance since the last rate application?

MS. LONDON:
A. Newfoundland Power's financial performance has been relatively stable since 2021 and we have maintained our financial integrity through 2023. Since our last rate application, a number of global factors have impacted the company that were not anticipated at that time. These include significant increases in interest rates, inflation at levels not experienced in a number of decades, and provincial population growth, mainly due to immigration. Each of these factors impacted our financial performance in 2023. In addition, last year, Newfoundland Power incurred additional power supply costs from Hydro of almost 30 million dollars. This was due to the combination of the current wholesale rate and higher than anticipated electricity sales. These costs will be collected from customers as part of the July 1st rate stabilization adjustment. Due to the magnitude of these costs and the regulatory lag in recovery, the company's cash flows in the short term have weakened.

MR. O'BRIEN:
Q. What is the forecast financial performance from 2024 through 2026?
MS. LONDON:
A. For 2024, we have a forecast revenue shortfall and as part of our rate of return on rate base application, we have proposed an increase in revenue requirement of 11.8 million dollars. This cost recovery is required for Newfoundland Power to have an opportunity to earn a fair return this year. Looking forward at 2025 and 2026, without the proposals in our general rate application, Newfoundland Power's financial integrity will deteriorate over this period.
MR. O'BRIEN:
Q. So, what other matters do you intend to address today?
MS. LONDON:
A. I would like to focus on a key issue in this application, which is Newfoundland Power's cost of capital. This issue has two main components, capital structure and return on equity. I would also like to address the recommendations of Dr. Booth.

MR. O'BRIEN:
Q. What does Newfoundland Power propose as a capital structure and return on equity for 2025 and 2026?
MS. LONDON:
A. Based on the expert opinion of Concentric, Newfoundland Power is proposing the continuation of our longstanding capital structure of 45 percent common equity and an increase in the return on equity to 9.85 percent. These proposals are consistent with the fair return standard.
MR. O'BRIEN:
Q. Well, let's deal with the capital structure. Why is 45 percent structure, a capital structure for Newfoundland Power important?
MS. LONDON:
A. Newfoundland Power's 45 percent capital structure is a key financial strength of the company. It has been the cornerstone of our financial integrity for over 25 years and it has contributed to access to capital markets at reasonable cost in all market conditions. Our capital structure was originally determined by the Board as necessary in

support of this company's small size and low growth potential and it has been reviewed numerous times and has consistently been accepted by the Board as appropriate. Our capital structure is also recognized as a key credit strength by both Moody's and DBRS, which are the independent credit rating agencies, in their credit assessments for Newfoundland Power.
MR. O'BRIEN:
Q. Have there been any change in the company's business risks since the last rate application that would impact the capital structure?
MS. LONDON:
A. The company's business risk remain largely consistent with those described in our last rate application. Those risks include the company's small size, surface territory demographics and harsh operating environment. The province's economy outlook remains weak in comparison to the rest of Canada and the Muskrat Falls Project continues to pose a challenge for our customers and is a risk to the company.

MR. O'BRIEN:
Q. Can you elaborate on that, Ms. London?
MS. LONDON:
A. The economic outlook for the province can be seen through key indicators, such as employment, housing starts and household disposable income, and each of these indicators is forecast to lag behind the rest of Canada in the medium term.
MR. O'BRIEN:
Q. So, Mr. Murray also spoke about the risks associated with Muskrat Falls. How do these risks affect Newfoundland Power and its customers?
MS. LONDON:
A. The Muskrat Falls Project affects both the cost and reliability of service provided to Newfoundland Power's customers. The cost of Muskrat Falls is substantial. It represents almost four times the combined book value of the current utility investment of Newfoundland Power and Hydro. As part of the Provincial Rate Mitigation Plan, customer rates will increase by 2.25 percent each year, beginning on July 1st this year

until and including 2030. While this provides certainty on customer rate impacts in the near term, we don't know what will happen beyond 2030. Further, this total 15.75 percent increase in customer rates related to Muskrat Falls will not recover any additional spending required to address reliability concerns. Customers will experience sustained upward pressure on electricity cost going forward.
MR. O'BRIEN:
Q. What about the reliability risks associated with Muskrat Falls?
MS. LONDON:
A. Reliability of supply from Muskrat Falls affects Newfoundland Power's business risk from two perspectives. First, an outage to the Labrador Island Link during the winter could pose serious supply risk for our customers. In this situation, Newfoundland Power could incur additional cost to serve customers with available electricity supply. And second, the cost of backup generation and other reliability investments are in addition to the 13.5-billion-dollar Muskrat

Falls Project cost and these costs will put further pressure on customer rates in the future.
MR. O'BRIEN:
Q. And why do these risks matter to Newfoundland Power?
MS. LONDON:
A. These factors affect the company's business risk. Maintaining the current capital structure is appropriate to provide the continued financial flexibility to respond to all of these risks.
MR. O'BRIEN:
Q. Well, let's discuss the return on equity. Do you have any comments on that?
MS. LONDON:
A. A fair return and appropriate capital structure go hand in hand. Together, they affect the company's financial performance and help us maintain our financial integrity. Since our last rate application, approved returns for investor-owned utilities across Canada have increased and Concentric will speak to that in their evidence. Newfoundland Power's financial

performance has allowed us to maintain credit metrics that support investment grade credit ratings. This enables access to financing necessary to serve our customers at least cost.
(12:45 p.m.)
MR. O'BRIEN:
Q. So, why is it important to maintain Newfoundland Power's credit metrics or rating, sorry?
MS. LONDON:
A. Newfoundland Power has investment credit – investment grade credit ratings from two credit rating agencies and this is important because it provides access to capital markets in all market conditions. An investment grade credit rating also reduces the cost of financing the investments in the electrical system, which helps keep costs low for customers.
MR. O'BRIEN:
Q. And what factors are considered by the rating agencies in assessing the credit worthiness of Newfoundland Power?
MS. LONDON:

A. Each rating agency applies its own unique methodology in its rating assessment for Newfoundland Power. Both rating agencies consider quantitative and qualitative factors in their assessments. Quantitative factors are the credit metrics. These are the calculations of cash flow coverage and interest coverage metrics. Credit metrics are a measure of the company's ability to pay its long-term debt obligations and interest. While credit metrics are important, they account for no more than half of the credit assessments completed by the rating agencies. The assessments of rating agencies are informed in a large part by qualitative factors. These include the overall regulatory framework, the consistency and predictability of regulation and the ability to recover cost and earn returns. Ultimately, a supportive regulatory framework contributes to stable cash flow and earnings underpinned by a fair return and full and timely recovery of costs.

MR. O'BRIEN:

Q. How are these factors applied in assessing Newfoundland Power's credit rating?

MS. LONDON:

A. Both rating agencies have made it clear that Newfoundland Power's 45 percent common equity ratio is a key financial strength of the company. It is viewed as a primary indicator of overall regulatory support. The rating agencies routinely review the results of general rate applications in completing their assessments. As a result, the Board's decisions play a critical role in their assessments of the credit worthiness of Newfoundland Power. This importance was recently reiterated by Moody's in its April 2024 credit opinion. Moody's states, "the stable outlook reflects our expectation that the company will continue to recover its costs and earn its allowed returns in the timely fashion and that the current rate pressure it is experiencing will not result in any decline in regulatory or political support".

MR. O'BRIEN:

Q. So, you mention certain credit metrics that

the rating agencies look at. Are there any other credit metrics that Newfoundland Power monitors?

MS. LONDON:

A. Yes. The earnings test for our first mortgage bonds is also an important credit metric. The trust deed requires an interest coverage of two times or higher for the company to issue additional bonds. Under existing customer rates, the company would have limited flexibility to issue first mortgage bonds by 2026.

MR. O'BRIEN:

Q. And what practical effect would this have on Newfoundland Power and its customers?

MS. LONDON:

A. Newfoundland Power would have to seek other financing if we were unable to issue first mortgage bonds. This would result in higher costs for our customers. If other financing was not available, the company may be unable to fulfil its obligation to serve customers.

BROWNE, KC:

Q. I just have an objection here. This seems just too staged to be permissible in an

administrative tribunal. We have the examiner asking pre-staged questions, reading pre-staged answers. We don't know how the answers got to where it have. Has there been a meeting at Newfoundland Power to say, "these are our answers and this is the way you would read them"? She indicates, the witness indicates she's about to make comments about Dr. Booth. So, are all these pre-staged, preplanned? I know that sometimes a witness can have an opening statement, but this seems just too contrived. I'd just ask for the explanation of Newfoundland Power on why they're going about things this way.

MR. O'BRIEN:

Q. Mr. Chair, this is not an adversarial hearing. I mean, most of the information before the Board is on the record already. In terms of giving a statement, there's any number of ways to give a statement, whether it's put forth in terms of a question and answer or read off a statement. At this stage, it's only to give a summary of the witness's area in which she's going to testify. In fact, the expert opinion of Dr. Booth is a question-and-answer expert opinion. I don't think there's any magic to this. This is not a memory test or a credibility test at this stage. Mr. Browne will have his ample time to cross-examine the witness and Ms. London will be finished in a few minutes. I mean, this is the process that's been followed by the Board for the last number of years. I mean, I can't remember it not following this type of process or anyone having an issue with it.

CHAIR:

Q. Yeah, I acknowledge the opening statement, which is effectively re-stating most of the RFI responses and the pre-filed evidence is normal practice before the Board. I'm sure, Mr. Browne, if there's opinions that the witness presents on Dr. Booth, you'll certainly have an opportunity to address them, but I don't – haven't seen any new evidence being introduced in the opening statement, so I'm not really concerned at this stage.

BROWNE, KC:

Q. That's fair, but maybe the opening statement or the opening – these questions and answer sessions that we're now having, all preplanned and prepared, that's fine, but maybe the witness should state who was – who else has been available to help formulate these answers before they come to this process because it'll be interesting -- from Newfoundland Power's perspective I guess it's all good, but now they're going to get into expert evidence of Dr. Booth and I just wonder if these statements are coming from Concentric and how Concentric is – just it seems it requires some explanation from the witness as to how – whose statements she is reading. Are they hers or are they jointly from a committee? We have a right to know at least that.

MR. O'BRIEN:

Q. I think Mr. Browne can ask the witness where her comments have come from. If there's solicitor-client privilege associated with it, that's one thing. Otherwise, if it's a comment made after discussion in-house, she can make that comment. She can answer his

questions.

CHAIR:

Q. Yeah. I'm fine with the approach thus far. I think the Board will evaluate the witness's comments based on the witness's level of expertise and Dr. Booth's comments based on his level of expertise and Mr. Coyne's comments based on their level of expertise. So, and certainly there'll be an opportunity to challenge the comments and challenge the level of expertise. So, I think we're fine for now. So, I think we should just proceed.

BROWNE, KC:

Q. Okay. My objection stands, for the record, as to the way this is unfolding.

CHAIR:

Q. Okay, thank you.

BROWNE, KC:

Q. I'll just leave it at that and respect your ruling, Mr. Chair.

CHAIR:

Q. We can proceed.

MR. O'BRIEN:

Q. Thank you. And I believe my last question

for you, Ms. London, was you'd stated earlier you wanted to address the impact of the recommendations by the Consumer Advocate's expert, Dr. Booth. What are those recommendations?

MS. LONDON:

A. Dr. Booth has recommended a reduction in the capital structure from 45 percent to 40 percent common equity and a return on equity of 7.7 percent.

MR. O'BRIEN:

Q. Do these recommendations cause you any concern?

MS. LONDON:

A. Yes, they raise serious concerns for me. Dr. Booth's recommendations include a reduction in our longstanding capital structure at a time when the company's business risks are significant and a decrease in the company's return on equity at a time when approved return on equities for investor-owned utilities across Canada have increased. Newfoundland Power's return on equity is already the lowest in the country.

MR. O'BRIEN:
Q. And what are the practical effects of Dr. Booth's recommendations?
MS. LONDON:
A. In order to reduce the company's capital structure to 40 percent, a common share dividend of approximately 80 million dollars would have to be paid. You can't simply pay a common equity investor a preferred equity return, as Dr. Booth suggests. That would not be a fair return. So, the 80 million dollars would have to be borrowed and paid out in order to reduce the capital structure to 40 percent. Cash flows would be reduced due to the lower equity ratio and lower return and debt obligations would increase. As a result, Newfoundland Power's credit metrics would decrease and financial risk would increase.
MR. O'BRIEN:
Q. And what are the potential consequences of this, Ms. London?
MS. LONDON:
A. As CFO, I believe Dr. Booth's recommendation jeopardizes Newfoundland Power's existing

credit ratings. In addition to the weaker credit metrics, the rating agencies would re-evaluate the level of regulatory support, a key qualitative consideration. This would likely lead to a downgrade in the company's credit ratings. This would result in higher financing costs which are passed onto customers. Additionally, with a 40 percent capital structure and 7.7 percent return on equity, the company would have limited flexibility to issue first mortgage bonds by 2026, and as I said before, this would result in higher costs for customers. Overall, these proposals would not be consistent with the fair return standard and the company's financial integrity would deteriorate.
MR. O'BRIEN:
Q. Is there anything else you'd like to add?
MS. LONDON:
A. To date, Newfoundland Power has been a financially stable company. We are focused on maintaining our financial integrity to ensure we can continue to deliver reliable service to our customers at least cost. The

continuation of regulatory orders that enable timely cost recovery and support a fair return will be critical to maintaining our financial integrity in the future.
MR. O'BRIEN:
Q. Now, Ms. London, before we conclude, I understand you'd like to make some comments on the framework for a new wholesale electricity rate. Can you tell us about that framework?
MS. LONDON:
A. Newfoundland Power and Hydro have agreed to file applications proposing a revision to the wholesale rate effective January 1st, 2025 to reflect current marginal energy costs. With the commissioning of the Labrador Island Link last year, the marginal costs are now based on energy exports. It is important that the wholesale electricity rate reflect this change. As outlined in the framework, the revised wholesale rate would continue to be based on Hydro's 2019 test year revenue requirement with no overall change. As such, there would be no customer rate impact associated with Hydro's

application.
MR. O'BRIEN:
Q. How does this framework impact Newfoundland Power's 2025-2026 GRA?
MS. LONDON:
A. There is no impact on Newfoundland Power's proposed 2025 and 2026 revenue requirement. As Mr. Murray described yesterday, we did not rebase power supply costs in our rate application. The parties to the settlement agreement, Newfoundland Power, Hydro and the Consumer Advocate, agreed that the Board should order Newfoundland Power to rebase its power supply cost as part of our flow-through application associated with the new wholesale rate. This will ensure that power supply costs rebased for the company's 2025 and 2026 revenue requirements will be based on the actual wholesale rate in place for those years.
MR. O'BRIEN:
Q. Okay. So, there's no impact on customer rates or revenue requirements as proposed in this application. What customer rate impact can be anticipated as a result of the

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rebasing?
MS. LONDON:
A. As set out in the framework, rebasing power supply cost with a revised wholesale rate, effective January 1st, 2025, would result in an estimated customer rate increase of 4.3 percent on July 1st, 2025. This is substantially the same rate impact as rebasing with the current wholesale rate effective July 1st, 2025.
MR. O'BRIEN:
Q. So, why is this important to revise the wholesale rate now?
MS. LONDON:
A. For Newfoundland Power, this will reduce cash flow volatility associated with power supply costs experienced in recent years. More importantly, a new wholesale rate will benefit customers through lower marginal power supply costs. This will also reduce volatility in July 1st customer rate changes going forward.
MR. O'BRIEN:
Q. Can you expand on what this will look like in the near term?

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MS. LONDON:
A. Yes. Rebasing with a revised wholesale rate would mean a larger customer rate decrease on July 1st 2026 in the range of four to five percent. This may provide an opportunity to consider smoothing customer rate increases over the 2025 and 2026 period.
(1:00 p.m.)
MR. O'BRIEN:
Q. Thank you, Ms. London. That's the direct we have. Turn the witness over.
CHAIR:
Q. Yes, over to Mr. Browne.
FITZGERALD, KC:
Q. Mr. Chairman, we'll start. Good afternoon, Ms. Paige (sic.).
MS. LONDON:
A. Good afternoon.
FITZGERALD, KC:
Q. Just picking up on one of your comments just from your presentation there, your answers. You indicated to the Board that approved rates of return on equity in Canada are increasing. I think that's what you said.
MS. LONDON:

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A. Yes, that's correct.
FITZGERALD, KC:
Q. And that Newfoundland Power has the lowest or among the lowest rates of return currently?
MS. LONDON:
A. Yes.
FITZGERALD, KC:
Q. Okay. But when you say these returns are increasing, is that really comparison to companies that have the same sort of thickness in equity that Newfoundland Power has?
MS. LONDON:
A. Overall, as I said in my opening statement, cost of capital is impacted by both capital structure and return on equity and I think generally across Canada, in recent years, there have been increases in both capital structure as well as return on equity.
FITZGERALD, KC:
Q. But could you give us a specific example of a company in Canada with 40 – you know, 45 percent equity that's actually increasing their ROE?

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MS. LONDON:
A. One example would be Fortis BC Energy and Fortis BC Energy has a 45 percent common equity ratio and Fortis BC Energy's return on equity was recently increased to 9.65 percent.
FITZGERALD, KC:
Q. And are they a comparable utility?
MS. LONDON:
A. They're in the gas business, so wouldn't have been selected as part of Concentric's peer group.
FITZGERALD, KC:
Q. Right, okay. So, you know, at the rate of return that Newfoundland Power is currently enjoying, the 8.5, is there any problem with credit worthiness, credit rating agencies downgrading Newfoundland Power because of this, you know, the lowest – what you're suggesting is one of the lowest rates in Canada? Is that impacting on the credit rating?
MS. LONDON:
A. So, from a credit rating perspective to this point we've been able to demonstrate and

maintain credit metrics that would be in supportive of our current credit ratings with the current equity ratio and return on equity, but that is only one component of the fair return standard. Doesn't necessarily include the comparability of investments of similar risk.
FITZGERALD, KC:
Q. Just going back to some of your background. So, you've worked in the province for how long?
MS. LONDON:
A. 24 years.
FITZGERALD, KC:
Q. 24 years. Are you a native of Newfoundland and Labrador?
MS. LONDON:
A. Yes, I am.
FITZGERALD, KC:
Q. And you went to university here?
MS. LONDON:
A. Yes, I did.
FITZGERALD, KC:
Q. And you're a graduate of MUN?
MS. LONDON:

A. Yes.
FITZGERALD, KC:
Q. What year would have that been?
MS. LONDON:
A. 2000.
FITZGERALD, KC:
Q. Okay. And where'd you go after that? Sorry, what was your degree in?
MS. LONDON:
A. So, I have a Bachelor of Commerce and a Bachelor of Economics, both from Memorial University, and I'm also a chartered professional accountant.
FITZGERALD, KC:
Q. And when did you receive that designation?
MS. LONDON:
A. 2002.
FITZGERALD, KC:
Q. And were you in private practice right away or did you – where did you start work as a CA?
MS. LONDON:
A. When I graduated university, I started work as an auditor at Deloitte and I worked there while I obtained my CPA designation.

FITZGERALD, KC:
Q. And sorry, that was in what year?
MS. LONDON:
A. I graduated in 2000 from university and began working at Deloitte immediately upon graduation.
FITZGERALD, KC:
Q. Okay. And at some point in time, you joined Fortis?
MS. LONDON:
A. Yes, that's correct.
FITZGERALD, KC:
Q. And when was that?
MS. LONDON:
A. That would have been in 2004.
FITZGERALD, KC:
Q. And then you moved to Newfoundland Power?
MS. LONDON:
A. Yes.
FITZGERALD, KC:
Q. And what year was that?
MS. LONDON:
A. 2017.
FITZGERALD, KC:
Q. So, you were – were you recruited by

Newfoundland Power or was it an internal shift in your – how did that all happen?
MS. LONDON:
A. At the time, the former CFO of Newfoundland Power was taking on a different role. So, there was a job competition for that CFO position that I participated in and ultimately, I was the successful person for that job.
FITZGERALD, KC:
Q. And who was the previous CFO?
MS. LONDON:
A. Jocelyn Perry.
FITZGERALD, KC:
Q. Right, okay. So, this was an active – you weren't recruited per se. You just partook in the job opening, if you will, you applied for the job?
MS. LONDON:
A. Yes, that's right.
FITZGERALD, KC:
Q. When you were with Fortis, did you have any liaison or did you work at all on matters touching on Newfoundland Power?
MS. LONDON:

A. Not directly, but Newfoundland Power is a wholly owned subsidiary of Fortis. So, I would have had some reporting back and forth, but didn't work on anything specific to Newfoundland Power while I was at Fortis.
FITZGERALD, KC:
Q. So, you weren't involved in giving any advice to Newfoundland Power regarding their finances while you were at Fortis?
MS. LONDON:
A. No.
FITZGERALD, KC:
Q. In respect to this GRA, is this the first Newfoundland Power GRA in which you've been involved?
MS. LONDON:
A. No, it's not. This would be the third rate application I've been through since I've been at Newfoundland Power.
FITZGERALD, KC:
Q. And can you describe for the Board your role in the preparation of the GRA?
MS. LONDON:
A. In terms of preparing the GRA, I mean, we would have a finance and regulatory team

that would be compiling the forecast and preparing the materials. My role would be doing a review of the materials and obviously going through some of the assumptions used and just the overall application generally would be my responsibility as CFO.
FITZGERALD, KC:
Q. And is Fortis either directly or indirectly involved in the preparation of the GRA?
MS. LONDON:
A. Fortis is not involved in preparing Newfoundland Power's GRAs.
FITZGERALD, KC:
Q. Do they provide any direction prior to the preparation of the GRA to Newfoundland Power?
MS. LONDON:
A. No, they don't.
FITZGERALD, KC:
Q. So, there's complete – there's no connection whatsoever between Fortis and the preparation of this GRA? They're unaware of any of the preparation?
MS. LONDON:

A. They would be aware that we would be filing a rate application, but they would have no involvement in the preparation.
FITZGERALD, KC:
Q. Is Fortis consulted at any point by Newfoundland Power regarding a GRA?
MS. LONDON:
A. No, they're not.
FITZGERALD, KC:
Q. So, the GRA itself, we've heard the evidence that proposed average rate increase would – for 2025 is a 5.5 percent increase, correct?
MS. LONDON:
A. Yes, it is.
FITZGERALD, KC:
Q. Right, and the – when the GRA was being prepared, was there any concern or was there any sort of thought – I know Mr. Murray referred to peripheral issues, but was the issue of rate design brought up?
MS. LONDON:
A. Not specifically in relation to the GRA. We do have an ongoing rate design review and that is not complete, so that's still in progress. So, that was not contemplated to

be included in this filing.
FITZGERALD, KC:
Q. Okay. So, what about the – you may be aware, but in the capital budget, recent capital budget application, there has been references to Newfoundland Power and the issue of specifically assigned charges. Was that – was there any contemplation of including that issue in this GRA?
MS. LONDON:
A. Not that I'm aware, no.
FITZGERALD, KC:
Q. Okay. Would you be aware that the Board in past orders had suggested that perhaps a GRA would be the appropriate forum to deal with specifically assigned charges?
MS. LONDON:
A. Generally, I think if there were proposed to be a change in such a matter, that would be appropriate to be done as part of a rate application.
FITZGERALD, KC:
Q. But it wasn't in this case?
MS. LONDON:
A. No, because we weren't making any proposals

to change.
FITZGERALD, KC:
Q. Right. And that would include the Memorial University specific charge, that issue that's come up in recent capital budgets, that wasn't – there was no contemplation of including that issue in this GRA either, I take it?
MS. LONDON:
A. That's correct.
FITZGERALD, KC:
Q. And asset management, that was another issue that's been brought up in various hearings before this Board. But in this case again, asset management was not included in an issue that Newfoundland Power thought should be addressed in this GRA?
MS. LONDON:
A. Not specifically. Asset management has been discussed as part of our capital budget applications, but that's not a specific component of our rate application.
FITZGERALD, KC:
Q. So, I understood from Mr. Murray this morning that the key issue actually in this

GRA is really the return on equity. That's sort of the main issue that Newfoundland Power is concerned with in this rate application, correct?
MS. LONDON:
A. I wouldn't agree with that exactly. Newfoundland Power is concerned with recovery of all of our costs and a fair return is one of them, but we have additional costs associated with operating the business and financing our investments as well. So, a key outcome is cost recovery, but obviously return on equity is a central part of the Board's determination in any rate application.
FITZGERALD, KC:
Q. I had understood it was described as a key portion of this rate application. So, sort of the central piece, if you will.
MS. LONDON:
Q. It is a piece, but I wouldn't say it would be the centerpiece, but it certainly is a piece.
FITZGERALD, KC:
Q. I guess time will tell. If we can turn to

Exhibit 3 of the application, and I guess there has been a revised one filed, so we can go to that one. So here we have the actual forecast of operating expenses going forward to 2026, and can you explain the process followed in developing these forecasts?
MS. LONDON:
A. Specifically for operating expenses?
FITZGERALD, KC:
Q. Yes, I'm sorry, yeah.
MS. LONDON:
Q. Okay.
MR. O'BRIEN:
Q. Which page are you on there, Mr. Fitzgerald?
FITZGERALD, KC:
Q. Okay, so I'm looking now at the document you filed yesterday, Mr. O'Brien.
MR. O'BRIEN:
Q. Yeah, and we're just trying to figure out so we get it on the screen for everybody.
MS. LONDON:
A. I think it's page 1 of 9.
MR. O'BRIEN:
Q. One of 9.

FITZGERALD, KC:
Q. That's correct.
MR. O'BRIEN:
Q. Okay. Here we go, okay.
FITZGERALD, KC:
Q. So the question being –
MS. LONDON:
A. So in terms of operating expenses and how we forecast those, we typically look at our most recent operating expense results and we would adjust and forecast those for known and measurable changes, so we typically inflate them using the GDP deflator for non-labour costs and then would use a labour inflation rate for our labour costs and any other known changes that would be outside of that general process, we would look at some of those specifically.
FITZGERALD, KC:
Q. So looking at the operating expenses and we've been through this with Mr. Murray a bit, but we see here in 2023 they're at 73.4 million and then next year they go to 78.7 million, and so that's, the math on that, that's subject to check, I think that's

about a 5.3 percent increase, would you agree that that's correct?

MS. LONDON:
A. Assuming the math is correct, I do see the increase from 73 to about 78 million dollars.

FITZGERALD, KC:
Q. So generally have you, and I assume you would be as a CFO, you've been, you know, tuned in, I guess, to the Bank of Canada recent sort of statements on interest and inflation. If I suggest to you that the rate of inflation currently in Canada has been pegged at about 2.7 percent, would you argue with me?

MS. LONDON:
A. No, I wouldn't, but I don't know the exact rate but it sounds about in a range I would expect.

FITZGERALD, KC:
Q. But your operating expenses appear to be exceeding that, that percentage. Is there an explanation for that?

MS. LONDON:
A. Yes, we've outlined through the record some

of the cost pressures associated with operating expenses and there would be some associated with labour. Most of the operating expenses that we have, the forecast is based on GDP deflator which is actually lower than the 2.7 percent inflation rate, but we do have some areas of operating costs that are forecast to increase at a rate greater than inflation.

FITZGERALD, KC:
Q. And they are.

MS. LONDON:
A. One example of those costs is insurance costs and we've seen the market for insurance generally being higher than an inflationary rate, so that's something that we do anticipate to continue.

FITZGERALD, KC:
Q. On the insurance cost, what type of insurance is this that you're feeling this increase?

(1:15 p.m.)

MS. LONDON:
A. This is the overall insurance that we would pay for our assets and most of it is related

to our property, and we do have different components of our insurance, but there are generally the insurance markets have been under pressure in recent years and we have seen increases in those costs for a number of years now that would be above inflationary levels.

FITZGERALD, KC:
Q. So your assets, you're saying, that's where you're feeling it, so currently the rate base of Newfoundland Power I believe is around 1.2 billion, I think, is that correct? Maybe I'm overstating it, is that where we are?

MS. LONDON:
A. For 2023, the average rate base was just under 1.3 billion dollars.

FITZGERALD, KC:
Q. 1.3 billion, so that's really the asset, if you will, I mean there's many assets in that, I'm sure, that's being insured, so is there a correlation between the size of your rate base and the cost of your insurance?

MS. LONDON:
A. There would be some correlation with it

because the biggest component of our insurance cost would be the property.

FITZGERALD, KC:
Q. So when you're doing your capital budget planning, are you involved in that?

MS. LONDON:
A. I'm not directly involved in our capital budgeting, no.

FITZGERALD, KC:
Q. When all the costs are being considered in the capital budget, is, your know, the insurance cost regarded as a bi-product of capital budget?

MS. LONDON:
A. I would say no to that and just reflecting on the reasons for the increases we have seen in insurance, it's more on the rate side as opposed to the overall increase in property.

FITZGERALD, KC:
Q. On the rate side. Okay, I misunderstood, I thought you said that the increase was related to the size of your asset—or sorry, your insurance is related to your assets, I thought you said that.

MS. LONDON:
A. Yes, it is.
FITZGERALD, KC:
Q. So from a layperson's perspective if you're increasing your asset, then I would think there's a correlation then to increasing of your insurance, is that a fair inference?
MS. LONDON:
A. Yes, there would be a correlation, but one of the other components to our insurance costs would be the rate and the rate has increased substantially in insurance markets.
FITZGERALD, KC:
Q. The rate, can you explain what your understanding is of the rate?
MS. LONDON:
A. I don't have the detailed information, I do believe it's on the record somewhere in the RFIs, but the overall cost of property insurance for utilities generally with natural disasters and increasing storms, that rate for replacement has increased and that's something that's not unique to Newfoundland Power, that's common across

most utilities.
FITZGERALD, KC:
Q. So I guess your answer is when you are formulating your capital budgets, any increase in insurance costs are not factored into the overall cost to the consumer?
MS. LONDON:
A. Not for capital budgeting purposes, no.
FITZGERALD, KC:
Q. But insurance is a main driver for your increase of operating costs currently you're saying?
MS. LONDON:
A. It's one of the examples, yes.
FITZGERALD, KC:
Q. Right. If we could just turn to page 13 of the application, Volume 1 and just line 11 there the statement says, "The company reduced its gross operating cost per customer approximately 9.5 with inflation adjusted basis over the last decade." Subject to check, just doing the math again, would you agree that this implies an average of 0.9 percent productivity improvement each year?

MS. LONDON:
A. I would have to think through that. So the company—what the statement that we're trying to get across here is that operating cost per customer when we adjust for inflation in 2022 versus 2012 have increased by 9.5 percent, so I wouldn't—if you looked at it as a per year, maybe it would be one percent a year, but we looked at it from a point in time to a point in time.
FITZGERALD, KC:
Q. If we can go now to page 2-27. This is figure 2-11, actually, so this is your operating cost per customer, 2013 to 2022, and the figure shows a dip in 2021, can you explain that or do you have an explanation for that?
MS. LONDON:
A. This is in Mr. Chubbs' section of the evidence, so I think he would be the best one to speak to that. I don't have that information off the top of my head.
FITZGERALD, KC:
Q. Okay. Sorry to jump around here a bit, can we go back to Exhibit 3, page 1 of 9? I

just want to talk a little bit about the, line 18 there on the depreciation expense, and so here we see operating costs, so far as they're depreciation costs increasing again, go from 74.8 million in 2023, 79.5 in 2024 forecast and 83 million forecast for 2025. Is there an explanation for this acceleration in depreciation?
MR. O'BRIEN:
Q. Mr. Chair, I thought that depreciation expense was accepted and settled. Was that an area was part of the settlement agreement, depreciation expense methodology.
CHAIR:
Q. It's settled, I don't think that harms the witness from just explaining the –
MR. O'BRIEN:
Q. I just want to make sure –
CHAIR:
Q. - increase, that's all.
MR. O'BRIEN:
Q. Yeah, I just want to make sure we're not getting down too far of a road on depreciation expense, so –
CHAIR:

Q. No, I think it's okay to just explain the increase without necessarily challenging it.

MR. O'BRIEN:

Q. That's fine.

FITZGERALD, KC:

Q. Yes, it's just—so, is there an explanation for that, the increase?

MS. LONDON:

A. Part of the reason that depreciation would increase in 2024 would be related to the completion of our customer information system that was completed in 2023. So, that would have created a larger variance, I'll say between '23 depreciation and '24 depreciation. And then, from the forecast beyond would be based on our capital budget estimates.

FITZGERALD, KC:

Q. Right. So, again, as the capital budgets increase, so does, naturally the depreciation expense is going to increase in lockstep with that.

MS. LONDON:

A. Generally, yes.

FITZGERALD, KC:

Q. So, the larger the capital budget, the larger depreciation expense that the consumer is going to have to pay for.

MS. LONDON:

A. Yes, because depreciation is the way in which those capital investments are recovered from customers.

FITZGERALD, KC:

Q. And again, just on the same document, finance charges. Again, we have 2023, 37.3 million, 41.6 in 2024 and 42.2 in 2025. And so, can you explain to me what's going on there?

MS. LONDON:

A. The finance charges that would be presented here are under the existing forecast. And the changes in finance charges generally would be the result of additional financing required for both our capital investment and our operations. And they would also reflect the refinancing of maturing debt throughout the time periods as well.

FITZGERALD, KC:

Q. Is there a portion of this or would you be able to speak to whether the increases are

reflective of the cost of long-term debt versus short-term debt?

MS. LONDON:

A. Speaking to 2023 in particular, the increase in finance costs in 2023 was driven by significant increases in short-term rates. We typically finance our business through first mortgage bonds that are generally a 30-year term. And that provides fixed interest rates on these financing which provide certainty and consistency in finance charges over the long term. So, over the forecast period, any of the long-term debt that's currently in place would be consistent and then any changes would be additional debt that's being issued, debt that would be repaid and then any changes in short-term borrowings. But the large component of our finance costs would be associated with our first mortgage bonds.

FITZGERALD, KC:

Q. And how does that relate to your capital budget spending, the finance charges?

MS. LONDON:

A. Overall, Newfoundland Power finances our

rate base which includes our plant and capital investments in accordance with the capital structure that authorized and approved by the Board. So, that would include overtime, managing the level of equity in the capital structure and then doing periodic financings as required. Typically we will use our credit facility to finance our operations and any capital in the short term. And when it gets to a certain level, we will then proceed to issue long-term permanent financing.

FITZGERALD, KC:

Q. When you're doing your capital planning then, and I guess they would come to you at some point regarding, you know, what's going on in the market for interest rates. Are interest rates factored in at all when the capital planning process occurs?

MS. LONDON:

A. Generally, interest rates don't form the justifications for the capital expenditures that we put forward for approval, except in the instance when we have to do some sort of net present value calculation, but

generally, our capital expenditures are not justified based on specific interest rates. When we do look at our overall financing, we will take our five-year capital budget and look at the financing over a longer period of time, but that would be more of an output from the capital budget as opposed to an input.
FITZGERALD, KC:
Q. But I guess, I mean, from a consumer's point of view, if you are—and maybe I'm taking your evidence incorrectly, but if Newfoundland Power is insensitive to interest charges when it comes to capital budgeting, wouldn't you think that would inflict an unnecessary cost on consumers?
MS. LONDON:
A. In terms of financing costs, they can go up and they can go down. So, our approach to managing our business, managing our investments and financings, it is to do that over in a consistent manner over the long term and that helps provide rate stability as well for customers.
FITZGERALD, KC:

Q. Mr. Chairman, I see it's 1:28, it's a sunny afternoon. I don't know how much I—I think this might be a good day to –
BROWNE, KC:
Q. We'll call it a day, yes.
FITZGERALD, KC:
Q. Two minutes left, maybe –
CHAIR:
Q. I accept your plea there, so we're done for the day. Thank you.
BROWNE, KC:
Q. Before we go, Mr. Chair, I'd like to wish all the fathers a Happy Father's Day.
CHAIR:
Q. Yes, thank you, same to you.
MS. GLYNN:
Q. So, we'll be back at 9:00 Monday morning.
Upon conclusion at 1:28 p.m.

CERTIFICATE

I, Judy Moss, hereby certify that the foregoing is a true and correct transcript of hearing in the matter of Newfoundland Power Inc. 2025-2026 General Rate Application heard on June 14th, 2024 before the Newfoundland and Labrador Board of Commissioners of Public Utilities, 120 Torbay Road, St. John's, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.

Dated at St. John's, Newfoundland and Labrador this 14th day of June, 2024

Judy Moss

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