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<p>1 (Time: 11:00 a.m.)</p> <p>2 CHAIRMAN:</p> <p>3 Q. Good morning, counsel. Mr. Kennedy, do we</p> <p>4 have any preliminary matters before we begin</p> <p>5 this morning?</p> <p>6 MR. KENNEDY:</p> <p>7 Q. I don't believe so, Chair. I can confirm that</p> <p>8 I have spoken to the parties about the</p> <p>9 schedule for the day and as well, we've had</p> <p>10 some discussions concerning the filing of</p> <p>11 written submissions on the conclusion and I</p> <p>12 need to have just one more conversation with</p> <p>13 counsel and then I'll be able to report back</p> <p>14 to the Board on that.</p> <p>15 CHAIRMAN:</p> <p>16 Q. Okay. That's going to be after the break?</p> <p>17 MR. KENNEDY:</p> <p>18 Q. Correct.</p> <p>19 CHAIRMAN:</p> <p>20 Q. I think, Mr. Hutchings, at this stage, you're</p> <p>21 on deck with regard to commencing cross-</p> <p>22 examination, is it?</p> <p>23 HUTCHINGS, Q.C.:</p> <p>24 Q. I did a bit actually on the last day, if you</p> <p>25 recall.</p>	<p>1 CHAIRMAN:</p> <p>2 Q. Continuation of your cross-examination, and I</p> <p>3 just remind the panel--good morning,</p> <p>4 gentlemen--you're still under oath. With</p> <p>5 that, Mr. Hutchings, you may continue.</p> <p>6 HUTCHINGS, Q.C.:</p> <p>7 Q. Thank you, Mr. Chair. Good morning,</p> <p>8 gentlemen.</p> <p>9 MR. DOWNTON:</p> <p>10 A. Good morning.</p> <p>11 MR. HAYNES:</p> <p>12 A. Good morning.</p> <p>13 MR. NICHOLS:</p> <p>14 A. Good morning.</p> <p>15 Q. We spoke on the last day about the</p> <p>16 applications enhancements at B-120/121. I'd</p> <p>17 just like to look briefly at the security</p> <p>18 program for secure remote access at B-122. I</p> <p>19 take it this is actually a two-year project</p> <p>20 that is already commenced. Is that a fair</p> <p>21 characterization?</p> <p>22 MR. DOWNTON:</p> <p>23 A. Yes, that is correct.</p> <p>24 Q. So when you say "to ensure this project will</p> <p>25 be completed at the lowest possible cost,</p>
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<p>1 Hydro will solicit competitive bids for all</p> <p>2 materials and external labour," has that been</p> <p>3 done already?</p> <p>4 MR. DOWNTON:</p> <p>5 A. Yes, it has.</p> <p>6 Q. So are all the contracts in place now?</p> <p>7 MR. DOWNTON:</p> <p>8 A. With the exception of the 2005 work.</p> <p>9 Q. Okay. So you do have to go back and call</p> <p>10 another proposal for the 2005 work, do you?</p> <p>11 MR. DOWNTON:</p> <p>12 A. That is correct.</p> <p>13 Q. So is this all being done--I mean, is it</p> <p>14 anticipated to be done by different people or</p> <p>15 is it just likely to be a continuation of what</p> <p>16 started last year?</p> <p>17 MR. DOWNTON:</p> <p>18 A. Well basically, there's two pieces of work.</p> <p>19 For 2004, there is a difference between 2004</p> <p>20 and 2005.</p> <p>21 Q. Okay. So the doing of the 2004 work doesn't</p> <p>22 necessarily mean that the 2005 work has to be</p> <p>23 done in 2005, does it?</p> <p>24 MR. DOWNTON:</p> <p>25 A. Yes, that's correct.</p>	<p>1 Q. That is correct. So we could, if the Board</p> <p>2 thought it appropriate, defer--you know, if it</p> <p>3 thought it appropriate, if the Board wasn't</p> <p>4 satisfied that it had to be done in 2005, the</p> <p>5 2005 work could be hived off and done at a</p> <p>6 later time?</p> <p>7 MR. DOWNTON:</p> <p>8 A. That is at the Board's discretion.</p> <p>9 Q. Yes, okay. So we wouldn't lose anything out</p> <p>10 of the 2004 work by not doing the 2005 work in</p> <p>11 2005?</p> <p>12 MR. DOWNTON:</p> <p>13 A. That's correct. However, the focus of the</p> <p>14 2005 work is to further enhance, I guess, the</p> <p>15 authenticational log-in process that we use</p> <p>16 for accessing our critical infrastructure</p> <p>17 devices. So we basically feel that it is</p> <p>18 critical to continue to move forward. I guess</p> <p>19 when we look at our critical network</p> <p>20 components we speak specifically of access to</p> <p>21 our energy management system, distributed</p> <p>22 control system at Holyrood, our switches and</p> <p>23 our firewalls. So what we're looking at for</p> <p>24 2005 is to integrate our remote security</p> <p>25 administration software into those components</p>

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<p>1 MR. DOWNTON:</p> <p>2 so that we're able to secure who accesses the</p> <p>3 devices and that way we also have a record of</p> <p>4 when they went in and what they did. So</p> <p>5 really it's, again, to enhance our overall</p> <p>6 network reliability.</p> <p>7 Q. Okay. But this is all part of one project and</p> <p>8 you've spent 75,000 or you will spend 75,000</p> <p>9 in 2004 on that project to enhance security,</p> <p>10 correct?</p> <p>11 MR. DOWNTON:</p> <p>12 A. That's correct.</p> <p>13 Q. And the request now is to spend another 76 in</p> <p>14 2005?</p> <p>15 MR. DOWNTON:</p> <p>16 A. That is correct.</p> <p>17 Q. Okay. Thank you. If we can move then to B-</p> <p>18 124, the corporate applications environment, I</p> <p>19 think we had a brief discussion that referred</p> <p>20 to this item in the course of our discussion</p> <p>21 about the applications enhancements. Can you</p> <p>22 tell us what you mean by corporate</p> <p>23 applications environment?</p> <p>24 MR. NICHOLS:</p> <p>25 A. Really I guess for the applications</p>	<p>1 environment, what we mean by that is within</p> <p>2 Hydro we run different applications basically</p> <p>3 for the business on a day--used on a day-to-</p> <p>4 day basis. So these would be the products</p> <p>5 such as, you know, as we put forward here the</p> <p>6 Metaframe, the network management tools and</p> <p>7 the help desk tools which people use on a day-</p> <p>8 to-day basis or the IS&T department uses on a</p> <p>9 day-to-day basis to keep the infrastructure up</p> <p>10 and running. We have approximately over 40</p> <p>11 applications that we run within Hydro.</p> <p>12 Q. Okay. So these are all upgrades to existing</p> <p>13 applications within Hydro?</p> <p>14 MR. NICHOLS:</p> <p>15 A. Yes, that is correct.</p> <p>16 MR. DOWNTON:</p> <p>17 A. That is correct.</p> <p>18 Q. Now we asked in IC-80 for some particulars</p> <p>19 with respect to these items, and if we look at</p> <p>20 the reply, the first item referred to is in</p> <p>21 your project description as Metaframe Service</p> <p>22 Operating System, and then in the reply to the</p> <p>23 question, you say "Metaframe XP Presentation</p> <p>24 Server FR2, 300 user licenses." Is this</p> <p>25 basically a shell type of program that allows</p>
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<p>1 access to the operating applications on the</p> <p>2 system?</p> <p>3 MR. NICHOLS:</p> <p>4 A. What this server--what this is is the software</p> <p>5 that we use in our thin client environment</p> <p>6 also to allow most of our--all of our people</p> <p>7 in the office environment basically to get</p> <p>8 access to their applications on the server.</p> <p>9 Q. Okay. And is that the only software that you</p> <p>10 use for that purpose?</p> <p>11 MR. NICHOLS:</p> <p>12 A. This is the one that we've used in our end-</p> <p>13 using infrastructure. That is correct.</p> <p>14 Q. Okay. So it is the only one that you use for</p> <p>15 that purpose?</p> <p>16 MR. NICHOLS:</p> <p>17 A. Correct.</p> <p>18 Q. Yes, okay. All right. And when was this</p> <p>19 particular piece of software acquired?</p> <p>20 MR. NICHOLS:</p> <p>21 A. We've run--actually we've run this software in</p> <p>22 various versions since about very--oh, back</p> <p>23 about 1993, and basically we've gone through--</p> <p>24 used it for remote applications. First we</p> <p>25 used it for internet access within Hydro, and</p>	<p>1 over time, we've expanded the use of that,</p> <p>2 this software.</p> <p>3 Q. Okay. And when is the last time -</p> <p>4 CHAIRMAN:</p> <p>5 Q. Excuse me. Did you say 1993?</p> <p>6 MR. NICHOLS:</p> <p>7 A. Yes.</p> <p>8 Q. Sorry, Mr. Hutchings.</p> <p>9 HUTCHINGS, Q.C.:</p> <p>10 Q. No problem. When is the last time that</p> <p>11 software was upgraded?</p> <p>12 MR. NICHOLS:</p> <p>13 A. This software was upgraded, the last time</p> <p>14 would have been around 2001/2002, and what it</p> <p>15 is, this software, what's driving the software</p> <p>16 upgrade on this one, it is two levels behind</p> <p>17 now. What it is, right now, we are at what</p> <p>18 they call FR2 which is what Citrix refers to</p> <p>19 as Future Release 2. Since then, they've put</p> <p>20 out Future Release 3 and then, what they did</p> <p>21 then, like a lot of people, they started</p> <p>22 changing the names on things. So the next</p> <p>23 version that we would put in was what they</p> <p>24 call Presentation Server 3.0. So really, what</p> <p>25 it is, this software is two releases behind</p>

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<p>1 MR. NICHOLS: 2 the most current release, but the main driving 3 force behind this one is the Future Release 3 4 provides better ways that this application 5 will work in remote locations, in terms of 6 compression of data that goes back and forth 7 between the user and our server. So we find 8 it's going to enhance the communications that 9 were done on the coast of Labrador for remote 10 terminal unit, with the thin client devices. 11 Q. Okay. I just wanted to be clear on where we 12 were. Is FR3 the same thing as 3.0, just 13 renamed? 14 MR. NICHOLS: 15 A. No, it's not. FR2 refers to Future Release 2. 16 If you notice - 17 Q. No, FR - 18 MR. NICHOLS: 19 A. - way back when, Citrix called this Metaframe 20 XP Server. Then they changed it to Metaframe 21 XP Server Future Release 1, Future Release 2, 22 Future Release 3 and now they--being a 23 software company, they name it or the 24 marketing people renamed it, they now call it 25 Presentation Server 3.</p>	<p>1 Q. Okay. So I just want to get the order of 2 hierarchy here. What you have now is FR2? Is 3 that correct? 4 MR. NICHOLS: 5 A. That is correct. 6 Q. And you're going to skip over FR3 and go to 7 3.0? 8 MR. NICHOLS: 9 A. That is correct. 10 Q. Okay. In your answer - 11 MR. NICHOLS: 12 A. Wait now, sorry. We're at FR2, that's right. 13 We're going to FR3--FR3 we're skipping and 14 we're going to Presentation Server 3.0, yes. 15 Q. Yes, okay. Because in your earlier answer, 16 you said that FR3 would give you this 17 capability of better remote access. Was that 18 intended to refer to 3.0? 19 MR. NICHOLS: 20 A. That is intended to refer to 3.0, that is 21 correct. 22 Q. Yes, okay. All right. So in your explanation 23 at B-124, under operating experience, it says 24 "these software applications were installed in 25 2000/2001." That's not accurate with respect</p>
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<p>1 to the Metaframe Server, is it? 2 MR. NICHOLS: 3 A. Again, it goes back that we've used this type 4 of technology for many, many years. I mean, 5 if you want to go back, at one point it was 6 called Citrix Server 1.6, Citrix Server 1.8. 7 Then they got into the--so we've--this version 8 of the operating system that we've had, we've 9 had installed for the last couple of years. 10 When I'm referring to the version, I'm 11 referring to the current version that's 12 running now. 13 Q. Okay. And that's the one you said was last 14 operated - 15 MR. NICHOLS: 16 A. Future Release 2. 17 Q. - 2001 or 2002? 18 MR. NICHOLS: 19 A. That's correct. 20 Q. And do you have any notion of the cost of that 21 upgrade, as opposed to the other two items 22 under this heading? 23 MR. NICHOLS: 24 A. Yes. We see that one as being \$95,000. Is 25 that right?</p>	<p>1 MR. DOWNTON: 2 A. Yes, that's right. 3 Q. Okay. In your project description then, Item 4 B is network management tools. Does one of 5 the other paragraphs in IC-80 address that 6 specifically? 7 MR. DOWNTON: 8 A. In IC-80, the last paragraph refers to the 9 network tool, the CiscoWorks. 10 Q. Okay. So the network management tools 11 referred to in B in the description is 12 CiscoWorks? Is that correct? 13 MR. DOWNTON: 14 A. That is correct. 15 Q. All right. 16 MR. DOWNTON: 17 A. Actually, I'd like to correct. The Metaframe 18 upgrade is \$60,000, not 95,000. 19 Q. Thank you. While you're there, can you break 20 down the other two items as well, cost wise? 21 MR. DOWNTON: 22 A. The CiscoWorks server upgrade, we see as 23 69,000 and the incident change in 24 configuration management tools at 111. 25 Q. And how did you describe that last item?</p>

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<p>1 MR. DOWNTON:</p> <p>2 A. That is the Helpdesk one, Helpdesk tool.</p> <p>3 Q. Okay. You used other words in describing it</p> <p>4 just now.</p> <p>5 MR. DOWNTON:</p> <p>6 A. When I described it incident change in</p> <p>7 configuration management tool, I guess I'm</p> <p>8 referring to, you know, the way we look at</p> <p>9 incidents, and you know, whether it's an</p> <p>10 incident or whether it's a change or whether</p> <p>11 it's a configuration process. It works for</p> <p>12 all those processes.</p> <p>13 Q. Okay. All right. So I'm trying to take these</p> <p>14 in some kind of order, but the network</p> <p>15 management tools was your item B in the</p> <p>16 description, so let's try to deal with that,</p> <p>17 and that's the CiscoWorks, which is referred</p> <p>18 to in the last paragraph of IC-80. How long</p> <p>19 have you been using that software?</p> <p>20 MR. NICHOLS:</p> <p>21 A. CiscoWorks software has been--we've -</p> <p>22 MR. DOWNTON:</p> <p>23 A. 2000/2001.</p> <p>24 MR. NICHOLS:</p> <p>25 A. - 2000/2001, we've been using that software.</p>	<p>1 That software is basically used to keep</p> <p>2 control of our network within Hydro and also</p> <p>3 it's used both for both the administrative</p> <p>4 network and also the SCADA network also, and</p> <p>5 also to keep track of things like the</p> <p>6 firewalls which connects us to the internet</p> <p>7 and whatnot.</p> <p>8 Q. Okay. So how does that interact with the</p> <p>9 enhancements that you're getting under the</p> <p>10 project at B-122, which is secure remote</p> <p>11 access?</p> <p>12 MR. NICHOLS:</p> <p>13 A. The way that interfaces then is that we would</p> <p>14 use--CiscoWorks basically allows people to get</p> <p>15 access to these types of--like what we'd call</p> <p>16 a firewall, which would protect us from the</p> <p>17 internet. And so what this will allow us to</p> <p>18 do, it keeps--to make sure that nobody, only</p> <p>19 authorized people are allowed to access that</p> <p>20 piece of machinery, the security upgrade would</p> <p>21 basically keep track of who logged in to it.</p> <p>22 It would automatically log it. It also gives</p> <p>23 them a, what we'd call, a two-tier</p> <p>24 authentication and I believe we have a secure</p> <p>25 I.D. here, which basically what it means, a</p>
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<p>1 lot of people now access their applications--</p> <p>2 when you log onto your PC, you'd log on with a</p> <p>3 password. So what this does right now--what</p> <p>4 that will do with the CiscoWorks, which the</p> <p>5 CiscoWorks is the monitoring tool in</p> <p>6 networking, but what the security will do is</p> <p>7 they have to basically use what we'd call a</p> <p>8 secure I.D., which has a number on it which</p> <p>9 changes every 60 seconds. So they would have</p> <p>10 to use that along with like a pin number which</p> <p>11 you use for like your bank card, to get access</p> <p>12 to these devices. So what it does, it gives</p> <p>13 us a very secure way for people to get into</p> <p>14 it. So only very authorized people get or</p> <p>15 even try to get onto these machines.</p> <p>16 Q. Okay. So this system with the card is part of</p> <p>17 this secure remote access project at B-122?</p> <p>18 MR. NICHOLS:</p> <p>19 A. Yes.</p> <p>20 Q. Okay. So CiscoWorks is intended to prevent</p> <p>21 people from getting access?</p> <p>22 MR. NICHOLS:</p> <p>23 A. No, CiscoWorks is used to monitor basically</p> <p>24 how busy it is. It shows the type of traffic</p> <p>25 that's going through. It's also used to</p>	<p>1 backup configurations of these devices. So</p> <p>2 it's a monitoring tool for these devices.</p> <p>3 Q. Okay. So your secure remote access project</p> <p>4 will determine who can get access and</p> <p>5 CiscoWorks will tell you who has had access?</p> <p>6 Is that -</p> <p>7 MR. NICHOLS:</p> <p>8 A. No. CiscoWorks will basically allow you to</p> <p>9 run your network in the most efficient way.</p> <p>10 Q. What do you mean by that?</p> <p>11 MR. DOWNTON:</p> <p>12 A. CiscoWorks is a set of tools, and I guess what</p> <p>13 we're proposing for 2005 is to add three</p> <p>14 modules as we identified in our evidence, and</p> <p>15 I guess what we're looking at bringing forward</p> <p>16 in 2005 is what we call a quality of service,</p> <p>17 which basically allows us to monitor the</p> <p>18 levels of service that we're providing to our</p> <p>19 customers, and to ensure that it's consistent.</p> <p>20 So it's a tool that allows us to monitor the</p> <p>21 network. What we're also proposing -</p> <p>22 Q. If I could interrupt you, just for a second,</p> <p>23 because I didn't--I'm not sure I understand</p> <p>24 that answer. When you say the service you're</p> <p>25 providing to your customers, do you mean the</p>

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<p>1 HUTCHINGS, Q.C. 2 service IS&T is providing to the rest of 3 Hydro? 4 MR. DOWNTON: 5 A. Well, basically everyone's a customer to us. 6 So basically whether--yeah, primarily, it's 7 our employees. 8 Q. Yes, okay. So when you talk about customers, 9 you're not talking about the fellow who turns 10 his light switch and expects the lights to 11 come on? 12 MR. NICHOLS: 13 A. Yeah, but they also interact with our network 14 system in turn that we have what they can look 15 up their--you know, they can look up 16 information on their accounts through the 17 internet and whatnot. So it also controls 18 those types of - 19 Q. No, no, I understand that. But what I was 20 trying to get was a feel for what Mr. Downton 21 understood his customers to be. 22 MR. DOWNTON: 23 A. Yes. Basically, I guess, when we look at 24 customers, employees in this particular case. 25 Q. Okay. All right.</p>	<p>1 MR. DOWNTON: 2 A. I guess what's also in the network management 3 tools are tools to allow us to ensure that we 4 are not over allocating band width, which is a 5 way that we use to ensure that we're keeping 6 cost at a minimum, and again, this also ties 7 into the area of security management. So 8 these are some of the tools that we're looking 9 to add as part of the CiscoWorks upgrade. 10 Q. So this capital project relative to CiscoWorks 11 that you're talking about here is intended to 12 improve efficiency within Hydro? Is that 13 correct? 14 MR. DOWNTON: 15 A. It's intended to ensure that we're running our 16 infrastructure in an efficient manner and it's 17 also intended to ensure that we are adequately 18 securing our network. 19 MR. NICHOLS: 20 A. To give you an idea, a lot of the applications 21 now that are going into say Holyrood and 22 Granite Canal, the control system for Granite 23 Canal is actually a Windows-type server which 24 runs it, basically, which is on a network 25 within the Granite Canal. Also, in Holyrood,</p>
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<p>1 we have what we call a DCS system which is 2 basically running Windows-type servers and 3 things like that. Over the last while, 4 through putting these types of systems in, we 5 have to increase the number of firewalls to 6 isolate these systems from our corporate 7 network. So basically to make sure that there 8 will never be any interfacing, you know, 9 people trying to get into those types of 10 systems, which we're basically using, you 11 know, basically what I'd call, you know, 12 mainstream-type technology, which people have 13 knowledge on. So when we say customers, they 14 do secure--we have both our internal 15 customers, our employees, but we're also 16 safeguarding the control systems and whatnot 17 for our customers for the electricity and 18 whatnot. 19 (Time: 11:20 a.m.) 20 Q. So to the extent that this project, as you say 21 in IC-80, is intended to ensure that network 22 services are efficiently delivered, have you 23 quantified, in terms of cost saving, the 24 efficiencies that are going to arise from this 25 application?</p>	<p>1 MR. DOWNTON: 2 A. No. However, I mean, on a regular basis, we 3 try to ensure that we are optimizing the 4 bandwidth that we have to purchase from 5 Aliant, to optimize the bandwidth that we 6 provide internally. Again, these are tools to 7 allow us to make sure that we're providing 8 infrastructure that is tuned properly to the 9 requirements of our internal business 10 requirements, which does impact our customers 11 at the end of the day. 12 Q. And when is the last time you reduced the 13 amount of bandwidth that you take from Aliant? 14 MR. DOWNTON: 15 A. We basically reduced it in the 2002/2003 time 16 frame. We probably reduced the amount of 17 bandwidth substantially. 18 Q. And that was related to some of the other 19 capital projects that allowed you to use your 20 own system, correct? 21 MR. DOWNTON: 22 A. That's right. We basically used our own--we 23 leverage our own technology in that particular 24 case. 25 Q. Okay. And was that like your PLC and your</p>

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<p>1 HUTCHINGS, Q.C.:</p> <p>2 other -</p> <p>3 MR. DOWNTON:</p> <p>4 A. Primarily our microwave infrastructure.</p> <p>5 Q. Your microwave infrastructure, yes, okay.</p> <p>6 Okay. So moving on then, the Helpdesk</p> <p>7 management tools, I take it, is what is</p> <p>8 referred to in the second paragraph of the</p> <p>9 answer to IC-80, GWI Support Release 8.1? Is</p> <p>10 that correct?</p> <p>11 MR. NICHOLS:</p> <p>12 A. That is correct.</p> <p>13 Q. And you're saying this is a Lotus Notes based</p> <p>14 application. How long has this software been</p> <p>15 in place?</p> <p>16 MR. NICHOLS:</p> <p>17 A. This software has been in place for about the</p> <p>18 last four years, since 2000. At the present</p> <p>19 time, we're running a version called Version</p> <p>20 8.1, which is no longer supported by the</p> <p>21 application vendor. So this will--basically,</p> <p>22 we're going from a release 8.1 to a release</p> <p>23 10.2, which will be supported under our Lotus</p> <p>24 6 environment, which we're moving to this</p> <p>25 fall. So what this is, this is to upgrade</p>	<p>1 this software basically to put it into a state</p> <p>2 of, you know, support from the vendor if we</p> <p>3 have any problem, and it goes back to Hydro's</p> <p>4 policy. We don't do every release. We didn't</p> <p>5 do 9.1 and then 10.2. We basically try and</p> <p>6 skip releases and also we look at, you know,</p> <p>7 what the requirements are and whatnot before</p> <p>8 we just upgrade software.</p> <p>9 Q. So is it typical then for there to be a new</p> <p>10 release every second year or so on this type?</p> <p>11 MR. NICHOLS:</p> <p>12 A. Typically, with most vendors, there'd probably</p> <p>13 be a release every year.</p> <p>14 Q. Every year?</p> <p>15 MR. NICHOLS:</p> <p>16 A. Which we have found, yeah.</p> <p>17 Q. All right. And these corporate applications</p> <p>18 environment projects are of the type of</p> <p>19 routine annual projects that your division has</p> <p>20 to deal with basically on an annual basis?</p> <p>21 MR. DOWNTON:</p> <p>22 A. Well basically, again, every year we bring</p> <p>23 forward what we call applications environment</p> <p>24 projects. As Mr. Nichols mentioned earlier,</p> <p>25 we have about 40 major applications which run</p>
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<p>1 on our desktop and server infrastructure. So</p> <p>2 every year we basically look at where the</p> <p>3 portfolio is. We basically look at vendor</p> <p>4 support. We look at the business</p> <p>5 requirements. We look at whether those</p> <p>6 applications will be supported on our desktop</p> <p>7 or server infrastructure, and then we make a</p> <p>8 determination of what we bring forward, and</p> <p>9 again, this year we are bringing forward three</p> <p>10 out of approximately 40, and as Mr. Nichols</p> <p>11 said, we do skip releases because we don't</p> <p>12 feel that is in the best interest of our</p> <p>13 customers to basically be upgrading every</p> <p>14 application on a yearly basis.</p> <p>15 Q. If we could move on then to B-125, this is the</p> <p>16 project for replacement of what's now referred</p> <p>17 to as the i Series, which I understand was the</p> <p>18 AS400, as -</p> <p>19 MR. NICHOLS:</p> <p>20 A. That is correct.</p> <p>21 Q. - that's the same piece of equipment we're</p> <p>22 talking about here. This is the server that</p> <p>23 runs the JD Edwards software? Is that</p> <p>24 correct?</p> <p>25 MR. NICHOLS:</p>	<p>1 A. It runs both the JD Edwards software and also</p> <p>2 the Showcase software which we use for</p> <p>3 reporting from JD Edwards.</p> <p>4 Q. Okay. Now last year, there was a project that</p> <p>5 was put forward and then withdrawn to deal</p> <p>6 with the issue of migration from JD Edwards</p> <p>7 possibly to One World, and there was some</p> <p>8 corporate mergers, I believe, that led to</p> <p>9 changes in that. Can you just tell us where</p> <p>10 all that stands now?</p> <p>11 MR. NICHOLS:</p> <p>12 A. I believe the project you're talking to was</p> <p>13 not a conversion of JD Edwards, but was really</p> <p>14 a i Series upgrade basically to basically run</p> <p>15 our applications. It wasn't a One World</p> <p>16 upgrade.</p> <p>17 Q. It was a migration study from JD Edwards to</p> <p>18 something else.</p> <p>19 MR. NICHOLS:</p> <p>20 A. Yes, the -</p> <p>21 Q. Now the project was put in and then withdrawn.</p> <p>22 So there was no -</p> <p>23 MR. NICHOLS:</p> <p>24 A. Yes, that project, you're talking about a</p> <p>25 different project which is being put out until</p>

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

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

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

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

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<p>1 MR. NICHOLS:</p> <p>2 A. No, we're not. Basically this machine can run</p> <p>3 both, both types.</p> <p>4 Q. Okay. But you're saying only this machine can</p> <p>5 run the existing software that you're running</p> <p>6 now?</p> <p>7 MR. NICHOLS:</p> <p>8 A. That is correct.</p> <p>9 Q. And at this point, you're not able to specify</p> <p>10 when you anticipate the necessity of changing</p> <p>11 from the existing software, the World system</p> <p>12 that you have now?</p> <p>13 MR. NICHOLS:</p> <p>14 A. That is correct. And I guess one of the main</p> <p>15 reasons why we're replacing the i series, why</p> <p>16 we want to replace the i Series next year is</p> <p>17 really due more to a performance problem, more</p> <p>18 than to what type of software that we're</p> <p>19 running at this point in time. What we found,</p> <p>20 this machine was put in in 1997. Since that</p> <p>21 time, we've upgraded this machine twice. It</p> <p>22 was on lease from 1997 until 2001. The</p> <p>23 operating system has gone through six</p> <p>24 versions. The thing that's happening with</p> <p>25 this machine also is that the operating system</p>	<p>1 that we are on, we currently have on this</p> <p>2 machine will be supported until the end of</p> <p>3 2005; will not be supported into 2006. We've</p> <p>4 been advised by IBM to basically, you know, if</p> <p>5 you want this support for your software, you</p> <p>6 should be on the next version of V5R3 in 2006.</p> <p>7 And the 640 machine, which is what we run</p> <p>8 right now, the other thing is, the Showcase</p> <p>9 software that we run also we've been advised</p> <p>10 by them that if you want to run this Software</p> <p>11 on this machine, there is some performance</p> <p>12 problems that you will have with it, due to</p> <p>13 the age of architecture and whatnot, that it's</p> <p>14 not meant to support these--what will they</p> <p>15 call--you know, ways that it interacts with</p> <p>16 the machine, the software. So really, the</p> <p>17 just (phonetic) for this one is not--it has</p> <p>18 nothing to do with what version of software</p> <p>19 that we're running at this point in time.</p> <p>20 It's really we want to--as I said earlier last</p> <p>21 week, we were running into performance</p> <p>22 problems with running reports overnight and</p> <p>23 having to stop payroll from running and that</p> <p>24 type thing to get reports through and to get</p> <p>25 customer billings through.</p>
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<p>1 Q. Okay. I thought in the course of your answer</p> <p>2 you mentioned a 640 machine that you were</p> <p>3 running now?</p> <p>4 MR. NICHOLS:</p> <p>5 A. Yeah, and really that's the model that we have</p> <p>6 in place right now.</p> <p>7 Q. That's the model of the AS400?</p> <p>8 MR. NICHOLS:</p> <p>9 A. Yes.</p> <p>10 Q. Okay. And have you identified a specific</p> <p>11 replacement for this AS400 now?</p> <p>12 MR. NICHOLS:</p> <p>13 A. What we've done on that, we've gone and really</p> <p>14 we wouldn't pick the machine right now until</p> <p>15 we went out to tenders again, because this</p> <p>16 technology does change, and they do change the</p> <p>17 model numbers on a regular basis. So what was</p> <p>18 used to put this quote together, we did put a</p> <p>19 quote together basically on the machine that's</p> <p>20 there now. But when we go to do it, we'll go</p> <p>21 out again and pick the machine that best suits</p> <p>22 the purpose at that time.</p> <p>23 Q. Have you had any discussions with anyone other</p> <p>24 than IBM with respect to a system to--which</p> <p>25 will provide you with the hardware and</p>	<p>1 software that you need to perform the</p> <p>2 functions that the AS400 which the existing</p> <p>3 software is performing now?</p> <p>4 MR. NICHOLS:</p> <p>5 A. I believe what you're asking is to move it to</p> <p>6 a new platform, and by platform you mean</p> <p>7 operating system and whatnot?</p> <p>8 Q. Yes.</p> <p>9 MR. NICHOLS:</p> <p>10 A. At this point in time then again that is not--</p> <p>11 that would be maybe a study in years to come.</p> <p>12 But at this point in time we were trying to</p> <p>13 leverage the technology that we have now and</p> <p>14 basically running the software that we have</p> <p>15 now. This is just the machine that has to run</p> <p>16 it, the iSeries machine.</p> <p>17 Q. So you have not had any discussions with</p> <p>18 anyone other than IBM in respect of a</p> <p>19 different operating platform to meet your</p> <p>20 needs, is that correct?</p> <p>21 MR. NICHOLS:</p> <p>22 A. Yeah. Well, IBM is the thing, but really we</p> <p>23 talked to JD Edwards to see where it is</p> <p>24 because they are the people, they're--that's</p> <p>25 the application that we're using.</p>

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1 MR. DOWNTON:

2 A. Just to reiterate, the JD Edwards software
3 that we have had to run on an IBM iSeries
4 Server.

5 Q. I understand that.

6 MR. DOWNTON:

7 A. And I guess what we've--we do not see any
8 requirement for the foreseeable future to
9 migrate to another set of applications from JD
10 Edwards or anyone else, so we basically are
11 recommending that we purchase an iSeries
12 Server to handle the workload requirements
13 that we require. If at some future point in
14 time we do need to upgrade to JD Edwards
15 latest release, which is One World, that
16 system will be able to handle that workload.

17 Q. I understood you to say earlier that the only
18 reason that you didn't pursue the JD Edwards
19 migration assessment last year was because of
20 the buy out of JD Edwards by People Soft, is
21 that not correct?

22 MR. NICHOLS:

23 A. That was one factor. But again, it's the
24 requirements of what the business needs are at
25 this point in time and things like that. I

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1 significant impact on the business to the
2 point that even in the business process group
3 they want to do various testing for different
4 process changes they want to make and we
5 cannot do those primarily because this system
6 cannot handle the workload. And there's no
7 upgrade path, additional upgrade path. The
8 last upgrade path that was available on this
9 unit was back in 2001. So we basically have
10 no where to go with upgrading the existing
11 unit. There has to be a replacement.

12 MR. HAYNES:

13 A. If I could, from a corporate point of view, a
14 number of years ago when we moved to JD
15 Edwards, obviously that was, I believe, a 12
16 or 13, 14 million dollar project, that
17 included the hardware and software. And I
18 mean, we are at the whim of the industry to
19 both the software and the hardware vendors
20 from that point of view. So we are into JD
21 Edwards and IBM right now, and you know, we
22 are enhancing JD Edwards, you know, here and
23 there. We've been vesting a lot of time and
24 money in the company right now trying to
25 enhance and trying to mine out the value that

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1 mean, we just don't move software to move
2 software.

3 Q. No, I understand that. But, I mean, since you
4 had put this project forward to study the
5 migration, I'm surprised to hear Mr. Downton
6 say now that you don't in the foreseeable
7 future see a need to migrate from JD Edwards.

8 MR. DOWNTON:

9 A. Well, foreseeable future, I guess, means
10 whether we look at a migration strategy in
11 2006, 2007, we do not have anything on the
12 horizon to say in 2008, 2009 we have to make a
13 transition. So I guess I'm using that in an
14 open context. I guess just to go back to this
15 particular project, I mean, the driving force
16 for this project is that the current AS400
17 Server will not meet our business
18 requirements. We are basically on a day to
19 day basis, we have having problems with
20 running our reports, running our applications,
21 being able to provide reports for our customer
22 services group, having to what I call turn
23 down reporting to get payroll to run. So the
24 system is not capable of handling the workload
25 requirements that we have and it's having a

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

24 Q. Thank you. If we can look now to B-127, the
25 End User Evergreen program? And I just want

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<p>1 HUTCHINGS, Q.C.:</p> <p>2 to try to put this in context from where we</p> <p>3 were last year. There's a project at B-127</p> <p>4 for End User Evergreen program and another one</p> <p>5 at B-134 which is a server and operating</p> <p>6 systems Evergreen program, in comparison to</p> <p>7 last year where there was a single project</p> <p>8 which showed up in the 2004 Capital Budget at</p> <p>9 page B-66 which was the End User and Server</p> <p>10 Evergreen program. Am I correctly seeing that</p> <p>11 what was one project or grouping last year has</p> <p>12 been divided into two this year?</p> <p>13 MR. NICHOLS:</p> <p>14 A. Three.</p> <p>15 Q. Three?</p> <p>16 MR. DOWNTON:</p> <p>17 A. Yes.</p> <p>18 Q. Okay. So where's the third one?</p> <p>19 MR. NICHOLS:</p> <p>20 A. End User, Server and iSeries.</p> <p>21 Q. And iSeries?</p> <p>22 MR. NICHOLS:</p> <p>23 A. Um-hm. I believe. You're talking -</p> <p>24 MR. DOWNTON:</p> <p>25 A. Yes, that's correct.</p>	<p>1 GREENE, Q.C.:</p> <p>2 Q. That is correct. Last year there was three</p> <p>3 elements to the project which when we were</p> <p>4 preparing this year we believed lead to some</p> <p>5 unnecessary confusion and we have split the</p> <p>6 matter into three this year. The AS400</p> <p>7 replacement had been included last year as</p> <p>8 part of that project that you just referred</p> <p>9 to, Mr. Hutchings. This year we have three</p> <p>10 separate ones with full justification for</p> <p>11 each.</p> <p>12 HUTCHINGS, Q.C.:</p> <p>13 Q. Just flicking through last year's project, I</p> <p>14 didn't see a specific reference there to the</p> <p>15 AS400, but I guess it was included in the</p> <p>16 servers -</p> <p>17 GREENE, Q.C.:</p> <p>18 Q. It was there. And if you looked at the cross-</p> <p>19 examination last year and the direct</p> <p>20 examination, one component, the third element</p> <p>21 was the AS400. That project was not approved</p> <p>22 by the Board last year. We then brought</p> <p>23 forward two separate ones in the winter of</p> <p>24 2004 and we did not bring forward of the</p> <p>25 AS400, we deferred it until this Capital</p>
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<p>1 Budget hearing this year.</p> <p>2 HUTCHINGS, Q.C.:</p> <p>3 Q. Okay. So, we've had this what was one project</p> <p>4 in 2004 has now been split out into three for</p> <p>5 2005. We've already dealt with the AS400</p> <p>6 project or the iSeries as it is now known, so</p> <p>7 we're left now with the End User Evergreen and</p> <p>8 the Server and Operating Systems Evergreen.</p> <p>9 In respect of the End User project we had</p> <p>10 asked at--well, this is generally with respect</p> <p>11 to the production evidence at IC-81 to</p> <p>12 identify Capital Budget items which reduce</p> <p>13 cost or improve efficiency and try to quantify</p> <p>14 this in respect to B-127. In that answer</p> <p>15 which is at the bottom of the first page there</p> <p>16 it's indicated that there would be efficiency</p> <p>17 improvements are anticipated but the savings</p> <p>18 are not readily quantifiable. And then</p> <p>19 there's a reference to when the move to</p> <p>20 Evergreen was initiated. When do you regard</p> <p>21 the move to Evergreen as having been</p> <p>22 initiated?</p> <p>23 MR. DOWNTON:</p> <p>24 A. In the context of B-127 we basically say,</p> <p>25 "However, when the move to Evergreen was</p>	<p>1 initiated, staff in the support role were</p> <p>2 reduced by three and approximate savings of</p> <p>3 180,000 per year." That would have been two</p> <p>4 years ago when we basically started to move</p> <p>5 out of the lease program and implement what we</p> <p>6 call the Thin-Client strategy which we brought</p> <p>7 forward to the Board.</p> <p>8 (Time: 11:45 a.m.)</p> <p>9 Q. Okay. So there were three staff positions</p> <p>10 eliminated in 2002 as a result of that</p> <p>11 program?</p> <p>12 MR. DOWNTON:</p> <p>13 A. Yes.</p> <p>14 Q. Has there been any further reduction since?</p> <p>15 MR. DOWNTON:</p> <p>16 A. There has not been any further reduction</p> <p>17 since.</p> <p>18 Q. Okay. The project explanations I think for</p> <p>19 both of these Evergreen projects do make some</p> <p>20 references to industry standards. And there</p> <p>21 is a reply to a request for information that</p> <p>22 directs itself to those industry standards.</p> <p>23 And that's specifically IC-35. This is in</p> <p>24 reference to the B-134 project for the Server</p> <p>25 and Operating Systems. Does Hydro regard</p>

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<p>1 HUTCHINGS, Q.C.:</p> <p>2 itself as being in both of these projects but</p> <p>3 the End User Evergreen program and the Server</p> <p>4 Evergreen program as being consistent with</p> <p>5 industry standards?</p> <p>6 MR. NICHOLS:</p> <p>7 A. That is correct.</p> <p>8 Q. Okay.</p> <p>9 MR. NICHOLS:</p> <p>10 A. And actually, we again on the Server one, we</p> <p>11 from our research and what we've seen, they</p> <p>12 put a five-year life on servers, and basically</p> <p>13 some of our servers we keep for more than five</p> <p>14 years. And it really goes down to the four</p> <p>15 points that are below in that we look at the</p> <p>16 hardware vendor support, basically what the</p> <p>17 operating system is going to be able to</p> <p>18 support on that machine. We also look at what</p> <p>19 the application vendor support is like and</p> <p>20 also what really the requirements of what the</p> <p>21 users or business needs are for that server.</p> <p>22 Q. Okay. These four items, though, are issues</p> <p>23 that would have to be dealt with no matter</p> <p>24 what the age of the particular equipment was,</p> <p>25 isn't that correct?</p>	<p>1 MR. NICHOLS:</p> <p>2 A. That is correct. And I guess that's what we</p> <p>3 look at these on a yearly basis.</p> <p>4 Q. So even if you had a server that was only two</p> <p>5 years old and the vendor support for the</p> <p>6 operating system went away, that would be a</p> <p>7 cause of concern for you, would it not?</p> <p>8 MR. NICHOLS:</p> <p>9 A. It could be a concern. You'd also have to</p> <p>10 look at what was running on that server, you'd</p> <p>11 also have to see if the business requirements</p> <p>12 for that type of software were still</p> <p>13 applicable to the users and whatnot.</p> <p>14 Q. Okay. So, in the answer to IC-35 you refer to</p> <p>15 your own 15 years of experience and the</p> <p>16 deployment and administration of servers, and</p> <p>17 I take it that would equally apply to End User</p> <p>18 devices?</p> <p>19 MR. NICHOLS:</p> <p>20 A. Can't remember when we got the first PC at</p> <p>21 Hydro.</p> <p>22 Q. Probably more than 15 years ago?</p> <p>23 MR. NICHOLS:</p> <p>24 A. Yeah, I believe so.</p> <p>25 Q. And you say this experience combined with</p>
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<p>1 discussions with other IT departments and</p> <p>2 hardware and software vendors are used to</p> <p>3 confirm the life expectancy of the servers.</p> <p>4 So, is there any independent standard to which</p> <p>5 Hydro refers in determining the life</p> <p>6 expectancy?</p> <p>7 MR. DOWNTON:</p> <p>8 A. Not really, I guess, an independent standard,</p> <p>9 I guess, and independent standard. I guess it</p> <p>10 comes back to our experience, experience that</p> <p>11 we get, research that we do and also</p> <p>12 discussions we have with the hardware vendors.</p> <p>13 And basically what we see is a consistent</p> <p>14 story that for server infrastructure typically</p> <p>15 after five years the vendors will not support,</p> <p>16 typically will not have parts to support any</p> <p>17 server infrastructure in the Windows</p> <p>18 environment in particular.</p> <p>19 Q. Okay. When we discussed this last year, the</p> <p>20 reference was made to the Gartner best</p> <p>21 practices information. Is that used by Hydro</p> <p>22 or not?</p> <p>23 MR. DOWNTON:</p> <p>24 A. We basically look at Gartner research. We</p> <p>25 also look at other research that's available</p>	<p>1 to us. There's a lot out there. And also we</p> <p>2 have discussions with the vendors which really</p> <p>3 are the driving force for the server</p> <p>4 infrastructure.</p> <p>5 Q. Are you aware of any other organizations which</p> <p>6 operate at the level of technological</p> <p>7 sophistication of Hydro that follow a program</p> <p>8 which use these service lives for these</p> <p>9 various pieces of equipment?</p> <p>10 MR. DOWNTON:</p> <p>11 A. Again, there's, again, the service life is an</p> <p>12 approximation. I guess if I were to look at</p> <p>13 local companies, I mean, Newfoundland Power</p> <p>14 basically follows the same sort of guidelines,</p> <p>15 the same sort of analysis when they replace</p> <p>16 their server infrastructure. And there are</p> <p>17 lots of other companies that we've had</p> <p>18 discussions with, not necessarily local, that</p> <p>19 basically again use the same sort of factors</p> <p>20 to take in consideration when they're</p> <p>21 replacing their server infrastructure. And</p> <p>22 again, each company has to look at where they</p> <p>23 are and then basically have a look at the four</p> <p>24 factors that are put forward there to make a</p> <p>25 determination on a yearly basis as what makes</p>

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

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

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

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

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<p>1 MR. NICHOLS:</p> <p>2 A. So if you ran into a problem, don't phone</p> <p>3 them.</p> <p>4 Q. In the explanation and the project</p> <p>5 justification for B-134 if we follow over to</p> <p>6 the top of page B-136, you say that the</p> <p>7 replacement addition and the upgrade of</p> <p>8 hardware components and software related to</p> <p>9 the corporation shared server infrastructure</p> <p>10 will allow Hydro to operate in a supported</p> <p>11 environment the 2008, 2009 time frame and</p> <p>12 allow Hydro to take advantage of the, I take</p> <p>13 it that should have been functionality and</p> <p>14 enhancements included within the new release.</p> <p>15 Is the added functionality and enhancement</p> <p>16 part of the reason for justifying this project</p> <p>17 at this time?</p> <p>18 MR. NICHOLS:</p> <p>19 A. No. It's part of it. The other mostly part</p> <p>20 of it is that the servers that are being</p> <p>21 replaced are running an operating system</p> <p>22 called Windows NT, which was put out by</p> <p>23 Microsoft in 1996 and basically there is no</p> <p>24 support for that operating system at this</p> <p>25 point in time.</p>	<p>1 Q. So this--I have a bit of ambiguity in your</p> <p>2 answer because you say no and then you say but</p> <p>3 that's part of the reason. I mean, is this</p> <p>4 being driven by the requirements for</p> <p>5 additional functionalities and enhancements?</p> <p>6 MR. DOWNTON:</p> <p>7 A. No, it is not.</p> <p>8 Q. It's being driven by the fact that you can't</p> <p>9 get support for the new operating system on</p> <p>10 your existing servers, is that fair?</p> <p>11 MR. DOWNTON:</p> <p>12 A. Yeah, that is correct.</p> <p>13 MR. NICHOLS:</p> <p>14 A. We can go back to IC-35 again, like you say,</p> <p>15 to look at, we look at the hardware vendor</p> <p>16 support, we look at the operating system, the</p> <p>17 application, vendor support and also the</p> <p>18 business requirements. And really these</p> <p>19 servers that we're replacing this year, you</p> <p>20 know, they do things like control the, they</p> <p>21 have the monitor and control of our microwave</p> <p>22 system, they also control the what we call our</p> <p>23 security system for the door, you know, these</p> <p>24 swipe cards, it also controls the doors and</p> <p>25 that within Hydro Place and also in Bishop</p>
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<p>1 Falls. And another one is also to support the</p> <p>2 Lotus Notes and development environment. We</p> <p>3 look at it's not just the operating system</p> <p>4 alone, but we also looked at these--you know,</p> <p>5 the criticality of some of the applications</p> <p>6 which these servers are doing and whatnot.</p> <p>7 Q. No, I mean, I'm not questioning that there is</p> <p>8 a need to have servers where you have these</p> <p>9 servers now. The issue obviously is the</p> <p>10 replacement of these ten servers at this</p> <p>11 point. When this project is concluded, will</p> <p>12 you have any servers left in your system that</p> <p>13 won't support the 2003 server operating system</p> <p>14 from Microsoft?</p> <p>15 MR. NICHOLS:</p> <p>16 A. That I believe I'd have to check. But we</p> <p>17 have--what we've done with most of our</p> <p>18 servers, we have a tentative schedule set up.</p> <p>19 So I'd have to look at that and have to--</p> <p>20 actually, we would go look at what that</p> <p>21 application is doing and whatnot. But I</p> <p>22 believe the majority of them will be gone.</p> <p>23 Q. Okay. But you may have still some in the</p> <p>24 system that you can get by with?</p> <p>25 MR. NICHOLS:</p>	<p>1 A. Yes. The other thing is you have to remember</p> <p>2 if we put a server out in 2006, we would want</p> <p>3 that to support itself out to 2011. And</p> <p>4 basically we would see the operating system,</p> <p>5 we see it on Microsoft now whether, you know,</p> <p>6 Microsoft changing their operating system in a</p> <p>7 2008, 2009 time frame, so we're into that, we</p> <p>8 into that, another round. It won't be--by the</p> <p>9 time the servers are replaced in 2006, we</p> <p>10 would want them to support the operating</p> <p>11 system which will be supported in 2011.</p> <p>12 (Time: 12:00 p.m.)</p> <p>13 Q. If we can turn then to B-131? This again is</p> <p>14 essentially an annual project to replace</p> <p>15 peripherals within the system, is that a fair</p> <p>16 characterization?</p> <p>17 MR. DOWNTON:</p> <p>18 A. Yes, that is correct.</p> <p>19 Q. Okay. And can you tell me how many devices</p> <p>20 are actually being replaced in 2005 or asked</p> <p>21 to be replaced under this project?</p> <p>22 MR. DOWNTON:</p> <p>23 A. We have two what we call multi functional</p> <p>24 devices and we have three printers.</p> <p>25 Q. That I think is a large reduction from the</p>

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<p>1 HUTCHINGS, Q.C.:</p> <p>2 number of units that you were replacing last</p> <p>3 year. Is that correct?</p> <p>4 MR. DOWNTON:</p> <p>5 A. Yes, that is correct.</p> <p>6 Q. Why is that?</p> <p>7 MR. DOWNTON:</p> <p>8 A. Because at this point in time those are the</p> <p>9 only units that we feel that need to be</p> <p>10 replaced. Out of the three traditional</p> <p>11 printers that we are replacing, two of them</p> <p>12 are specifically earmarked for the printing of</p> <p>13 cheques in treasury department and one is</p> <p>14 going to Happy Valley office and so basically</p> <p>15 that's all that we need to meet our</p> <p>16 requirements for 2005.</p> <p>17 Q. Are all of the devices that are now being</p> <p>18 replaced functioning today as we speak?</p> <p>19 MR. NICHOLS:</p> <p>20 A. Yes, the ones that are being replaced,</p> <p>21 especially the one that's being replaced in</p> <p>22 Holyrood was put in in 2000 and it's what we</p> <p>23 call a multi functional device. At this point</p> <p>24 in time that machine has done around 7500--</p> <p>25 three quarters of a million copies on it. By</p>	<p>1 the time it's been replaced, it'll be up to</p> <p>2 about a million copies and we've started to</p> <p>3 see an increase, you know, of breakdowns on</p> <p>4 that machine and whatnot. So again, we go</p> <p>5 back--it's we go back and look and see what</p> <p>6 the machine is doing and see--we have another</p> <p>7 one which is in the mail room which we put in</p> <p>8 in that same year which basically we find</p> <p>9 we're having much better performance on which</p> <p>10 we're keeping. So we don't just automatically</p> <p>11 replace them, we sort of look at them on an</p> <p>12 individual basis.</p> <p>13 Q. Okay. But to get back to my question, the</p> <p>14 items that are being replaced are all</p> <p>15 functioning today, are they?</p> <p>16 MR. DOWNTON:</p> <p>17 A. With the exception of one. One of the multi</p> <p>18 functional devices is the new one, and that's</p> <p>19 going into the warehouse at Hydro Place. And</p> <p>20 the reason we're putting it there is because</p> <p>21 this unit will be a printer, will be a scanner</p> <p>22 and also have a fax capability built into the</p> <p>23 one unit. And the reason we're doing it that</p> <p>24 way is because of it takes up less real</p> <p>25 estate. So basically there's only one new</p>
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<p>1 addition and then the other ones are</p> <p>2 replacements.</p> <p>3 Q. So is there any device in this warehouse that</p> <p>4 you're talking about now?</p> <p>5 MR. NICHOLS:</p> <p>6 A. At this point in time there is a printer</p> <p>7 there.</p> <p>8 Q. A printer. And you're adding a fax and</p> <p>9 scanner capability to that location, are you?</p> <p>10 MR. NICHOLS:</p> <p>11 A. Correct.</p> <p>12 Q. And how is a need to add those functionalities</p> <p>13 identified?</p> <p>14 MR. NICHOLS:</p> <p>15 A. I guess the application really is being a</p> <p>16 three in one machine, when this--in the</p> <p>17 warehouse you have like packing slips coming</p> <p>18 in and things like that, so basically we would</p> <p>19 take it, we would scan it, so we'd have that</p> <p>20 type of--have that capability. He also has--</p> <p>21 he is sending faxes back and forth. So it's</p> <p>22 more for, you know, for in that warehouse to</p> <p>23 basically to give him all that functionality</p> <p>24 there rather than having, you know, to go to</p> <p>25 different places to get these things done. We</p>	<p>1 are talking about a very low end, it's almost</p> <p>2 to the point where you've seen them in Future</p> <p>3 Shop and those types of things, this three in</p> <p>4 one, I believe they call them.</p> <p>5 Q. Yeah. Does Hydro scan every invoice it</p> <p>6 receives?</p> <p>7 MR. NICHOLS:</p> <p>8 A. No. But, I mean, there is times when he would</p> <p>9 want to scan things and/or photocopy it. So</p> <p>10 he could probably scan it in rather than--save</p> <p>11 paper--and photocopy it.</p> <p>12 Q. Okay. If we could look now to B-132? Can you</p> <p>13 just explain for us how your existing disaster</p> <p>14 recovery system with SunGard works?</p> <p>15 MR. DOWNTON:</p> <p>16 A. Yeah. With regards to what we call disaster</p> <p>17 recovery planning services, we entered into</p> <p>18 those types of services with SunGard back in</p> <p>19 1996. I guess in 1999 when Hydro purchased</p> <p>20 the JD Edwards system and also we installed</p> <p>21 the Lotus Notes infrastructure, I guess we</p> <p>22 moved into a different type of services with</p> <p>23 SunGard in that it was a five-year contract</p> <p>24 where they would provide us with what we call</p> <p>25 hot site capabilities. And what that</p>

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<p>1 MR. DOWNTON:</p> <p>2 basically refers to is we basically pay them</p> <p>3 to keep infrastructure at one of their sites</p> <p>4 available for us in a case of us declaring a</p> <p>5 disaster, so we can go in there and run our</p> <p>6 corporate applications. In particular, our</p> <p>7 focus was on JD Edwards, our reporting tool</p> <p>8 showcase and also Lotus Notes. So basically</p> <p>9 that's the way that it's been. Also, on top</p> <p>10 of that we also pay for the telecommunications</p> <p>11 costs to connect that site back to Hydro Place</p> <p>12 so that in the event of a disaster we're able</p> <p>13 to bring users onto that service. I guess</p> <p>14 what we are bringing forward here is that as</p> <p>15 you see from IC-32, in answer to your</p> <p>16 question, indicate the annual cost under an</p> <p>17 existing contract with SunGard refer to under</p> <p>18 the operating experience, the annual cost</p> <p>19 under the existing contract are approximately</p> <p>20 \$200,000. That does not include our travel</p> <p>21 costs and it also does not include our</p> <p>22 telecommunications costs. I guess in an</p> <p>23 effort to reduce our overall disaster recovery</p> <p>24 planning services, what we're proposing here</p> <p>25 is for us to establish a local site on our</p>	<p>1 island which is connected by our microwave</p> <p>2 system so that we can establish our own site.</p> <p>3 And our intent is, in 2005 we will go out for</p> <p>4 an RFP to IBM, to SunGard and others for what</p> <p>5 we call mobile DRP services. So that in the</p> <p>6 event that we have a, declare a disaster, they</p> <p>7 will bring the infrastructure and put it in at</p> <p>8 one of our--well, at the selected site so</p> <p>9 that--and it's our view, based on our analysis</p> <p>10 that that will help us to reduce our overall</p> <p>11 operating budget from the number that I</p> <p>12 indicated earlier.</p> <p>13 Q. Okay. So, if I understand the existing plan</p> <p>14 correctly, SunGard is maintaining some</p> <p>15 hardware that will run your systems now or run</p> <p>16 your applications in the event of a disaster,</p> <p>17 is that correct?</p> <p>18 MR. DOWNTON:</p> <p>19 A. Yes, that is correct.</p> <p>20 MR. NICHOLS:</p> <p>21 A. Yes, that's correct.</p> <p>22 Q. The new strategy that we're talking about here</p> <p>23 doesn't provide you with any hardware, as</p> <p>24 such, but just a commitment to provide the</p> <p>25 hardware if you need it, is that correct.</p>
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<p>1 MR. NICHOLS:</p> <p>2 A. I guess SunGard does the same thing. What</p> <p>3 they do is they have hardware and they share</p> <p>4 it down there. So, they give you access to</p> <p>5 that hardware which is configured to your</p> <p>6 system. And I guess with a mobile service,</p> <p>7 they--well, again you have access to that</p> <p>8 hardware and to be able to store your</p> <p>9 applications on.</p> <p>10 Q. So, if, in fact, you have to implement this</p> <p>11 DRP system, if a disaster occurs, are there</p> <p>12 additional charges then that you would pay to</p> <p>13 SunGard, whoever it is, to actually run your</p> <p>14 systems during the recovery from the disaster?</p> <p>15 MR. DOWNTOWN:</p> <p>16 A. Our view is that we will be able to reduce</p> <p>17 what we are now paying. Right now we are</p> <p>18 paying on average to SunGard, \$200,000.00 a</p> <p>19 year. I guess what our expectation by</p> <p>20 establishing our own site is that we will be</p> <p>21 able to reduce that in our operating budget.</p> <p>22 Q. I understand the point that you're trying to</p> <p>23 make, I guess, I'm wondering what exactly</p> <p>24 we're getting for the \$80,500.00.</p> <p>25 MR. DOWNTON:</p>	<p>1 A. I guess what we are getting is a site, that in</p> <p>2 the event of a disaster, we can basically move</p> <p>3 in equipment so that Hydro can still function</p> <p>4 from a business perspective.</p> <p>5 Q. So, this will give you brick and mortar</p> <p>6 basically.</p> <p>7 MR. DOWNTON:</p> <p>8 A. Yes, that is correct.</p> <p>9 Q. A physical site, but you still would have</p> <p>10 contract with SunGard or someone else to bring</p> <p>11 the necessary computer equipment to that site</p> <p>12 and run it in the event of a disaster. Is</p> <p>13 that--do I understand this correctly?</p> <p>14 MR. DOWNTON:</p> <p>15 A. That is correct.</p> <p>16 Q. Okay. And, I mean, do you have any projection</p> <p>17 as to the difference in the annual costs from</p> <p>18 your existing system to what they'll be under</p> <p>19 the new system.</p> <p>20 MR. DOWNTON:</p> <p>21 A. We feel that we will be able to pay for this</p> <p>22 project here in 12 - 18 months. We will see</p> <p>23 that type of savings on an annual basis.</p> <p>24 Q. So, in terms of what SunGard or an alternative</p> <p>25 supplier will be doing under the new system,</p>

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1 HUTCHINGS, Q.C.:

2 they will have to provide essentially what
3 they were providing before except the physical
4 space in which to run the system, is that
5 correct.

6 MR. DOWNTON:

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

8 Q. Okay.

9 MR. DOWNTON:

10 A. And I guess what were looking at is providing
11 physical space and at the end of the day,
12 reducing our operating budget, from my
13 perspective, by this amount on a yearly basis.

14 Q. You're not able to tell me, at this stage,
15 what range you expect your bids to be for the
16 annual costs to SunGard or the third party
17 supplier once you've got your own bricks and
18 mortar in place.

19 MR. DOWNTON:

20 A. I guess our estimate is that we will save,
21 from a telecommunications cost perspective, we
22 will probably save 15 or \$20,000.00 a year.
23 And our estimate is that we will save 50 to
24 60,000 a year on our DRP services from SunGard
25 by initiating this project.

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1 MR. NICHOLS:

2 A. Now, the original--this goes back to before we
3 had JD Edwards, we also had it on our IBM
4 mainframe which was a 370. So, it goes back
5 to then. So, they provided the services on
6 that machine originally and then we went to--
7 they also did it for our 400, for the last
8 five years.

9 Q. Okay. And the \$200,000.00 annual costs that
10 are referred to in IC 32, that includes
11 communications costs, does it?

12 MR. DOWNTON:

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

15 Q. Okay. In addition to that, you would be
16 paying communication costs from Newfoundland
17 to Philadelphia or wherever.

18 MR. DOWNTON:

19 A. That's correct.

20 MR. NICHOLS:

21 A. Just one more point on disaster recovery.
22 There is many other companies, FPI actually is
23 another customer of SunGard. And actually
24 when we had a power outage here a couple of
25 years ago, they actually started to declare

1 MR. NICHOLS:

2 A. The other thing is you will not have the
3 situation where you have to travel to
4 Philadelphia to restore your system. So,
5 basically they would come to you. So, in the
6 case of a disaster, you'd have less operating
7 costs, if you were in a disaster situation,
8 also you wouldn't have to spend as much money
9 in running what we call a DRP test on a
10 regular basis.

11 Q. So, SunGard, were you being serious in saying
12 that SunGard's operation is actually in
13 Philadelphia?

14 MR. NICHOLS:

15 A. It is. Actually, they were--the last time we
16 ran a test in 2001, it was. Since that time,
17 in the DRP industry, there was a company
18 called Comdisco which SunGard has since bought
19 out, which they now have facilities in
20 Toronto, but they still run their AS400
21 disastery services out of Philadelphia.

22 Q. All right. How long has this agreement been
23 in place with SunGard?

24 MR. DOWNTON:

25 A. In place for five years.

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1 disaster in Philadelphia. So, there's other
2 Newfoundland companies with SunGard.

3 Q. Thank you, gentlemen, those are my questions.
4 Mr. Chairman.

5 CHAIRMAN:

6 Q. Thank you, Mr. Hutchings. As I recall, Mr.
7 Coxworthy, you completed your questions on the
8 last day, correct?

9 MR. COXWORTHY:

10 Q. That's correct.

11 CHAIRMAN:

12 Q. Mr. Kennedy?

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

14 MR. KENNEDY:

15 Q. Chair, just a couple of questions. Gentlemen,
16 I just wanted to get your comments on an
17 aspect of your application enhancement project
18 which is B-120 which you've been cross-
19 examined on a couple of times. And just to
20 recap, the Application Enhancement Project
21 actually describes four different projects,
22 correct, Various Minor Enhancements, Intranet,
23 Key Performance Indicator and Facilities
24 Failure Model.

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<p>1 MR. DOWNTON:</p> <p>2 A. Yes, that is correct.</p> <p>3 Q. Okay. And in the case of, if we could just</p> <p>4 scroll down, Mr. O'Rielly, actually on page 2.</p> <p>5 And looking at the Intranet project and it</p> <p>6 describes it as, "this involves the continuing</p> <p>7 design and implementation of enhancement to</p> <p>8 Hydro's internet to improve access to</p> <p>9 information to our employees. And the second</p> <p>10 sentence, "this will help to improve</p> <p>11 information flow, eliminate redundate</p> <p>12 processes, reduce the manual effort associated</p> <p>13 with distributing information and provide</p> <p>14 enhanced level of customer service". And I</p> <p>15 believe that was broken down into in an RFI as</p> <p>16 the intranet with--or actually I think it was</p> <p>17 during your testimony in saying that that</p> <p>18 project is 67.9 thousand dollars or</p> <p>19 MR. NICHOLS:</p> <p>20 A. You can refer to IC-31.</p> <p>21 Q. That's where that information comes from, IC-</p> <p>22 31?</p> <p>23 MR. NICHOLS:</p> <p>24 A. Yes.</p> <p>25 Q. Okay, thank you. So, I just wanted to turn to</p>	<p>1 IC-81 and it's a question the Industrial</p> <p>2 Customers put to Hydro asking to identify the</p> <p>3 capital budget items in the present</p> <p>4 application which reduced costs or improved</p> <p>5 efficiency and quantify the reduced costs</p> <p>6 arising from each such project. And then</p> <p>7 we've got B-120, application enhancement. The</p> <p>8 response was, "while efficiency improvements</p> <p>9 are anticipated in this project, they are not</p> <p>10 readily quantifiable". Now, I'll just ask a</p> <p>11 couple of questions first. Is it agreed that</p> <p>12 or accepted by Hydro that in the case</p> <p>13 specifically of Project B-120, the application</p> <p>14 enhancements, that there are aspects to these</p> <p>15 projects which involve expected gains in</p> <p>16 operational efficiency?</p> <p>17 MR. DOWNTON:</p> <p>18 A. I guess in the context or, we basically feel</p> <p>19 that it will allow us to work more efficiently</p> <p>20 and provide us with the tools to do same.</p> <p>21 Q. And insofar as, at least one aspect of one of</p> <p>22 those projects under your application</p> <p>23 enhancements projects is indicated that it</p> <p>24 will improve information flow and eliminate</p> <p>25 redundant processes and reduce the manual</p>
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<p>1 effort associated with distributing</p> <p>2 information. Would you agree that some of</p> <p>3 those operational efficiencies relate</p> <p>4 specifically to gains in the efficiency of</p> <p>5 your employees?</p> <p>6 MR. NICHOLS:</p> <p>7 A. I guess one of the, some of the other stuff is</p> <p>8 does, again there was an example of sequence</p> <p>9 of events interface which a user could go,</p> <p>10 find out things that are happening on the</p> <p>11 system and basically make determinations to</p> <p>12 basically fix that problem. There's also</p> <p>13 things in terms of the WHMIS which are</p> <p>14 basically health and safety type things which</p> <p>15 give access to people to those types of</p> <p>16 documents. So, I guess yes, it does make it</p> <p>17 more efficient in that way, that they can at</p> <p>18 this information quicker.</p> <p>19 Q. Right, okay. So, I guess another simpler way</p> <p>20 to put it is that the introduction of some of</p> <p>21 these projects is aimed at saving time?</p> <p>22 MR. DOWNTON:</p> <p>23 A. Basically it's, again, allowing staff to work</p> <p>24 more efficiently.</p> <p>25 Q. Okay. It was indicated in your response in</p>	<p>1 IC-81, Hydro, at least insofar, as this</p> <p>2 response indicates is that these efficiency</p> <p>3 improvements are not readily quantifiable.</p> <p>4 Before I ask you to explain that, I'm</p> <p>5 wondering if first you could indicate whether</p> <p>6 you had an opportunity to look at some of the</p> <p>7 responses provided by Newfoundland Power in</p> <p>8 their capital budget relating to operational</p> <p>9 efficiencies expected to be gained through</p> <p>10 their IT projects. Did any of you actually</p> <p>11 have a look at that?</p> <p>12 MR. NICHOLS:</p> <p>13 A. No.</p> <p>14 MR. DOWNTON:</p> <p>15 A. No.</p> <p>16 Q. No, okay. So, if I said to you that in the</p> <p>17 case of Newfoundland Power in response to RFIs</p> <p>18 they are able to provide Net Present Value</p> <p>19 calculations based on the operational</p> <p>20 efficiencies expected to be gained through</p> <p>21 this introduction of some technologies, you</p> <p>22 haven't had an opportunity to actually look at</p> <p>23 that.</p>

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<p>1 MR. DOWNTON:</p> <p>2 A. I guess in our analysis, I guess in particular</p> <p>3 of Intranet, we basically do not, not that we</p> <p>4 don't--we basically see the opportunity to</p> <p>5 work more efficiently, I guess to quantify</p> <p>6 that over the organization, it's difficult to</p> <p>7 do. And I guess that's what we really meant</p> <p>8 by they are not readily quantifiable. It's</p> <p>9 difficult to basically say, okay, the fact</p> <p>10 that you can find a document easier, what that</p> <p>11 will sum to across the organization.</p> <p>12 Q. I might be, I certainly am paraphrasing, but I</p> <p>13 guess, I've heard your chief executive officer</p> <p>14 testify here before the Board on various</p> <p>15 applications and indicate the importance that</p> <p>16 Hydro places on it's ability to measure the</p> <p>17 impact or benefit of its effort and that that</p> <p>18 was driving, for instance, a large part of the</p> <p>19 reason why Hydro was conducting its review of</p> <p>20 all of its processes in order to drive</p> <p>21 efficiencies where it could. And so, I guess,</p> <p>22 could you explain why Hydro doesn't seem to</p> <p>23 feel that that same ability to demonstrate the</p> <p>24 benefit that you expect in terms of actual</p> <p>25 dollars saved or actual efficiencies to be</p>	<p>1 gained through the introduction of these</p> <p>2 technologies wouldn't apply.</p> <p>3 GREENE, Q.C.:</p> <p>4 Q. The question that Mr. Kennedy has put is with</p> <p>5 respect to one particular one which is</p> <p>6 applications enhancement. Mr. Downton and Mr.</p> <p>7 Nichols have already answered in the form of</p> <p>8 why they said what they did for B-120 and</p> <p>9 explained that it's getting access to</p> <p>10 information instead of going to a manual and</p> <p>11 getting it and doing the research and if it's</p> <p>12 update, you can get it online. And as they've</p> <p>13 explained, it's very difficult to quantify</p> <p>14 that and how many people would use it and what</p> <p>15 it would mean. We have done that for other</p> <p>16 types of examples. So, the question I find is</p> <p>17 phrased so generally, it's very difficult to</p> <p>18 respond in a meaningful way for the Board. As</p> <p>19 the Board is aware, Hydro does quantify</p> <p>20 expected operation efficiencies and have</p> <p>21 advised that the particular one that Mr.</p> <p>22 Kennedy referred to is with respect to the one</p> <p>23 application enhancements one that is here and</p> <p>24 both witnesses have explained the type of one</p> <p>25 and you can understand is very difficult is</p>
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<p>1 when you do legal research, the fact that you</p> <p>2 can get it more quickly, does that actually</p> <p>3 mean less time you are doing your opinion.</p> <p>4 What we find is the more information is</p> <p>5 readily available, the more questions we get</p> <p>6 to answer from the Public Utilities Board and</p> <p>7 the Intervenors and others. So, that is the</p> <p>8 nature of the way the answer was responded. I</p> <p>9 don't know if that's helpful for Board</p> <p>10 counsel, but I found his question, the way it</p> <p>11 was phrased a little bit hard to answer and</p> <p>12 actually a little bit misleading in terms of</p> <p>13 what Hydro has presented, in terms of when it</p> <p>14 does quantify efficiencies.</p> <p>15 CHAIRMAN:</p> <p>16 Q. Mr. Kennedy, do you have any comment on that?</p> <p>17 MR. KENNEDY:</p> <p>18 Q. Board Chair, the question wasn't intended to</p> <p>19 try to place any untoward pressure on the</p> <p>20 Panel in answering the questions. I'm</p> <p>21 obviously trying to draw up a comparison and</p> <p>22 treatment of the IT projects between the two</p> <p>23 utilities which has -</p> <p>24 GREENE, Q.C.:</p> <p>25 Q. And unless until our witnesses are familiar</p>	<p>1 and can speak to whether the Newfoundland</p> <p>2 Power IT project is of the same nature as the</p> <p>3 one that Mr. Kennedy took them to, it's really</p> <p>4 not fair to the witnesses who do not have</p> <p>5 knowledge of the Newfoundland Power IT</p> <p>6 projects. And I don't believe is fair to put</p> <p>7 that to them as they are witnesses here on the</p> <p>8 stand, they are not speaking for Newfoundland</p> <p>9 Power. We do quantify efficiencies, we have</p> <p>10 given examples of that throughout our</p> <p>11 application.</p> <p>12 CHAIRMAN:</p> <p>13 Q. I guess, that would seem to make some sense to</p> <p>14 that particular comment, Mr. Kennedy, they've</p> <p>15 indicated they haven't seen or looked at the</p> <p>16 response to Newfoundland Power.</p> <p>17 MR. KENNEDY:</p> <p>18 Q. Absolutely Chair, and that's why I moved on</p> <p>19 from actually drawing a direct comparison and</p> <p>20 went back to just asking a more general</p> <p>21 question of what difficulties Hydro's panel of</p> <p>22 witnesses can indicate arise when they go to</p> <p>23 try to put a number on the efficiency that's</p> <p>24 expected to be gained. If they could provide</p> <p>25 some background as to why they feel that the</p>

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

1 time, there was some discussion on Key
 2 Performance Indicators. They're--you're
 3 building upon a tool to give the supervisor
 4 more timely appropriate adequate information,
 5 extremely difficult to measure the gains on an
 6 individual basis. I mean, even if I save ten
 7 minutes a day, if that's times a thousand
 8 people, how do you actually get that as a
 9 gains. They are enhancements and there will
 10 be gains. If only in communications and if
 11 people know exactly what we're doing and the
 12 information they need to do the work.

13 MR. KENNEDY:
 14 Q. So, in the case of, for instance, your
 15 Intranet project where you indicate that it
 16 would reduce the manual effort associated with
 17 distributing information.

18 MR. HAYNES:
 19 A. It's X number of copies of paper in the mail
 20 room, transportation and all that, and now
 21 they just look up on the internet page and
 22 it's there. Whether it's a new policy and
 23 procedure or whatever the case is, there
 24 already has been elimination of multitude of
 25 manual copies that each supervisor would have

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

1 Q. So, does Hydro then institute any type of
 2 return on investment criteria when its making
 3 its decisions about the selection of
 4 technology and implementation of technology?

5 MR. HAYNES:
 6 A. It does, typically, what we do is net present
 7 value analysis, if there are options to
 8 evaluate. In this case here, the intranet was
 9 seen to be--I don't think that particular
 10 aspect was there when we started on the
 11 intranet, you know, to actually rule out an
 12 intranet. You can correct me if I'm wrong,
 13 but I -

14 MR. DOWNTON:
 15 A. No, you're correct.
 16 MR. HAYNES:
 17 A. It's a communications tool, it was a, I won't
 18 say obvious, but it was a communications tool
 19 that was designed to improve our
 20 communications to our employees to have more
 21 ready access to useful and essential
 22 information.

23 Q. Sure, and if we accept that just for a moment,
 24 that that's a given, that there will be
 25 efficiencies achieved through these

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1 MR. KENNEDY:

2 improvements to your intranet, then you
3 indicated that you would do an MPV where
4 there's options, but there's always the option
5 to defer, correct and at least, as a
6 theoretical option that you could defer
7 projects and -

8 MR. HAYNES:

9 A. If you look at any project, deferring is
10 always the cheapest thing to do, there's no
11 doubt about that, but -

12 Q. And so in making a decision that is aimed at
13 improving the efficiency of something that
14 you're already using, sort of spend money now
15 to save it later, that would involve, would it
16 not, some sort of net present value
17 calculation in order to determine whether it's
18 worthwhile to spend this money, to get that
19 operational efficiency gain.

20 MR. HAYNES:

21 A. It was not done for -

22 MR. DOWNTON:

23 A. It was done for these--I guess, getting to the
24 point of your question, we have looked at
25 other projects, applications which the

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

25 (Time: 12:30 p.m.)

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1 Q. Sure, but without actually putting numbers, if
2 you will, around that expected operational
3 efficiency or gain in operational efficiency
4 in, for instance, your intranet project, we
5 really wouldn't know whether it would warrant
6 an expenditure of the proposed 67.9 thousand
7 dollars or 167.9 thousand dollars or 567.9
8 thousand dollars really, would we?

9 MR. HAYNES:

10 A. I don't think we would actually come forward
11 on a project if it was going to be six or
12 \$700,000.00, more than what's here. I mean,
13 this is 6 or \$7,000.00 that's a
14 communications improvement, it's for employees
15 to have more timely and pertinent information.

16 Q. Sure. Now, that's the sub project underneath
17 it, right. So, Hydro is actually for approval
18 of three hundred and ten thousand seven
19 hundred thousand under this.

20 MR. HAYNES:

21 A. For four separate projects.

22 Q. Right. And there are efficiency gains
23 throughout those four subprojects under this
24 three hundred and ten thousand?

25 MR. HAYNES:

1 A. There should be efficiency gains over the long
2 term, yes.
3 Q. And those efficiency gains should provide the
4 rationale and the basis on which Hydro
5 proposes to spend three hundred and ten
6 thousand dollars.

7 MR. HAYNES:

8 A. I think you go back to IC-81 where it's
9 difficult to quantify all those different -

10 Q. Sure, leaving aside the difficulty in this, if
11 you will, of the ability to quantify the
12 operational efficiency gain, nonetheless, the
13 efficiencies to be gained out of this project
14 in your opinion, Hydro's opinion -

15 MR. HAYNES:

16 A. We think they're worthwhile.

17 Q. Warrants the expenditure of three hundred and
18 ten.

19 MR. HAYNES:

20 A. That's our view, yes.

21 Q. Right. That's all the questions I have,
22 Chair, thank you gentlemen.

23 CHAIRMAN:

24 Q. Thank you, Mr. Kennedy. I think we'll take
25 our 15 minute break at this particular point

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<p>1 CHAIRMAN: 2 in time. Thank you. 3 (BREAK - 12:32 P.M.) 4 (RESUME - 1:00 p.m.) 5 CHAIRMAN: 6 Q. Anything on redirect, Ms. Greene? 7 GREENE, Q.C.: 8 Q. No, Mr. Chair, I have no redirect. 9 CHAIRMAN: 10 Q. Commissioner Powell? 11 COMMISSIONER POWELL: 12 Q. Thank you, Chair. I just have a couple of 13 items. Just so I can see if I understood what 14 was said. There was some reference, I don't 15 know if it was this Panel or the Panel prior 16 to it, but the allocation of costs some of 17 your costs, like B-124 you're going to recover 18 from CF(L)Co. \$52,000. Is my understanding is 19 that the method that you're using that you 20 used a number of corp applications and then 21 you used a percentage that CF(L)Co. uses those 22 which I think I heard 19 percent and that's 23 what you use across the board to recover costs 24 of your capital items from CF(L)Co.? 25 MR. DOWNTON:</p>	<p>1 A. Yes, that is correct. 2 Q. The thing that struck me when I heard that, I 3 thought that's what I heard, and I started to, 4 I probably started to go around the road 5 because I immediately started trying to think 6 as an engineer, actually, listening to all 7 these lawyers I thought I might think 8 differently, but would that be a fair basis of 9 doing it because an application, isn't there a 10 base cost and then you would use a percentage 11 and usage after? Like, we got--let's use B- 12 124 here, we got \$274,000 forgetting what it's 13 for. But that's an application that has 14 benefit to both Hydro and CF(L)C, whatever, 15 but wouldn't there be base costs whether you 16 used it at all or you used it at--so wouldn't 17 you take a percentage and then usage on top of 18 that? It just struck me as being not a proper 19 measurement of allocating costs. 20 MR. DOWNTON: 21 A. When the--in the case of the iSeries Server, 22 when that was bought back in 1997, a similar 23 type of formula was used for what. Or when we 24 purchased JD Edwards, again, it was based on 25 what we felt was a reasonable estimate for</p>
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<p>1 usage. And that's pretty much what we've 2 done. There are no mechanisms which allow you 3 to measure workload. In the old systems you 4 could have a workload analysis, but in the 5 newer systems you don't have it to say, okay, 6 well, you are servicing 25 percent of the 7 workload for CF(L)Co. and 75 percent for 8 Hydro. So I guess what we used as we put 9 forward are the major applications and the 10 number of PCs that they represent of the 11 corporate total as well and we feel that that 12 gives us a reasonable estimate of what the 13 overall cost proportion should be. 14 Q. Yeah, I can appreciate that. No, it just 15 seemed to me, it struck me it's Hydro would 16 appear to be paying a higher percentage of the 17 cost because having those capital items 18 available represents a certain cost, so if it 19 was coming the other way, it'd be a better 20 deal for Hydro than it would be for CF(L)Co. 21 It just seemed to me that the fact it's 22 available for me, whether I use it or not, I 23 should share into it because I have that 24 availability and then my usage would be on top 25 of that. But you're saying this is what</p>	<p>1 you've been doing sort of from the get go on 2 your capital projects? 3 MR. DOWNTON: 4 A. Yeah, I think, yeah, that's what we have been 5 doing. And again, every year we evaluate 6 whether those numbers are still current. So, 7 again, if we propose projects for next year, 8 we'd look at the percentages again and see if 9 they've changed. So if it's gone up or down, 10 we will adjust it appropriately. But I think 11 in answer to your question, with the metrics 12 that we are using, we feel that we get a good 13 representation on what's actually being used, 14 because these are the primary core 15 applications which everyone has access to. So 16 by the fact that we're looking at the JD 17 Edwards users, the number of users, Lotus 18 Notes databases, Lotus Notes licences and the 19 number of PCs, we feel that it gives us a 20 representation of access and ability to use. 21 We feel that it addresses both aspects of it. 22 Q. Okay. B-124, this is the application 23 enhancement. Listening to the discussions 24 back and forth, have you ever looked at the 25 cost benefit if you did an annual update on</p>

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

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

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

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

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<p>1 MR. DOWNTON:</p> <p>2 migrate if we cannot get vendor support any</p> <p>3 longer or if there's functionality in there</p> <p>4 that we figure will bring benefit to the</p> <p>5 business.</p> <p>6 Q. What you're saying, I agree, you know,</p> <p>7 visualizing it at a much lower level. But</p> <p>8 sort of what Mr. Kennedy was getting at in</p> <p>9 terms of trying to quantify it because you get</p> <p>10 this blend between what is an operating cost</p> <p>11 and what is the capital costs. And there are</p> <p>12 saving, you're saying, because of</p> <p>13 logistically, and you can sort of visualize</p> <p>14 it. But at the same time I get the impression</p> <p>15 that you're saying it's not worth the time to</p> <p>16 put it on paper. So it almost seems like some</p> <p>17 of these costs should be in the operating side</p> <p>18 of the ledger as versus the capital side of</p> <p>19 the ledger?</p> <p>20 MR. DOWNTON:</p> <p>21 A. No, that's, I guess, interpreting your</p> <p>22 question, I didn't interpret it that way. I</p> <p>23 guess I interpreted -</p> <p>24 Q. No, I didn't start off with the question that</p> <p>25 way, but you got me there. It struck me this</p>	<p>1 way.</p> <p>2 MR. DOWNTON:</p> <p>3 A. I guess from our analysis and I guess the way</p> <p>4 we have our units or properties set up, we</p> <p>5 basically what we're bringing forward are all</p> <p>6 capital costs, would be the actual other</p> <p>7 aspects of maintenance agreements and those</p> <p>8 sorts of things which are related to things</p> <p>9 like Lotus notes and others, those are</p> <p>10 actually in our operating costs. But where we</p> <p>11 are bringing enhancements forward and with the</p> <p>12 materiality limit, these basically are</p> <p>13 considered to be capital expenditures.</p> <p>14 Q. One other item, yeah, the B-132, the disaster</p> <p>15 recovery plan, I'm sort of--I can appreciate</p> <p>16 what you're doing, why you're doing it. And</p> <p>17 you have a present agreement expires in July</p> <p>18 of 2005. I'm just trying to get my mind</p> <p>19 around exactly what we're going to get for the</p> <p>20 80 or 100,000 dollars here. I presume in July</p> <p>21 of 2005 the contract you have now ends and</p> <p>22 you'll be entering into a new contract with</p> <p>23 the same providers or another provider to</p> <p>24 assist or deliver a disaster recovery plan.</p> <p>25 Am I gathering from this that really you're</p>
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<p>1 looking at trying to put in a plan so when you</p> <p>2 go for tender, I presume it will be a tendered</p> <p>3 proposal, for a disaster plan that would give</p> <p>4 you the capability of having a delivery closer</p> <p>5 to home, I mean?</p> <p>6 MR. DOWNTON:</p> <p>7 A. Yes, that is correct. We're looking at</p> <p>8 establishing a site on the island.</p> <p>9 Q. I'm sort of, that's what I got confused in</p> <p>10 when you said that. But maybe when you go to</p> <p>11 tender, I mean, the way communications things</p> <p>12 are today, it could be somebody in India, from</p> <p>13 what you understand, a very low delivery cost</p> <p>14 can deliver a plan that would cost you</p> <p>15 substantially less than the \$200,000 you have,</p> <p>16 you're spending now, so, but there's no need</p> <p>17 to have a site here, I mean, in their wisdom</p> <p>18 when they answer your tender call, or are you</p> <p>19 going to put something around that tender call</p> <p>20 saying that they have to use your site here?</p> <p>21 MR. DOWNTON:</p> <p>22 A. They would have to use our site. And that</p> <p>23 will be in what's tendered.</p> <p>24 Q. Yeah. But -</p> <p>25 MR. NICHOLS:</p>	<p>1 A. Really what we're getting to is we want--they</p> <p>2 want them to bring the computers to us rather</p> <p>3 than us go to the computers. So I guess this</p> <p>4 would establish the site where those computers</p> <p>5 could be installed and used for DRP purposes.</p> <p>6 MR. DOWNTON:</p> <p>7 A. Right now I guess with the existing SunGard</p> <p>8 proposal contract they provide the facility</p> <p>9 and the computers. And I guess our analysis</p> <p>10 shows that if we provide the facility and they</p> <p>11 bring the computers to our facility, we will</p> <p>12 basically see a reduction in our overall</p> <p>13 disaster recovery planning costs.</p> <p>14 Q. Okay. So you have done some analysis. Is</p> <p>15 that in any of the -</p> <p>16 MR. DOWNTON:</p> <p>17 A. That was, I mentioned that earlier when Mr.</p> <p>18 Hutchings brought it up. We basically feel</p> <p>19 that we would save on average--well, we would</p> <p>20 pay for this project in the 12 to 18 month</p> <p>21 time frame.</p> <p>22 Q. Okay. So there was no information request</p> <p>23 outlining that internal study, things you've</p> <p>24 done for that?</p>

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<p>1 MR. DOWNTON: 2 A. No. 3 Q. Okay. Nobody asked that. Okay. That's all 4 my questions, Chair. 5 (Time: 1:16 p.m.) 6 CHAIRMAN: 7 Q. Commissioner Martin? Mr. Nichols, Mr. 8 Downtown, Mr. Haynes, thank you, very much. 9 GREENE, Q.C.: 10 Q. Mr. Chair, our next witness is John Roberts 11 who is the Vice-President of Finance and Chief 12 Financial Officer for Hydro. I think it will 13 just take him a moment to get set up there 14 when the other witnesses leave. 15 MR. JOHN ROBERTS (SWORN) 16 CHAIRMAN: 17 Q. State your full name for the record. 18 A. My name is John Roberts. 19 GREENE, Q.C.: 20 Q. Mr. Roberts, what is your current position 21 with Hydro and what are the responsibilities 22 of that position? 23 A. I am the Vice-President of Finance and Chief 24 Financial Officer of Newfoundland and Labrador 25 Hydro and interrelated companies. I have</p>	<p>1 responsibility for the controllership 2 functions which would include accounts 3 payable, financial reporting and budgeting and 4 general accounting. I have responsibility for 5 all treasury activities which would primarily 6 include cash management and debt management. 7 I have responsibility for rates and customer 8 services, including financial planning and the 9 administration of the corporate insurance 10 program. 11 Q. Mr. Roberts, how long have you been with Hydro 12 and what positions have you held prior to your 13 current one? 14 A. I have been with Hydro almost 21 years. I 15 first started in December, 1983 as an 16 accounting manager, and in 1985 I was promoted 17 to the position of corporate controller. That 18 position I held until I was appointed Vice- 19 President of Finance on January the 1st, 2003. 20 Q. Pre-filed evidence was filed with the Board on 21 August 10 of 2004 under the heading of 22 "Finance". Do you accept this evidence as 23 yours for the purposes of this hearing? 24 A. Yes, I do. 25 Q. With the application that was filed on the</p>
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<p>1 same date there was a Section F to the 2 application which was the status of the 2004 3 Capital Budget. A revised Section F was filed 4 on September 28th in response to IC-49 which 5 provides the status of the 2004 capital to the 6 end of August this year. Do you accept the 7 revised Section F to the application as your 8 evidence for the purpose of this hearing? 9 A. Yes, I do. 10 Q. Mr. Roberts, I wonder if you could please 11 describe the Capital Budget process which is 12 followed by Hydro and particularly with 13 respect to the 2005 Capital Budget process 14 that's before the Board? 15 A. Yes. The procedures that are followed 16 relative to the preparation of the Capital 17 Budget process are outlined on pages 2 to 4 of 18 my evidence. The process basically takes 19 approximately about nine months from start to 20 finish and involves the review and evaluation 21 of every Capital Budget proposal that is 22 prepared to determine if it should be moved 23 forward for approval to the next level of 24 supervision. The budget process starts with 25 the issuance of budget instructions and a time</p>	<p>1 table and the commencement of an update to the 2 long term planning load forecast in order to 3 determine the requirement for new generation 4 projects. Supervisory personnel in the 5 various areas would review their requirements 6 with the regional managers and plant managers 7 to identify potential projects that they would 8 consider for the current year's budget that's 9 under way. The criteria that they would be 10 looking at would be areas of projects related 11 to safety, projects related, required by 12 regulation, projects that are required to 13 maintain and to improve reliability and 14 availability of an acceptable level of service 15 to our customers and to reduce costs and 16 improve efficiency. Once the decision is made 17 to include these types of projects, Capital 18 Budget forms are completed and forwarded for 19 further review and cost estimates as required. 20 The various directors would undertake a review 21 of the individual proposals taking into 22 account the previously mentioned criteria as 23 well as the cost estimates. After the 24 directors finish their review, they are 25 further reviewed with the individual vice</p>

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<p>1 MR. ROBERTS:</p> <p>2 -presidents and subsequent to resolution of</p> <p>3 any things that have, requiring further</p> <p>4 clarification a document is then prepared for</p> <p>5 presentation to the management committee of</p> <p>6 Hydro. At the management committed level of</p> <p>7 Hydro we are provided with a summary and a</p> <p>8 complete detail of all Capital Budget</p> <p>9 proposals and any additional supporting</p> <p>10 information that may be available or as</p> <p>11 requested. After approval by the management</p> <p>12 committee the Capital Budget is approved by</p> <p>13 Hydro's Board of Directors and subsequent to</p> <p>14 that then it is submitted to the Public</p> <p>15 Utilities Board for approval.</p> <p>16 Q. Mr. Roberts, in your answer you referred to</p> <p>17 the management committee. What is the</p> <p>18 management committee for Hydro?</p> <p>19 A. The management committee of Hydro consists of</p> <p>20 the present CEO, Vice-President of Production,</p> <p>21 the Vice-President of Transmission and Rural</p> <p>22 Operations, myself as Vice-President of</p> <p>23 Finance and the Vice-President of Human</p> <p>24 Resources, general counsel and corporate</p> <p>25 secretary.</p>	<p>1 Q. So really, the function is the executive of</p> <p>2 the Corporation, is that correct?</p> <p>3 A. Yes, it is.</p> <p>4 Q. As the VP Finance, what is your role in the,</p> <p>5 first the preparation of the Capital Budget?</p> <p>6 A. My responsibility is to oversee the complete</p> <p>7 Capital Budget process, beginning as I have</p> <p>8 just outlined, the issuance of instructions</p> <p>9 and a time table up to and including final</p> <p>10 approval by the Hydro Board of Directors and</p> <p>11 subsequent submission to the Public Utilities</p> <p>12 Board. I am also the Vice-President of</p> <p>13 Finance, so I would also be intimately</p> <p>14 involved in any Capital Budget proposals that</p> <p>15 will be coming forward from the various</p> <p>16 directors within the finance division. As a</p> <p>17 member of management I would also be involved</p> <p>18 in reviewing all budget proposals and</p> <p>19 supporting documentation where necessary.</p> <p>20 Q. After an annual Capital Budget gets approved,</p> <p>21 what is your role as VP Finance with respect</p> <p>22 to that Capital Budget?</p> <p>23 A. My role after the budget is approved is to</p> <p>24 ensure that there is a proper reporting system</p> <p>25 in place to provide the necessary information</p>
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<p>1 to project managers to manage these projects</p> <p>2 as well as to provide information to the</p> <p>3 management committee, the Board of Directors</p> <p>4 and to the Public Utilities Board as required.</p> <p>5 Q. Now, on page 4 of your pre-filed evidence you</p> <p>6 mention a guideline that has been developed</p> <p>7 and used by Hydro with respect to the size or</p> <p>8 the amount of a capital budget. Thank you,</p> <p>9 Mr. O'Rielly. It's there referred to on page-</p> <p>10 on lines 1 to 5 of page 4. Could you please</p> <p>11 explain for the Commissioners what is the</p> <p>12 guideline and how it worked for 2005?</p> <p>13 A. The guideline that Hydro has used for several</p> <p>14 years is that it endeavours to try to limit</p> <p>15 its capital program to what's referred to as</p> <p>16 the cash flow from operations. And in that</p> <p>17 respect we're referring to the net operating</p> <p>18 income for the year which for 2005 could be in</p> <p>19 the order of approximately 11 to 12 million</p> <p>20 dollars, plus depreciation of approximately 35</p> <p>21 million for a total of 45 to 47 million</p> <p>22 dollars. However, it is a guideline. There</p> <p>23 are occasions when the guideline will be</p> <p>24 exceeded, there are other times when it may be</p> <p>25 less. In the case of the Capital Budget for</p>	<p>1 2005 we're requesting the approval of 42.4</p> <p>2 million dollars, which is in the range of what</p> <p>3 we would use as a financial guideline.</p> <p>4 Q. If the budget is approved in the total amount,</p> <p>5 how will the proposed 2005 capital</p> <p>6 expenditures be financed?</p> <p>7 A. The 2005 Capital Budget expenditures will be</p> <p>8 financed from a combination of internally</p> <p>9 generated funds and the issuance of short-term</p> <p>10 promissory notes.</p> <p>11 Q. At this time Hydro does not foresee then a</p> <p>12 requirement for long-term financing in 2005,</p> <p>13 is that correct?</p> <p>14 A. That is correct. There's no current plans for</p> <p>15 long-term financing in 2005.</p> <p>16 Q. I'd like to move now to specific projects for</p> <p>17 which you are responsible in this hearing.</p> <p>18 And I'd like now, please, Mr. O'Rielly, to go</p> <p>19 to page A-11. Is it correct, Mr. Roberts,</p> <p>20 that you are speaking to the projects that are</p> <p>21 listed there under the heading of</p> <p>22 "Administration"?</p> <p>23 A. Yes, I'm to provide verification for the ones</p> <p>24 listed on "Administration".</p> <p>25 Q. What types of projects are listed under that</p>

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<p>1 GREENE, Q.C.:</p> <p>2 heading of "Administration"?</p> <p>3 A. Projects that are included here are the</p> <p>4 replacement of some electronic meter reading</p> <p>5 devices, a chiller replacement and a diesel</p> <p>6 fuel system replacement at Hydro Place,</p> <p>7 storage ramp at Bishop Falls, a security</p> <p>8 assessment for a system operation and some</p> <p>9 office equipment.</p> <p>10 Q. Moving now to the issue of rate base. Is it</p> <p>11 correct that the Board fixed Hydro's 2002 rate</p> <p>12 base during Hydro's 2003 general rate</p> <p>13 application?</p> <p>14 A. Yes, it is.</p> <p>15 Q. I wonder, Mr. O'Rielly, if we could go to page</p> <p>16 H-1 of Section H of the application? This</p> <p>17 sets out, Mr. Roberts, the 2002 rate base</p> <p>18 fixed by the Board by order No. P.U. 14, is</p> <p>19 that correct, is that what's shown there for</p> <p>20 2002?</p> <p>21 A. Yes, it is.</p> <p>22 Q. What is Hydro requesting that the rate base be</p> <p>23 set at for 2003?</p> <p>24 A. Hydro is requesting that the rate base be set</p> <p>25 at the amount that's shown here on H-1 for the</p>	<p>1 2003 column which is \$1,422,412,000.</p> <p>2 Q. And what is the primary reason for the</p> <p>3 increase from the rate base set for 2002?</p> <p>4 A. The primary reason for the increase in the</p> <p>5 rate base is the inclusion of the Granite</p> <p>6 Canal project which came in service in June of</p> <p>7 2003.</p> <p>8 Q. Why is Hydro requesting that the 2003 rate</p> <p>9 base be fixed at this time?</p> <p>10 A. Hydro feels that this is an area where all the</p> <p>11 actual numbers are now known and they have</p> <p>12 been reviewed and audited by the Board's</p> <p>13 financial consultants. It will also eliminate</p> <p>14 the uncertainty of any major adjustments in</p> <p>15 different reporting periods which could be of</p> <p>16 concern to our external auditors and rating</p> <p>17 agencies in the event that something did</p> <p>18 happen, and it's also a precedent within the</p> <p>19 current jurisdiction that the rate base be</p> <p>20 approved on an actual basis.</p> <p>21 Q. And that precedent that you are referring to</p> <p>22 is the practice to fix at a capital budget</p> <p>23 hearing the average rate base for Newfoundland</p> <p>24 Power for a preceding year, is that correct?</p> <p>25 A. That is correct.</p>
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<p>1 Q. I'd like now to go to page 6 of your pre-filed</p> <p>2 evidence. And I wanted to discuss with you</p> <p>3 lines 1 to 5 where you state that the impact</p> <p>4 on revenue requirement of the inclusion in</p> <p>5 rate base of the capital expenditures for 2005</p> <p>6 that come in service in 2005 will be an</p> <p>7 increase of approximately 1.7 million dollars.</p> <p>8 Could you please explain for the Commissioners</p> <p>9 how that 1.7 million dollars was calculated?</p> <p>10 A. Yes. The 2005 capital expenditures related to</p> <p>11 projects that will be completed and coming in</p> <p>12 service in 2005 amount to 33.9 million</p> <p>13 dollars. Associated with those additions</p> <p>14 there is 5.1 million dollars worth of assets</p> <p>15 with an original cost that will be written out</p> <p>16 of the records has resulted in new additions.</p> <p>17 So we have a net increase in the original</p> <p>18 capital cost of 2.8 million dollars. As the</p> <p>19 calculation of rate base, our return on rate</p> <p>20 base that was approved in P.U. 7 is 7.467</p> <p>21 percent and the average rate base is the</p> <p>22 opening and closing, the opening is zero and</p> <p>23 the closing is 28, so the average rate base is</p> <p>24 14.4 million dollars times the return on rate</p> <p>25 base gives us approximately 1.1 million</p>	<p>1 dollars for a return on rate base. That</p> <p>2 return on rate base in effect is covering the</p> <p>3 financing costs as well as a margin on the</p> <p>4 particular assets. The remaining \$600, 000</p> <p>5 represents the calculation of the depreciation</p> <p>6 expense that would be included on those</p> <p>7 particular assets coming in service at various</p> <p>8 times throughout 2005, net of the depreciation</p> <p>9 on the retirements for approximately 0. 6</p> <p>10 million for a total when combined with the</p> <p>11 return to give us the 1.7 million dollars.</p> <p>12 Q. So the 1.7 million dollars, and you've gone</p> <p>13 through the detailed calculation, it is simply</p> <p>14 the interest margin and depreciation</p> <p>15 associated with the assets that come in</p> <p>16 service in 2004, is that correct?</p> <p>17 A. Yes, it is.</p> <p>18 Q. Now, you've talked about what the theoretical</p> <p>19 impact and the revenue requirement would be</p> <p>20 for this one item only, which is the increase</p> <p>21 in the capital assets in service in 2005.</p> <p>22 Could you explain what impact there would be</p> <p>23 on rates for customers as a result of the</p> <p>24 approval of the 2005 Capital Budget?</p> <p>25 A. There will be no impact in 2005 from those</p>

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<p>1 MR. ROBERTS:</p> <p>2 assets coming in service. There can be no</p> <p>3 impact on rate until such time as Hydro makes</p> <p>4 an application before the Board and the</p> <p>5 proceedings through a general rate application</p> <p>6 take place. The amount that's shown here is</p> <p>7 the amount that's just taken as being in</p> <p>8 isolation of the specific impact of just that</p> <p>9 one particular transaction. There are many</p> <p>10 other factors that would come into play that</p> <p>11 could negate the impact of that on future</p> <p>12 rates. As I had outlined, this only reflects</p> <p>13 the actual return that we're allowed to earn,</p> <p>14 plus depreciation. It doesn't reflect into</p> <p>15 account any changes in operating and</p> <p>16 maintenance costs or any other costs that may</p> <p>17 be changing throughout the year as well.</p> <p>18 Q. So the actual change in rates will occur at</p> <p>19 such time as Hydro will be applying for a</p> <p>20 future general rate increase, is that correct?</p> <p>21 A. That's correct.</p> <p>22 Q. And in approving the Capital Budget for 2005,</p> <p>23 and in fact, any capital budget, what</p> <p>24 consideration is given by Hydro and the</p> <p>25 executive of Hydro in its final review with</p>	<p>1 respect to the impact on customers rates of a</p> <p>2 particular year's capital budget?</p> <p>3 A. Well, Hydro is reviewing its Capital Budget</p> <p>4 based on the criteria that I had outlined</p> <p>5 earlier which is looking at items that are of</p> <p>6 a safety nature that must be done, items that</p> <p>7 are required by regulation, looking at how to</p> <p>8 maintain and improve reliability and</p> <p>9 availability of service to customers, we look</p> <p>10 at ways to reduce costs and improve</p> <p>11 efficiency. That's the areas that are looked</p> <p>12 at from a capital perspective. And from an</p> <p>13 operating perspective we're looking at line by</p> <p>14 line costs, taking into account that some of</p> <p>15 the items that are in the various Capital</p> <p>16 Budget proposals will have some impact on the</p> <p>17 operating costs. And the various staff that</p> <p>18 are involved in the preparation of the</p> <p>19 operating budgets would be reflecting any</p> <p>20 savings that they would, say, for instance, we</p> <p>21 mentioned this morning about the change in the</p> <p>22 postage costs, they would be reflected in the</p> <p>23 operating budget for that particular year.</p> <p>24 (Time: 1:33 p.m.)</p> <p>25 A. So the operating costs are certainly very high</p>
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<p>1 level concern and the impact of a capital</p> <p>2 budget on operating costs is of major concern</p> <p>3 to us. What costs can we do to control all</p> <p>4 costs, not just because we got a capital</p> <p>5 budget hearing, but just as being prudent</p> <p>6 business to maintain costs at the most</p> <p>7 reasonable level and provide an acceptable</p> <p>8 level of service. However, at the end of the</p> <p>9 date, in the provision of acceptable level of</p> <p>10 service, there are sometimes costs that may be</p> <p>11 incurred that will require additional</p> <p>12 expenditures to be made.</p> <p>13 GREENE, Q.C.:</p> <p>14 Q. Thank you, Mr. Roberts. That concludes the</p> <p>15 direct evidence for Mr. Roberts.</p> <p>16 CHAIRMAN:</p> <p>17 Q. Thank you, Ms. Greene. Mr. Alteen.</p> <p>18 MR. ALTEEN:</p> <p>19 Q. Just a couple of areas, Mr. Chairman. First,</p> <p>20 if you could go to page six again, Mr.</p> <p>21 O'Rielly, please of Mr. Roberts' pre-filed?</p> <p>22 The 1.7 million up there that you've referred</p> <p>23 to on line 5, Mr. Roberts, that specifically</p> <p>24 wouldn't include items such as the lower</p> <p>25 operating costs that we heard testimony this</p>	<p>1 morning about in relation to SunGard and the</p> <p>2 security system? That isn't factored into</p> <p>3 that, is it?</p> <p>4 A. No, there's no operating costs factored into</p> <p>5 the \$1.7 million. It's strictly return on the</p> <p>6 capital investment plus the depreciation</p> <p>7 that's associated with that capital</p> <p>8 investment.</p> <p>9 Q. And to the extent Hydro achieves operating</p> <p>10 efficiencies that we've heard about through</p> <p>11 the two panels or three panels that have</p> <p>12 testified to date, that would tend to reduce</p> <p>13 that number, wouldn't it? It would have that</p> <p>14 tendency in a rate case scenario?</p> <p>15 A. In a rate case scenario, then it would reduce</p> <p>16 it.</p> <p>17 Q. Yes. Thank you very much. One other point.</p> <p>18 This morning, just moments ago, in relation to</p> <p>19 the rate base, setting a rate base for 2003,</p> <p>20 you had indicated that it would be a concern</p> <p>21 potentially to your auditors and you mentioned</p> <p>22 periodic reporting. Mr. Roberts, is it a fair</p> <p>23 assumption that once the rate base is</p> <p>24 approved, it will make your future long-term</p> <p>25 financing of the assets included in rate base</p>

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<p>1 MR. ALTEEN:</p> <p>2 more simple and transparent for capital</p> <p>3 markets? Is that a fair observation?</p> <p>4 A. Well, settling the rate base fixes what we're</p> <p>5 allowed to earn on, and it eliminates an</p> <p>6 uncertainty of going out in two or three years</p> <p>7 from now, and you've already financed these</p> <p>8 assets, having a risk of something being</p> <p>9 disallowed and impacting on what the credit</p> <p>10 rating could be or what the valuation that's</p> <p>11 being placed by the crediting agency gives on</p> <p>12 the assets of the company.</p> <p>13 Q. I don't mean to put words in your mouth, but</p> <p>14 as the CFO of the company, are you--is it your</p> <p>15 evidence that it is beneficial to the</p> <p>16 company's access to capital that it be</p> <p>17 approved as proposed?</p> <p>18 A. I think it's very beneficial to have the</p> <p>19 numbers verified and approved and agreed upon</p> <p>20 in the year in which they happen, to the</p> <p>21 extent that you can. It eliminates an element</p> <p>22 of uncertainty towards the future.</p> <p>23 Q. Thank you, Mr. Roberts. Those are my</p> <p>24 questions, Mr. Chair.</p> <p>25 CHAIRMAN:</p>	<p>1 Q. Thank you, Mr. Alteen. Mr. Hutchings.</p> <p>2 HUTCHINGS, Q.C.:</p> <p>3 Q. Yes, thank you, Mr. Chairman. Mr. Roberts, I</p> <p>4 don't want to get into a long debate about</p> <p>5 Hydro's financing and so on, but isn't it</p> <p>6 correct that Hydro's access to capital markets</p> <p>7 and the ease of its financing is essentially</p> <p>8 dependent upon the guarantee that it gets from</p> <p>9 the Provincial Government?</p> <p>10 A. Hydro's debt is guaranteed by the Province and</p> <p>11 that does facilitate access to funds. We can</p> <p>12 never be better than the province, but we can</p> <p>13 certainly, to the extent we can, not cause a</p> <p>14 deterioration towards the Province, which is</p> <p>15 what has been known for quite some time.</p> <p>16 Q. Okay. And Hydro has been subject to a rate of</p> <p>17 return type of regulation since 1996? Is that</p> <p>18 correct?</p> <p>19 A. We became fully rate regulated in 1996, but</p> <p>20 the first visit back before the Public</p> <p>21 Utilities Board for a general rate</p> <p>22 application, I think that methodology was in</p> <p>23 the 2001 General Rate Application.</p> <p>24 Q. And it was in the 2001 General Rate</p> <p>25 Application that Hydro first had its rate base</p>
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<p>1 fixed, since it became rate base regulated,</p> <p>2 correct?</p> <p>3 A. The 2001 rate base was fixed at that</p> <p>4 application.</p> <p>5 Q. Yes, and this represents the first time, other</p> <p>6 than in a general rate application, that Hydro</p> <p>7 has applied to the Board to have its rate base</p> <p>8 fixed? Is that correct?</p> <p>9 A. Yes, in a capital budget hearing, and it will</p> <p>10 be what we'd proceed to do in the future as</p> <p>11 well, at each capital budget hearing to fix</p> <p>12 the rate base that's actually occurred the</p> <p>13 year before.</p> <p>14 Q. Okay. Yes, I understand that's your intent,</p> <p>15 but in a capital budget hearing or in any</p> <p>16 other proceeding other than a general rate</p> <p>17 hearing, there has never been an application</p> <p>18 from Hydro to fix its rate base, correct?</p> <p>19 A. No, because 2001 was the first general rate</p> <p>20 application. Then because of timing and</p> <p>21 circumstances, it just wasn't done. If we</p> <p>22 hadn't been going back to back with a general</p> <p>23 rate application in 2003, then we would have</p> <p>24 been back applying for the rate base to be</p> <p>25 approved.</p>	<p>1 Q. Okay. What you would have done is a different</p> <p>2 question than the one I asked. There has not</p> <p>3 been an application by Hydro, other than in a</p> <p>4 general rate application, to fix its rate</p> <p>5 base, other than the one that's now before</p> <p>6 this Board? Is that correct?</p> <p>7 A. That's correct.</p> <p>8 Q. Yes, thank you.</p> <p>9 GREENE, Q.C.:</p> <p>10 Q. But I think it's fair to the witness to be</p> <p>11 allowed to explain the answer, that we've been</p> <p>12 blessed in the sense we've had two rate</p> <p>13 applications, one when we got the order in</p> <p>14 2002 and when we filed again in 2003.</p> <p>15 HUTCHINGS, Q.C.:</p> <p>16 Q. Mr. Chairman, Ms. Greene will have an</p> <p>17 opportunity to present her argument.</p> <p>18 GREENE, Q.C.:</p> <p>19 Q. Mr. Hutchings -</p> <p>20 CHAIRMAN:</p> <p>21 Q. I think, Ms. Greene, in all fairness as well,</p> <p>22 he has explained, you know -</p> <p>23 GREENE, Q.C.:</p> <p>24 Q. And I think he should be -</p>

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<p>1 CHAIRMAN: 2 Q. - his reasoning and the Board - 3 GREENE, Q.C.: 4 Q. - he should be given the opportunity. 5 CHAIRMAN: 6 Q. - understands the reasoning that he gave. 7 HUTCHINGS, Q.C.: 8 Q. Thank you, Mr. Chairman. Mr. Roberts, the 9 amount of your rate base now determines, does 10 it not, the amount that Hydro is permitted to 11 earn in any given year? 12 A. The rate base is the basis upon which the 13 approved rate of return is applied, and then 14 from there, you may determine what the 15 earnings of the company are, relative to 16 return on equity. 17 Q. And as and when this Board makes an order with 18 respect to excess earnings of Hydro, the fact 19 that your rate base for a given year has been 20 approved at a higher amount will increase the 21 amount of money that Hydro can keep before 22 engaging any excess earnings account? Isn't 23 that correct? 24 A. If rate base increases and you apply the 25 return against it, then you'll have a new</p>	<p>1 number. So you will be able to earn on the 2 asset as you go through the piece, based on 3 that premise, all things being held equally in 4 isolation. 5 Q. Okay. Now moving to another subject, can you 6 explain to the Board why the target for 7 capital expenditures by Hydro has changed 8 since last year? 9 A. The philosophy and the guideline has always 10 been net cash flow from operations and we base 11 it on what the numbers are for depreciation 12 and what our estimate of what net income may 13 be for a year. But it's a guideline. It's 14 not a hard and fast rule that Hydro will only 15 do this for a capital budget program. It 16 looks at the reliability and the level of 17 service it must provide. It reviews all 18 projects in accordance with the criteria 19 that's established and then based on that, 20 then we settle on what the level of capital 21 program is for that particular year. 22 Q. Mr. O'Rielly, can we bring up the finance 23 evidence from the 2004 Capital Budget at page 24 four? Referring to that evidence, which is 25 your evidence from the last capital budget</p>
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<p>1 hearing, the second sentence in the first 2 paragraph, starting at line three, says "the 3 target for the last couple of years has been 4 to keep our capital expenditures to the level 5 of depreciation, which is - 6 CHAIRMAN: 7 Q. Excuse me. Line three, what page, Mr. 8 Hutchings? 9 HUTCHINGS, Q.C.: 10 Q. This is page four of the finance evidence of 11 2004, Mr. Chair. 12 CHAIRMAN: 13 Q. Thank you. 14 HUTCHINGS, Q.C.: 15 Q. "The target for the last couple of years has 16 been to keep our capital expenditures to the 17 level of depreciation, which is approximately 18 34 million for 2004." If we can return to 19 page four of the 2005 capital budget evidence, 20 at line two, you say "the target for the last 21 couple of years has been to keep capital 22 expenditures to the level of net income, 23 depreciation and some other non-cash items, 24 which for 2005 is approximately 35.3 million 25 for depreciation and 11 to 12 million for net</p>	<p>1 income." Now those two statements both refer 2 to the last couple of years and they say 3 different things. Can you explain why they 4 say different things? One says it's 5 restricted to depreciation. The other says 6 it's restricted to net income plus 7 depreciation plus other non-cash items. 8 A. The non-cash items are there may be some other 9 non-cash items there and we're referring to 10 cash flow from operations. Normally it's net 11 income plus depreciation. For 2003, we knew 12 we were going to possibly experience a loss, 13 so we're trying to minimize the cash flow that 14 we had. In the case of 2004, the uncertainty 15 wasn't there relative to where the general 16 rate application was heading and what return, 17 if any, we were getting. And as I mentioned, 18 this is a guideline. This is not a hard and 19 fast rule. For instance, in 2003, we were 20 expending money on Granite Canal. We were 21 expending money in 2002 on Granite Canal. We 22 spent money that would have been in excess of 23 what depreciation would have been, plus even 24 net income for that matter, in a particular 25 year. But it is a guideline that we use</p>

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<p>1 MR. ROBERTS:</p> <p>2 internally when we're reviewing our capital</p> <p>3 program, taking into account the criteria that</p> <p>4 we're looking at together with the other</p> <p>5 factors that are involved.</p> <p>6 (Time: 1:45 p.m.)</p> <p>7 Q. In May of 2003, you said "the target for the</p> <p>8 last couple of years has been to keep capital</p> <p>9 expenditures to the level of depreciation" and</p> <p>10 you're saying that in the context of a 2004</p> <p>11 capital budget hearing. So is it fair to say</p> <p>12 that that target referred to 2003, 2002?</p> <p>13 A. I think it's primarily just 2003, 2004,</p> <p>14 because we were looking at what was happening.</p> <p>15 We had just come out of the 2001 GRA. The</p> <p>16 order wasn't received until sometime, I think</p> <p>17 it was, in September. There was uncertainty</p> <p>18 there. We knew we were going to be going back</p> <p>19 for another hearing because of Granite Canal,</p> <p>20 the new power purchase agreements. Time just</p> <p>21 wasn't there in order to be able to do it, and</p> <p>22 a decision was made that we are anticipating a</p> <p>23 potential loss in those years and the</p> <p>24 uncertainty that was there, it was the</p> <p>25 guideline that we decided we'd try to keep</p>	<p>1 target down to just depreciation, recognizing</p> <p>2 that there may be losses in those particular</p> <p>3 years.</p> <p>4 Q. So in August 2004, when you say "the target</p> <p>5 for the last couple of years" which is</p> <p>6 presumably 2003, 2004, is the cumulation of</p> <p>7 net income, depreciation and other cash items,</p> <p>8 then that represents a change from what you</p> <p>9 said last year? Isn't that correct?</p> <p>10 A. I think the basic concept of looking at net</p> <p>11 cash flow from operations is the same. I</p> <p>12 guess when I made the comment last year, I was</p> <p>13 looking at that I knew in my mind that we were</p> <p>14 having a loss for 2003 and 2004 was uncertain.</p> <p>15 So that's why I made the reference to that</p> <p>16 we're just limiting it to just depreciation,</p> <p>17 to the extent that we possibly can.</p> <p>18 Q. So looking at your two pieces of evidence from</p> <p>19 last year and this year, has there been a</p> <p>20 change in the target?</p> <p>21 A. The target, it's a guideline.</p> <p>22 Q. Okay. The -</p> <p>23 A. The guideline is -</p> <p>24 Q. I understand how you characterize the target.</p> <p>25 A. - the capital program should not be cash flow</p>
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<p>1 from operations.</p> <p>2 Q. Your answer is not being helpful to me at this</p> <p>3 point, Mr. Roberts. I understand that you</p> <p>4 characterize the target as a guideline. My</p> <p>5 question to you -</p> <p>6 A. It's the target -</p> <p>7 Q. - is has the target changed?</p> <p>8 A. Yes, because we had a loss in 2003 and we</p> <p>9 don't anticipate a loss in 2005.</p> <p>10 Q. Okay. All right. And your capital budget</p> <p>11 proposed for 2004 was within the level of</p> <p>12 depreciation alone, wasn't it?</p> <p>13 A. I believe that it was.</p> <p>14 Q. And the capital budget for 2005 would exceed</p> <p>15 the level of depreciation alone, would it not?</p> <p>16 A. Yes, capital budget is 42 and the estimate of</p> <p>17 depreciation is 35.</p> <p>18 Q. Mr. Roberts, if you could look at page A-11 of</p> <p>19 this year's application? You said that you</p> <p>20 would be responding in respect of the items</p> <p>21 under the heading "administration" in this</p> <p>22 particular--on this particular page. Can you</p> <p>23 explain for the Board the entry "purchase and</p> <p>24 replace administrative office equipment less</p> <p>25 than \$50,000," which is a budget item of</p>	<p>1 \$114,000 for 2005?</p> <p>2 A. That's various pieces of office equipment that</p> <p>3 will be required that are less than \$50,000,</p> <p>4 that are grouped together and that's what</p> <p>5 makes up the 114,000, which is the same thing</p> <p>6 as grouping other pieces of equipment that you</p> <p>7 would have found through the other divisions</p> <p>8 in production and TRO, where it would be tools</p> <p>9 and equipment less than \$50,000 as one group.</p> <p>10 Same principle is applied here.</p> <p>11 Q. Okay. And how does that differ from an item</p> <p>12 such as surge arrestors, where depending on</p> <p>13 the number you buy, it may be more or less</p> <p>14 than \$50,000?</p> <p>15 A. Well, the pieces of equipment, like for</p> <p>16 instance, a fax machine for Hydro Place, a</p> <p>17 filing cabinet, it's just various pieces that</p> <p>18 are associated with the administration side of</p> <p>19 things within Hydro Place that are being</p> <p>20 accumulated from the various departments and</p> <p>21 consolidated underneath administration.</p> <p>22 Q. How much of this \$114,000 is being spent on</p> <p>23 furniture for Hydro Place?</p> <p>24 A. 40,000.</p> <p>25 Q. What's the nature of that expenditure?</p>

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<p>1 MR. ROBERTS:</p> <p>2 A. Panel furniture for our call centre in our</p> <p>3 customer services section.</p> <p>4 Q. Is that replacement of existing material?</p> <p>5 A. No, it's not.</p> <p>6 Q. Why is new furniture required?</p> <p>7 A. Because we're relocating the customer services</p> <p>8 to an enclosed area. They're presently in an</p> <p>9 open area, and we're relocating them to a more</p> <p>10 secure area and changing the configuration.</p> <p>11 Q. So why is it that they cannot take their</p> <p>12 existing furniture with them?</p> <p>13 A. The furniture is not compatible to the set up</p> <p>14 for a customer service centre.</p> <p>15 Q. How long have they been in their current</p> <p>16 situation?</p> <p>17 A. I'm just guessing, four or five years.</p> <p>18 Q. If we can look for a moment at page B-153?</p> <p>19 This project is described as a security</p> <p>20 assessment of system operations and the</p> <p>21 project justification it's noted, "this</p> <p>22 project will be the first risk assessment of</p> <p>23 their facilities." Do I understand from that</p> <p>24 that Hydro to date has not made any assessment</p> <p>25 of risks associated with its critical</p>	<p>1 facilities?</p> <p>2 A. This is the first corporate-wide assessment</p> <p>3 that's been done. There may have been</p> <p>4 individual assessments done at individual</p> <p>5 locations, but we're endeavouring here, the</p> <p>6 intent on this proposal is to look at all of</p> <p>7 our major centres by an individual, rather</p> <p>8 than just piecemeal, and from there, determine</p> <p>9 whether or not what additional measures, if</p> <p>10 any, may be required, and to set the tone for</p> <p>11 future decisions relative to assessment of</p> <p>12 risk.</p> <p>13 Q. And -</p> <p>14 A. Where is the priority?</p> <p>15 Q. Okay. And have capital funds been approved</p> <p>16 for these prior risk assessments that were</p> <p>17 restricted to individual facilities?</p> <p>18 A. I don't know the answer to that.</p> <p>19 Q. That would ordinarily be an operating expense,</p> <p>20 would it not?</p> <p>21 A. Depending on who did the review. I don't</p> <p>22 know. I can't answer if we've hired an</p> <p>23 outside consultant to do a security risk</p> <p>24 assessment at other locations.</p> <p>25 Q. You say that it's characterization as a</p>
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<p>1 capital or an operating expense would depend</p> <p>2 upon who did the review?</p> <p>3 A. If our own internal people did an assessment</p> <p>4 of what they felt, that may trigger a capital</p> <p>5 budget proposal to have work done. Here we're</p> <p>6 hiring a consultant who's going to do a</p> <p>7 particular study and from there, we'll assess</p> <p>8 whether or not additional work is required.</p> <p>9 Q. That's what your people have been doing year</p> <p>10 over year all the time, is it not?</p> <p>11 A. Our people are managing their facilities as</p> <p>12 best that they can, but this is an independent</p> <p>13 outside security risk assessment of our</p> <p>14 facilities.</p> <p>15 Q. But this project in itself is not going to</p> <p>16 produce any capital asset for you, is it?</p> <p>17 A. It may. I can't prejudge the outcome.</p> <p>18 Q. No, this project in itself, assuming that it's</p> <p>19 done and the report says you're in fine shape,</p> <p>20 you don't need to spend any more capital</p> <p>21 money, that won't produce any capital asset</p> <p>22 for you, will it?</p> <p>23 A. No. However, it is our policy that if you're</p> <p>24 conducting a study, that we would normally</p> <p>25 capitalize the study and we'd cover it over a</p>	<p>1 five-year period.</p> <p>2 Q. Okay. Let's look then at the answer to IC-86.</p> <p>3 We asked here for an explanation of your</p> <p>4 policies as to what expenditures are regarded</p> <p>5 as capital and which are regarded as</p> <p>6 operating. Am I correct in saying that</p> <p>7 there's nothing in the answer that you</p> <p>8 provided here that would make that designation</p> <p>9 turn upon whether or not the work was done in</p> <p>10 house or contracted out?</p> <p>11 A. No, there's no distinction in this policy</p> <p>12 about who's doing the actual work.</p> <p>13 Q. Okay. The notion of units of property which</p> <p>14 you discuss at line 20 and following, can you</p> <p>15 expand upon the definition that is given</p> <p>16 starting at line 24?</p> <p>17 A. Units of property are just primarily</p> <p>18 breakdowns of what's included within your</p> <p>19 Prime Asset that may or may not have the same</p> <p>20 useful life. For instance, you may have a</p> <p>21 transformer in a particular substation which</p> <p>22 is used and useful in its own right, and if</p> <p>23 the substation, for instance, as a useful life</p> <p>24 of 30 years, the transformer may only be good</p> <p>25 for ten. So what you would do is you would</p>

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<p>1 MR. ROBERTS:</p> <p>2 break out the assets into what's referred to</p> <p>3 as a Unit of Property, knowing that over the</p> <p>4 life of that particular Prime Asset, you may</p> <p>5 have to replace these particular assets two,</p> <p>6 three or four times. But there's an element</p> <p>7 of professional judgment that you're using</p> <p>8 here, in relationship to the analysis of the</p> <p>9 various capital budget proposals and what</p> <p>10 happens on an actual basis.</p> <p>11 Q. One of the examples you quote here is a wood</p> <p>12 pole structure.</p> <p>13 A. That's correct.</p> <p>14 Q. And you would regard a wood pole structure as</p> <p>15 being a unit of property?</p> <p>16 A. A wood pole structure is considered a unit of</p> <p>17 property and if the structure was destroyed,</p> <p>18 we would estimate the cost of the old one,</p> <p>19 remove it, and capitalize the new one.</p> <p>20 Q. Now does a wood pole structure include both a</p> <p>21 single pole in a transmission line or a</p> <p>22 distribution line and also a structure like an</p> <p>23 H-frame which may consist of four, six or</p> <p>24 seven actual poles together with crossbracing</p> <p>25 and so on?</p>	<p>1 A. I believe my understanding is that if the</p> <p>2 structure consists of three or four poles and</p> <p>3 we just replaced one, then we wouldn't</p> <p>4 capitalize it. It's got to be the structure.</p> <p>5 Q. All right. And the notion being then that the</p> <p>6 single pole is not useful in its own right or</p> <p>7 readily separable?</p> <p>8 A. The unit of property has been defined, in the</p> <p>9 case of the transmission lines, as your wooden</p> <p>10 pole structure. Whereas if you run a</p> <p>11 distribution line, you would be capitalizing</p> <p>12 all the poles because it's an actual pole by</p> <p>13 pole in the majority of cases in a</p> <p>14 distribution line, whereas in your</p> <p>15 transmission lines, there would be more poles</p> <p>16 to the structure.</p> <p>17 Q. So whether or not a single pole is a capital</p> <p>18 asset may depend upon what you're using that</p> <p>19 pole for?</p> <p>20 A. It would depend on whether or not it's a</p> <p>21 transmission line or a distribution line.</p> <p>22 Q. Okay. We asked, in IC-72, about surge</p> <p>23 arrestors in particular and I had some</p> <p>24 discussion with Mr. Martin concerning those.</p> <p>25 These items, according to IC-72, are on</p>
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<p>1 average worth about \$3,000, and they serve a</p> <p>2 particular function with respect to the</p> <p>3 protection of lines and when they fail,</p> <p>4 generally they fail catastrophically and you</p> <p>5 can't repair them, according to the evidence</p> <p>6 Mr. Martin gave. On what basis, with</p> <p>7 reference to your definition at IC-80--or not</p> <p>8 IC-80, I'm sorry, IC-86, do you regard these</p> <p>9 as units of property?</p> <p>10 A. The surge arrestor is considered to be part of</p> <p>11 the various terminal station, and we would add</p> <p>12 it to the cost of the terminal station. The</p> <p>13 terminal station is a prime asset.</p> <p>14 Q. A surge arrestor, in itself, is not</p> <p>15 independently operational, is it?</p> <p>16 A. It's considered to be part of the terminal</p> <p>17 station. It may be able to be operated</p> <p>18 independently, but from an accounting</p> <p>19 perspective and our evaluation of the capital</p> <p>20 budget proposal, it's part of the structure</p> <p>21 associated with a terminal station and we</p> <p>22 would just add it to the cost of the terminal</p> <p>23 station.</p> <p>24 Q. Okay. But you do regard it as a unit of</p> <p>25 property?</p>	<p>1 A. Yes, and as I say, it's added to the cost of</p> <p>2 the terminal station.</p> <p>3 (Time: 2:00 p.m.)</p> <p>4 Q. That's fine. But your definition of unit of</p> <p>5 property relates to an item that is</p> <p>6 independently operational. You regard surge</p> <p>7 arrestors as being independently operational?</p> <p>8 A. I can't answer it. I would assume that they</p> <p>9 can be used from place A to place B.</p> <p>10 Obviously if that's what the intent is that's</p> <p>11 here on a proposal, they can say the region</p> <p>12 (phonetic) surge arrestors in 69, 138 and 230</p> <p>13 kV voltage or if so, I'm not an electrical</p> <p>14 engineer, but I'm assuming that they would be</p> <p>15 movable from terminal station to terminal</p> <p>16 station.</p> <p>17 Q. Mr. Martin told us that the purpose of the</p> <p>18 arrestor is to protect the device that it's</p> <p>19 mounted adjacent to, and it's not a repairable</p> <p>20 item. Does that change your view of whether</p> <p>21 or not that should be regarded as a unit of</p> <p>22 property for capital purposes?</p> <p>23 A. It wouldn't change my view.</p> <p>24 Q. Pardon me?</p> <p>25 A. It wouldn't change my view of it. I would</p>

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<p>1 MR. ROBERTS: 2 still capitalize it. 3 Q. Do you regard items generally kept in 4 inventory as capital items? 5 A. There is such a thing called capital spares, 6 and if you'll just bear with me for a second, 7 if you're doing a particular capital project, 8 you know, just to use an example, I think in 9 the case of Granite Canal, in the building of 10 that facility, the manufacturer, in most 11 cases, would suggest that you would have an 12 element of capital spares available in the 13 event that some of these parts are unique or 14 whatever and there's a significant lead time. 15 They would recommend that you have what we 16 would refer to as capital spares on hand. 17 That would be assessed by the project managers 18 and if the decision is made that yes, we will 19 require them, they would get set up and 20 depreciated over the life of the asset, the 21 same as the asset is being done. I don't know 22 if that answers your question or if you're - 23 Q. No, I think that sheds some light on the 24 subject generally. Would I take it that these 25 capital spares, so called, are usually pretty</p>	<p>1 expensive items? 2 A. They can be, but they can also be unique items 3 too that, you know, they're not something that 4 you can go out and buy tomorrow. I'm getting 5 into an area that I'm not technical for. I 6 can just tell you that from an accounting 7 perspective, there is such a thing called 8 capital spares and it's common in the 9 electrical utility business that if the 10 engineers decide that this is crucial and 11 critical and it's recommended and everybody 12 agrees that we do acquire them, we do 13 capitalize them, we depreciate them, even 14 though they may never even be used over the 15 life of the project. But it's a fairly normal 16 practice to do that. 17 Q. Would it be fair to say that it would be 18 unusual in an operation like Hydro's to find a 19 capital spare item that cost less than 20 \$10,000? 21 A. I'm not qualified to be able to speak from a 22 technical perspective. There may be a \$5.00 23 part that's sitting out there that could be 24 crucial to an area. I wouldn't be able to 25 answer that for you. My level of technical</p>
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<p>1 ability can't be done in that respect. From a 2 finance perspective, if I capitalize it or 3 not, I can answer those questions, but whether 4 or not there are items less than \$10,000 that 5 would be deemed critical spares, I'd be 6 surprised if there's not, but I'd also 7 acknowledge that some of them may be very high 8 value items as well. 9 Q. Is there not an element of a threshold value 10 associated with the determination of whether 11 or not an item is capital or operating? 12 A. You can just read the very first sentence that 13 we quote in IC-86, "the acquisition cost of 14 assets that are of a permanent or lasting 15 nature whose useful life is expected to extend 16 over several years," it's the exercising of 17 professional judgment. This is what the 18 accounting profession has settled on, that use 19 over several years, normally then, it should 20 be deferred and amortized over that reasonable 21 period. 22 Q. But your definition is an item that's 23 independently operational, readily separable 24 from the prime asset and useful in its own 25 right, correct?</p>	<p>1 A. That's for a unit of property, but there's 2 also prime assets too. 3 Q. Yes. No, I understand that, and I mean, I 4 don't think there's any issue about a 5 generating station being a capital item, such 6 as a prime asset. But when we get down to the 7 issues of units of property, would it be fair 8 to say that an item that is not in the 9 ordinary course readily separable from the 10 prime asset should not be defined as a unit of 11 property? 12 A. It may not be defined as a unit of property 13 but we would still capitalize it, depending on 14 what the particular item is. 15 Q. Okay. 16 A. It may be an addition to a prime asset. 17 Q. Now, in your answer you gave two levels of 18 classification, fixed assets and units of 19 property. Are you saying there's a third 20 classification here now? 21 A. No, I'm just saying that the thing, even 22 though it may not be a unit of property, it 23 may be considered part of a prime asset. For 24 instance, we just went through with the 25 arrestors, we considered them to be part of</p>

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<p>1 MR. ROBERTS:</p> <p>2 the prime asset which happens to be the</p> <p>3 substation. There will be all kinds of other</p> <p>4 pieces of equipment that we would have in that</p> <p>5 substation, that we would add to the</p> <p>6 substation that doesn't necessarily mean we</p> <p>7 have them broken down at a lower level.</p> <p>8 Q. Well, I mean, a wood pole structure is part of</p> <p>9 a transmission line, is it not?</p> <p>10 A. That's correct.</p> <p>11 Q. Okay. So why don't you just regard that as</p> <p>12 part of the prime asset? Why do you regard it</p> <p>13 as a unit of property?</p> <p>14 A. Because of the fact that when the initial</p> <p>15 transmission line was built, we know over time</p> <p>16 that some of these structures will get damaged</p> <p>17 and it's a means of being able to write out in</p> <p>18 order (phonetic) to capitalize them out. It</p> <p>19 does have a useful life.</p> <p>20 Q. So you recognize that there are items that may</p> <p>21 or may not be units of property that you</p> <p>22 capitalize simply because you call it part of</p> <p>23 the prime asset?</p> <p>24 A. There are things that we consider to be a part</p> <p>25 of prime asset that we'd capitalize. As an</p>	<p>1 example that you used was the arrestors.</p> <p>2 Q. So notwithstanding your answer in IC-86 and</p> <p>3 the definition you provide of a unit of</p> <p>4 property being independently operational,</p> <p>5 readily separable from the prime asset and</p> <p>6 useful in its own right, there are items that</p> <p>7 don't meet that definition that you regard as</p> <p>8 capital, even if they in themselves are not</p> <p>9 prime assets? Is that right?</p> <p>10 A. I guess all I'm saying is that a prime asset</p> <p>11 will be capitalized and a unit property can be</p> <p>12 a component in a breakdown of a prime asset,</p> <p>13 so that we can have breakdowns underneath the</p> <p>14 prime asset. We would look at materiality.</p> <p>15 For instance, if a particular generator went</p> <p>16 or a transformer was damaged, then you would</p> <p>17 look at is it of significant change by having</p> <p>18 it fixed would it extend the life? So there</p> <p>19 may be all kinds of adjustments that are</p> <p>20 coming through, but the key is the exercising</p> <p>21 of professional judgment, looking at it, is it</p> <p>22 a prime asset and underneath that prime asset,</p> <p>23 do we have units of property defined?</p> <p>24 Q. So if, for example, a surge arrestor was</p> <p>25 regarded as a pure inventory item and not of a</p>
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<p>1 capital asset, then the cost of replacement of</p> <p>2 those items would be an operating cost to the</p> <p>3 company? Correct?</p> <p>4 A. If they were in inventory?</p> <p>5 Q. Yes.</p> <p>6 A. And if that was replacing a surge arrestor</p> <p>7 that was already on the system, we remove it</p> <p>8 from inventory and capitalize it in the fixed</p> <p>9 assets and write out the old.</p> <p>10 Q. If there was an item such as a surge arrestor</p> <p>11 that had to be replaced and it was not a</p> <p>12 capital item, the cost of that replacement</p> <p>13 would be an operating expense, would it not?</p> <p>14 A. I guess I'm leading you back, the surge</p> <p>15 arrestor is a capital item.</p> <p>16 Q. Okay. I'm saying such as a surge arrestor.</p> <p>17 Let's go to the software then. There's</p> <p>18 software that you pay for every year and</p> <p>19 charge as operating expense, isn't it?</p> <p>20 A. Yes, we set a dollar value of \$25,000. If it</p> <p>21 doesn't exceed \$25,000 then we won't</p> <p>22 capitalize it, and that's an administrative</p> <p>23 rule and a practice that we've established.</p> <p>24 Q. Okay. So on the basis of that rule, software</p> <p>25 under \$25,000 is an operating expense and</p>	<p>1 software over \$25,000 is a capital expense or</p> <p>2 a capital item?</p> <p>3 A. Correct.</p> <p>4 Q. Okay.</p> <p>5 A. But in pure accounting theory, you would have</p> <p>6 capitalized it if it had a value, a useful</p> <p>7 life longer than one year. That's the policy</p> <p>8 that we established as an organization.</p> <p>9 Q. Okay. To the extent that this Board does not</p> <p>10 approve, shall we say, an allowance for surge</p> <p>11 arrestors as capital items and just assume</p> <p>12 that that happens, the surge arrestors will</p> <p>13 none the less have to be purchased and in that</p> <p>14 situation would be charged against operating</p> <p>15 expenses, correct?</p> <p>16 A. I guess it will be a function of the</p> <p>17 circumstances at the time. We have the right</p> <p>18 to come back to the Board and ask, if we run</p> <p>19 into problems with these--if this project got</p> <p>20 turned down and it's detrimental to the system</p> <p>21 to have that surge arrestor, it is a capital</p> <p>22 item in our opinion, and if it exceeded</p> <p>23 \$50,000, we would bring it back to the Board</p> <p>24 for approval. If it's less than \$50,000, we</p> <p>25 will do it and we would capitalize it.</p>

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<p>1 HUTCHINGS, Q.C.:</p> <p>2 Q. Okay. Assume that the Board didn't agree with</p> <p>3 your opinion and said "we don't regard these</p> <p>4 surge arrestors as being capital items," you</p> <p>5 would none the less have to buy surge</p> <p>6 arrestors or a certain number of them to keep</p> <p>7 the system functioning through the year, would</p> <p>8 you not?</p> <p>9 A. Yes.</p> <p>10 Q. And if they weren't allowed as a capital</p> <p>11 expenditure, they would come out of your</p> <p>12 operating budget, would they not?</p> <p>13 A. No.</p> <p>14 Q. Why not?</p> <p>15 A. Because the Board turns down the proposal</p> <p>16 doesn't mean that we're going to write the</p> <p>17 particular asset off. It'll just be an</p> <p>18 unregulated asset. That doesn't necessarily</p> <p>19 mean that I'm going to take a write off to an</p> <p>20 operating cost because the Public Utilities</p> <p>21 Board disallowed an expense. If in the</p> <p>22 judgment of the corporation it happens to be a</p> <p>23 capital item, there's nothing to prevent us</p> <p>24 from having it as an unregulated capital</p> <p>25 asset, and there's just no return or margin</p>	<p>1 allowed to be earned on it. But we are still</p> <p>2 matching costs and revenue and we feel that</p> <p>3 there's a useful life beyond more than one</p> <p>4 year, and that would be why we would follow</p> <p>5 our policy in doing that.</p> <p>6 Q. Okay. So the funds that you would expend then</p> <p>7 to replace these surge arrestors would come</p> <p>8 from the shareholder, would they?</p> <p>9 A. It's basically coming out of what's there for</p> <p>10 the shareholder.</p> <p>11 Q. Yes, okay. You had a discussion with Ms.</p> <p>12 Greene about the effect on revenue requirement</p> <p>13 of the capital expenditures that are</p> <p>14 projected, and you explained the derivation of</p> <p>15 the numbers that appear at the top of page six</p> <p>16 of your pre-filed evidence. Would you say</p> <p>17 that the increase in revenue requirement of</p> <p>18 \$1.7 million associated with the inclusion of</p> <p>19 \$33.9 million of capital expenditures in 2005</p> <p>20 is a typical result in terms of the proportion</p> <p>21 that the change in revenue requirement would</p> <p>22 be to the inclusion in rate base of that</p> <p>23 amount of capital expenditure?</p> <p>24 A. Are you saying \$34 million for the capital</p> <p>25 program, that's the impact that it would have</p>
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<p>1 on revenue requirement? So that if you spent</p> <p>2 another 34 million next year or the year</p> <p>3 after, that's the approximate impact on</p> <p>4 revenue requirement?</p> <p>5 Q. Yes.</p> <p>6 A. To answer the question, it's a function of</p> <p>7 what the capital program is, because</p> <p>8 depreciation will vary. If there's sinking</p> <p>9 fund assets versus straight line assets, the</p> <p>10 estimated useful life, so the depreciation</p> <p>11 will vary, and it can vary significantly. And</p> <p>12 even in the case of the return, it's a</p> <p>13 function of what the allowed return is at the</p> <p>14 point in time. So right now, our rate of</p> <p>15 return is set at 7.467 and two years from now,</p> <p>16 if there happens to be another hearing, it</p> <p>17 could be set at some other different number.</p> <p>18 So until such time as you know the details as</p> <p>19 to what's actually behind the capital program</p> <p>20 and what the return is that's allowed, then</p> <p>21 it's really difficult to say that it could be</p> <p>22 representative into the future.</p> <p>23 Q. The effect that you've identified here in the</p> <p>24 year 2005 is that the amount of increase in</p> <p>25 revenue requirement is about five percent of</p>	<p>1 the increase in rate base. Do you agree with</p> <p>2 that?</p> <p>3 A. I'll accept your math.</p> <p>4 Q. I mean, it's 1.7 over about 34.</p> <p>5 A. Over 33.9.</p> <p>6 Q. Yes. So that's five percent.</p> <p>7 A. But I think you also got to recognize, it's</p> <p>8 not as simple as it may sound on the surface,</p> <p>9 and that's part of the reason why I explained.</p> <p>10 If you look at the 33.9, 33.9 is the original</p> <p>11 additions going in, but correspondingly going</p> <p>12 with that, you got \$5 million that is coming</p> <p>13 back out. So next time around, you may have</p> <p>14 \$33 million worth of additions and none coming</p> <p>15 out. Or it could be the other way. There's</p> <p>16 just--you know, all you can do, if you know</p> <p>17 approximately what the depreciation is, you</p> <p>18 may be able to ballpark it. But on the</p> <p>19 return, it happens to be a function of what's</p> <p>20 approved at the time.</p> <p>21 Q. Is it fair to say that on average the increase</p> <p>22 in revenue requirement over the years, taking</p> <p>23 all of these various things into account, is</p> <p>24 likely to be in the five percent range of the</p> <p>25 amount added to rate base?</p>

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<p>1 MR. ROBERTS:</p> <p>2 A. I don't think I could make that particular</p> <p>3 statement. As a matter of fact, I think what</p> <p>4 you're seeing here is just one aspect of rate</p> <p>5 base. If you look at the actual rate base,</p> <p>6 which is shown on page five of my evidence,</p> <p>7 you'll find that actually rate base is</p> <p>8 forecast to go down in 2005. So in isolation,</p> <p>9 it may or may not be going up. It depends on</p> <p>10 what's that ratio of depreciation, what's the</p> <p>11 ratio of additional costs, what's the</p> <p>12 disposals that are related to the assets.</p> <p>13 There's just so many variables there that I</p> <p>14 don't think you could say as a rough rule of</p> <p>15 thumb it's going to change by five percent or</p> <p>16 one percent. I think you have to look at it</p> <p>17 on the each.</p> <p>18 (Time: 2:17 p.m.)</p> <p>19 Q. No, I mean, I understand there are other</p> <p>20 things happening, but what we're trying to do</p> <p>21 is isolate the effect of adding a certain</p> <p>22 amount of capital to the system in a given</p> <p>23 year and what the result on revenue</p> <p>24 requirement is. And I assume that's what you-</p> <p>25 -that's why you put this in your evidence,</p>	<p>1 isn't it?</p> <p>2 A. We put this in my evidence to indicate the</p> <p>3 impact that the 2005 would have, but as I just</p> <p>4 outlined, behind the 2005 you can see a lot of</p> <p>5 changes. Like, we've got five million dollars</p> <p>6 worth of assets that are coming out. If you</p> <p>7 went out to the following year, there may only</p> <p>8 be two; there could be none. So, it's really</p> <p>9 difficult to try to determine a percentage</p> <p>10 unless you know what the capital program is</p> <p>11 because the capital program is the one that's</p> <p>12 dictating what the other impacts are.</p> <p>13 Q. So, you can't tell us what a typical result on</p> <p>14 the revenue requirement is of the addition of</p> <p>15 any particular amount to rate base, is that</p> <p>16 correct?</p> <p>17 A. I think you have to know what the value of the</p> <p>18 assets are and if they're brand new that are</p> <p>19 being added with absolutely no disposals and</p> <p>20 no further adjustments, then you could apply 7</p> <p>21 1/2 percent to it. Okay. That would cover</p> <p>22 the return, but that's a theoretical world and</p> <p>23 in practice, is never going to happen. And</p> <p>24 the question is then is that you have to pick</p> <p>25 and decide on what's an average depreciation</p>
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<p>1 rate. And as I just outlined, the sinking</p> <p>2 fund asset and a straight line asset are</p> <p>3 completely different and the time frames that</p> <p>4 they're there and even in a straight line</p> <p>5 asset, is it one that we're writing off over</p> <p>6 five years, ten years, fifteen years or twenty</p> <p>7 years. It'll all have an impact on what your</p> <p>8 depreciation number would be.</p> <p>9 Q. And you don't feel, over time and your many</p> <p>10 years of experience with capital budgets in</p> <p>11 Hydro, that you can tell how these various</p> <p>12 factors are going to cancel one another out</p> <p>13 over time to provide any guidance at all in</p> <p>14 terms of an average result. Is that right?</p> <p>15 A. I guess we've, in the case of Hydro, have very</p> <p>16 little experience with rate base per se as</p> <p>17 itself because it's only been since 2002 that</p> <p>18 the actual rate base has been adjudicated by</p> <p>19 the Board here. And we now know all the</p> <p>20 components, we now know the rules of what goes</p> <p>21 in and what goes out and how it's calculated.</p> <p>22 So, really, to be honest, I think you need</p> <p>23 more history behind us plus, as I keep saying,</p> <p>24 I still think the answer is in the components</p> <p>25 of what your capital program is. And from</p>	<p>1 there then you may be able to do, but without</p> <p>2 knowing what makes up your capital program, I</p> <p>3 think is extremely difficult to say whether or</p> <p>4 not it's going to be five percent or ten</p> <p>5 percent.</p> <p>6 Q. Well, the Board has only fixed your rate base</p> <p>7 twice. You have, in fact, calculated what</p> <p>8 your rate base has been in every year since</p> <p>9 1996, have you not?</p> <p>10 A. No, I have not.</p> <p>11 Q. You have not calculated rate base?</p> <p>12 A. No, we only calculated rate base for 2001 when</p> <p>13 we came in for the General Rate Application.</p> <p>14 That's the first time that a full fledged rate</p> <p>15 base was done and submitted to the Board for</p> <p>16 approval.</p> <p>17 Q. And since 2001, I take it, you have calculated</p> <p>18 rate base for each and every year?</p> <p>19 A. From 2001, two and three are actuals right now</p> <p>20 and in my evidence here as to what we predict</p> <p>21 for 2004 and 2005 and that's on page 5.</p> <p>22 Q. And in order to produce the rate base for</p> <p>23 2001, presumably you had to take into account</p> <p>24 all the additions and deletions from 1996 to</p> <p>25 2001, correct?</p>

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<p>1 MR. ROBERTS:</p> <p>2 A. It would be whatever the actual numbers were</p> <p>3 up to the time that we did the calculations.</p> <p>4 If it was '96, for purposes of rate base, rate</p> <p>5 base took all assets from day one, it just</p> <p>6 didn't start on 1996. 1996, all they did is</p> <p>7 said your method and way that you're going to</p> <p>8 be regulated is going to change. You're going</p> <p>9 to move from interest coverage basis to rate</p> <p>10 of return. The rate base could have been</p> <p>11 calculated irrespective of whether or not you</p> <p>12 were on an interest coverage basis or rate of</p> <p>13 return. You can still to the calculation any</p> <p>14 time that it needed to be done.</p> <p>15 Q. Right, okay. And as you point out, this</p> <p>16 capital budget in itself will not affect</p> <p>17 revenue requirement, well will not affect the</p> <p>18 rates that customers pay until such time as</p> <p>19 there is another general rate hearing, is that</p> <p>20 correct?</p> <p>21 A. That's correct and even then, it may not have</p> <p>22 an impact because of other factors, so -</p> <p>23 Q. Well there may or may not be a change in</p> <p>24 rates.</p> <p>25 A. There may or may not be other factors, but if</p>	<p>1 you dealt with it in isolation and if you</p> <p>2 assume that rates changed on January 1</p> <p>3 and absolutely no other cost changed for any</p> <p>4 other reason, then there would be an</p> <p>5 additional 1.7 million dollars in the revenue</p> <p>6 requirement that's requested.</p> <p>7 Q. Right, okay. So, until such time as there is</p> <p>8 another general rate hearing, Newfoundland and</p> <p>9 Labrador Hydro has no way to access additional</p> <p>10 funds from its customers other than through</p> <p>11 growth, correct?</p> <p>12 A. We had no way to change rates until such time</p> <p>13 as we come back before the Board.</p> <p>14 Q. But you do have the ability to come to this</p> <p>15 Board and ask it to approve additional capital</p> <p>16 expenditures on an annual basis?</p> <p>17 A. We're required by legislation to do it.</p> <p>18 Q. Yes, okay. Mr. Roberts, is there some reason</p> <p>19 why the upgrade of the standby diesel fuel</p> <p>20 system and the reconstruction of storage ramps</p> <p>21 in Bishop's Falls fall under the Human</p> <p>22 Resources and Legal Division?</p> <p>23 A. The reason why they fall underneath human</p> <p>24 resources/legal is that our materials</p> <p>25 management department falls under the vice</p>
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<p>1 president of human resources. That arose over</p> <p>2 time from the point of view of, I guess,</p> <p>3 splitting up the workload among the various</p> <p>4 vice presidents and also taking into account</p> <p>5 in the materials management, you're not only</p> <p>6 just dealing with inventory, but you're</p> <p>7 dealing with purchasing and all the materials</p> <p>8 handling goes with it. And, of course, there</p> <p>9 a close liaison between legal and materials</p> <p>10 management relative to tenders and assets and</p> <p>11 reviews. So, at the time the decision was</p> <p>12 that materials management and the</p> <p>13 administration even in Hydro Place falls</p> <p>14 underneath the vice president of the Human</p> <p>15 Resources.</p> <p>16 Q. In respect to the storage ramps, has there</p> <p>17 been any directions from Workplace Health and</p> <p>18 Safety or any independent agency requiring</p> <p>19 that these ramps be replaced at the present</p> <p>20 time on a safety basis?</p> <p>21 A. My understanding is that I'm not aware of any</p> <p>22 outside direction, but our own staff feel that</p> <p>23 it's a safety issue, that they're deteriorated</p> <p>24 and I understand there's some very expensive</p> <p>25 equipment that does get stored up off the</p>	<p>1 ground. And in the event that it happened to</p> <p>2 be stored on these particular ramps and the</p> <p>3 ramps collapsed, the damage could be</p> <p>4 detrimental to what's happening at the time.</p> <p>5 Q. In respect to the project that B-152 which is</p> <p>6 the replacement of the chiller in the air</p> <p>7 conditioning system, I take it, at Hydro</p> <p>8 Place, we asked for production of the cost of</p> <p>9 benefit analysis referred to and that was</p> <p>10 provided in answer to IC-48. Do you four</p> <p>11 pages attached to that answer represent</p> <p>12 preexisting documents that Hydro used to base</p> <p>13 its decision on or were they generated for the</p> <p>14 purpose of answering this question?</p> <p>15 A. They were in the process of being generated as</p> <p>16 the budget explanation sheet was being</p> <p>17 prepared. As you may be able to tell from</p> <p>18 what you're seeing here, these are done by our</p> <p>19 system planning people. So, they were</p> <p>20 generated by system planning while the</p> <p>21 administration people were writing up the</p> <p>22 proposal.</p> <p>23 Q. Okay, so this -</p> <p>24 A. So, they were done jointly together, one</p> <p>25 person was writing it up and the other person</p>

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

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<p>1 MR. ROBERTS:</p> <p>2 this particular case, the control cables are.</p> <p>3 Q. Okay, but the light bulb is part of the prime</p> <p>4 asset, there's no question about that,</p> <p>5 correct?</p> <p>6 A. It may have been, I'm just surmising, trying</p> <p>7 to theorize as to what's going there.</p> <p>8 Q. Okay, so you say the conduit and control</p> <p>9 cables are properly capital both because</p> <p>10 they're part of the prime asset and because</p> <p>11 they're units of property?</p> <p>12 A. And because we have them set up as a unit of</p> <p>13 property.</p> <p>14 Q. Okay, so it is your decision not to set up the</p> <p>15 light bulb as a unit of property that makes</p> <p>16 that an operating expense, is that correct?</p> <p>17 A. We're exercising professional judgment and</p> <p>18 what value is placed to a particular asset and</p> <p>19 does it have a useful life, is it extended</p> <p>20 over several years. And materiality also has</p> <p>21 to come into play. We wouldn't capitalize a</p> <p>22 60 cent light bulb.</p> <p>23 Q. That makes sense.</p> <p>24 A. But we certainly would capitalize a \$60,000</p> <p>25 set of control cables.</p>	<p>1 Q. And what if it was just one control cable and</p> <p>2 it was only \$30,000?</p> <p>3 A. If the control cables are a unit of property,</p> <p>4 then you wouldn't capitalize it. A street</p> <p>5 light is a unit of property, that's pretty</p> <p>6 well standard in the electrical utility</p> <p>7 business, and a street light in relationship</p> <p>8 to other assets may not be significant, but it</p> <p>9 is a unit of property and it is capitalized.</p> <p>10 Q. How is this control cable readily separable</p> <p>11 from the prime asset?</p> <p>12 A. Because through somewhere through the piece</p> <p>13 when the terminal station was initially done,</p> <p>14 when the decision was done to establish units</p> <p>15 of property, then somebody either estimated or</p> <p>16 actually had cost information available on the</p> <p>17 close of the work orders in order to be able</p> <p>18 to determine a cost.</p> <p>19 Q. So that makes it readily separable from the</p> <p>20 prime asset?</p> <p>21 A. You're able to identify the particular asset</p> <p>22 underneath the prime asset.</p> <p>23 Q. So readily separable from the prime asset</p> <p>24 doesn't mean technically or from an engineering</p> <p>25 sense, but from an accounting sense?</p>
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<p>1 A. Certainly from an accounting sense we would be</p> <p>2 looking at what makes up the components of</p> <p>3 that prime asset and are they able to be</p> <p>4 segregated and are they being replaced.</p> <p>5 There's all kinds of various criteria that you</p> <p>6 may end up applying to decide whether or not</p> <p>7 the item is broken out as a unit of property.</p> <p>8 These units of property have been in existence</p> <p>9 since back in 1975/77.</p> <p>10 Q. Another characteristic of a unit of property</p> <p>11 is that it has to be useful in its own right,</p> <p>12 is that an accounting or an engineering</p> <p>13 concept?</p> <p>14 A. I think it maybe some of both. It would</p> <p>15 certainly be an accounting and an engineering,</p> <p>16 like for instance, the transformer can be</p> <p>17 moved from point A to point B and may be used</p> <p>18 in other locations. I think it's a function</p> <p>19 of what actually are the capital budget</p> <p>20 proposals, does it have a service life that is</p> <p>21 extended over several years, and we're right</p> <p>22 back to the issue we have prime assets and</p> <p>23 underneath prime assets, you would normally</p> <p>24 breakdown your prime assets into units of</p> <p>25 property. Same thing as we have a category</p>	<p>1 called general plant. Underneath general</p> <p>2 plant we have vehicles, we have office</p> <p>3 equipment, we have other types of equipment,</p> <p>4 but the prime category is general plant.</p> <p>5 Q. So because you choose to call a particular</p> <p>6 item a unit of property, then you regard it as</p> <p>7 appropriately a capital expenditure to replace</p> <p>8 that item?</p> <p>9 A. If we replace that unit of property, then we</p> <p>10 would capitalize it, we would write out the</p> <p>11 old and capitalize the new.</p> <p>12 Q. Those are all the questions I have, Mr. Chair.</p> <p>13 CHAIRMAN:</p> <p>14 Q. Thank you, Mr. Hutchings. Mr. Kennedy?</p> <p>15 MR. KENNEDY:</p> <p>16 Q. I have no questions, Mr. Chair.</p> <p>17 CHAIRMAN:</p> <p>18 Q. No questions, very good.</p> <p>19 GREENE, Q.C.:</p> <p>20 Q. I have some in re-direct, Mr. Chair. If you</p> <p>21 would go to page 4, I believe it is, of Mr.</p> <p>22 Roberts' pre-filed evidence, Mr. O'Rielly.</p> <p>23 And there was certainly some discussion with</p> <p>24 Mr. Hutchings about the guideline. And the</p> <p>25 first sentence there, Mr. Roberts, is that the</p>

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<p>1 GREENE, Q.C.:</p> <p>2 guideline that has been used for several years</p> <p>3 is that the capital program should not</p> <p>4 normally exceed cash flow from operations.</p> <p>5 How long has that guideline been in effect?</p> <p>6 A. That guideline has been in effect ever since</p> <p>7 I've been controller, which goes all the way</p> <p>8 back to 1985.</p> <p>9 Q. Cash flow from an accounting perspective, what</p> <p>10 did you mean by cash flow there?</p> <p>11 A. Cash flow from operations when you look at a</p> <p>12 statement of cash flow, it normally starts off</p> <p>13 when net income and you add back non-cash</p> <p>14 items and non-cash items would be like</p> <p>15 depreciation, it could be write-offs of</p> <p>16 foreign exchange costs, which is what it would</p> <p>17 be in our case, but they are literally non-</p> <p>18 cash items, things that may have been expended</p> <p>19 in prior years and it's only an accounting</p> <p>20 that you're doing an amortization over a</p> <p>21 period of time. So they would be considered</p> <p>22 as being non-cash items.</p> <p>23 Q. And turning to the 2003 year, I believe your</p> <p>24 evidence was that cash flow there did not</p> <p>25 include net income because Hydro has a loss,</p>	<p>1 is that correct?</p> <p>2 A. Hydro had an actual loss and had been</p> <p>3 projecting that it would probably have a loss</p> <p>4 as well.</p> <p>5 Q. And that's why it was different for 2003, is</p> <p>6 that correct?</p> <p>7 A. Yes, it is.</p> <p>8 Q. Does that mean the guideline had changed?</p> <p>9 A. No, the guideline is still--net cash flow from</p> <p>10 operations, just so happened in 2003, there</p> <p>11 was no net income to be there.</p> <p>12 Q. And with respect to 2004, you mentioned the</p> <p>13 uncertainty was the timing of the Board Order</p> <p>14 following the GRA and what it meant for the</p> <p>15 revenue requirement, is that correct?</p> <p>16 A. That's correct, we were hopeful that the GRA,</p> <p>17 had it been resolved sooner, unfortunately it</p> <p>18 wasn't, and we've had uncertainty there. The</p> <p>19 decision was we would just deal with the level</p> <p>20 of depreciation.</p> <p>21 Q. So the issue that made 2003 and 4 different</p> <p>22 was whether there was going to be any net</p> <p>23 income in either of those years which would</p> <p>24 have affected cash flows, is that correct?</p> <p>25 A. Yes, it is.</p>
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<p>1 Q. In response--moving onto another topic, in</p> <p>2 response to a question from Mr. Hutchings, he</p> <p>3 asked you were all inventory items capital and</p> <p>4 you responded by talking about capital spares</p> <p>5 and I guess I wanted to ask you is everything</p> <p>6 in inventory a capital spare?</p> <p>7 A. No, it's not.</p> <p>8 Q. So in referring to capital spares, that would</p> <p>9 be the exception with respect to the</p> <p>10 inventory, is that correct?</p> <p>11 A. Yes, there's some regular operating inventory</p> <p>12 as well as a, what I'll refer to a capital</p> <p>13 spares inventory. One sits as a fixed asset</p> <p>14 on the balance sheet and is depreciated and</p> <p>15 the other one is our normal operating</p> <p>16 inventory that current assets sitting on a</p> <p>17 balance sheet.</p> <p>18 Q. And capital spare relates to, I think you</p> <p>19 already explained that it related to a spare,</p> <p>20 a critical spare generally or any type of</p> <p>21 spare that's required for an asset, is that</p> <p>22 right?</p> <p>23 A. It's only the critical spare items are</p> <p>24 required for a capital asset.</p> <p>25 Q. And the last brief area is with respect to</p>	<p>1 Hydro's policies regarding when the capitalize</p> <p>2 an item verses when they operate--put it in</p> <p>3 operating as an expense. Has Hydro's policies</p> <p>4 for capitalizing items changed or has it been</p> <p>5 constant over the last few years?</p> <p>6 A. No, they haven't changed. We had a</p> <p>7 depreciation study done in 1986. We had</p> <p>8 another one done in 1998 and both of those,</p> <p>9 although not specifically addressing a</p> <p>10 specific capitalization policy, it did review</p> <p>11 our units of property, it did review our</p> <p>12 service lives and based on the</p> <p>13 recommendations, there were some changes in</p> <p>14 our service lives. We will be going back out</p> <p>15 again in 2005 for another update.</p> <p>16 Q. And I think you mentioned that the issue as to</p> <p>17 whether something is capitalized or not is one</p> <p>18 of the exercise of professional judgment, is</p> <p>19 that correct?</p> <p>20 A. Yes, it is.</p> <p>21 Q. And are there rules under generally accepted</p> <p>22 accounting principles with respect to when an</p> <p>23 item is capitalized or not, is that the type</p> <p>24 of professional judgment you were talking</p> <p>25 about?</p>

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<p>1 MR. ROBERTS:</p> <p>2 A. That's the type of professional judgment in</p> <p>3 IC-86 on lines 6 to 9, we're paraphrasing what</p> <p>4 the Canadian Institute of Chartered</p> <p>5 Accountants is saying in this section dealing</p> <p>6 with capital assets that are of a permanent or</p> <p>7 lasting nature, its useful life is expected to</p> <p>8 extend over several years.</p> <p>9 Q. So Hydro's capitalization policies--first I</p> <p>10 should ask you, Mr. Roberts, are you a</p> <p>11 chartered accountant?</p> <p>12 A. Yes, I am.</p> <p>13 Q. And is the manager of the finance department a</p> <p>14 chartered accountant?</p> <p>15 A. Yes.</p> <p>16 Q. In applying Hydro's judgment with respect to</p> <p>17 whether an item is capitalized, do you follow</p> <p>18 the, what we call GAAP or generally accepted</p> <p>19 accounting principles?</p> <p>20 A. Yes, our financial statements are prepared in</p> <p>21 accordance with generally accepted accounting</p> <p>22 principles and that's reviewed both by our</p> <p>23 external auditors and the review is also done</p> <p>24 by the Board's financial consultant on an</p> <p>25 annual basis.</p>	<p>1 Q. So there's nothing that's unique to Hydro with</p> <p>2 respect to this issue, is that correct?</p> <p>3 A. Not in my opinion there's not.</p> <p>4 Q. And you've already mentioned that our prime</p> <p>5 assets in the service lives for those have</p> <p>6 been reviewed twice externally and would be</p> <p>7 done again in 2005, is that correct?</p> <p>8 A. Yes, that's correct.</p> <p>9 Q. Thank you, that concludes all the questions I</p> <p>10 have in re-direct.</p> <p>11 CHAIRMAN:</p> <p>12 Q. Thank you, Ms. Greene. Commissioner Powell?</p> <p>13 COMMISSIONER POWELL:</p> <p>14 Q. Yes, thank you, Chair. Good day, Mr. Roberts.</p> <p>15 First I'd like to compliment you on your</p> <p>16 presentation. I like the information that you</p> <p>17 put there, it sort of put a band around the</p> <p>18 capital budget from an accountant's point of</p> <p>19 view. I appreciate the fact that probably it</p> <p>20 begs more questions, but it's all part of the</p> <p>21 process. So from an accountant to an</p> <p>22 accountant, I liked it. But having said that,</p> <p>23 that does beg some questions for me. First of</p> <p>24 all, I'd like to clear up one little--I have</p> <p>25 an understanding or I think I do where you're</p>
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<p>1 coming from, is B-46, the one that the</p> <p>2 Industrial Customers, you were just talking</p> <p>3 about, am I to gather that you're replacing</p> <p>4 these cables--the existing cables, my</p> <p>5 understanding your existing capital assets you</p> <p>6 can identify what their costs are now, you've</p> <p>7 depreciated them for "x" number of years, they</p> <p>8 have a value, so you're going to take that</p> <p>9 charge against your operating?</p> <p>10 A. Yes, we'll write that off as a loss on</p> <p>11 disposable and capitalize them.</p> <p>12 Q. So if you had \$20,000 worth of undepreciated</p> <p>13 capitals, it -</p> <p>14 A. It gets written off as a loss and that hits</p> <p>15 our bottom line in the year in which we do the</p> <p>16 write off.</p> <p>17 Q. So we can start again with a brand new cables?</p> <p>18 A. So we can start with new cables added to that</p> <p>19 particular terminal station.</p> <p>20 Q. Because you couldn't repair the cables up to</p> <p>21 \$20,000 or whatever the value would have been</p> <p>22 there, you had to put new cables in?</p> <p>23 A. I think the decision that was made by the</p> <p>24 operations personnel was that the cables need</p> <p>25 to be replaced. This is a critical</p>	<p>1 communication facility that's between the</p> <p>2 terminal station and the Bay d'Espoir facility</p> <p>3 and it's critical that that communication be</p> <p>4 put there.</p> <p>5 Q. But there was a real loss to Hydro, to their</p> <p>6 bottom line?</p> <p>7 A. There is going to be a loss depending on what</p> <p>8 the net book value is for those cables in 2005</p> <p>9 when we write out the old and capitalize the</p> <p>10 new.</p> <p>11 Q. So unless you convince the Board in 2000</p> <p>12 whatever, when you have the next rate base,</p> <p>13 increase your costs because you're going to</p> <p>14 have more losses like this, you absorb that?</p> <p>15 I mean, that's your operating -</p> <p>16 A. No, that loss is strictly to our bottom line</p> <p>17 in 2005.</p> <p>18 Q. Okay, I thought that and that goes on with all</p> <p>19 your assets?</p> <p>20 A. Yes, all of our assets and I guess one of the</p> <p>21 things that was even in the depreciation</p> <p>22 study, we don't use group assets anywhere.</p> <p>23 All of our assets are on the each.</p> <p>24 Q. Yes.</p> <p>25 A. We were there before technology, now the</p>

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

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

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

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

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<p>1 MR. ROBERTS:</p> <p>2 in rates. So at the management level we've</p> <p>3 very cognizant of the impact of what capital</p> <p>4 will do to it.</p> <p>5 Q. When this--management does their thing and it</p> <p>6 goes to the Board to approve, are they aware</p> <p>7 of the fact that this budget, as presented,</p> <p>8 again in isolation would cause an increase in</p> <p>9 revenue of--revenue requirement of 1.7 million</p> <p>10 dollars? Would they be given that information</p> <p>11 the same as ourselves?</p> <p>12 A. I believe and I stand to be corrected, I'm not</p> <p>13 sure if they saw all the evidence for the</p> <p>14 capital budget, but they are certainly aware</p> <p>15 that by having this capital budget, it would</p> <p>16 impact our revenue requirement and can impact</p> <p>17 on what our net income is going to be for that</p> <p>18 particular year.</p> <p>19 Q. That's all my questions. Thank you, sir.</p> <p>20 CHAIRMAN:</p> <p>21 Q. Commissioner Martin?</p> <p>22 COMMISSIONER MARTIN:</p> <p>23 Q. No questions.</p> <p>24 CHAIRMAN:</p> <p>25 Q. I just have one, possibly two, Mr. Roberts and</p>	<p>1 the first thing, you use the distinction being</p> <p>2 drawn and I just want to make sure I</p> <p>3 understood what it was and it had to do with,</p> <p>4 in the discussion between capitalization</p> <p>5 verses operating expenses and on cross-</p> <p>6 examination by Mr. Hutchings, drawing some</p> <p>7 distinctions between transmission line poles</p> <p>8 verses distribution line poles, could you--I</p> <p>9 got lost on that, could you clarify what the</p> <p>10 distinction was?</p> <p>11 A. Okay, if I may, normally in a distribution</p> <p>12 line, it's like going through your backyard,</p> <p>13 it's just a pole, another pole, another pole</p> <p>14 and it goes down through the piece. In our</p> <p>15 transmission lines, in our wooden pole</p> <p>16 structures, you will find that there's</p> <p>17 probably three poles and that's what is</p> <p>18 considered to be the full structure. So if</p> <p>19 one just snapped off, we would expense it, but</p> <p>20 if we lost a full structure, we'd capitalize</p> <p>21 it all.</p> <p>22 Q. Verses on a distribution line.</p> <p>23 A. On a distribution there's only one pole, so we</p> <p>24 would capitalize that one.</p> <p>25 Q. You would capitalize it.</p>
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<p>1 A. Yes, because that, in effect, is really the</p> <p>2 equivalent structure to what you would find on</p> <p>3 a transmission line.</p> <p>4 Q. I see, okay, thanks. And the other question</p> <p>5 was you did note that with regard to software</p> <p>6 programs and what have you, if it exceeded I</p> <p>7 think you used the figure of \$25,000 it would</p> <p>8 be capitalized, if it was less than \$25,000 -</p> <p>9 A. Less than \$25,000 we don't capitalize it.</p> <p>10 Q. Do you have any other examples of areas where</p> <p>11 you use a dollar line figure like that where</p> <p>12 you would -</p> <p>13 A. One in particular, for instance, as I</p> <p>14 mentioned we talked about general plant, that</p> <p>15 would be your office equipment, vehicles,</p> <p>16 there's a big broad category in there. When</p> <p>17 we look at like office equipment, anything</p> <p>18 less than \$1000 we will not capitalize it.</p> <p>19 The administrative cost of trying to trace and</p> <p>20 track a \$100 calculator that may last one year</p> <p>21 or may last five, we've just administratively</p> <p>22 said, look, for less than \$1000, it would cost</p> <p>23 more than it is to track it.</p> <p>24 Q. You don't add these up over \$1000 or something</p> <p>25 and then capitalize it.</p>	<p>1 A. No, no, if I buy a calculator for \$200, then</p> <p>2 once somebody else buys one for \$200, they're</p> <p>3 both expensed. So anything that's less than</p> <p>4 \$1000 we don't capitalize and the software, as</p> <p>5 I alluded to, if it's less than \$25,000, we</p> <p>6 don't capitalize it either. Most of our</p> <p>7 software is sitting on a mainframe and the</p> <p>8 number of cases that we would have for a</p> <p>9 specific software is not that great. There</p> <p>10 may be some areas that may require specialized</p> <p>11 software and when you start hitting that, a</p> <p>12 lot of cases then it does start to exceed</p> <p>13 \$25,000, but by using the set up that we have</p> <p>14 now with the Citrix and the software tools,</p> <p>15 like Microsoft Office suite of products</p> <p>16 sitting on a server, then there's no need of</p> <p>17 having stand-alone software sitting on your</p> <p>18 machine anymore.</p> <p>19 Q. But there are no other, what one might call</p> <p>20 the maintenance programs which if they do not</p> <p>21 exceed a certain amount, you would put to</p> <p>22 operating -</p> <p>23 A. There may be some other materiality rules that</p> <p>24 are being used, but off the top of my head, I</p> <p>25 wouldn't be able to quote them for you.</p>

<p style="text-align: right;">Page 173</p> <p>1 MR. ROBERTS:</p> <p>2 Somebody may decide to look at, you know, if</p> <p>3 it's less than a certain dollar threshold,</p> <p>4 then we may not be capitalizing it, but it's,</p> <p>5 you know, it's a judgment call as to that</p> <p>6 point as to whether or not you would or would</p> <p>7 not.</p> <p>8 Q. Anything arising from the Board?</p> <p>9 GREENE, Q.C.:</p> <p>10 Q. I have no questions.</p> <p>11 HUTCHINGS, Q.C.:</p> <p>12 Q. I have nothing, thank you, Mr. Chair.</p> <p>13 CHAIRMAN:</p> <p>14 Q. Well I think then there remains to deal with</p> <p>15 the issue of written argument dates and I</p> <p>16 think as well the mediation report.</p> <p>17 MR. KENNEDY:</p> <p>18 Q. Yes, Chair. As to the written submissions, I</p> <p>19 think what's being agreed to by the parties is</p> <p>20 that the Industrial Customers, Newfoundland</p> <p>21 Power and myself, insofar as Board Hearing</p> <p>22 Counsel, may submit a written submission.</p> <p>23 That those parties would be due by noon,</p> <p>24 Tuesday, October 26th and the filing by Hydro</p> <p>25 of its written submission would be due by</p>	<p style="text-align: right;">Page 174</p> <p>1 noon, Monday, November 1st.</p> <p>2 CHAIRMAN:</p> <p>3 Q. Okay, well unless the parties have any other</p> <p>4 comments, the Board will set those dates as</p> <p>5 indicated by Mr. Kennedy as being the</p> <p>6 respective times that legal arguments would be</p> <p>7 filed. With regard to the mediation report,</p> <p>8 Mr. Kennedy?</p> <p>9 MR. KENNEDY:</p> <p>10 Q. Yes, Chair, and I have the mediation report</p> <p>11 ready to be signed, but to be fair to the</p> <p>12 individual counsel, they should just do a last</p> <p>13 review before their signature is entered. And</p> <p>14 as it's being done by consent, I can't really</p> <p>15 file it until it's been actually signed, but</p> <p>16 it's my intention to have that done</p> <p>17 immediately and then file it with the Board's</p> <p>18 secretary so it's on the official record.</p> <p>19 CHAIRMAN:</p> <p>20 Q. So that would be filed perhaps later today or</p> <p>21 tomorrow?</p> <p>22 MR. KENNEDY:</p> <p>23 Q. Correct, Chair.</p> <p>24 CHAIRMAN:</p> <p>25 Q. Well I think that generally concludes matters.</p>
<p style="text-align: right;">Page 175</p> <p>1 Mr. Roberts, thank you for your testimony and</p> <p>2 I'd certainly take this opportunity to, on</p> <p>3 behalf of the Board, to thank all of the</p> <p>4 witnesses who have testified at this</p> <p>5 particular hearing. I'd extend our</p> <p>6 appreciation to counsel for the Application,</p> <p>7 Newfoundland Power's representatives and</p> <p>8 counsel, as well as the Industrial Customers.</p> <p>9 Mr. Kennedy, thank you. The Board staff and</p> <p>10 we'd also wish to thank Discoveries Unlimited</p> <p>11 on their timely presentation on the</p> <p>12 transcripts and Ms. Greene indicates last, but</p> <p>13 not least, we'd like to thank Mr. O'Rielly for</p> <p>14 his expertise in the computer field. I think</p> <p>15 that being said, that covers everything and we</p> <p>16 will now adjourn. Thank you very much.</p> <p>17 Upon conclusion at 2:54 p.m.</p>	<p style="text-align: right;">Page 176</p> <p>1 CERTIFICATE</p> <p>2 I, Judy Moss Lauzon, hereby certify that the</p> <p>3 foregoing is a true and correct transcript in the</p> <p>4 matter of Newfoundland and Labrador Hydro's 2005</p> <p>5 Capital Budget Application, heard on the 18th day</p> <p>6 of October, A.D., 2004 before the Board of</p> <p>7 Commissioners of Public Utilities, Prince Charles</p> <p>8 Building, St. John's, Newfoundland and Labrador and</p> <p>9 was transcribed by me to the best of my ability by</p> <p>10 means of a sound apparatus.</p> <p>11 Dated at St. John's, Newfoundland and Labrador</p> <p>12 this 18th day of October, A.D., 2004</p> <p>13 Judy Moss Lauzon</p>