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1 SEPTEMBER 10, 2015
 2 (9:08 a.m.)
 3 CHAIRMAN:
 4 Q. Good morning, everybody. I guess we're ready
 5 to continue with Mr. O'Brien. Sir, you are
 6 the man of the minute.
 7 MR. O'BRIEN:
 8 Q. Thank you, sir.
 9 MR. EDWARD MARTIN - CROSS-EXAMINATION BY MR. LIAM
 10 O'BRIEN:
 11 MR. O'BRIEN:
 12 Q. Thank you, sir. Good morning, Mr. Martin.
 13 MR. MARTIN:
 14 A. Good morning.
 15 MR. O'BRIEN:
 16 Q. When we left off yesterday, we were talking
 17 about operating costs, and I want to ask a few
 18 questions now about managing those costs and
 19 how Hydro is going to manage those efficiently
 20 going forward, and, I guess, I'm more focused
 21 to the test years for this particular
 22 application, and Mr. Johnson in his opening
 23 statement yesterday mentioned the fact that
 24 there was a productivity allowance placed on
 25 Newfoundland and Labrador Hydro's other costs

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1 back in 2002 of a 2 million dollar - are you
 2 aware of that?
 3 MR. MARTIN:
 4 A. Yes.
 5 MR. O'BRIEN:
 6 Q. Okay. I want to read to you just some of the
 7 Board's comments at the time when that
 8 allowance was put in place, and I'm going to
 9 ask that Order PU-7 of 2002 be brought up,
 10 Order PU-7, and page 73, if we could on that
 11 order for Mr. Martin to have a look at. If we
 12 come down, there's a paragraph starts with
 13 "The Board believes this onus". So in this
 14 particular paragraph, the Board is talking
 15 about some performance measures and
 16 efficiency, and if I could read it, "The Board
 17 believes the onus is on Newfoundland and
 18 Labrador Hydro to bring forward performance
 19 measures which clearly demonstrate the
 20 efficiency of its operations. This
 21 perspective was not presented into evidence
 22 before the Board and any of the normal
 23 business performance measures, either overall
 24 corporate performance, cost efficiencies, or
 25 business unit accountability. There was also

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1 no indication that Newfoundland and Labrador
 2 Hydro had any of these performance measures,
 3 targets, objectives built into its existing
 4 business systems or was contemplating their
 5 implementation in relation to the strategic or
 6 business planning exercise currently underway.
 7 Under these circumstances, the Board has no
 8 level of comfort regarding individual cost
 9 savings or efficiencies, and the Board is left
 10 with little choice, in keeping with the least
 11 cost power policy of the province, but to
 12 impose an appropriate productivity allowance
 13 as suggested by GT and the intervenors". With
 14 those comments in mind, I want to ask you
 15 whether you're able to tell us what specific
 16 measures that Hydro has built into its
 17 operations as of now to ensure that services
 18 provided at the least cost consistent with
 19 safe reliable service going forward?
 20 MR. MARTIN:
 21 A. We have it built in. I'd like to get some
 22 data to refer to them, you know, rather than
 23 take it from memory.
 24 MR. O'BRIEN:
 25 Q. Is there somebody that would be better to

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1 speak to on that?
 2 MR. MARTIN:
 3 A. Mr. Henderson would be better to speak to -
 4 MR. O'BRIEN:
 5 Q. I'm sorry?
 6 MR. MARTIN:
 7 A. Mr. Henderson.
 8 MR. O'BRIEN:
 9 Q. Mr. Henderson, okay.
 10 MR. MARTIN:
 11 A. But there are performance measures in place is
 12 the point.
 13 MR. O'BRIEN:
 14 Q. Okay, and would Mr. Henderson be able to speak
 15 to hard and fast programs that are in place,
 16 that kind of thing, to keep measures down, to
 17 keep cost down?
 18 MR. MARTIN:
 19 A. Yes, he would.
 20 MR. O'BRIEN:
 21 Q. Okay. I'd like to talk just briefly about the
 22 shared services model we talked about
 23 yesterday, and in the evidence, if we could
 24 pull up 3.7.2 with page 3.38 of Volume 1. If
 25 we could pull that up, page 3.38.

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1 MS. GRAY:
 2 Q. I'm sorry.
 3 MR. O'BRIEN:
 4 Q. And this is the cost recovery methodology and
 5 one of the things that the evidence indicates
 6 is that in deciding how to allocate costs to
 7 Newfoundland and Labrador Hydro, Hydro looks
 8 at what's acceptable in a regulatory context.
 9 Are you able to elaborate on that and tell us
 10 how you determine what's acceptable in a
 11 regulatory context?
 12 MR. MARTIN:
 13 A. I think it would be better to have one of the
 14 finance people to go over that.
 15 MR. O'BRIEN:
 16 Q. Okay, all right, anyone in particular or just
 17 the finance panel?
 18 MR. MARTIN:
 19 A. The finance panel.
 20 MR. O'BRIEN:
 21 Q. Okay. I just want to end on the matrix model
 22 just to ask you - you've had a number of years
 23 now with that structure in place. Have there
 24 been any challenges that you've encountered
 25 with that?

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1 MR. MARTIN:
 2 A. I think the challenges with - I look at it in
 3 terms of benefits and challenges, and I think
 4 there's been a substantial amount of benefits
 5 which we discussed. The challenge with a
 6 matrix organization is always ensuring that
 7 people with shared accountability across
 8 different organizations are actually ensuring
 9 that they coordinate closely with the
 10 accountable people in those businesses. We've
 11 overcome that challenge by doing a great
 12 amount of work, sitting people down together
 13 and documenting areas where they're
 14 responsible, areas where they're accountable
 15 and such, so we've overcome that, anything
 16 with respect to that, but that's always the
 17 challenge with a matrix organization. You
 18 just have to be constantly aware of that and
 19 reminding people of that, how we document it,
 20 how you should act and interact is adhered to.
 21 MR. O'BRIEN:
 22 Q. So is that done on, like, a monthly basis with
 23 performance reviews or how is that -
 24 MR. MARTIN:
 25 A. It's done by - when we do the five year plans

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1 and the annual objective cycle, we make sure
 2 that every leader in the direct business and
 3 anyone servicing that business with a matrix,
 4 each individual is required to sign off the
 5 other's objectives and indicate that they have
 6 agreed between themselves that the objectives
 7 that have been set are the same within a
 8 functional organization, as well as the direct
 9 organization, and they share performance
 10 measures that overlap. I get a chance then to
 11 review them on a quarterly basis and on an
 12 annual basis at the end of the year as well.
 13 (9:15 a.m.)
 14 MR. O'BRIEN:
 15 Q. Okay. Do you foresee any challenges in the
 16 future when Phase 1 of the Lower Churchill
 17 sort of gets going, any different challenges
 18 that you might see?
 19 MR. MARTIN:
 20 A. Well, the main challenge, I believe, which
 21 we're meeting, is to do the proper amount of
 22 pre-planning, making sure that the operational
 23 people who will be running these assets and
 24 managing these assets in the long run, you
 25 need to make sure that they are imbedded early

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1 in the engineering and construction phase of
 2 the project so that the engineering design
 3 reflects the operational needs of the
 4 operator, and during the construction phase to
 5 make sure that any types of changes that are
 6 required that may have to be adjusted have the
 7 input of the operational people and there's
 8 alignment between the operations and
 9 construction people, and then as we're doing
 10 now, you need to ensure that you're planning
 11 early and putting the future organizational
 12 structure in place early to give you a chance
 13 to practice before it comes online, to make
 14 sure that any new organizational structures
 15 have been in place for a period of months and
 16 years so that they have a chance to work with
 17 that. Then on top of that, we have formed a
 18 joint team comprised of construction people,
 19 systems planning people, commercial people,
 20 and operations people that sit together now
 21 and are jointing planning the go forward
 22 structure to make sure all those pieces are
 23 taken into account. So there's challenges if
 24 you don't do those types of things, but we
 25 have put those processes in place and they're

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1 working well.
 2 MR. O'BRIEN:
 3 Q. And that's working towards changing the
 4 organizational structure that we spoke of
 5 yesterday, is that what these individuals are
 6 at?
 7 MR. MARTIN:
 8 A. That's one element, so it's working toward the
 9 change in the organizational structure is one
 10 key element. There are several others in
 11 addition to that. There's what we call "a
 12 ready for operations team" in the construction
 13 organization. They're accountable for
 14 ensuring that the new equipment is
 15 mechanically complete and that its
 16 commissioned properly. Then we have in the
 17 organization, we call it "the building or
 18 production organization", the organization
 19 that sits in with the operating group, but
 20 they're responsible for receiving the
 21 commissioned mechanically complete unit, and
 22 they're the ones that actually turn the unit
 23 on and inject electricity into the system. We
 24 have another group of system planning put into
 25 this combined group called "ready for

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1 integration", and those are the technical
 2 systems engineers who actually work with the
 3 project team and with the operations team to
 4 make sure all of the technical adjustments and
 5 changes are made, so that when the unit is
 6 turned on and we're injecting electricity in
 7 the system, obviously it meets the needs of
 8 the overall system. Then we have what we call
 9 "ready for commercial integration team", and
 10 that team is a combination of processes,
 11 administrative processes, and probably more
 12 importantly ensuring that the new requirements
 13 and commercial arrangements that are required
 14 for integrating into North America, the FERC
 15 Regulations, the NERC Regulations, and those
 16 types of things, and all the commercial
 17 arrangements that surround those are in place
 18 early and well before we integrate.
 19 MR. O'BRIEN:
 20 Q. Mr. Martin, you talked about the asset
 21 management plan. I believe you talked about
 22 the 20 year plan yesterday and you talked
 23 about possibly every, and correct me if I'm
 24 wrong, I thought you said every two to three
 25 years you would look at that plan again to see

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1 how things were going, is that correct, is
 2 that something that you have in place?
 3 MR. MARTIN:
 4 A. That's correct, and I would just like to add
 5 to that. I think, in addition to that, I
 6 indicated on an annual basis.
 7 MR. O'BRIEN:
 8 Q. Yes, okay.
 9 MR. MARTIN:
 10 A. You know, there are changes that are made for
 11 proper operational reasons, and I think I used
 12 the example if you opened up a unit at
 13 Holyrood, say, more work was required than
 14 expected, and that was more important at that
 15 point than something else you had planned that
 16 year, you would make an annual adjustment, but
 17 in addition to that, every two to three years
 18 there's a longer or broader step back from all
 19 of that to do a deeper check on the overall
 20 plan. The reason you're doing that is after
 21 two or three years of executing the original
 22 plan or the most recently approved plan,
 23 there's obviously a lot more deep condition
 24 based assessment that has occurred. There's a
 25 lot more work that has occurred, and there's

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1 two or three more years of operating
 2 experience, so it's prudent then to step back
 3 and pull your operating people, and your
 4 engineering people, and your planners out of
 5 the field to take a time out again to just do
 6 another plan before you continue.
 7 MR. O'BRIEN:
 8 Q. So this plan, is it set down in a document,
 9 the 20 year plan, or is it sort of a bullet
 10 point form, how does that look?
 11 MR. MARTIN:
 12 A. No, it's a set down document. I believe we
 13 filed it with the Board.
 14 MR. O'BRIEN:
 15 Q. Yes, that's what I thought, and I wondered -
 16 MR. MARTIN:
 17 A. I believe we filed it with the Board. I don't
 18 think it's a requirement to, but that's not
 19 the point, I believe we file that regularly
 20 with the Board.
 21 MR. O'BRIEN:
 22 Q. And do you revisit that every year, do you
 23 file a revised one every year, how does that
 24 work, if you make changes as you're talking
 25 about here?

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1 MR. MARTIN:
 2 A. I'm not sure of the frequency of filing, you'd
 3 have to check with one of my people.
 4 MR. O'BRIEN:
 5 Q. Okay.
 6 MR. MARTIN:
 7 A. But, you know, the process stands as it is,
 8 and I would expect that the least on a two to
 9 three year renewal, that would be filed as
 10 well, but it may be filed annually. I just
 11 don't know that offhand.
 12 MR. O'BRIEN:
 13 Q. All right, and maybe I'll talk to counsel
 14 after to see. Okay, do you recall any sort of
 15 major changes to that plan since it was
 16 implemented, that you would call major changes
 17 or are these sort of annual tweaks that you
 18 make to the plan?
 19 MR. MARTIN:
 20 A. Once again, Mr. Henderson would be more
 21 appropriate to talk to about that.
 22 MR. O'BRIEN:
 23 Q. All right.
 24 MR. MARTIN:
 25 A. One such example I do know is we made a

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1 decision to accelerate the planned replacement
 2 of the air blast breakers, for instance.
 3 MR. O'BRIEN:
 4 Q. Okay.
 5 MR. MARTIN:
 6 A. There may be others, but they haven't been -
 7 well, check with Mr. Henderson, he would have
 8 the details on that and be able to do a
 9 comparison.
 10 MR. O'BRIEN:
 11 Q. I'll do that. In terms of if in the course
 12 of, say, accelerating something you deferred
 13 work in another area, would that be something
 14 that Mr. Henderson would be better to talk
 15 about?
 16 MR. MARTIN:
 17 A. That's correct.
 18 MR. O'BRIEN:
 19 Q. Okay. I'm going to switch gears a little bit.
 20 I want to ask you a little bit about the GRA
 21 process itself. The last time you were in
 22 before the Board with Newfoundland and
 23 Labrador Hydro was for 2006/2007 test year,
 24 and I understand from the evidence that it's
 25 Hydro's position that an optimum period

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1 between GRA's would be three years. I'm
 2 wondering can you tell us sort of why it would
 3 have taken so long for you to come back before
 4 the Board?
 5 MR. MARTIN:
 6 A. There's a variety of reasons. I would refer
 7 you again likely to the finance panel who
 8 would probably be the best to go through the
 9 details. What I can say is that, obviously,
 10 we think a more frequent period would be
 11 reasonable, but that being said, the reasons
 12 that were undertaken to not do it during this
 13 period from 2007 until now, reasons that are
 14 valid, have a good solid basis, and were well
 15 thought out or something that was an outcome
 16 that impacted us that we didn't have a control
 17 over, and also one of the key considerations
 18 was there was other mechanisms and adjustments
 19 put in place to protect the rate payer over
 20 that time period from a rate perspective. So
 21 there was a series of adjustments. On the
 22 balance, there was a series of things that
 23 happened that are logical and the right
 24 decision was taken, and at the same point was
 25 balanced with the impact on - on customers was

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1 mitigated.
 2 MR. O'BRIEN:
 3 Q. And are you able to speak to those types of
 4 things or is it better to speak to someone in
 5 finance?
 6 MR. MARTIN:
 7 A. It's better to speak with the finance panel
 8 about that.
 9 MR. O'BRIEN:
 10 Q. One of the things I thought you might be able
 11 to speak to is around the return on equity,
 12 say, in 2009 when we saw an Order in Council
 13 which says that Newfoundland and Labrador
 14 Hydro could receive the same return on equity
 15 as Newfoundland Power, for example, so from
 16 that period forward that would have been an
 17 opportunity for Newfoundland and Labrador
 18 Hydro to come in to earn a higher return. I'm
 19 wondering why it was that that opportunity
 20 wasn't taken until 2013?
 21 MR. MARTIN:
 22 A. It's for the same reasons as the previous
 23 question.
 24 MR. O'BRIEN:
 25 Q. Okay. There was an Order in Council in 2013

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<p>1 dealing with the low variation RSP surplus. 2 You must be aware of that particular order. 3 I'm wondering can you take me through sort of 4 how that - what Hydro's involvement was, if 5 any, in that particular order? 6 MR. MARTIN: 7 A. Once again, you'd be better off to speak to 8 the finance panel about that. 9 MR. O'BRIEN: 10 Q. Okay. Last year in June when we were about to 11 embark on settlement discussions for the 2013 12 GRA, just prior to starting hearing, 13 Newfoundland and Labrador Hydro made the 14 decision to amend its filing. Can you take us 15 through sort of what your involvement would 16 have been in making that decision? 17 MR. MARTIN: 18 A. My Chief Financial Officer would have been 19 accountable for that discussion and approach, 20 and he would have discussed that with me, gave 21 me the highlights of what's happening, made a 22 recommendation to proceed and I would have 23 agreed with that. 24 MR. O'BRIEN: 25 Q. Okay, do you recall the reason why the</p>	<p>1 of which was the new deferral mechanisms that 2 were requested by Hydro in its rate case. Is 3 that something you're comfortable with 4 discussing today or is it something that 5 somebody else would be better to talk to 6 about? 7 MR. MARTIN: 8 A. I'm comfortable in discussing it. If it gets 9 into too much detail, I'd likely defer, you 10 know. 11 MR. O'BRIEN: 12 Q. That's fine, I recognize that. One of the 13 ones I wanted to talk to you about was the 14 energy supply cost variation deferral 15 mechanism, and in particular, I'm interested 16 in the Exploit's generation costs. So this is 17 sought to be included in this deferral 18 mechanism. Those particular costs, is there 19 any expectation on Hydro's part that those 20 costs are going to increase? 21 MR. MARTIN: 22 A. I think you're going to have to talk to the 23 finance panel about those details. 24 (9:30 a.m.) 25 MR. O'BRIEN:</p>
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<p>1 decision was made? 2 MR. MARTIN: 3 A. Best to talk to the finance panel on that for 4 the detail. 5 MR. O'BRIEN: 6 Q. Okay, and anyone in particular? I understand 7 that the Chief Financial Officer is not on the 8 witness list. Is there somebody in particular 9 we should speak to on that? 10 MR. MARTIN: 11 A. Who's leading the finance panel? 12 MR. YOUNG: 13 Q. The finance panel is three people, and the 14 General Manager for Finance for Hydro is Carla 15 Russell. 16 MR. MARTIN: 17 A. Carla Russell. 18 MR. YOUNG: 19 Q. There's two other people on the finance panel 20 also who might be able to take your questions 21 on that. 22 MR. O'BRIEN: 23 Q. Mr. Martin, under the - we were given sort of 24 a heads up, I guess, as to different types of 25 topics that you may be able to speak to, one</p>	<p>1 Q. Okay. How about the Holyrood fuel conversion 2 factor deferral account? 3 MR. MARTIN: 4 A. In what context do you have a question for 5 that? 6 MR. O'BRIEN: 7 Q. I guess, I'm concerned about that one from the 8 perspective that I'm wondering whether Hydro 9 really treats that as something that's not a 10 controllable factor? There's a concern raised 11 that the fuel conversion rate, I guess, is 12 declining and I understand from the evidence 13 that Newfoundland and Labrador Hydro has taken 14 certain incentives over the years to try to 15 maximize that conversion factor. I'm 16 concerned whether or not Hydro feels that if a 17 deferral account is given, there'd be no 18 incentive to implement any initiatives in the 19 future? 20 MR. MARTIN: 21 A. No, that would be an incorrect assumption. 22 MR. O'BRIEN: 23 Q. Okay. 24 MR. MARTIN: 25 A. But with the Holyrood conversion factor, it's</p>

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1 not efficient for the system in the long run,
 2 you know, by virtue of taking something that -
 3 fixing something that for other reasons has to
 4 change for the good of the system. By virtue
 5 of not allowing an adjustment to that, you are
 6 assenting the company to behave inefficiently,
 7 which we won't do, and, therefore, what
 8 happens there's a hit to the bottom line, and
 9 that hit to the bottom line then disrupts the
 10 financial stability of a company, it forces,
 11 you know, you to again take less and less
 12 income, impacts your financial position, and
 13 in the long run if you have a utility or a
 14 company that is not properly financially
 15 stable, two things happen; you tend to have
 16 more difficulty financing, which begins to
 17 hurt the operation, and the second thing in
 18 the long run is that it leads to higher cost
 19 and less reliability because decisions then
 20 are made, you know, not to expend something on
 21 an issue that has some priority because the
 22 cash is not there, and in the long run,
 23 particularly with aging assets and a failure
 24 rate curve that is increasing exponentially
 25 because of the nature of the assets, the less

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1 you spend, eventually you get more reliability
 2 issues and eventually you expend more cost
 3 than you would have in the first place. So
 4 with the conversion factor, what's happening
 5 there, it's a combination of two things. It
 6 was set in 2007, we'll say, based upon certain
 7 fuel content and a certain expected usage of
 8 the Holyrood plant. The fuel content has
 9 changed for proper operational reasons, and
 10 the second thing is the units are being run
 11 differently now because of the demand growth,
 12 running them more during the shoal and summer
 13 seasons, but you're running them at a lower
 14 rate because you don't need that much power,
 15 you don't have to go flat out in those periods
 16 and you're better to run them at a lower rate
 17 to save costs for the consumer, but the
 18 company is better to run them at a higher rate
 19 for efficiency to make the money. We'd make
 20 the decision to run them at the lower rate so
 21 the customer gets the benefit. It's coming
 22 off our bottom line and that's not the right
 23 thing to do, it's not the right behaviour
 24 (unintelligible), and in the long run it hurts
 25 the customer. So we think it's essential to

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1 have that because any of these deferral
 2 accounts are in that nature where you're, in
 3 essence, in the long run helping the customer,
 4 doing the right thing for the customer, and
 5 preventing the company from being in a
 6 situation where they're incented to make the
 7 wrong decisions. Impact the bottom line, and
 8 in the long run that costs more for the
 9 customers and it hurts reliability.
 10 MR. O'BRIEN:
 11 Q. Okay, but isn't it a matter of coming to the
 12 right forecast and managing to that forecast
 13 as to what the factor is going to be, versus
 14 deciding whether to act efficiently or
 15 inefficiently?
 16 MR. MARTIN:
 17 A. So that's the point it's a forecast.
 18 MR. O'BRIEN:
 19 Q. Yeah.
 20 MR. MARTIN:
 21 A. And, you know, things change. So I believe
 22 the way that our people have suggested to
 23 handle that is to set some narrower parameters
 24 to allow for that type of incent, to make sure
 25 that it will give assurance to the customer

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1 that we are looking at that. We are, anyway,
 2 but to give the customer assurances that we
 3 are, create a band that would incent that, but
 4 outside of that band, I mean - that would
 5 create the incentive, but outside that band,
 6 then it becomes unreasonable to shift the risk
 7 to the company for the reasons I've already
 8 mentioned, and it becomes a decision as to
 9 what is the - you know, what's the need of the
 10 customer in the long run from a reliability
 11 and cost perspective, and these deferral
 12 accounts are structured to benefit the
 13 customer in the long run for those reasons I
 14 discussed earlier.
 15 MR. O'BRIEN:
 16 Q. So there's a band set on the Holyrood
 17 conversion factor?
 18 MR. MARTIN:
 19 A. I need to take some advice on that.
 20 MR. O'BRIEN:
 21 Q. That's fine.
 22 MR. MARTIN:
 23 A. I was looking at several of these systems here
 24 now, so as we dive down into the actual
 25 mechanics, I'd like to revert to you on that,

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1 if you like, and -
 2 MR. O'BRIEN:
 3 Q. Okay.
 4 MR. MARTIN:
 5 A. Give you the detail.
 6 MR. O'BRIEN:
 7 Q. I'd ask you to do that, Mr. Martin.
 8 MR. MARTIN:
 9 A. Yes, I will, but the concept that I described
 10 is fully retained.
 11 MR. O'BRIEN:
 12 Q. Mr. Martin, the rural rate deficit, one of the
 13 issues for Newfoundland Power in this
 14 particular hearing will be the allocation of
 15 the rural deficit, and it appears that this
 16 deficit has been significantly rising since
 17 1997. Is that accurate to say?
 18 MR. MARTIN:
 19 A. I think so. I haven't checked the numbers.
 20 MR. O'BRIEN:
 21 Q. Are you able to tell me from your involvement
 22 with Hydro sort of what level of oversight do
 23 you have over the rural deficit and its
 24 management?
 25 MR. MARTIN:

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1 A. It would be in line with the oversight I have
 2 with the rest of the company, as I described
 3 over the last day or two with respect to
 4 setting objectives and goals, and those types
 5 of things.
 6 MR. O'BRIEN:
 7 Q. So is it something that comes up in your
 8 monthly meetings, in your annual meetings, or
 9 quarterly meetings with management or
 10 leadership?
 11 MR. MARTIN:
 12 A. That would be handled at Rob Henderson's
 13 level.
 14 MR. O'BRIEN:
 15 Q. Okay. Mr. Martin, the last topic I want to
 16 discuss with you is reliability. I noted - I
 17 had just a brief review of your transcript
 18 from last night and my notes, and you had
 19 indicated that when you first started with
 20 Newfoundland and Labrador Hydro, I believe
 21 what you said upon your first review, there
 22 was a number of things you had noted, and you
 23 gave us a list of safety performance, aging
 24 infrastructure, demand growth on the horizon,
 25 financial position was the worst in the

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1 country, I believe was one you had said, and
 2 some environmental concerns with emissions at
 3 Holyrood. At that particular time, were there
 4 any immediate or imminent concerns with
 5 respect to reliability for Newfoundland and
 6 Labrador Hydro?
 7 MR. MARTIN:
 8 A. Yes, I would have covered that under aging
 9 infrastructure.
 10 MR. O'BRIEN:
 11 Q. Okay, all right, and has that changed at all
 12 since 2006 for you?
 13 MR. MARTIN:
 14 A. I think there's been a put and a take.
 15 MR. O'BRIEN:
 16 Q. Okay.
 17 MR. MARTIN:
 18 A. I believe that the thing that has changed that
 19 would aid reliability is the fact that we have
 20 put in a comprehensive plan to address it, and
 21 that's reflected in the 20 year plan we talked
 22 about that we filed and all the things I
 23 talked about yesterday, which has yielded
 24 increased capital on a planful fashion, and
 25 increases in costs associated with servicing

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1 the equipment, and those elements will have
 2 the impact of significantly reducing the rate
 3 of decline of reliability, but it's a rate of
 4 decline. For these assets, they're aging, and
 5 as they reach the end of their performance
 6 cycle, the failure curves over time increase
 7 exponentially. That's just the nature of the
 8 assets basis. On the other side of it, eight
 9 to ten years have passed. That's an
 10 additional quarter of the life of some of
 11 these assets, so the rate of failure will
 12 increase and has been increasing.
 13 Unfortunately, that points - it's not
 14 fortunate or unfortunate, I guess, it's a
 15 fact, and that points that cost to service
 16 these assets over time will have the tendency
 17 to continue to increase to cover off the
 18 increasing rate of decline.
 19 MR. O'BRIEN:
 20 Q. When you were last before the Board yourself
 21 personally, you testified in the last general
 22 rate hearing. Around that time, is it fair to
 23 say that you were putting in place some key
 24 performance indicators for financial
 25 performance and reliability performance, that

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<p>1 sort of thing at Hydro?</p> <p>2 MR. MARTIN:</p> <p>3 A. Yes, it is.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. And did you play a role in putting those</p> <p>6 things in place?</p> <p>7 MR. MARTIN:</p> <p>8 A. Yes, I did.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Okay, and you've done that - these involved</p> <p>11 setting targets for the organization, is that</p> <p>12 correct?</p> <p>13 MR. MARTIN:</p> <p>14 A. That's correct.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Okay. I want to look at the 2013 report, the</p> <p>17 KPI Report. It's an exhibit, it's Exhibit 2</p> <p>18 to Volume 2 of the evidence, if we could.</p> <p>19 This is an updated version, I guess, to what</p> <p>20 was filed, Revision 1, December 1st, 2014.</p> <p>21 This is the annual report on key performance</p> <p>22 indicators filed by Newfoundland and Labrador</p> <p>23 Hydro with the Board. I want to ask you if we</p> <p>24 can turn to Section 2.2. It's page E5 of the</p> <p>25 exhibit, but it's at the bottom. Here we go,</p>	<p>1 at. So how is it that Newfoundland and</p> <p>2 Labrador Hydro generates targets for these</p> <p>3 reliability factors? How does that get done,</p> <p>4 what's the process?</p> <p>5 MR. MARTIN:</p> <p>6 A. The process for these here?</p> <p>7 MR. O'BRIEN:</p> <p>8 Q. Just in general for those targets.</p> <p>9 MR. MARTIN:</p> <p>10 A. Okay, because I'd put these aside, these you</p> <p>11 have to talk to Mr. Henderson about these.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. That's fine.</p> <p>14 MR. MARTIN:</p> <p>15 A. But internally, I ask for the performance</p> <p>16 measures, look into what is key, make sure</p> <p>17 they're broken down into enough detail that we</p> <p>18 can pinpoint areas that may need to improve</p> <p>19 depending on performance, or may not depending</p> <p>20 on performance, and make sure that they're</p> <p>21 based on measures that impact the customer and</p> <p>22 we compare them two ways. One is to what has</p> <p>23 happened historically over time, and in some</p> <p>24 cases we compare them to other jurisdictions</p> <p>25 if we can find the right analogue.</p>
<p>1 okay. There's a table there, Mr. Martin.</p> <p>2 MR. MARTIN:</p> <p>3 A. Yes.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. I'm going to ask you questions about that. So</p> <p>6 there's a number of key performance targets</p> <p>7 and indicators there listed in that table. I</p> <p>8 want to focus - first of all, I do want to</p> <p>9 focus mostly on the reliability ones, but I do</p> <p>10 want to - if we can move down to the bottom,</p> <p>11 the "other category, customer satisfaction".</p> <p>12 I see a target of 90% set for 2013, if we go</p> <p>13 across, greater than 90%, is that right?</p> <p>14 MR. MARTIN:</p> <p>15 A. Are you asking me if that's right?</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. Yeah, and there's no results shown. Is that</p> <p>18 because you actually do these every two years?</p> <p>19 Is that why results might not be shown there?</p> <p>20 MR. MARTIN:</p> <p>21 A. I need to check that with Dawn Dalley.</p> <p>22 MR. O'BRIEN:</p> <p>23 Q. Well, let's go back to the - and I just noted</p> <p>24 that and that's an aside more than anything.</p> <p>25 The reliability ones, I want to have a look</p>	<p>1 MR. O'BRIEN:</p> <p>2 Q. Okay.</p> <p>3 MR. MARTIN:</p> <p>4 A. The right apples to apples comparison.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. So they're targets that are generated by</p> <p>7 Newfoundland and Labrador Hydro by going</p> <p>8 through that process?</p> <p>9 MR. MARTIN:</p> <p>10 A. That's correct.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Is that an annual process that gets done?</p> <p>13 MR. MARTIN:</p> <p>14 A. Yes, it is.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Okay, and are you involved in the detail of</p> <p>17 that process or is that Mr. Henderson's role</p> <p>18 for the detail?</p> <p>19 MR. MARTIN:</p> <p>20 A. I'm involved with Mr. Henderson's level, and</p> <p>21 then what happens after the targets are set at</p> <p>22 his level is his business.</p> <p>23 MR. O'BRIEN:</p> <p>24 Q. And what's your role at Mr. Henderson's level</p> <p>25 sort of, what's your involvement with setting</p>

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1 targets?

2 MR. MARTIN:

3 A. You pointed to these. I'm thinking about the

4 internal targets that we set, and my

5 involvement is to review those with them and

6 agree to it.

7 (9:45 a.m.)

8 MR. O'BRIEN:

9 Q. Okay, and he would take those internal ones

10 and then he would go set these particular

11 targets that we see on an annual basis?

12 MR. MARTIN:

13 A. Right.

14 MR. O'BRIEN:

15 Q. What's the purpose for setting these targets?

16 MR. MARTIN:

17 A. You're asking what is the purpose of

18 performance measures?

19 MR. O'BRIEN:

20 Q. Of the reliability measures, in particular,

21 yes?

22 MR. MARTIN:

23 A. The purpose of any performance measure is to

24 identify areas where adjustments may or may

25 not be required. The second thing is to

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1 ensure that within those performance measures

2 you can find clarity on where such adjustments

3 should be made or not made. I'll refer you to

4 the typical control and continuous improvement

5 cycle. Some refer to it as the "plan, do,

6 check, act cycle".

7 MR. O'BRIEN:

8 Q. Okay.

9 MR. MARTIN:

10 A. It's a simple continuous improvement cycle

11 that's well known, and that forms the basis of

12 how we set performance targets. So we set our

13 plan is the first step obviously, and we

14 execute the plan. Then we check how we're

15 doing against it, and based upon what those

16 checks yield and analysis that goes with it,

17 we would act to make necessary changes and

18 begin the cycle again. So in that cycle on

19 the check side of things, that's where the

20 performance measures come in. So within that

21 check cycle, there will be a performance

22 measure that will give you a number outcome.

23 That's the piece of data you need to do the

24 most important part, which is the analysis.

25 Within that analysis, you check the reason for

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1 the variance, you determine if it needs action

2 or not; if it needs action, what action. You

3 check is the action being executed properly

4 and then you repeat the cycle and come back

5 again. Then by the reason, I'm talking about

6 making sure you have the proper adjustments

7 within a performance measure to understand

8 that if you're going to take an action, it's

9 required. So, for instance, if your

10 performance measures when you look at them, if

11 you missed a performance measure and you look

12 at a particular year and there was a

13 hurricane, such as Igor, or if there was a

14 massive sleet storm of a magnitude that only

15 happened once in every decade or two, you need

16 to understand that and potentially remove that

17 from the analysis, because if you designed

18 your system to handle a hurricane every day,

19 the cost would be -

20 MR. O'BRIEN:

21 Q. Too high.

22 MR. MARTIN:

23 A. Inappropriate for sure. So that would be

24 point one. The second thing is, you would

25 look at major events that had happened in that

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1 given year, and you'd analyze that event. If

2 it was a one off type of event, you would take

3 into consideration should you remove that as

4 well because you wouldn't again - once again,

5 want to design your system on a one off event

6 that could happen every 10/20 years for the

7 same reason. You would also look at what

8 piece of equipment you're dealing with, or

9 pieces of equipment. I could use an example

10 of transformers, and I'm only picking numbers

11 out of the air now, but if you had a hundred

12 transformers and you continually had a problem

13 with one transformer, but not with 99

14 transformers, obviously, you want to be able

15 to pinpoint that down to the detail because

16 you wouldn't want to replace every

17 transformer, you'd only want to replace one

18 transformer. So that's a couple of examples of

19 what I'm talking about as to why the analysis

20 is so critical. So from our perspective then,

21 internally the way I look at these performance

22 measures is we need to design the performance

23 measures at the detail we need, but also

24 performance measures which indicate issues

25 with the end customer more so than what could

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1 be happening in behind the scenes that does
 2 not have an impact on the end customer. I'd
 3 like to have those performance measures broken
 4 into several categories and then sub-
 5 categories, because each piece of the system
 6 is different from other pieces of the system.
 7 So I write the analysis from my perspective
 8 when it's explained to me first into three
 9 broad categories of generation, transmission,
 10 and distribution. Generation, I break it into
 11 the three, I believe, different systems;
 12 thermal generation at Holyrood, and I further
 13 break that down into the three units and a
 14 balance of plant. From a secondary thermal
 15 perspective, gas turbines, and that's
 16 obviously Hardwoods, Stephenville, Holyrood
 17 CT, and Happy Valley Goose. Then there's the
 18 hydro, and obviously we break that down into
 19 the various facilities, Bay d'Espoir, Granite
 20 Canal, Cat Arm, etc, and within unit in each
 21 of those categories - sorry, each of those
 22 areas, and then we add balance of plant to
 23 that as well in each of those areas. Then
 24 from a transmission perspective, category 2, I
 25 look at the system in terms of the 230 kV bulk

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1 system, and one of the primary goals of that
 2 system is to deliver electricity to the end
 3 consumer, the majority of which are through
 4 the Newfoundland Power customers. The
 5 secondary breakout I look at are the 69 to 138
 6 kV radial lines. Two reasons for that. On
 7 the 230 kV bulk system, you generally have
 8 multiple supply points to a particular
 9 distribution area and that would yield one set
 10 of reliability expectations, and on the 69 -
 11 on the radial systems, you have - essentially,
 12 that's the definition of radial, one delivery
 13 point to a distribution system, and that would
 14 have a different set of reliability
 15 expectations. Then you have distribution as a
 16 third category. In Newfoundland and Labrador
 17 Hydro's case, it's in essence the rural
 18 system, rural distribution system. You have
 19 to ensure that in those systems once again you
 20 break it down, are there multiple feeders into
 21 that distribution system, or are there single
 22 feeders into that distribution system. Within
 23 that, we would look at the specific
 24 performance measures, and I would ask for
 25 adjusted performance measures to deal with the

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1 things I mentioned, extreme, unusual weather
 2 events, major one off events, any planned
 3 reasons for reliability change, something that
 4 we took a decision to do, for instance,
 5 decisions have clearly been made on radial
 6 systems in this province versus multiple
 7 service systems, the Northern Peninsula being
 8 a radial system, bulk 230 kV not. I ask for a
 9 breakdown between planned and unplanned
 10 outages. The reason for that is that it's two
 11 different things. An unplanned outage, you're
 12 looking at what could have gone wrong that you
 13 weren't expecting and why. On a planned
 14 outage, you would be saying it's planned,
 15 that's good, how did it go against planned,
 16 and you'd be checking to make sure that even
 17 within a planned system, you're not impacting
 18 the customers to a point that it's not
 19 acceptable. I would also ask folks to make
 20 sure to make it clear to me that if they're
 21 comparing outages from a generation
 22 perspective that are related to under
 23 frequency load shedding in this province, I
 24 would ask them to show me that adjustment
 25 because when comparing to other jurisdictions

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1 on the island of Newfoundland because our
 2 system is designed and - not connected to
 3 other systems and designed to load shed as a
 4 choice. I want to make sure I understand what
 5 that is, so that I can make a proper apples to
 6 apples comparison to other systems. That is
 7 until we get connected with Muskrat Falls
 8 Labrador Island Link, but up until that point
 9 frequency load shedding is a choice the system
 10 has made. I also ask them to adjust for
 11 things such as in any of our generating
 12 facilities, Holyrood is a good example, and
 13 there are areas there where we have chosen to
 14 make the unit unavailable because we don't
 15 need it. Because our demand is so low in the
 16 summer, we make a clear choice not to make it
 17 available for cost containment purposes. I
 18 ask for that adjustment as well because that
 19 is a choice of unavailability against not a
 20 choice. So in that context, for example, I
 21 look at things such as availability of thermal
 22 generation at Holyrood, hydro generation, gas
 23 turbines. Our thermal generation at Holyrood
 24 is generally within the band of similar
 25 facilities in Canada. Some volatility there,

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1 but generally speaking we're within the band.
 2 From a hydro generation perspective, we have
 3 over time outperformed the rest of Canada.
 4 From a gas turbine perspective, we've had
 5 issues with aging infrastructure and we have a
 6 plan in place to improve those, and that's
 7 what the performance measures would have
 8 indicate from an overall generation
 9 perspective and we've pinpointed the gas
 10 turbines, in particular, as an issue and
 11 that's what we've been putting our plans and
 12 efforts into. From the transmission side from
 13 the 230 kV, from a transmission side, and from
 14 a 230 kV transformer and circuit breaker
 15 perspective, we have generally been in the
 16 range or slightly better than the Canadian
 17 average. From a 69 to 138 kV radial system,
 18 we've had more volatility there, and actually
 19 I've been looking at that over time, which is
 20 more volatile than we would like, but it's
 21 difficult to find an analog system to compare
 22 that to in the rest of Canada. Those are
 23 examples of the way I look at the system with
 24 Mr. Henderson. Internally, we've also over
 25 time, the last five or six years have made a

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1 move to more end customer focus performance
 2 measures. That, in essence, is winter
 3 availability of the generating units and the
 4 reason that we shifted our focus to winter
 5 availability is probably obvious, but in our
 6 system we have a very low demand compared to
 7 many places in the country during the summer,
 8 and we have a Holyrood thermal plant as our
 9 swing unit up to this point, although it's
 10 becoming more of a base load as we move ahead,
 11 but to have unavailability, and work on
 12 unavailability, and spend money on
 13 unavailability during the summer, is not a
 14 cost prudent thing to do, but at the peak, as
 15 we've seen at the peak of February and the
 16 coldest day of the year, that's the key
 17 measure and that's what we're focused on and
 18 getting ready for winter availability and
 19 making sure we're focusing our expenditures
 20 and our time on winter availability. More
 21 recently, we've also begun to look at
 22 contingency reserve for the same reasons, and
 23 once again it's a data point, it's the
 24 analysis that occurs after that which is the
 25 critical part of the KPI analysis or the

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1 "plan, do, check, act". It's always the
 2 analysis piece of what the people - what have
 3 they measured, what are they doing about it,
 4 is it working properly, are we adhering to
 5 plan after we found something. That's the key
 6 place where you measure how you're doing
 7 against your KPI. As I mentioned earlier, we
 8 also have been tracking our SAIDI and SAIFI on
 9 the 230 kV bulk system closely as well, as
 10 that is the system that delivers electricity
 11 to the majority of the residential customers
 12 and some industrial customers in the province.
 13 Thus, you know, this type of analysis is what
 14 drives our asset management plan in both
 15 annual, medium term, and long term. Once we
 16 have the performance measures, as I mentioned,
 17 it's the analysis that counts. As I mentioned
 18 earlier, for instance, it's expedited the
 19 planned replacement of the air blast breakers,
 20 accelerated - we were going to do it, anyway,
 21 we accelerated. That's one example. The gas
 22 turbine focus is another example, and adding
 23 key people in key areas where increased
 24 capital is drawing resources from ongoing
 25 maintenance is another outcome, which we'll be

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1 discussing further in this GRA obviously. So
 2 at a point in an asset life cycle, reliability
 3 will commence a decline, as I mentioned
 4 earlier, and it will decline - the key is to
 5 look at the rate of decline of reliability,
 6 make sure you're on top of that, make sure
 7 your performance measures are measuring
 8 against the reality of the situation, and
 9 making sure the information is presented to
 10 allow the most important part of the KPI
 11 process, which is to put a plan in place to
 12 address any issues that may be indicated, but
 13 have it addressed as a rifle shot, not a
 14 shotgun approach.
 15 (10:00 a.m.)
 16 MR. O'BRIEN:
 17 Q. Okay, Mr. Martin, that would be how you assess
 18 reliability from those three broad categories,
 19 is it, when you look at assessing the
 20 reliability of Hydro system, it's a broader
 21 breakdown of how you look at reliability?
 22 MR. MARTIN:
 23 A. It's a broader breakdown. There's more detail
 24 in behind that, that Mr. Henderson would be
 25 the one to talk to for details about that. I

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<p>1 was striving to give you the overview.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Yes, I understand.</p> <p>4 MR. MARTIN:</p> <p>5 A. I think that's a general, but somewhat</p> <p>6 detailed example, but not fully comprehensive</p> <p>7 as to what we're doing.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. Okay, and how does that differ from assessing,</p> <p>10 say, what we've got here on the screen, these</p> <p>11 KPI targets? Like, the KPI targets that are</p> <p>12 set here for reliability, are they set for the</p> <p>13 purposes of focusing the organization on</p> <p>14 reliability, setting targets so on a go</p> <p>15 forward basis we're seeing how the</p> <p>16 organization is performing from a reliability</p> <p>17 perspective?</p> <p>18 MR. MARTIN:</p> <p>19 A. I think - these are data points, as I</p> <p>20 mentioned. I don't personally use these, but</p> <p>21 if these are the ones - in some cases, we may;</p> <p>22 in some cases, we may not, but if these were</p> <p>23 the ones that we used, once again it would be</p> <p>24 the detail and breakdown in behind these that</p> <p>25 would pinpoint the specific areas that may</p>	<p>1 things are not performing as expected. That's</p> <p>2 what I focus on.</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. Okay, and -</p> <p>5 MR. MARTIN:</p> <p>6 A. And when I say "focus on", I ask for the root</p> <p>7 cause and whatever the root cause is, I ask</p> <p>8 for a plan to see how it's being addressed and</p> <p>9 then I ask for additional follow-up as to how</p> <p>10 that plan is proceeding.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. And so does that find its way into a document,</p> <p>13 that sort of process of what you look at and</p> <p>14 review with Mr. Henderson then, I presume,</p> <p>15 after you see these targets?</p> <p>16 MR. MARTIN:</p> <p>17 A. Yes, we review the targets internal at Hydro</p> <p>18 monthly.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. Monthly?</p> <p>21 MR. MARTIN:</p> <p>22 A. At our monthly team meeting, yes.</p> <p>23 MR. O'BRIEN:</p> <p>24 Q. Okay. And is there a document that comes out</p> <p>25 of that as to "here's what we see. Here's</p>
<p>Page 46</p> <p>1 have or may not have an issue, and if I was</p> <p>2 utilizing these, I would do the same thing.</p> <p>3 It would be, okay, where is the issue, what is</p> <p>4 the real issue, and is there a plan in place</p> <p>5 to address that.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. Okay, so you'd look at first the fact that the</p> <p>8 targets haven't been achieved, would you?</p> <p>9 MR. MARTIN:</p> <p>10 A. Yes.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. Do you draw anything from the fact that</p> <p>13 targets set by Newfoundland and Labrador Hydro</p> <p>14 haven't been achieved in, say, 2013, for any</p> <p>15 reliability target?</p> <p>16 MR. MARTIN:</p> <p>17 A. What I do, as I just mentioned, is I first</p> <p>18 dissect the detail behind the performance</p> <p>19 measure.</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. Right.</p> <p>22 MR. MARTIN:</p> <p>23 A. To make sure I understand exactly the root</p> <p>24 cause, make sure we adjust for things that are</p> <p>25 reasonable, and then find the areas where</p>	<p>Page 48</p> <p>1 what's behind it. Here's what we need to</p> <p>2 address" each month?</p> <p>3 MR. MARTIN:</p> <p>4 A. Yeah, there's a -- oftentimes it's verbal</p> <p>5 because we're going on a month-to-month basis</p> <p>6 obviously, and I don't find it entirely</p> <p>7 productive to, you know, prepare detailed</p> <p>8 documents. There's a lot going on, you know.</p> <p>9 The individuals understand what they have to</p> <p>10 manage and what I'm looking for when I review</p> <p>11 the measures with them is just what I asked</p> <p>12 for, and I ask them for a plan for improvement</p> <p>13 and then we'll follow up with what that is.</p> <p>14 During the year, it's more of a verbal follow</p> <p>15 up because things are evolving rapidly and a</p> <p>16 lot of the changes that would be required</p> <p>17 based upon a performance measure analysis,</p> <p>18 oftentimes they're multi-year plans that are</p> <p>19 more accurately reflected in the long term</p> <p>20 asset management plan adjustments which are</p> <p>21 then used to set the following year's</p> <p>22 objectives.</p> <p>23 MR. O'BRIEN:</p> <p>24 Q. Okay. And so in terms of if there's a verbal</p> <p>25 or a written document, more likely verbal I</p>

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<p>1 guess with respect to a monthly type of a 2 review. Is there anything you can tell us 3 from 2013 that would have concerned you by 4 looking at these particular reliability 5 targets? Is there anything that you have a 6 recollection of being concerned about 7 reliability as a result of looking at that and 8 going behind it speaking with Mr. Henderson? 9 MR. MARTIN: 10 A. I think you need to speak to Mr. Henderson 11 about that. I'd have to - 12 MR. O'BRIEN: 13 Q. You don't have a recollection of any major 14 concerns at the end of 2013 reviewing those 15 targets? 16 MR. MARTIN: 17 A. It's the type of thing that either -- you 18 know, I'd prefer you to talk to Mr. Henderson 19 about. 20 MR. O'BRIEN: 21 Q. That's fine. 22 MR. MARTIN: 23 A. So he could give you a more detailed answer 24 with respect to what transpired, what was 25 discussed and how it was put into the plans.</p>	<p>1 use of performance measures. 2 MR. O'BRIEN: 3 Q. A general rule, okay. 4 MR. MARTIN: 5 A. If not, as I mentioned earlier, there's always 6 the danger of expending resources, time and 7 capital in areas that don't need it. 8 MR. O'BRIEN: 9 Q. Okay. So from looking at this particular 10 document, are you able to tell me that despite 11 the fact that none of the reliability targets 12 were achieved, you're satisfied that the 13 company was running efficiently from a 14 reliability perspective in 2013? 15 MR. MARTIN: 16 A. What I'm saying is that I'm comfortable that 17 the performance measures, the detailed 18 analysis behind the performance measures is 19 being undertaken. 20 MR. O'BRIEN: 21 Q. Okay. 22 MR. MARTIN: 23 A. And any areas where there are reliability 24 issues, and there are reliability issues as I 25 mentioned earlier, it's evident in some areas.</p>
<p>Page 50</p> <p>1 MR. O'BRIEN: 2 Q. All right. 3 MR. MARTIN: 4 A. It's not something that is useful, I don't 5 believe, to talk about piece meal. 6 MR. O'BRIEN: 7 Q. That's fine, okay. So in terms of running the 8 utility, you don't place a lot of emphasis on 9 what you see in these particular reports? You 10 have to go behind them before you'd place any 11 emphasis on them? 12 MR. MARTIN: 13 A. That would be correct with these and would be 14 correct with any others we're using in the 15 company. 16 MR. O'BRIEN: 17 Q. Okay. 18 MR. MARTIN: 19 A. It's the detail in behind that is essential to 20 get to to make sure you're acting in a 21 reasonable, proper way. 22 MR. O'BRIEN: 23 Q. Okay. 24 MR. MARTIN: 25 A. I think that's a general rule in any type of</p>	<p>Page 52</p> <p>1 These assets are aging and it's going to 2 continue, but I am comfortable that we've 3 identified those areas properly and we're 4 putting the proper plans in place to address 5 those over time. 6 MR. O'BRIEN: 7 Q. Mr. Martin, I guess I won't bring you to the 8 2014 report other than to say that the same 9 results in terms of targets and targets 10 achieved for reliability was in that report. 11 Do you take issue with that? 12 MR. MARTIN: 13 A. I'd give you the exact same answer I just gave 14 you for the last sequence of questions. 15 MR. O'BRIEN: 16 Q. Yeah, and that's why -- okay. In that 2014 17 report though, your customer service 18 satisfaction, and you testified to this 19 yesterday, was 84 percent. Your target was 20 set at 80 percent in 2014 versus 90 in 2013. 21 Are you able to tell us why that would have 22 been the case? 23 MR. MARTIN: 24 A. Could I -- I need to defer that to one of the 25 panels.</p>

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1 MR. O'BRIEN:
 2 Q. Yeah, that's fine. Is it anybody in
 3 particular you think might be -- would it
 4 probably be customer relations?
 5 MR. YOUNG:
 6 Q. Yes, that's right.
 7 MR. O'BRIEN:
 8 Q. Okay. And you did mention as well in your
 9 testimony that that customer satisfaction
 10 piece was above Canadian average. I think you
 11 mentioned it was 55 percent was the Canadian
 12 average and I'll have to be honest, like I
 13 couldn't track down that figure in the record,
 14 but the record is quite large and I may have
 15 missed it. I wonder if I could get an
 16 undertaking from counsel to provide that data
 17 for the 55 percent figure, if that's possible?
 18 MR. YOUNG:
 19 Q. We can do that.
 20 MR. O'BRIEN:
 21 Q. Okay. Now you've indicated earlier, Mr.
 22 Martin, about when you do your analysis on
 23 some of these indicators, you may have a
 24 situation where you'd back out an unforeseen
 25 event or something like a large event like an

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1 Igor or a sleet storm. You also mentioned in
 2 your testimony yesterday, say for 2014, you
 3 might back out the January events. Would you
 4 put those on the same -- 2014 on the same
 5 level as an unforeseen storm or something like
 6 that where the Board and Liberty Consulting
 7 have indicated that there were preventative
 8 maintenance issues that may have caused those
 9 problems in January of 2014?
 10 MR. MARTIN:
 11 A. Could you repeat the question, please?
 12 MR. O'BRIEN:
 13 Q. Okay. In your testimony today and yesterday,
 14 when you -- you indicated when you talk about
 15 some of these reliability factors, like
 16 duration, SAIDI and SAIFI, that sort of thing,
 17 frequency and duration of outages, you'd back
 18 out major issues when you look at reliability,
 19 I guess, and how you deal with that in the
 20 future. And one of those things you'd say was
 21 like a storm or Igor would be one of them, the
 22 hurricane, where you would back out of that,
 23 so you don't look at too high costs going
 24 forward, right. Would you put the January
 25 outages of 2014 in that same category?

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1 MR. MARTIN:
 2 A. Obviously not.
 3 MR. O'BRIEN:
 4 Q. Okay. And why is that?
 5 MR. MARTIN:
 6 A. Because they're two different -- completely
 7 different things.
 8 MR. O'BRIEN:
 9 Q. Okay. And you did mention yesterday in your
 10 testimony, you would back out the January of
 11 2013 and 2014 events and that's why I was
 12 wondering why would you put that in the same
 13 category.
 14 MR. MARTIN:
 15 A. I'm not putting it in the same category, so I
 16 don't -- you know, I think you're making leaps
 17 of logic that I didn't offer or I hope I
 18 didn't confuse the issue.
 19 MR. O'BRIEN:
 20 Q. And maybe that was not -
 21 MR. MARTIN:
 22 A. That's probably why I'm asking some of the
 23 questions is that they're obviously two
 24 different things.
 25 MR. O'BRIEN:

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1 Q. Yeah.
 2 MR. MARTIN:
 3 A. But there's a second part to backing it out.
 4 Maybe that's what we need -- maybe that's the
 5 piece of logic that you may be seeking.
 6 MR. O'BRIEN:
 7 Q. And what's the second part of backing it out
 8 then?
 9 MR. MARTIN:
 10 A. I'm about to get to that in just a second.
 11 MR. O'BRIEN:
 12 Q. I'm sorry. I didn't mean to interrupt you.
 13 MR. MARTIN:
 14 A. No problem. The second piece of the logic is
 15 why do you back these out obviously and yes,
 16 they're two completely different things. In
 17 the case of the storm-related situation, it's
 18 obvious that it's not something that could be
 19 controllable. It's something that you
 20 wouldn't want to put into your performance
 21 measures on a regular basis, for the reasons I
 22 talked about. If you did, you would over
 23 design the system. On a one-of type of
 24 scenario, as in January, you want to take a
 25 look at that incident entirely differently and

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1 do a much more in-depth analysis of that to
 2 make sure that you get into every nook and
 3 cranny of what could have happened, and that's
 4 a separate process, and you need to see the
 5 results of that before you make a knee jerk
 6 reaction on the rest of the system. But you
 7 still need to look at the rest of the system
 8 and what happened elsewhere in light of
 9 assuming that -- you can't assume every unit
 10 is going to have an issue such as that or
 11 every transmission line. So you want to look
 12 at the base line on an ongoing basis, but in
 13 an event like that, you want to get totally
 14 under the hood, full resources of the
 15 organization and make sure you understand what
 16 happened there. Once you finish that, you do
 17 apply those findings and thoughts and what
 18 happened to the rest of the system, but you
 19 don't make that blanket assumption that the
 20 rest of the system is in the same situation
 21 until you do the thorough analysis. I thought
 22 that was obvious, so I apologize for that.
 23 MR. O'BRIEN:
 24 Q. No, that's fine. I just wanted to make sure
 25 that we were on the same page and it appears

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1 that we were. In terms of what you would have
 2 done then, say from a leadership perspective,
 3 in looking at reliability after January 2014,
 4 what steps did you take to make sure that that
 5 type of incident didn't occur again?
 6 MR. MARTIN:
 7 A. Well, immediately, once again, we're not in
 8 the business of making knee jerk reaction, you
 9 know. You need to have the right amount of
 10 information and you need to analyze that
 11 information and then once you have root cause
 12 and impact and you understand exactly what
 13 happened at that point, as I mentioned in the
 14 continuous improvement cycle, you put a plan
 15 in place to address those and you put another
 16 process in place to track those adjustments
 17 and you follow up and make sure that they're
 18 complete. That's what I did.
 19 MR. O'BRIEN:
 20 Q. That's what you did from your perspective,
 21 okay.
 22 MR. MARTIN:
 23 A. That's correct.
 24 MR. O'BRIEN:
 25 Q. All right. Were you surprised by the results

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1 in January 2013 -- or 2014, sorry?
 2 MR. MARTIN:
 3 A. Surprised? What do you mean by results?
 4 MR. O'BRIEN:
 5 Q. Well, the outage itself. Was that something
 6 that sort of came upon you by surprise or was
 7 it something that you were concerned about
 8 from 2006 sort of forward that may happen if
 9 we don't get a preventative maintenance
 10 program in place?
 11 (10:15 a.m.)
 12 MR. MARTIN:
 13 A. I don't words such as "surprised" -
 14 MR. O'BRIEN:
 15 Q. Okay.
 16 MR. MARTIN:
 17 A. - or such to describe those types of things.
 18 I wasn't expecting that at that particular
 19 time. I think when you look through the root
 20 cause analysis from my analysis and the
 21 reports that I've received, there's a series
 22 of things that happened. I wasn't expecting
 23 those to happen at that particular time. That
 24 being said, as I mentioned earlier, we've been
 25 playing a little bit of catch up with respect

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1 to our capital program and things like that
 2 and I think we've addressed those issues. We
 3 put the right plan in place. We're rapidly
 4 executing that plan and we have been for many
 5 years. But, you know, I have to be
 6 forthright, as I said, you know, these assets
 7 are at a stage in their life cycle where, you
 8 know, the reliability decline, rate of decline
 9 over time is rapidly, in some cases
 10 exponentially, occurring and you know, we have
 11 to face the fact that these are not new assets
 12 and you know, we're going to continue to have
 13 some challenges with these assets, more so
 14 than we've had in the past.
 15 So in that case, we have to continue to
 16 make the investments necessary with a key eye
 17 to cost control naturally. The cost to the
 18 customer is critical, but reliability is as
 19 critical and the balance has to be attained
 20 and then the balance, by that I mean I see it
 21 as somewhat of an equivalent equation. If
 22 you're having, you know, in many cases
 23 exponentially increasing rates of failures
 24 because of the age of the asset, then the
 25 corollary is you have to efficiently increase

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<p>1 your capital and operating spend to make sure 2 that you're addressing that to be able to 3 provide the level of reliability at the most - 4 - at the least cost you can to the customer.</p> <p>5 MR. O'BRIEN: 6 Q. Okay. Based on what you've said there, I 7 guess, and when you say you have to 8 efficiently spend your operating and capital, 9 would you agree with me that reliability 10 doesn't necessarily mean more money needs to 11 be thrown at a matter? It could be that a 12 utility such as Newfoundland and Labrador 13 Hydro could, with a preventative maintenance 14 program that's followed appropriately, avoid 15 some significant costs from an operating and 16 capital perspective?</p> <p>17 MR. MARTIN: 18 A. Just to be clear, I think you were, the 19 perspective of Newfoundland and Labrador Hydro 20 throwing money at something is not something 21 that we would consider. I'm not saying you 22 were, but I wanted to make sure that I'm clear 23 on that.</p> <p>24 MR. O'BRIEN: 25 Q. No, no, I'm not. No, no, I'm not.</p>	<p>1 A. That's the very reason we would have put it 2 forth. I think I assume is a question for the 3 record, but there's an obvious answer in my 4 mind.</p> <p>5 MR. O'BRIEN: 6 Q. I did want to ask you sort of one last 7 question and it came about in Mr. Dumaresque's 8 opening statement. He mentioned some of the 9 issues with the combustion turbine in 2015 10 being offline. There's a question that was 11 raised. It's -- I think it's raised mainly 12 for the prudence review, but my concern, I 13 wanted to ask you, do you have any concerns 14 about the fact that there were a number of 15 times in 2015 when that particular CT was not 16 online? Is that a concern for you for 17 reliability in the future for generation?</p> <p>18 MR. MARTIN: 19 A. A detailed answer to that question, I would 20 defer to Mr. Henderson.</p> <p>21 MR. O'BRIEN: 22 Q. Okay.</p> <p>23 MR. MARTIN: 24 A. I would make, you know, a more general comment 25 because I made it earlier in my comments, that</p>
<p>1 MR. MARTIN: 2 A. Because I don't want the -</p> <p>3 MR. O'BRIEN: 4 Q. I may have misspoke on that.</p> <p>5 MR. MARTIN: 6 A. - I wanted to ensure that the pejorative 7 nature of the question didn't shine through 8 improperly on the record.</p> <p>9 MR. O'BRIEN: 10 Q. No. No, sure.</p> <p>11 MR. MARTIN: 12 A. So that would never happen. Efficiency 13 obviously, you know, is a key factor in terms 14 of cost control. I agree with that.</p> <p>15 MR. O'BRIEN: 16 Q. And is it your position that the revenue 17 requirement that's put forward that is the 18 lowest cost scenario here going forward for 19 safe, reliable service for Newfoundland and 20 Labrador Hydro?</p> <p>21 MR. MARTIN: 22 A. Absolutely.</p> <p>23 MR. O'BRIEN: 24 Q. Okay.</p> <p>25 MR. MARTIN:</p>	<p>1 when you look at the life cycle of any asset, 2 the failure curve analysis is referred to as a 3 bathtub curve. In essence, all that means is 4 that when you have new assets come on for a 5 period of time, you know, the rate of failure 6 or issues is greater than when it lines out 7 after a certain period of time and you have a 8 longer, much longer period of time which is 9 the bottom of the bathtub when reliability is 10 extremely sound and as you get the assets at 11 the end of life, the failure curve repeats 12 itself again.</p> <p>13 MR. O'BRIEN: 14 Q. Right, right, yeah.</p> <p>15 MR. MARTIN: 16 A. So that's just a general comment, but as to 17 the details of the outages and those things, 18 Mr. Henderson would be the one to provide 19 that.</p> <p>20 MR. O'BRIEN: 21 Q. Okay. So he can tell us whether or not 22 there's a concern with that particular piece 23 of equipment or that sort of thing going 24 forward. It's not something that's been 25 raised with you, I take it?</p>

1 MR. MARTIN:
 2 A. No, it hasn't.
 3 MR. O'BRIEN:
 4 Q. I don't have any further questions for Mr.
 5 Martin.
 6 CHAIRMAN:
 7 Q. Okay. I think you're next, Mr. Johnson, are
 8 you?
 9 MR. ED MARTIN, CROSS-EXAMINATION BY THOMAS JOHNSON, Q.C.
 10 JOHNSON, Q.C.:
 11 Q. Thank you, Mr. Chairman. Mr. Martin, I want
 12 to spend some time talking about your job
 13 description and to do that, perhaps we could
 14 have PUB-229 turned up.
 15 MR. MARTIN:
 16 A. I'm having a little trouble hearing.
 17 JOHNSON, Q.C.:
 18 Q. Oh, I'm sorry. I want to spend -- that's
 19 better?
 20 MR. MARTIN:
 21 A. Okay, thanks.
 22 JOHNSON, Q.C.:
 23 Q. -- a little bit of time this morning talking
 24 about your own job description and to do that,
 25 if we could turn up PUB-229, and in

1 citizens."
 2 So, so far we're on the right page.
 3 That's how you view your role as well, I take
 4 it?
 5 MR. MARTIN:
 6 A. Yes.
 7 JOHNSON, Q.C.:
 8 Q. And in terms of the particular duties and the
 9 companies that you are serving as president
 10 of, if we go down further, you're the
 11 president and CEO of a number of major
 12 entities, Newfoundland and Labrador Hydro,
 13 CF(L)Co, Nalcor Energy Oil and Gas, Nalcor
 14 Energy Bull Arm Fabrication, Lower Churchill
 15 Development, Gull Island, and I'm interested
 16 in getting further details on how you actually
 17 go about exercising your responsibility for
 18 ensuring, in the case of Hydro, that Hydro is
 19 managed cost effectively and to a world class
 20 standard in keeping with this job description.
 21 I know yesterday, you know, you spoke of your
 22 role vis-a-vis Mr. Henderson's and you said
 23 you were more focused on the vision,
 24 establishing the values and participating in
 25 the goals and then once those are in place,

1 particular, page 1 of 19 of Attachment 1. And
 2 I don't think we touched on this particular
 3 document as yet. It indicates that "the
 4 president and CEO is accountable to the Board
 5 of Directors of Nalcor Energy for the general
 6 direction, supervision, control of the
 7 activities of Nalcor and its affiliated
 8 companies and ensuring that the mandates of
 9 Newfoundland and Labrador Hydro, CF(L)Co,
 10 Nalcor Energy Oil and Gas, Nalcor Energy Bull
 11 Arm, the Lower Churchill Project, other
 12 affiliated companies and business units of
 13 Nalcor are managed and delivered safely and
 14 cost effectively and to a world class
 15 standard."
 16 And you're also responsible within the
 17 mandate outlined by the Province in applicable
 18 Provincial legislation, including Energy
 19 Corporation Act, Hydro Corporation Act that
 20 "the President and CEO leads the development
 21 of the companies long term vision and goals
 22 and the planning and execution of the
 23 strategies and processes required to achieve
 24 these goals and optimize development of the
 25 Province's energy assets on behalf of its

1 you say to Rob "okay, now that's your
 2 business. Now do it." And I'd like a little
 3 bit more meat put on the bones in terms of
 4 like some of these particulars, and one of the
 5 things you talked about was you manage through
 6 performance measure process and I'm not sure
 7 what all of that sort of meant and if you
 8 could delve down a little bit deeper into that
 9 this morning it would be appreciated, and tie
 10 it back to ensuring that Hydro is managed cost
 11 effectively and to a world class standard.
 12 MR. MARTIN:
 13 A. I'm going to repeat a lot of what I said
 14 yesterday, if that's what you're seeking.
 15 JOHNSON, Q.C.:
 16 Q. Well, no.
 17 MR. MARTIN:
 18 A. Because that's how -- yesterday I described
 19 how I do it and I would describe it the same
 20 way.
 21 JOHNSON, Q.C.:
 22 Q. Well, you talked about -- one of the things
 23 you talked about was managing through
 24 performance measure process and can you -- you
 25 know, can you tell us what performance you're

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1 measuring and how that process works, how
 2 those are developed and how that aligns with
 3 making sure that Hydro is managed cost
 4 effectively?
 5 MR. MARTIN:
 6 A. I will, but I just want to be clear, I'm going
 7 to repeat what I just -- the answers I just
 8 gave to the previous question, which I'm fine
 9 to do that, but I don't want to be
 10 unreasonable here. I just walked through the
 11 setting of the performance measures, the
 12 process for setting the performance measures,
 13 what they're used for and the Plan Do Check
 14 Act cycle. There's the check on data. When I
 15 get that data, then look for further
 16 breakdown. I described the breakdowns in the
 17 Hydro situation that I was looking at. I
 18 talked about making the adjustments, you know,
 19 for things that -- such as weather and other
 20 one-ofs and how those are dealt with and then
 21 when -- through this, you know, period of
 22 analysis, which is the critical part,
 23 narrowing down to the exact issue, root cause
 24 by unit or by transmission system. Then a
 25 plan has to be put in place to address things

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1 that are actually an issue and that plan then
 2 is incorporated into a revision of the long
 3 term asset management plan which is then used
 4 to go ahead and adjust the following year's
 5 objectives so there's a performance
 6 measurement calculation in there and that's
 7 usually a multi-year thing and it's tested
 8 from thereon in, and that cycle continues.
 9 JOHNSON, Q.C.:
 10 Q. So what performance measures are you using,
 11 are you referring to as regards Hydro being
 12 managed cost effectively? Like how -- what
 13 measures are in place? Which ones are you
 14 referring to?
 15 MR. MARTIN:
 16 A. There's a combination and you looks at costs,
 17 you know, and reliability and I just discussed
 18 the reliability ones just a moment ago, so I
 19 would use those again.
 20 JOHNSON, Q.C.:
 21 Q. Right. No, I understand. Yeah.
 22 MR. MARTIN:
 23 A. And then from a -- you know, from a cost
 24 perspective, there's operating and capital and
 25 in both cases, there are targets set for those

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1 annually based upon the plan. In the
 2 operating parameters, there's a narrow band of
 3 variability allowed and within the capital
 4 side of things, there's a process in place
 5 whereby using an effective management of
 6 change process, you set your capital plan, you
 7 adhere to that capital plan. If there's an
 8 approved change for reasons such as I talked
 9 about before, if you open up a unit at
 10 Holyrood, more work is required, you have to
 11 make a decision to do that and maybe defer
 12 something to the following year that's not
 13 going to impact reliability. That's a
 14 management of change document that would be
 15 approved. That would cause an adjustment and
 16 then you would measure against that new
 17 adjustment.
 18 If there was capital works that were
 19 planned and were done but cost more than
 20 expected, then that would be seen as negative
 21 and once again, you have to intercept to find
 22 out the reasons and make the -- and understand
 23 the analysis and make a plan as to what
 24 happened, the changes that would have to
 25 happen to prevent it in the future. You

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1 incorporate that into your new plan and you
 2 carry forward.
 3 JOHNSON, Q.C.:
 4 Q. I'm sort of more interested on the operating
 5 side of things because at least with the
 6 capital budget process, at least that's an
 7 annual process that comes before the Board.
 8 The projects are put there. They can be
 9 looked at, assessed. And I understand where
 10 you're coming from in terms of whether, you
 11 know, the project may come in on budget and
 12 why not, et cetera. But on the operating side
 13 of things, I'm still murky as to what are
 14 these performance measures on the operating
 15 side.
 16 MR. MARTIN:
 17 A. So there's a total amount of operating costs
 18 that are approved annually for operations in
 19 Hydro and that's the amount of money that is
 20 measured as to being spent by the end of the
 21 year. The differences, the variances is what
 22 is managed.
 23 (10:30 a.m.)
 24 JOHNSON, Q.C.:
 25 Q. Okay.

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1 MR. MARTIN:
 2 A. So it's -- I don't have the exact numbers
 3 here, but you know, if you're in the range of,
 4 you know, 100 and -- you know, 130 million
 5 dollars per year of operating costs -- and
 6 don't hold me to that number. I'm just
 7 picking a number. Then that's the target
 8 that's set. And then within a narrow band, if
 9 people make that target, it's seen as meeting
 10 your guidelines. If it's more or less than
 11 that band, explanations have to be provided, a
 12 root cause analysis done and then adjustments
 13 made if required.

14 JOHNSON, Q.C.:
 15 Q. So do the explanations come in the form of
 16 written reports if the budgets are not met?

17 MR. MARTIN:
 18 A. It's a monthly process that we go through.
 19 It's measured monthly and at the monthly
 20 leadership team, we go through all of the
 21 numbers and in essence, I am provided with an
 22 analysis on a monthly basis of where we're
 23 going to end up year end. If it indicates
 24 that we're going to end up on target at year
 25 end, there's not much discussion. IF it's

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1 indicating that we're going to be outside of
 2 the band that's approved by year end, then
 3 there's a verbal discussion and the
 4 accountable person comes forward and provides
 5 a reason for it, a recovery plan that has to
 6 be put in place to recover it for the year and
 7 if there's not a recovery plan and there's
 8 going to be an overage or an underage, then
 9 the leadership team has to understand that and
 10 approve it before it goes forward so that we
 11 all have accountability and understanding that
 12 that could happen. The expectation is though
 13 there's a recovery plan put in place and --
 14 but the reality is in some cases, if there
 15 can't be a recovery plan, they have to be
 16 upfront about that because we have to look for
 17 other places throughout the company to
 18 potentially cut costs or try to make the
 19 adjustment elsewhere.

20 JOHNSON, Q.C.:
 21 Q. And Mr. Martin, indicated yesterday,
 22 Newfoundland Power has indicated some concern
 23 pertaining to the ramp up of operating costs
 24 at Hydro and you know, vastly exceeding
 25 inflation, et cetera, and in your view, as

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1 you're sitting there as president and CEO of
 2 Hydro, are you telling us that when we see a
 3 43.3 percent increase on gross salary expense
 4 from 2007 to 2015 over and above inflation and
 5 we see a 33 percent increase in operations and
 6 maintenance costs over the same period, and we
 7 see 19 percent in finance department costs, 35
 8 percent in corporate relations costs -- and
 9 just for the record, these will be contained
 10 at NP-314, 315, 316, 317. Are you here to
 11 tell us that that represents Hydro's being
 12 cost -- costs being managed effectively and up
 13 to world class standards?

14 MR. MARTIN:
 15 A. So we have an increase that I'm looking at
 16 here from 2007 test year to 2015 test year
 17 basis and I'd just like to put perspective on
 18 that, on those cost changes. So that is an
 19 eight-year timeframe, and if I break those
 20 costs out into six key categories: Category A,
 21 operating and maintenance costs; Category B,
 22 fuel costs; Category C, power purchases;
 23 Category D, depreciation and other expenses,
 24 primarily depreciation; Category E, return on
 25 equity; and F, interest. So I look through

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1 those cost basis and I say what is
 2 controllable here to the extent that we can
 3 make adjustments, make changes from a cost
 4 effect from this perspective that we can
 5 reasonably control and do, primarily in
 6 managing and reducing to the extent possible
 7 fuel usage at Holyrood and in the diesel
 8 plants. Following that, shifting of load to
 9 other facilities to the extent possible, which
 10 we do, the fuel tends to be an outcome because
 11 we have to provide electricity to our customer
 12 base.

13 Power purchases is the same point. From
 14 a power purchases perspective, providing we
 15 are minimizing or using electricity --
 16 maximizing use of electricity from the least
 17 expensive source, which we do, the power
 18 purchases becomes an outcome of providing
 19 electricity to customers that is required.

20 From a depreciation perspective, the
 21 depreciation is an accounting calculation that
 22 is based upon previously approved capital
 23 expenditures, approved by this Board and
 24 accepted, you know, in our base. At that
 25 point, depreciation becomes an outcome from an

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1 accounting perspective that we cannot control.
 2 It's an accounting standard calculation.
 3 On a return on equity perspective, the
 4 return on equity is now specified, you know,
 5 so we don't have a control over that return on
 6 equity.
 7 JOHNSON, Q.C.:
 8 Q. Yes, I appreciate the number -
 9 MR. MARTIN:
 10 A. I just need to get back and try to finish my
 11 answer there. From an interest perspective,
 12 the financing that is required to put these
 13 assets into play, once again, these assets
 14 have been approved and the financing
 15 arrangements have been approved, so the
 16 interest becomes an outcome.
 17 That gets us to the operating and
 18 maintenance side of the equation and what
 19 we're seeing over an eight-year period for
 20 2007 to 2015 test year to test year is an
 21 increase of 44.8 million. And I break that
 22 into three key areas, actually four key areas.
 23 One is actual cost related to people, which is
 24 approximately 31 million dollars; cost related
 25 to system equipment maintenance, which is

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1 approximately six million dollars; and there's
 2 another approximate five for professional
 3 fees; the remainder is in other.
 4 From the professional fees perspective,
 5 that increase is a combination of our
 6 regulatory costs and also a conscious decision
 7 that we made to increase our condition
 8 assessment work because of the aging asset
 9 base and using consultants to do that,
 10 professional consultants. I believe that's
 11 critical. That's related to, as I've
 12 mentioned earlier, the aging asset base and
 13 our condition assessment, so I believe that's
 14 extremely necessary expenditure.
 15 From the system equipment maintenance, a
 16 similar comment. It's a reflection of the
 17 extra effort and work that we have to put into
 18 the assets as well as reflective of the new CT
 19 that's in place which had been approved by the
 20 PUB, and I believe that's essential.
 21 From a people perspective, the majority
 22 of that, from a people perspective, is the
 23 fact that we have put a replacement retention
 24 program in place that we discussed earlier and
 25 is going to be referenced I believe in the HR

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1 panel, that goes into conscious decisions
 2 we've taken to meet our needs to replace our
 3 personnel and retain our personnel in a labour
 4 market situation that has been very aggressive
 5 and in a situation where we have a growing
 6 number of retirees and a lot of need to hire
 7 new people. And that has driven our people
 8 costs higher than inflation, particularly in
 9 our trades, and I firmly believe that that's a
 10 necessary expenditure and that will be
 11 supported further by a tremendous amount of
 12 detail that we feel naturally compelled to
 13 provide to this Board and to the general
 14 public and to the customer, because cost is
 15 essential. So we have put together our
 16 detailed rationale and logic to give people a
 17 chance to understand that there is a rationale
 18 behind that.
 19 And that's where -- those are the things
 20 where we are focusing our cost efforts, in
 21 terms of ensuring we minimize it, but also
 22 balancing it against the needs of providing
 23 power and providing reliability and making
 24 sure the mix of power is at the least cost.
 25 JOHNSON, Q.C.:

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1 Q. So I guess the long and short of it is that
 2 you would regard an increase of 43 or 33
 3 percent in operations and maintenance costs
 4 over that period as being reflective of world
 5 class standards of stewardship?
 6 MR. MARTIN:
 7 A. I would give you the same answer back again.
 8 I don't -- you know, I don't look at it from
 9 that perspective. I look at it, once again,
 10 by looking at the analysis of what the number
 11 is. I break that number down into the
 12 categories I've mentioned and I take a look at
 13 each one to make sure that in that particular
 14 category, based upon the things that we can
 15 control and things we can impact and the
 16 things we have to do from a reliability and
 17 provision of power, that we're doing the right
 18 things. And from that perspective, yes, we
 19 are performing properly, but I have to look at
 20 it in terms of the specifics of the line item
 21 to be able to answer that, and that's what
 22 I've done in the previous answer.
 23 JOHNSON, Q.C.:
 24 Q. I guess the reason I'm putting "world class"
 25 to you is because it's not my word, it's the

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1 description that's given to your job
 2 description that this is going to be run world
 3 class. So that's why I think it's fair to ask
 4 you, I mean, is it your assessment that this
 5 is -- I mean, this is world class cost
 6 performance and control being exhibited in
 7 these numbers?
 8 MR. MARTIN:
 9 A. So what's happening elsewhere in the world?
 10 You know, we take a look at Canada. I
 11 reference a recent CEA report, I believe it
 12 was in 2009 or '10, I'd have to get the right
 13 date, and it talks about, you know, sustaining
 14 the electricity system in Canada for the next
 15 20 years, for example, and in that particular
 16 report, they state that in Canada over the
 17 next 20 years, to maintain the existing system
 18 that exists in Canada will require an expense
 19 of 350 billion dollars throughout the country.
 20 They talk about the fact that, you know, most
 21 of the system in Canada was built in the '70s,
 22 '80s. There was a huge build of generation
 23 and transmission facilities and across Canada
 24 those facilities are reaching their end of
 25 useful life and what -- you know, what's

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1 happening as we look forward is there will be
 2 significant expenditures in the light of the
 3 types of things that we're trying to achieve
 4 here.
 5 I will say that, you know, in my
 6 estimation, we are on top of this. We're
 7 making the right decisions based upon the
 8 facts that are ahead of us. We're not
 9 deferring decisions. We're not deferring
 10 tough decisions. We're looking at, you know,
 11 at the impact on the customer. It's critical
 12 from a cost perspective and we're trying to
 13 avoid those costs to the extent possible, but
 14 we're making the right decisions in terms of
 15 balancing that with reliability and provision
 16 of electricity with the aging structure that
 17 we have. So I believe that from that
 18 perspective, we're doing the right things.
 19 JOHNSON, Q.C.:
 20 Q. Mr. Martin, one of the exhibits that Mr.
 21 O'Brien showed to you is Exhibit 2 of the KPI
 22 report to the Board and I wonder if that page
 23 E5 could be brought up again? And one of the
 24 points that he didn't touch on that I wish to
 25 bring you to is when it comes to Hydro's key

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1 performance indicator targets and operating
 2 results -- oh, I'm sorry. One of the matters
 3 that he didn't bring you to but I wish to
 4 bring you to is when it comes to Hydro's KPI
 5 targets and operating results for 2013. Under
 6 financial, the KPI that's listed is
 7 controllable unit cost and but there's no data
 8 available right across the block here. So you
 9 know, this has really got to do with -- on the
 10 reliability side of things, but nothing by way
 11 of financial performance indicator in terms of
 12 how Hydro is doing in controlling its cost.
 13 Do you have any comment on that?
 14 MR. MARTIN:
 15 A. As opposed to what's being provided here, I'd
 16 have to refer to the Finance panel to discuss
 17 that comment and the not applicable comment.
 18 (10:45 a.m.)
 19 JOHNSON, Q.C.:
 20 Q. Could I turn -- refer you to NP-093 for a
 21 moment. This question, Mr. Martin, asks for
 22 each financial performance indicator reported
 23 annually to the Board as provided in Exhibit
 24 2, which is the exhibit we were just looking
 25 at. "Please include Hydro's target for the

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1 years 2007 to 2012." That's the one that was
 2 left blank in the '13 one. And Hydro responds
 3 "please see the table below for the 2007
 4 targets. Hydro did not set targets for 2008
 5 to 2012 for the performance indicators
 6 reported annually to the Board." And I'm just
 7 wondering, as the person responsible for
 8 leading Hydro, why it is that Hydro did not
 9 have targets as regards these key performance
 10 indicators on things like controllable costs,
 11 so that we can have a sense of where you are,
 12 get behind the numbers, see if there's got to
 13 be changes made, et cetera?
 14 MR. MARTIN:
 15 A. Could you -- I'm just reading this here now.
 16 Could you please scroll down a bit more of
 17 that table? I'm seeking here some help from
 18 the Finance panel on context. I know we set
 19 cost measurements in the company and we
 20 measure from an operating and capital
 21 perspective, as I talked about earlier. So
 22 I'm not getting the context of this particular
 23 document here. So, we do set financial
 24 performance measures. They're set annually.
 25 They're monitored by me and reported to the

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1 Board. So I just need to get some help
 2 offline with respect to this context and the
 3 context of what we're doing within the
 4 company.
 5 JOHNSON, Q.C.:
 6 Q. Okay. So like internally, Mr. Martin, like
 7 this one talks about targets regarding
 8 controllable unit costs for OM&A generation
 9 controllable costs, et cetera. So, what sort
 10 of targets are you folks setting internally
 11 then? Can you provide some insight into your
 12 internal targets?
 13 MR. MARTIN:
 14 A. You know, from a cost perspective, it's
 15 obviously operating and capital, two
 16 categories.
 17 JOHNSON, Q.C.:
 18 Q. I'm referring now more so to controllable
 19 costs.
 20 MR. MARTIN:
 21 A. Well, that, you know, once again it comes down
 22 to at my level I set the overall costs and
 23 then, you know, and break it down into it and
 24 Mr. Henderson's level then, he has to break it
 25 into the various components. So from a

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1 perspective of the overall cost measure that
 2 was set, once again, we would analyze it in
 3 the categories that I mentioned to you
 4 earlier, all of them, and in the majority,
 5 vast majority of cases, the conversations
 6 would go to operating and maintenance costs
 7 for the reasons I discussed. So from my
 8 perspective, with respect to the use of fuel -
 9 - so put the operating and maintenance aside
 10 for one second, I'll come back to it. If you
 11 look at the expenditures on fuel and power
 12 purchases, I ask for and receive analysis with
 13 respect to utilization of Holyrood, the
 14 effective use of Holyrood, and Mr. Henderson
 15 can talk to you more about those measures, but
 16 what we're after there is ensuring that we, to
 17 the extent possible, maximize the use of the
 18 lowest cost generation and there's performance
 19 measures in Mr. Henderson's performance
 20 ratings that cover that. He cascades those
 21 down. So once we understand are we offering
 22 the lowest cost generation to the customer as
 23 much as we possibly can, then the rest of this
 24 becomes an outcome and that's the piece I'm
 25 focused on.

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1 If I go to depreciation and other,
 2 there's not much to focus on there, other than
 3 obviously ensuring that the chief financial
 4 officer does the right accounting calculation.
 5 The same with return on equity and interest.
 6 Those are outcomes from previously approved
 7 expenditures and to the extent that they're
 8 recorded properly by the financial people,
 9 that's fine.
 10 Then come down to the operating and
 11 maintenance and that's when I go back to the
 12 analysis I mentioned before. I break that
 13 into people, system equipment maintenance,
 14 professional fees and other, and that's the
 15 way the performance measures are discussed and
 16 set, and at the end of the day, they have to
 17 answer for those costs, controllable costs
 18 more so, in those contexts and those
 19 performance measures are in the purview of Mr.
 20 Henderson, but he has to explain why operating
 21 and maintenance costs would be outside a
 22 particular band to me in those categories, and
 23 he would then have to present a plan, if
 24 they're outside of those, higher or lower, to
 25 recover either way, put that plan in place and

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1 monitor that as we go forward and ensure that
 2 any adjustments that are required in the
 3 longer term is put into the following five-
 4 year plan and it goes in for further approval
 5 from our perspective and from a capital
 6 perspective, it comes here annually.
 7 JOHNSON, Q.C.:
 8 Q. Mr. Martin, you'll recall at the last time
 9 that you -- or the first time actually that
 10 you testified before this Board was in the
 11 2006 GRA and back at that hearing, you were
 12 indicating to the Board that you would be
 13 setting cost KPIs. Do you recall advising the
 14 Board of that in your testimony last time?
 15 MR. MARTIN:
 16 A. I can't recall it, but it sounds like
 17 something I certainly would say.
 18 JOHNSON, Q.C.:
 19 Q. Yeah. Maybe what we could do is bring up the
 20 transcript of the last GRA, January 22nd,
 21 2007, and I'm referring to page 123. Just go
 22 down a little bit further if you could.
 23 You're answering a question that was posed to
 24 you and further up to the top of the screen,
 25 it says "where I'm leading with this is we're

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1 setting cost KPIs and once again, they may not
 2 be perfect" -- by the way, this is in response
 3 to a question from Chair Mr. Noseworthy at the
 4 time. "We're setting KPIs and once again,
 5 they may not be perfect, but it's going to
 6 focus us in terms of addressing some of these
 7 issues that you're talking about." Then you
 8 go into the next paragraph, "that's just the
 9 perspective where I see it coming from and how
 10 we're going to achieve that. I mean, we
 11 looked at doing back in the fall of 2006, we
 12 were going to do a more comprehensive analysis
 13 of that, but with everything else that was on
 14 the go I didn't see value in sending the
 15 organization off on another direction until we
 16 had sorted some of these things out. So
 17 that's coming. So in the meantime, we'll have
 18 the cost KPIs. It's going to drive us to
 19 address that and we're going to do some
 20 ongoing work in" -- if we could continue --
 21 "in terms of how we can reorganize."
 22 And I just want to understand, like did
 23 these key performance indicators on costs,
 24 they were developed, were they?
 25 MR. MARTIN:

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1 A. That's correct.
 2 JOHNSON, Q.C.:
 3 Q. Okay. And are they expressed in terms of
 4 trying to say look, within a band around
 5 inflation or are they tied to something like
 6 objective in that sense or are they more about
 7 whether there was a variance to an operating
 8 budget that was provided?
 9 MR. MARTIN:
 10 A. It's more driven by the asset management plan.
 11 So, I mean obviously just attaching something
 12 to inflation, which over the past several
 13 years would have been relatively flat, to do
 14 that in the context of working with assets at
 15 the end of useful life which have, in some
 16 cases, an exponential failure curve dimension
 17 to them wouldn't be prudent. You know, you
 18 would be keeping your costs level while your
 19 reliability indexes were going in the other
 20 direction. So, to handle that, you basically
 21 go back to the asset management plan. As I
 22 mentioned, you break it up by asset. You do
 23 your analysis of where you are on the failure
 24 rate curves based upon operating experience of
 25 the operators, what's happened historically,

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1 but also projection of the failure rate curve
 2 which are industry standard curves for assets
 3 such as that. You also look at some condition
 4 assessment work that you've done and you ask
 5 the suppliers and the vendors of the equipment
 6 for further input and analysis in terms of
 7 what's happening elsewhere and what you should
 8 do. That gives you the work that is required
 9 and an operating perspective from, you know,
 10 your additional refurb, you know, your
 11 maintenance work that has to go on, any
 12 increase in maintenance based on that, and
 13 that work is compiled and that is what drives
 14 the hours of work that would be required in
 15 general. There's a support element to that.
 16 And it's that kind of function that
 17 drives, you know, what you're going to have to
 18 expend with respect to the assets. And based
 19 upon that analysis, they come forward and say
 20 here's the amount of people, contractors,
 21 hours that we need to do this and then we look
 22 through that and make sure that, you know, the
 23 inputs are clear, that we're doing the right
 24 things and come to an assessment that yes,
 25 that's the proper match in terms of what has

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1 to be done for reliability and provision of
 2 power and we say to ourselves is that the
 3 right mix from a cost perspective, because
 4 obviously cost is another paramount
 5 consideration. And that's the process that
 6 drives the budget.
 7 Just, you know, at this stage in the
 8 asset life to just manage with an inflationary
 9 amount of money is not the right thing to do,
 10 depending on the asset. If you have assets
 11 which are newer and which are in the bottom of
 12 the bathtub curve with respect to their
 13 reliability index, then you would be much more
 14 likely to stick with an inflationary type of
 15 thing and if you have a new asset, you also
 16 have to make provisions that the failure rate
 17 curve is different than during the longer term
 18 operating phase. So, you put those things
 19 together and that is what is driving -- you
 20 know, fundamentally driving the operating
 21 budgets.
 22 Then, you take that and you integrate
 23 that with your capital work and the capital
 24 work, I've discussed that, about how we've
 25 done the long term asset management plan from

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1 a capital perspective. And the reason you
 2 marry those two plans is because there's
 3 always a strong interface between operations
 4 and the capital work because you have to
 5 integrate the capital work into the
 6 operations, and in almost all cases, there's a
 7 strong element of the operations people that
 8 have to get involved in incorporating the new
 9 capital work into the operation because
 10 they're the ones who are going to run it and
 11 understand the impact on the system. So
 12 there's a draw of operating people more and
 13 more as capital increases and therefore you
 14 have to look at both of those to ascertain do
 15 we have to add resources on top of that in the
 16 operating side of things to cover off the draw
 17 on the operating budget to the capital.
 18 And it's the marriage of those two things
 19 which tend to drive, you know, the hours,
 20 which tend to drive the people costs which as
 21 I just went through a minute ago, in the
 22 operations and maintenance perspective is the
 23 lion's share of the operations and
 24 maintenance. And then on top of that, you
 25 look at what you need to attract and retain

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1 your people and you try to minimize, you know,
 2 salary and benefits increases to the extent
 3 possible, but you also have to balance that
 4 off the need to get the people, keep the
 5 people, and make sure you have necessary
 6 experience in place.
 7 JOHNSON, Q.C.:
 8 Q. But unlike what we see in terms of your KPI
 9 targets, for instance, on reliability, where
 10 it's a data point, I'm not getting the sense
 11 that we're talking about a data point in terms
 12 of a financial indicator of how costs are
 13 being controlled, whether it be a certain
 14 number of FTEs per customer served or number
 15 of FTEs per transmission line kilometres. You
 16 know, something that is a data point that can
 17 be measured against a little bit more
 18 vigorously. I'm not hearing that that's the
 19 type of KPI that we're talking about.
 20 (11:00 a.m.)
 21 MR. MARTIN:
 22 A. It's not that type of KPI, but it's the same
 23 outcome as having that KPI, okay, because we
 24 could turn our targets into that kind of KPI.
 25 So I just described the process where we come

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1 up with a budget and we manage that in a total
 2 amount. If we wanted to use that as a
 3 numerator and put a denominator against it,
 4 like power delivered or something like that,
 5 not a problem. That would come up with a
 6 ratio. We could use that, not a problem. I
 7 get that ratio, the first thing I'm going to
 8 do is say give me the elements of that ratio
 9 and I'll get the elements of that ratio and I
 10 say what's the denominator? and they'll say
 11 it's this thing here that's fixed. I say
 12 okay, take that away. What are we left with?
 13 This. Talk to me about that. Break that down
 14 into different pieces and explain to me why
 15 that's different than what you said it's going
 16 to be. So it comes down to the same thing.
 17 The more you put a factor against it -- and
 18 there's nothing wrong with that, but the more
 19 you make it into a factor, it just creates an
 20 extra step to go back and break that factor
 21 out into the parts that count. That's the
 22 piece I'm after and that's what I've
 23 described. How I get there, you could do it
 24 that way or you could do it the way I'm doing
 25 it. The bottom line is you're getting down to

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1 the actual pieces that count, what's
 2 controllable and what has happened within
 3 that. You're within a band. If you don't
 4 make what you said you're going to make,
 5 explain it, you know, and put a plan against
 6 it to make it. If you can't put a plan
 7 against it, it's an issue that we have to deal
 8 with.
 9 JOHNSON, Q.C.:
 10 Q. You mentioned yesterday that Hydro, you felt
 11 that Hydro's safety performance was not good
 12 when you took the job and you set out to
 13 change that and you indicated that last year
 14 was very successful.
 15 CHAIRMAN:
 16 Q. Mr. Johnson, it's after 11 and I think you've
 17 taken a new line, so would it be -- I think it
 18 would be appropriate if we broke down.
 19 JOHNSON, Q.C.:
 20 Q. Certainly.
 21 (BREAK)
 22 (RESUME 11:35 a.m.)
 23 CHAIRMAN:
 24 Q. Okay, Mr. Johnson.
 25 JOHNSON, Q.C.:

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1 Q. Thank you.

2 CHAIRMAN:

3 Q. Once more into the breach.

4 JOHNSON, Q.C.:

5 Q. Thank you very much. Mr. Martin, I was just

6 turning to safety, just for a touching off

7 point on the targets discussion that we were

8 having frankly, although I do commend the

9 company on its recent safety performance, as

10 you spoke about yesterday. I take it when you

11 came to Hydro, you saw that there was a safety

12 deficiency and you went about to try to get

13 that fixed, right?

14 MR. MARTIN:

15 A. That's correct.

16 JOHNSON, Q.C.:

17 Q. And did you set targets within the company in

18 order to try to incent behaviour towards

19 changing the safety issue as you saw it?

20 MR. MARTIN:

21 A. Yes, I did.

22 JOHNSON, Q.C.:

23 Q. Okay. And tell us about the targets that you

24 brought in.

25 MR. MARTIN:

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1 A. It was comprised of three key elements. The

2 first element would be what they call a

3 leading target, meaning something that you can

4 do before an outcome occurs. And the second

5 category is what they would call a lagging

6 indicator, which would be measuring what the

7 outcome is after the fact. And the third

8 element would be comprised of a series of

9 activities that would have been specified to

10 meet a plan and how the company was

11 progressing against those.

12 JOHNSON, Q.C.:

13 Q. And -

14 MR. MARTIN:

15 A. In this particular case, we set a long term

16 target based upon the targets that we

17 understood would put us in a category of in

18 the top echelon from across the world in all

19 industry. I felt it was acceptable to do that

20 from a safety perspective because we had the

21 performance metrics and from a safety

22 perspective, people are people anywhere in the

23 world. There's difference in people and

24 organizations, but in essence, you know,

25 people are generally the same and the same

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1 issues exist on an equivalent basis throughout

2 the world and throughout companies in the

3 world. So from that particular perspective,

4 we set a long term target for lost time

5 incident frequency, for instance, of .15 which

6 we could compare worldwide that would be --

7 that would place us within the best companies

8 in the world and from an all injury frequency

9 perspective, frequency is a .6. We knew that.

10 From a lead lag ratio leading indicator,

11 we didn't have statistics worldwide on that,

12 but in that particular case, we looked to

13 companies that had improved their safety

14 records significantly over time. We used

15 similar type of ratios and we knew the type of

16 ratio that successful companies were achieving

17 and we set a long term target to get to that.

18 From the activities perspective, we did a

19 gap analysis obviously where we were. Now we

20 knew where we wanted to go, and we said how do

21 we get there. We set a series of steps over a

22 ten-year period. We documented those and we

23 went and covered those activities each year

24 and we set targets each year and the rule of

25 thumb was if we met the targets, we went to

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1 the next improvement number. If we didn't

2 meet the target, we kept that year until we

3 hit it. And that's in essence, how we handled

4 the safety piece of it.

5 And if I may, just in reflecting our

6 previous conversation and if I could take the

7 liberty of going through the targets at Hydro,

8 what we're measuring and how we set them.

9 That may be helpful?

10 JOHNSON, Q.C.:

11 Q. It would be because I was going there next and

12 what I was going to ask you to produce the

13 targets that you use to hold your senior

14 people accountable, for instance, and Mr.

15 Henderson would be a good example of that,

16 what the targets, the performance measures

17 that you use as regards financials,

18 reliability, any indicia of performance that

19 you personally use to hold Mr. Henderson

20 accountable and to provide these targets -- I

21 don't know if you could undertake to provide

22 the targets that you have used in this regard

23 for each of the last three years, because I

24 must confess, I was left very murky on the

25 previous discussion.

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1 In addition, I think it would be useful
 2 if we could have a template produced as to how
 3 these measures figure into the compensation of
 4 Mr. Henderson who is running Hydro. We don't
 5 have to get into the personal aspects of that,
 6 except how it's broken down, what's rewarded,
 7 what percentage was achieved, those types of
 8 things, for the last three years. Okay? I
 9 think it would be useful to have that in a
 10 solid fashion on the record.
 11 Anyway, with that interruption, I'll let
 12 you proceed.
 13 MR. MARTIN:
 14 A. So I'd be pleased to provide that undertaking
 15 in both cases and just as a matter of summary,
 16 we do have a summary which I'll walk through
 17 for a moment for Hydro and then from that
 18 series of performance measures, Mr.
 19 Henderson's performance contract is based upon
 20 a document that flows from that and then his
 21 direct reports have separate documents that
 22 flow from his. So you can see a series of
 23 documents that goes from the managers to Mr.
 24 Henderson to myself overall at Hydro and
 25 you'll be able to clearly see that there's a

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1 line of sight from the top all the way down
 2 through.
 3 I'll start at the top to give you just,
 4 you know, a breakdown of two things: what
 5 we're measuring, and you'll be provided with
 6 this obviously; and the basis for the targets,
 7 and I think, as I reflected on your questions,
 8 that's what I believe that you were seeking to
 9 get an overview of.
 10 So, we have broken -- or I have broken
 11 the targets into five categories which we call
 12 goals. Goal one is safety. Goal two is
 13 environmental performance. Goal three is
 14 business excellence. Goal four is people and
 15 goal five is community. So that's the five
 16 key categories. Within those categories,
 17 there's a further breakdown specifically to
 18 cover each of the elements that we're
 19 measuring.
 20 And under safety, there's a lead lag
 21 ratio, which I mentioned, the leading
 22 indicator, and a target set to that, and
 23 there's an all injury frequency target with a
 24 number, and there's a loss time injury
 25 frequency target with a number, the latter two

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1 being lagging indicators, not as effective as
 2 leading, but nonetheless, something we need to
 3 monitor. In addition to that, under safety,
 4 we have a specified plan called a safety and
 5 health monitoring plan, with a series of
 6 activities laid out over a five-year period
 7 and we pick the 2015 activities on that and
 8 measure against it. We have a five-year plan
 9 related to implementing and improving our work
 10 methods and task based risk assessment for all
 11 critical tasks and we take out the 2015
 12 targets for those and adhere to those and make
 13 sure they're being met. And we also have a
 14 long term improvement plan for electricity
 15 grounding and bonding training for all of our
 16 plants and stations and we lift the 2015
 17 activities from that five-year plan and we
 18 target against that -- we measure against that
 19 to make sure we achieved it. So that's the
 20 safety and the categories attached to that.
 21 (11:45 a.m.)
 22 And as I mentioned earlier, we measure
 23 that against an international standard because
 24 we believe that it's a people to people like
 25 for like that we can adhere to. The lead lag

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1 ratio, difficult to get an international
 2 standard, but we've selected companies that
 3 have improved significantly over time and
 4 compared to their lead lag ratios to ensure
 5 that we are heading in the right direction.
 6 Second category, environment. Based upon
 7 our ISO 14001 certification, we know there's
 8 certain activities, numerous activities that
 9 have to be completed every year to maintain
 10 that certification. We have a long term plan
 11 with respect to that. We take the 2015
 12 portion of the environmental system targets
 13 that have to be met and we have a target to
 14 achieve greater than 95 percent of those. 95
 15 percent, there's -- this is not something we
 16 can point to from around the world
 17 internationally, but I know from experience
 18 and intuitively, if you're doing over 95
 19 percent -- and we're generally averaging
 20 around 98 percent right now, that's well
 21 within the band of excellence of any company.
 22 That has improved over time from approximately
 23 75 percent.
 24 Second under the environment target is to
 25 reduce Holyrood emissions per unit of energy

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1 delivered by achieving a particular variance
 2 from what's called an N-1 ideal, but basically
 3 we have a measurement that shows if we're
 4 operating Holyrood as effectively as we can,
 5 it should yield a particular outcome and then
 6 we measure how we do against that in a year to
 7 see are we operating Holyrood at an ideal
 8 level and if we're not, we measure what the
 9 issues are, and those issues could range from
 10 anything from, you know, operator error to
 11 maybe we're forced to use it in a situation
 12 that we had to provide electricity that we
 13 really had no control over. But in any event,
 14 we itemize that.

15 In the fourth category, we have a goal to
 16 achieve a certain level of gigawatt savings in
 17 Hydro's residential and commercial CDM
 18 programs and we also have a goal of gigawatt
 19 savings through Hydro's internal efficiency
 20 programs. And we have some specific ones in
 21 activity wise and one specific one this year
 22 is to finalize a comprehensive update on
 23 Hydro's five-year CDM program.

24 So you can see the theme here as I go
 25 through then, we do -- you know, we set goals

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1 based upon benchmarks where we can find
 2 appropriate ones. We put long term plans in
 3 place and we pluck each year out to measure
 4 and then we have some specifics year to year
 5 that we put in to make sure that we're
 6 continuing to plan or continuing to evolve a
 7 particular performance review.

8 From the business excellence perspective,
 9 there's five categories there. The first, in
 10 no order of magnitude, is finance, and within
 11 that, there's a target for cash from
 12 operations with a band around that. There's a
 13 target for operating expenditures and there's
 14 a target for net income. There's also a
 15 target relating to completing the GRA and
 16 there's also a target here to put in place or
 17 continue to evolve a multi-year regulatory
 18 process improvement strategy.

19 The second category is project execution,
 20 so that's capital project execution and we
 21 measure that in four categories. We measure
 22 our projects execution in terms of safety,
 23 quality, schedule and cost, and there's
 24 targets against that.

25 The third category is reliability asset

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1 management. And I should back up for a second
 2 and go back to finance. In setting these
 3 targets from a cash from operations and
 4 operating expenditures, how we set those in
 5 comparison data, that's a different category
 6 for us because to find an analog for
 7 Newfoundland and Labrador Hydro per asset is
 8 often very difficult on a published standard.
 9 We may compare our transmission to another
 10 company's transmission. Ours may be 40 years
 11 old, someone else may be 32 or maybe 25.
 12 Holyrood, you know, two units, it's difficult
 13 to compare those to a new coal facility
 14 because of the reliability index types of
 15 things. So from that perspective there, we're
 16 focused on, as I went to earlier, the asset
 17 management plan and putting together a
 18 detailed asset by asset, unit by unit plan
 19 based upon place in the life cycle, operating
 20 experience and such, as to what has to happen
 21 to get that into an acceptable point of
 22 reliability and that's what drives the
 23 operating costs and the operating costs tend
 24 to be the main driver from a cash from
 25 operations and operating expenditure

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1 perspective at Hydro because our income is an
 2 outcome. Increasing our income is not
 3 something we totally control, but operating
 4 expenditures are the key focus at Hydro from a
 5 cash from operations and a net income
 6 perspective and an operating expenditures
 7 perspective because that is the key driver
 8 that we can have some element of control over
 9 and when I say some element, I go back to,
 10 very quickly, the 600 odd million dollars we
 11 take off for what is not controllable for the
 12 most part and we're down to our operating and
 13 maintenance expenditures. That's what I
 14 explained earlier.

15 Then on into project execution, from a
 16 safety, quality, schedule, cost perspective,
 17 what we're doing there, we've put in a multi-
 18 year improvement plan in our capital execution
 19 and every two years, we do -- we have an
 20 independent assessment by an external group.
 21 I'd refer to it as PMBOK. It's project
 22 management something. I forget the acronym,
 23 but it's an outside group that comes in and
 24 helps us with an assessment in terms of how
 25 we're doing in terms of our project execution

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1 and I'm speaking from memory now, but we've
 2 improved our rating from about a 62 or 65
 3 percent factor to recently our most recent
 4 we've achieved 84 percent and we're heading to
 5 another evaluation this year. 80 percent is
 6 considered best in class and we've achieved
 7 that and we're hoping to further improve that.

8 Next one is the reliability asset
 9 management. We have some lagging indicators
 10 which I've talked about earlier. Use the all
 11 end use consumer SAIDI and all end use
 12 consumer SAIFI. That's those -- I was
 13 speaking about them in terms of the 230 kV
 14 interface and the transmission transformer and
 15 circuit breaker, but in essence, that's a
 16 measure of how Hydro's delivery of power
 17 primarily to Newfoundland Power, from the
 18 residential perspective, impacts Newfoundland
 19 Power's end consumer. So as I said, we've
 20 adjusted recently some of our -- last couple
 21 of years, some of our performance measures to
 22 more reflect the actual end user piece of it
 23 and we put targets against those to measure.
 24 And that is based -- we do compare those to
 25 Canadian averages and as I mentioned earlier,

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1 on the Canadian average over the past five
 2 years, we have been better than the Canadian
 3 average with respect to the duration of the
 4 outages for our 230 kv transformers, you know,
 5 circuit breakers and transmission, and we've
 6 been -- we've had one outage -- less than one
 7 outage on average than the rest of Canada on
 8 average over the past five years as well,
 9 which puts us within a band of acceptability
 10 for the past five years. But we continue to
 11 measure that.

12 We also have a specific plan in place
 13 where we've -- you know, as I mentioned, our
 14 tact is develop long term plans and I've asked
 15 for development of a further multi-year
 16 reliability improvement plan over a five-year
 17 period and I've asked for specific activities
 18 within that five-year period, and that's
 19 expected this year. Activities in 2015 will
 20 be part of that and we'll measure both getting
 21 the plan done and having completed the
 22 activities we said we would in 2015. And in
 23 that context, we have a goal to complete the
 24 2015 activities related to the overall asset
 25 management plan, and that's the long term plan

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1 we put in place. We have a series of
 2 activities that have to happen every year with
 3 that over the course of time. I've used a ten-
 4 year period, but that will be continued over
 5 time. We're about seven or eight years into
 6 that. There's a series of activities that are
 7 associated with that plan. So they're
 8 measured to ensure they're done.

9 And I'm just thinking back to setting the
 10 asset management plan. It's difficult to get
 11 international targets to be associated with
 12 that kind of thing, so rather than do that,
 13 you know, I've drawn on my and other's
 14 experiences as to asset management, both
 15 capital and operating plans, that exist in
 16 companies that have an excellent reputation
 17 for capital -- sorry, for asset management and
 18 we've structured the organizational changes,
 19 the activities and the targets based upon what
 20 those corporations have been doing.

21 And we have an additional target in
 22 business excellence, an integration target,
 23 and we have a detailed plan in place for, as I
 24 mentioned earlier, for the integration of
 25 Muskrat Falls LIL and the Maritime Link into

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1 the system here in Newfoundland and Labrador
 2 and into North America and we have a target
 3 under our integration category of complete the
 4 2015 portion of that plan and ensure the ready
 5 for operations activities as per the overall
 6 integration plan, including the project
 7 operations, the commercial and the system
 8 operations piece is complete.

9 We have a customer service target and we
 10 have developed a customer service strategy
 11 road map. So we have two elements to that.
 12 One is to complete the 2015 initiatives under
 13 that plan, and it's a multi-year plan again,
 14 and with the expectation we will result in a
 15 customer service satisfaction greater than 80
 16 percent in 2016. So it's a long multi-year
 17 plan with a particular outcome specified to
 18 it.

19 And we have a growth section here, and in
 20 essence, from Hydro's perspective, you know,
 21 growth is essentially integrating assets that
 22 we may be operating but not under our
 23 ownership at this point, and obviously I'm
 24 talking about the Exploits asset, and we have
 25 a plan to incorporate those assets, finally

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1 integrate them into the Hydro system entirely
 2 by 2016 and there's a target there, some
 3 actions that have to be completed on that.
 4 From a people perspective, every two
 5 years we do an employee engagement survey,
 6 which is a nationally recognized survey
 7 undertaken by a national company that does
 8 this thing and has multiple companies to
 9 compare to. And we have -- when we do that
 10 survey, it yields how we stack up against
 11 other companies and we choose the areas where
 12 we need improvement, two or three of those
 13 areas in particular, whatever it says in that.
 14 We put a plan in place over a multi-year
 15 period how to approach that and then we
 16 measure against those activities in that plan.
 17 So this obviously says complete 95 percent of
 18 the current year employee engagement survey's
 19 planned actions.
 20 And also, we have a plan in place. It's
 21 called -- there's an acronym associated with
 22 it, but what it is, it's a committee that we
 23 formed with the workers, the union and
 24 management and leadership at Hydro with
 25 respect to the Holyrood plant and obviously

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1 Holyrood is critical to our operation and
 2 critical to the Holyrood operation is the
 3 people and the people understand this plant is
 4 headed for closure, so they need, and we feel
 5 compelled to provide, a long term plan as soon
 6 as we can as to where these employees will fit
 7 in, what's going to happen to them, and give
 8 them some certainty around what the outcome is
 9 going to be for them, so we know we can retain
 10 those people throughout the coming years so
 11 that we can keep Holyrood going effectively
 12 with the right people and also incorporate
 13 those people into the longer term operation.
 14 So it's called ELAK, and the acronym escapes
 15 me for a minute, but that's basically a
 16 committee of all those pieces and we have a
 17 multi-year plan on what to do, share with the
 18 employees and the performance measure is
 19 complete current year Holyrood ELAK planned
 20 actions.
 21 And from a community perspective, we do
 22 measure Hydro's reputation and we do that
 23 through a survey as well, an external survey,
 24 and once we have the outcome of those survey
 25 results, we put a multi-year plan in place to

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1 address areas that we have to target to
 2 improve and the target here is to complete the
 3 three to five-year Hydro reputation strategy
 4 activities outlining key drivers of reputation
 5 and initiatives to support long term
 6 reputation amongst the public and key
 7 stakeholders.
 8 (12:00 p.m.)
 9 That's the Hydro performance metrics and
 10 the basis for setting them at the Hydro level.
 11 So, that's what I steward to. That goes to
 12 Rob. Now Rob and I are obviously aligned on
 13 that, but then Rob takes that and then his
 14 performance measures flow directly from that.
 15 So he'll have the same categories and he'll
 16 pick certain specifics and more detail from
 17 this to be able to see how he's actioning
 18 those and then his managers will produce --
 19 he'll produce for them, they'll produce
 20 together, another series of documents which
 21 you'll see the same categories and then have
 22 more specific, more detailed level of
 23 performance measures that would break these
 24 down into the various, whether it be unit or
 25 whether it be, you know, safety, you know,

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1 they'll break it down into generation
 2 facility. In TRO, they'll break it down into
 3 eventually various line crews will have
 4 targets and their supervisor will have targets
 5 to meet. So what you can see from the base
 6 up, you'll be able to see everyone's under the
 7 same five goals, same categories, but we
 8 disseminate this down to a point where someone
 9 on the front line is going to understand what
 10 their contribution will be to these rolled up
 11 targets and we roll these up on a monthly
 12 basis and we produce a report to say where we
 13 are, and that's what we review at the
 14 leadership team and if they're all being met,
 15 there's not a lot of discussion. In the areas
 16 where we're having a issue, we can drill right
 17 back down to the cold face and see where that
 18 issue is.
 19 So for instance, if there's a safety
 20 issue -- we discovered once a couple years ago
 21 that we had significant safety issue on our
 22 targets and the first inkling might be there's
 23 an issue company wide. Say hang on now, let's
 24 roll right down. And what we found is that 80
 25 -- something like 80 to 85 percent of our

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1 incidents were occurring with less than four
 2 percent of our employees and those particular
 3 employees happened to be evident or in one
 4 particular line crew in one particular area
 5 and I believe there was another pocket of line
 6 work issues in another area. So then we
 7 looked at the rest of it, everyone else was
 8 performing well above where they should be
 9 performing. So we had a situation where 94 to
 10 95 percent of the organization was performing
 11 fabulously and we had one or two target areas
 12 that weren't. So what we did, no problem, we
 13 understood that. We took some leadership team
 14 people. We took our union executive. We met
 15 with the workers and we said we're here to
 16 support you. Let's work on a targeted plan for
 17 those two small areas. Put the plan in place.
 18 Put monitoring in place. Put that back into
 19 the performance measures. They rolled up and
 20 we saw the improvements occur and that led us
 21 to where we are today where we have trended
 22 the curve right back down and we fixed those
 23 areas. Just an example of how we would manage
 24 any piece of this.
 25 JOHNSON, Q.C.:

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1 Q. I'm particularly interested in how the
 2 operating costs message gets sent down the
 3 line, and I take it that this is documented?
 4 MR. MARTIN:
 5 A. Absolutely. So when we -- as I mentioned, I
 6 won't -- you know, it comes from the asset
 7 management plan and the unit by unit
 8 requirement analysis that yields the hours in
 9 general that rolls up to a cost associated
 10 with it. In any event, we set a target and
 11 that target then is cascaded down, right back
 12 down to where it started from. So, Rob gets
 13 the overall target. Then each of his managers
 14 takes a portion of that target that adds up to
 15 the full total and below that then, each of
 16 the superintendents or supervisors, that's
 17 broken down. Each of those sections are
 18 broken down into another piece of the budget
 19 that they get and monitored on in a case by
 20 case basis and then, you know, at the cold
 21 front, with the workers who are actually
 22 achieving it, we explain to them where we are
 23 at certain periods of time, but we explain to
 24 them as well, is that here's what work you
 25 have to do and here's why we're managing the

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1 work this way and here's what has to be
 2 adjusted because we have to live within these
 3 parameters. And if we don't, you need to come
 4 forward with a reason why, explain it in the
 5 context of what would prevent us from doing
 6 that. And that would cascade all the way back
 7 up into -- right to the top of the
 8 organization. But if everything is going as
 9 is and everything rolls up on a monthly basis
 10 that we're within that band, there's not much
 11 to talk about.
 12 Now Rob's world, he may have an issue
 13 here, but he may be able to offset it there.
 14 That's his business. But he has to work with
 15 his managers on that and his managers are in
 16 the same boat. So they only have a certain
 17 amount of budget assigned to them. They have
 18 some flexibility within that budget provided
 19 they also meet their reliability and work
 20 commitments as well, which are other measures
 21 that come into that. They balance all of that
 22 and as it rolls up, they have to answer for it
 23 all the way and eventually roll to the top and
 24 if there's an issue, we roll it right back
 25 down and like we did with safety, is there an

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1 issue over here at Holyrood or is it a TRO
 2 north, you know, or is it an issue in HR or
 3 finance that is causing something, and we can
 4 isolate where that number is and we can say
 5 okay, what are you doing about it.
 6 JOHNSON, Q.C.:
 7 Q. So how many people would -- you know, in rough
 8 numbers, Mr. Martin, be receiving something
 9 specific in the Hydro organization along the
 10 lines of saying look, here's the target;
 11 here's the expectation on controllable costs?
 12 MR. MARTIN:
 13 A. Well, every individual outside of the Union
 14 personnel has a performance contract -- has
 15 either a performance contract or there's a
 16 semi-annual performance review done on each
 17 individual.
 18 JOHNSON, Q.C.:
 19 Q. And do you have a sense of the number of
 20 people who would be involved in -
 21 MR. MARTIN:
 22 A. In the performance reviews?
 23 JOHNSON, Q.C.:
 24 Q. Yeah.
 25 MR. MARTIN:

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1 A. Let me try to think of how many unionized
 2 people we have. So, I mean, rough numbers, I
 3 guess if we are in around the 900 plus total,
 4 our union portion is around 600, rough
 5 numbers, you know, five to six hundred. I'd
 6 have to get those numbers for you. Everyone
 7 else has a semi-annual performance review and
 8 from a performance contract perspective where
 9 a portion of their compensation is tied to
 10 those performance measures, that's essentially
 11 our management team and I'm thinking we're in
 12 the -- I'm looking around here now for the
 13 numbers. 40, 30-40 roughly speaking. I'd
 14 have to get the numbers for you as to, you
 15 know, specific performance contracts. And
 16 then the rest of the folks would be semi-
 17 annual review. So they -- each individual,
 18 each person in the company would be aware and
 19 have a chance -- not a chance, would be
 20 explained to them what the performance
 21 measures are, right from the top to the
 22 bottom, how it cascades into their world, and
 23 they would be apprised of that and they would
 24 be measured in two particular areas, how
 25 they're doing from a behaviour perspective,

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1 you know, in terms of their performance, and
 2 how they're doing with respect to doing their
 3 part to meet the goals of the company. And
 4 those reviews would be done on a semi-annual
 5 basis.
 6 JOHNSON, Q.C.:
 7 Q. In terms of those who have those performance
 8 contracts at the level underneath the senior
 9 management level underneath Mr. Henderson,
 10 could we -- could you undertake to provide
 11 those for the last couple of years?
 12 MR. MARTIN:
 13 A. Yes.
 14 MR. YOUNG:
 15 Q. I just want to make sure I understand the
 16 undertaking that's given as to that.
 17 JOHNSON, Q.C.:
 18 Q. Mr. Martin has described a contract with
 19 people, amongst others, with people directly
 20 under Rob Henderson in terms of senior
 21 managers reporting to Mr. Henderson and I'm
 22 interested in getting what those persons
 23 contracts for each of the last two years.
 24 MR. MARTIN:
 25 A. I don't if there's -- they're there certainly.

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1 I don't know if there's -- I'd refer to
 2 counsel on this -- if there's any privacy
 3 considerations or concerns there, because I
 4 know we've had some issues around that before,
 5 but to the extent possible. I need to take
 6 some advice on that.
 7 JOHNSON, Q.C.:
 8 Q. Well, it doesn't have to be identifying in
 9 terms of the individual.
 10 MR. YOUNG:
 11 Q. Mr. Chair, I think what I would suggest is
 12 perhaps I'll have a conversation with Mr.
 13 Johnson as to what this is and we'll get back
 14 to the Board in any way as to what can be
 15 provided, what would be appropriate, and I'm
 16 sure Mr. Johnson won't ask for inappropriate
 17 information, but we need to have that
 18 discussion.
 19 JOHNSON, Q.C.:
 20 Q. That's fine. Mr. Martin, just if you could
 21 shed a little bit of light on when you were
 22 answering questions posed by Mr. O'Brien, you
 23 -- he asked you the question in reference to
 24 the KPI targets set out in Exhibit 2 that we
 25 had looked at, the series of reliability

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1 targets, and he asked you whether these were
 2 the key performance targets to align the
 3 organization, and you indicate that these were
 4 data points and you don't personally use
 5 these. What did you mean by that?
 6 MR. MARTIN:
 7 A. I use what I just explained.
 8 JOHNSON, Q.C.:
 9 Q. Okay.
 10 MR. MARTIN:
 11 A. And as far as what is being provided in that
 12 report, I would leave that to Rob and others
 13 to deal with that. I just want to be clear
 14 that I'm managing the organization according
 15 to the document I just described.
 16 JOHNSON, Q.C.:
 17 Q. Okay, so the numbers that get reported to the
 18 Board are not necessarily aligning with how
 19 reliability performance is handled internally,
 20 would that be fair?
 21 MR. MARTIN:
 22 A. Two points on that.
 23 JOHNSON, Q.C.:
 24 Q. Yeah.
 25 MR. MARTIN:

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1 A. Whatever is being provided to the Board is
 2 coming from the same database.
 3 JOHNSON, Q.C.:
 4 Q. Uh-hm.
 5 MR. MARTIN:
 6 A. So there would be no difference in the base
 7 data. I'd have to do a more detailed
 8 comparison as to what I'm managing, as to what
 9 they're managing too, but it looks to me like
 10 obviously there's differences.
 11 JOHNSON, Q.C.:
 12 Q. Right.
 13 MR. MARTIN:
 14 A. So I want to make it clear I'm managing using
 15 this. The Board information, and I talked
 16 about that earlier, it comes from the same
 17 database, it comes from the same information,
 18 and if there's any type of analysis required
 19 to delve down into the various elements,
 20 that's where I go back to what I was saying
 21 earlier, that's the purpose of performance
 22 measures. Whatever they are - excuse me
 23 there, Geoff, every time you move, I'm dodging
 24 around to see if I can see Mr. Johnson there.
 25 MR. YOUNG:

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1 Q. I apologize for that.
 2 MR. MARTIN:
 3 A. So my point was, the same bases, coming from
 4 the same database. I'm just stating the
 5 obvious, the benefit of performance measures
 6 is the ability to break them down into
 7 specific more detailed items and see what plan
 8 is - see actually what the reasons are for
 9 those differences and make sure there's a plan
 10 in place. The actual targets themselves are a
 11 useful piece of information to start that
 12 process, but that's probably, you know, 5
 13 percent of the activity. The true activity
 14 occurs is after you see an issue, you break it
 15 down, find out where it is, make the
 16 adjustment and if you got an issue, make sure
 17 you got a plan in place and you get it into
 18 your plan.
 19 JOHNSON, Q.C.:
 20 Q. Okay. Mr. Martin, I want to take you back to
 21 something that you said yesterday. You
 22 indicated that you did your analysis of the
 23 operating cost difference between 2007 test
 24 year and the 2015 test year, and you said
 25 there was a people component and there was a

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1 professional expense component, etc, and you
 2 indicated in your testimony yesterday that the
 3 primary driver of increases to overall salary
 4 costs that have been experienced at Hydro was
 5 attributable to adding people, and that
 6 response surprised me because that was not my
 7 impression as to why the overall salary costs
 8 at your organization have been primarily
 9 driven to the extent that they have been. In
 10 that regard, Mr. Martin, I guess, I put it to
 11 you, are you surprised when I tell you that,
 12 in fact, it's not because you're adding
 13 people, it's because you're adding salary and
 14 salary increases, but the big driver is not,
 15 in fact, a number of people that you've taken
 16 on, although we can have a debate about the
 17 number of people you're taking on, that's for
 18 another time, particularly with Mr. Henderson,
 19 etc, but it surprised me that that was your
 20 view of the situation?
 21 MR. MARTIN:
 22 A. Maybe I should clarify as to what - I take
 23 your point because I'm thinking back
 24 yesterday, I know what the issue is. I was
 25 thinking in terms of FTE's, both capital and

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1 operating, and I could see where I would have
 2 left that impression. I believe here we're
 3 focused in the GRA on the operating piece of
 4 it, and I would concur with what you're saying
 5 is that the additional FTE add is not the main
 6 driver there.
 7 JOHNSON, Q.C.:
 8 Q. Right.
 9 MR. MARTIN:
 10 A. But when we look at the number of people who
 11 are charged into Hydro to service the capital
 12 program as well, which wouldn't show up in
 13 this particular document, there are more
 14 overall people that are being charged in to
 15 handle the capital program.
 16 JOHNSON, Q.C.:
 17 Q. Uh-hm. Just if I could to, I guess, clarify
 18 the point for the record a little bit better,
 19 if I could draw your attention to NP-092,
 20 Revision 2.
 21 MR. MARTIN:
 22 A. I'm just waiting for it.
 23 (12:15 p.m.)
 24 JOHNSON, Q.C.:
 25 Q. In this question, and the answer which was

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1 revised at the end of June, the question was
 2 asked, "For each year from 2008 to 2015
 3 forecast, please provide a breakdown of the
 4 increase in salaries and benefits attributed
 5 to; (i), the change in the number of
 6 employees, and (ii) the change in salaries and
 7 benefits", and I want to refer you to the
 8 chart that appears at page 2 of 4, and just
 9 give you a moment to take a look at it, to
 10 digest it. Table 1, I'm referring to.

11 MR. MARTIN:
 12 A. Yes.

13 JOHNSON, Q.C.:
 14 Q. And, I guess, you - I take it, you know, on
 15 the basis of this chart, Mr. Martin, I guess
 16 you would have to agree with me that, in fact,
 17 the predominant driver has been the increase
 18 that's attributable to the change in salaries
 19 and benefits, right?

20 MR. MARTIN:
 21 A. Yes, I just agreed to that a moment ago. I do
 22 the same now.

23 JOHNSON, Q.C.:
 24 Q. Do the same now, okay.

25 MR. MARTIN:

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1 A. And just for the clarification, yesterday I
 2 was speaking in broader terms, which I
 3 shouldn't have been in terms of capital and
 4 operating, but that was a reference I had from
 5 - this is the GRA perspective, obviously,
 6 that's the case.

7 JOHNSON, Q.C.:
 8 Q. Yeah, okay. Now could I just bring your
 9 attention to page 68 of the financial
 10 consultants report, Grant Thornton.

11 MR. MARTIN:
 12 A. I would make the point that as we dive deeper
 13 here, you're probably going to be heading to
 14 the finance panel potentially.

15 JOHNSON, Q.C.:
 16 Q. I appreciate that.

17 MR. MARTIN:
 18 A. Yeah.

19 MS. GRAY:
 20 Q. Sorry, just give me a moment and I'll get
 21 that.

22 MS. GLYNN:
 23 Q. Jennifer, you can get the document from the
 24 website too if you're having difficulty.

25 MS. GRAY:

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1 Q. Yes, sorry, I'm just trying to figure out -
 2 JOHNSON, Q.C.:
 3 Q. Page 68, if I could. Mr. Martin, the reason
 4 I'm bringing this to your attention as the CEO
 5 is that Grant Thornton, the Board's financial
 6 consultants, have provided two interesting
 7 tables here, Table 46 and 47, which sets out
 8 the average salary per net FTE. So we know
 9 there's been growth in FTE's. They're saying,
 10 look, here's the growth in salary that's been
 11 seen at Hydro on an FTE reported basis, and we
 12 see at Table 46, 2008, 2.52 percent; 2009,
 13 4.89 percent; 2010, 3.97 percent; 2011, 8.48
 14 percent; 2012, 4.3; 2013, 4.84; 2014 forecast,
 15 2.66; 2014 actual, 2.84, and then another
 16 further forecast for 2015 at 4.63 percent, and
 17 this is again on a per FTE basis, you know,
 18 when - you know, Hydro's materials would
 19 indicate that inflation has been running at
 20 about 2 percent a year, but, I mean, these are
 21 increases that are - how would you
 22 characterize these? I mean, you're sitting
 23 there, I mean, are you struck by the size of
 24 these when you sit down and look at them
 25 together?

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1 MR. MARTIN:
 2 A. I understand the basis for them and believe
 3 it's the right thing to do, and the reason for
 4 that I talked about a bit earlier is the fact
 5 that a big part of our cost containment and
 6 reliability and provision of electricity
 7 safely is to have the right people with the
 8 right experience. It's obvious that we're
 9 running a major system and we need a level of
 10 expertise, we need to retain that expertise.
 11 I know that I've asked the accountable people
 12 to find the most reasonable area where we can
 13 say to our employees that we are competing
 14 properly and make the necessary adjustments
 15 because with the market we've experienced over
 16 the past eight to ten years, as I've explained
 17 earlier, whether it be the project work that's
 18 occurring here in Newfoundland and Labrador,
 19 what's happening out west, we have a highly
 20 trained and highly skilled group of people
 21 that we have to retain, and in many cases,
 22 with retirements, we have to attract many.
 23 You know, I was advised that the place to be
 24 would be let's target the average of the
 25 Atlantic utilities for our tradespeople, and

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1 when we targeted that over time, we were
 2 significantly less, had fallen behind, and
 3 that created a concern, so we've taken a
 4 strategy particularly in the key areas of our
 5 skilled trades to ensure that we are competing
 6 on the average of the Atlantic utilities.
 7 That's what is driving these types of numbers,
 8 and to me, I understand that a primary concern
 9 is the cost to the rate payer, you know, I
 10 understand that, and what we're trying to do
 11 is find the right balance. Obviously, there
 12 was some talk, you know, should you go to the
 13 Canadian average, you know, we just had to
 14 find the right place to go and we made the
 15 decision that we couldn't stay where we were
 16 for the reasons I mentioned, and we picked the
 17 Atlantic average which we thought was a
 18 reasonable place to be with the skill level of
 19 our employees and the mobility of our
 20 employees, and our plans, which will be
 21 discussed in further detail with any HR, Human
 22 Resources panel, where they've laid out our
 23 plan overall in great detail and they've
 24 tracked how we've managed to do that and what
 25 we've done to do it, while still containing

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1 cost to the absolute extent possible, and
 2 they'll cover off that more, but that's why I
 3 say I'm comfortable with it because it's based
 4 on a plan, it's based on a documented logic,
 5 and there's a progression shown that each step
 6 in the progression is linked to that logic and
 7 can be explained as to what the basis of our
 8 logic was.
 9 JOHNSON, Q.C.:
 10 Q. And I understand that, but at some point I'm
 11 wondering do you have to sit back from it for
 12 a moment and say, well, look, still and all,
 13 we're talking about, you know, increase in our
 14 operating well above inflation, and looking at
 15 it as well from the perspective of - you're
 16 not just hearing it from Tom Johnson in this
 17 proceeding, who would be expected to raise
 18 questions about these levels, but it strikes
 19 me that you're also hearing it in this
 20 proceeding from a utility, being Newfoundland
 21 Power, and asking questions of them trying to
 22 get a grip on your expenses, and they're in
 23 the same game as you guys in terms of trying
 24 to keep staff, attract people, they've got to
 25 deal with the competitive pressures, etc, and

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1 they're here wondering about these increases,
 2 you know. At that level, Mr. Martin, you
 3 know, what's your reply to that?
 4 MR. MARTIN:
 5 A. Well, a couple of points, and I appreciate the
 6 example being offered on Newfoundland Power,
 7 because that's an obvious comparison for this
 8 utility part of the business to them. We do
 9 direct comparisons, we're not--where
 10 Newfoundland Power is right now, with our
 11 employees, our skilled trades and such,
 12 they're getting paid somewhat more. We take
 13 the Atlantic average for a series of reasons.
 14 You know, before I landed at Newfoundland and
 15 Labrador Hydro, there had been a series of
 16 wage freezes and such, the company was behind,
 17 and what we've been doing, as I said, trying
 18 to catch up on a reasonably phased in fashion
 19 to the Atlantic utilities, and the reasons I
 20 stated. When we looked at comparisons to
 21 other utilities, including Newfoundland Power,
 22 in terms of what additional increases to the
 23 skilled trades over and above a flat increase
 24 was, we find other utilities are doing the
 25 same thing. They're giving a certain amount

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1 to everyone, and for the skilled trades,
 2 they're adding in extra dollars per hour from
 3 a retention perspective. So know Newfoundland
 4 Power and the other utilities are following
 5 the same path. So I appreciate that
 6 comparison, and it will be worthwhile to maybe
 7 use that to discuss further looking at the
 8 Atlantic utilities comparison, but we're going
 9 to do that in our submission at the HR panel
 10 to show you the direct comparisons, show you
 11 who's who, and explain how we're trying to fit
 12 in. We're not there yet, but we're striving to
 13 get there for the reasons I mentioned. That
 14 Part A. Now Part B, there's no question that
 15 cost is absolutely critical for the rate
 16 payer. We're conscious of it every hour of
 17 the day, we have to be, but obviously we're
 18 also held to account for reliability, we're
 19 held to account for safety, we're held to
 20 account for environmental performance, and to
 21 do that we have to retain our people, and
 22 that's why there's a balance in terms of our
 23 performance measures, there's a balance in
 24 terms of what we're trying to achieve, and you
 25 cannot offer proper reliability and you can't

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1 be safe, and you can't do the environmental
 2 things that are required if you don't have the
 3 right people or enough people, or the most
 4 professional people that you can compete with
 5 on an Atlantic basis. So it's a balance,
 6 we've made those choices, and based upon what
 7 I just said and the detailed evidence that's
 8 going to follow, and every one of the panels
 9 that are coming forward are going to provide
 10 the logic, the baseline, and the information
 11 as to how we've managed that balance.

12 JOHNSON, Q.C.:
 13 Q. I understand, and I wanted to put the bigger
 14 picture to you, Mr Martin. I'm aware that
 15 there are further panels coming. I understand
 16 that there's budget guidelines get issued
 17 every year at Hydro, operating budget
 18 guidelines?

19 MR. MARTIN:
 20 A. That's correct.
 21 (12:30 p.m.)

22 JOHNSON, Q.C.:
 23 Q. And these - if you could turn to NP-374, and
 24 I'm referring in particular to Table 1,
 25 Historical Milestones Regulated Hydro

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1 Operating Budget, and in June it indicates
 2 that's when budget guidelines are issued.
 3 What's your role in relation to that, Mr.
 4 Martin, the issuance of budget guidelines?

5 MR. MARTIN:
 6 A. My role is fairly standard right now. I do
 7 ask the teams to manage to inflation, so I say
 8 put your budgets together based upon the long
 9 term asset management plan, and the guidelines
 10 that have been put out there from - I go back
 11 over the asset management plan, but it's the
 12 capital program, it's the operations and
 13 maintenance, and all the thing that are
 14 driving that and they have that in their hand.
 15 They're told to plan off of that and do what's
 16 required, you know, to maintain the
 17 reliability of the assets at the reasonable
 18 level, and then I indicate to them that if you
 19 stick within that plan, the asset management
 20 plan, and you stay within inflation from the
 21 previous year, we will have a somewhat
 22 detailed discussion, but we'll be focused on
 23 things within the budget that may have changed
 24 line to line and get a reason why. If you are
 25 outside those guidelines, that's when they're

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1 asked to come forward with a much more
 2 detailed series of information to explain that
 3 and make sure that we all understand it, and
 4 if we agree, the long term plan is adjusted at
 5 that point. If it's not, they're told to go
 6 back to the drawing board and find a different
 7 way to do it.

8 JOHNSON, Q.C.:
 9 Q. So these budget guidelines that are referred
 10 to at NP-374, they come out of your office?

11 MR. MARTIN:
 12 A. We have an office of Strategic Management, I
 13 call it, but there's an overall planning
 14 budget coordination office that does that for
 15 me.

16 JOHNSON, Q.C.:
 17 Q. But those guidelines have your stamp?

18 MR. MARTIN:
 19 A. Yes.

20 JOHNSON, Q.C.:
 21 Q. And I wonder if you could undertake to provide
 22 the budget guidelines that have been issued
 23 for '13, '14, and '15?

24 MR. MARTIN:
 25 A. Yes. I'm not sure what's - as I said, I tell

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1 the people that's what has to happen as to
 2 what's issued and how it's issued, and I'll
 3 have to check and see, but that's when it
 4 comes to - to me, that's the guidelines that
 5 they know they're faced with.

6 JOHNSON, Q.C.:
 7 Q. You can see towards the bottom of Table 1 that
 8 by the end of October, they're presented for
 9 approval by yourself, the budgets, and then in
 10 November they're presented for approval by
 11 Hydro and the Nalcor Board of Directors, and I
 12 understand that there was no changes made at
 13 the CEO level or the Board level in respect of
 14 the test year budgets that were brought
 15 forward for approval. Is that your
 16 recollection as well?

17 MR. MARTIN:
 18 A. I need some help from the finance panel on
 19 that because, you know, I'm not sure what
 20 stages we're talking about, what generation
 21 process, so I need some specific help from the
 22 panel on that.

23 JOHNSON, Q.C.:
 24 Q. If I could just bring to you to CA-NLH-327.
 25 This question asked for Hydro to file a copy

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<p>1 of its test year corporate operating budget 2 submission that was presented to Hydro's 3 leadership for approval and detail what 4 changes, if any, were made upon its review by 5 leadership, and the reason for the changes, 6 and the answer says, "The Vice-President of 7 Hydro was involved throughout the budgeting 8 process. Upon completion, the proposed 9 operating budget of 138.2 million was 10 presented to Hydro's leadership, subsequently 11 approved". The footnote refers to Hydro's 12 amended application. So I took from that that 13 there were no changes made by yourself or the 14 Board. Once it reached you, it was just 15 approved?</p> <p>16 MR. MARTIN: 17 A. I wouldn't take that from it.</p> <p>18 JOHNSON, Q.C.: 19 Q. Okay.</p> <p>20 MR. MARTIN: 21 A. You know, but as I said, like with any of the 22 budgets, Rob and I would be talking 23 throughout, there could be some presentations. 24 I'm just trying to think back. I can't recall 25 the exact day, there's a lot of it happening,</p>	<p>1 moment, I noted in Hydro's application, 2 particularly Volume 1, the main filing, that 3 there wasn't a great deal of discussion about 4 where Hydro sees itself from a reliability 5 point of view.</p> <p>6 MR. MARTIN: 7 A. Excuse me, Mr. Johnson, from what perspective? 8 I missed the first part of that.</p> <p>9 JOHNSON, Q.C.: 10 Q. In the main filing, it didn't seem to me that 11 there was much discussion about Hydro's 12 appraisal of, you know, a state of the union, 13 if you will, on Hydro's reliability 14 performance, and, you know, where it's got to 15 be, and I took from some of your comments 16 yesterday that, you know, if you backed out 17 this or that, you know, on the whole, we're 18 probably not too bad, and so what's your 19 assessment as to how you've done and where you 20 are?</p> <p>21 MR. MARTIN: 22 A. Is it possible to take a 60 second break?</p> <p>23 CHAIRMAN: 24 Q. Sure. 25 (RECESS)</p>
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<p>1 but the finance people and the finance panel 2 would be there, you know, keeping tabs on 3 things. We have many informal conversations, 4 we sit next to each other, in terms of where 5 one thing is going with respect to a change in 6 the asset management plan potentially, and we 7 might discuss that. There's a whole series of 8 dialogue and discussion going on. So from 9 point "x" to when it was submitted, there may 10 or may not have been changes, but there 11 certainly was a tremendous amount of dialogue 12 between us, and I just don't have the record 13 of those in terms of it's not a formal 14 documented process, it could be informal, it 15 could be some changes, it could be different 16 presentations. I haven't got that detail.</p> <p>17 JOHNSON, Q.C.: 18 Q. Okay.</p> <p>19 MR. MARTIN: 20 A. But there is obviously between Rob and I, a 21 tremendous amount of interface and dialogue 22 with respect to where we're going to land. 23 It's an absolute key parameter.</p> <p>24 JOHNSON, Q.C.: 25 Q. Mr. Martin, switching to reliability for a</p>	<p>1 MR. MARTIN: 2 A. I'm taking your question to be, you know, an 3 overall reliability perspective with respect 4 to where Hydro has been and is going to, is 5 what I hear. Is that correct?</p> <p>6 JOHNSON, Q.C.: 7 Q. Yeah, I think what caught my attention about 8 it, Mr. Martin, to be honest with you, is that 9 at Tab 2 of the regulated activities evidence, 10 there is a discussion at 2.3.4 of recent 11 reliability performance. You know, it talked 12 about some of the events of 2013/2014, but I 13 never got a sense of Hydro's own appraisal as 14 to where it sees itself on reliability. I 15 mean, we can have the charts and all that sort 16 of stuff, but some sort of description around 17 where you are, and, I guess, what put me onto 18 that a bit more was your discussion yesterday 19 that, you know, if we backed out an event here 20 or there, we're not doing too bad. As you're 21 probably aware, I mean, public confidence was 22 shaken a great amount by the recent events, 23 and I understand that you look at talking to 24 your own distribution customers, that's fair 25 enough, but there's a whole lot of customers</p>

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1 out there who were not particularly convinced
 2 that it's hunky-dory. You know, if you ask
 3 the Newfoundland Power customers who were
 4 inconvenienced, etc, so I was looking for your
 5 appraisal as to where things were, where they
 6 are, where they're going?
 7 (12:45 p.m.)
 8 MR. MARTIN:
 9 A. So first, I'd like to take exception to one of
 10 the comments you just made. You mentioned and
 11 filled in some words, which I didn't say. You
 12 indicated that I suggested if you take out an
 13 event or two, we're not doing too bad, or not
 14 doing so bad. I take exception to that
 15 comment. I don't see it that way at all. I
 16 believe earlier this morning, I talked about
 17 if you take out an event such as that, it
 18 doesn't happen that frequently, that doesn't
 19 mean you put it aside and say you're not doing
 20 too bad. It means you take that event and do
 21 a deep thorough analysis on it to find out the
 22 reasons and the root cause. At the same time,
 23 not contaminating the rest of the system with
 24 that at that particular point because we need
 25 to find out the root cause before you do

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1 something. I want to make it clear on the
 2 record that I didn't phrase it that "we're not
 3 doing too bad". That would be incorrect if
 4 that's the information you took from what I
 5 said. That's point one. From an overall
 6 perspective, I think on the positive side of
 7 reliability, we have recognized clearly that
 8 the majority of our assets are reaching the
 9 end of normal service life, both transmission
 10 and generation. I believe that we have put a
 11 detailed plan in place to address that and
 12 have been commencing and executing that plan
 13 aggressively over the past four or five years,
 14 in particular, and there's a plan laid out for
 15 the future as to how to continue that. I
 16 believe that we've recognized the need for
 17 more electricity and we've made a decision in
 18 terms of how we're going to fulfil that plan,
 19 and that's Muskrat Falls Labrador Island Link.
 20 The decision has been made, so we've
 21 recognized both issues, we're executing both
 22 plans, and we're not sitting on our hands,
 23 we're actively moving ahead making decisions
 24 and doing what has to be done. Obviously,
 25 making no decision is a decision within

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1 itself, it's unacceptable. Things have to be
 2 progressed and we're doing that. I believe
 3 that one of the added benefits of meeting the
 4 additional generation is that we're bringing
 5 new assets on, we're retiring a significant
 6 portion of our generating assets, in any
 7 event, at Holyrood, which is going to be a
 8 very, very strong reliability exchange in a
 9 positive way when it comes online. I believe
 10 the Labrador Island Link and the proposed new
 11 transmission line coming in from Bay D'Espoir
 12 into the Avalon, new infrastructure, once
 13 again increasing reliability of the system
 14 significantly from what it has been. The
 15 Maritime Link and the connections to North
 16 America through Labrador also provide us with
 17 a significant improvement in reliability. It
 18 negates our need for load shedding as a goal
 19 and gives us alternative means of accessing
 20 power as other jurisdictions in North America
 21 have had forever. On a more negative side, we
 22 are still left with a suite of assets that
 23 we're depending on that naturally is aging,
 24 I've talked about this, we know what the
 25 reliability curves indicate, and to keep those

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1 assets maintained will continue to result in
 2 an element of increasing costs, which is
 3 unfavourable, very unfavourable for the
 4 customer, but once again, as I mentioned
 5 earlier, to balance that, I have to be
 6 factual, I have to be upfront about that, you
 7 know, reliability of maintenance on these
 8 activities will require more operating and
 9 capital over time. The other point is a
 10 recognition is the rate of decline is
 11 important to consider, and as these assets get
 12 older and older, the rate of reliability
 13 performance will continue to decrease at an
 14 increasing rate and that will also require
 15 funds to deal with it between now and Muskrat
 16 Falls coming on line, you know, I feel our
 17 main exposure right now continues to be
 18 Holyrood and primarily Holyrood in my mind,
 19 from a transmission perspective we've done
 20 significant work on the transmission, on the
 21 transformer circuit breaker exercises. I will
 22 say that we're expediting the air blast
 23 circuit breaker work, but that's going to take
 24 time and I do believe our largest exposure is
 25 Holyrood and the gas turbines, I should say.

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1 A plan is in place for both, but I have to be
 2 factual, those are old assets; particularly
 3 Hardwoods and stephenville and Holyrood. But
 4 I believe that we have stringent plans in
 5 place, we have the absolute right focus, we
 6 have the right people, we're investing the
 7 right amounts right now. We're not shying
 8 away from the decisions that have to take
 9 place and in the Holyrood perspective, we are
 10 maintaining that plant as if it was and should
 11 be a long-term plant meeting our needs until
 12 Muskrat Falls comes on board and is
 13 stabilized. We're not backing off with
 14 respect to our work on Holyrood, we're
 15 treating that as an ongoing plant, as we
 16 should and we're putting the right
 17 investments, the right effort and the right
 18 focus in the right areas and we're doing that,
 19 as I mentioned, by making sure we're
 20 identifying the key areas that we see the
 21 oldest assets that need the most work, that's
 22 where we're pouring our resources, our time
 23 and our investments. So I think we've met the
 24 issues properly or are meeting the issues
 25 properly, but the fact of the matter is, you

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1 know, as it happens in other jurisdictions
 2 with the types of assets we have in place, I
 3 can't guarantee that there will never be
 4 another reliability issue or some form of
 5 outage, you know, that is unplanned, that's
 6 the fact of the matter.
 7 JOHNSON, Q.C.:
 8 Q. How do you look upon--what's your level of
 9 satisfaction, for instance, with the
 10 reliability performance as was set out earlier
 11 in questioning from Newfoundland Power's
 12 counsel in the KPI report in missing, you
 13 know, basically all eight of those indicia, I
 14 mean, you know, can you be satisfied with
 15 missing all eight targets? I mean, what's
 16 your candid assessment of 2013 for instance?
 17 MR. MARTIN:
 18 A. I'm going to repeat myself a fair amount here
 19 now, but you know, once again the performance
 20 measure itself is a tool to find out where
 21 particular issues have occurred. To me, the
 22 key issues, as I mentioned within the
 23 Turbines, Holyrood--sorry, not Holyrood,
 24 Hardwoods and Stephenville. There's a plan in
 25 place on that. There is one section I believe

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1 that we could have improved upon during one
 2 season and I believe the integration of the
 3 extra capital work, combined with the age of
 4 the assets driving the operational increase in
 5 activity and I think for an 18 month period or
 6 so, we under estimated the amount of draw on
 7 the operating resources that would be required
 8 to drive the capital. I don't think that had
 9 a direct impact on any of the outages, but I
 10 do believe that that has to change, based upon
 11 our in-depth analysis of everything and has I
 12 mentioned earlier, that's what's driving, you
 13 know, not this particular GRA but FTEs on the
 14 capital side of things, anything additional
 15 that we're looking for. So my assessment is
 16 is that the performance measures that we, take
 17 those aside into the ones that I'm using in
 18 the area is that when we drill down, we see
 19 that there's issues and improvements to be
 20 made. We've put a detailed plan in place,
 21 we've documented it and it's being tracked and
 22 we're constantly reviewing it. So I think
 23 we've identified the right areas and we are
 24 continuing to execute against that.
 25 JOHNSON, Q.C.:

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1 Q. So you obviously weren't satisfied of what you
 2 were seeing?
 3 MR. MARTIN:
 4 A. In some areas, no, and I've mentioned those
 5 areas. You know, I struggle, Mr. Johnson,
 6 with blanket statements. I've just learned
 7 from experience that, you know, that's not the
 8 way to manage the asset because that only ends
 9 up without the thorough analysis in making
 10 investments and resources and time that are
 11 not necessary. So I don't mean to be, you
 12 know, not answering your question at the
 13 highest level. I'm just trying to make the
 14 point is that the highest level of performance
 15 measure is not where you need to focus. You
 16 have to come down and find out where the areas
 17 are and make sure you're dealing with those.
 18 I can sit here and give you another, many,
 19 many areas that are performing very, very
 20 high. I don't think you're interested in
 21 hearing that right now, so I won't bother with
 22 that, but I have to make the point, there are
 23 areas that are doing very, very well, many key
 24 areas, majority of areas. We're trying to
 25 isolate the one or two areas that we have to

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1 make improvements on. That's what we've done.
 2 And I've talked generally about those and I'm
 3 telling you that we've done that, we've put a
 4 plan in place and the key to me is are we
 5 managing the business aggressively and
 6 properly and I believe we are. And for the
 7 performance measure that the detail level that
 8 are not where they should be, and there's no
 9 reason for it, I'm not pleased with those at
 10 all, absolutely not. For the areas that the
 11 performance measures indicate at that level
 12 that we're doing well, the performance is
 13 good, I'm pleased with that.

14 JOHNSON, Q.C.:

15 Q. I would have taken Exhibit 2 in terms of
 16 meeting all or not meeting any of the eight
 17 reliability targets as not being satisfactory
 18 and I don't mean to--call that a general
 19 statement, call it what you will, but when I
 20 see a company that started at eight different
 21 things on reliability and is not able to meet
 22 either one of them, I just--I don't know how
 23 you can say that look, it is what it is, it's
 24 not satisfactory, is it?

25 MR. MARTIN:

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1 A. I'm going to end up repeating my answer again.
 2 JOHNSON, Q.C.:

3 Q. Okay, well I don't want you to do that, I mean
 4 if -

5 MR. MARTIN:

6 A. No, let's not do that.

7 JOHNSON, Q.C.:

8 Q. When I asked you, Mr. Martin, about the events
 9 of 2014, that had to be a low watermark for
 10 you running Hydro, in terms of the events that
 11 transpired that winter. I take it you would
 12 agree, and I wonder, Mr. Martin, what your
 13 explanation is for the fact that
 14 notwithstanding the 2014 performance, the
 15 short-term incentive payments to key
 16 individuals at Hydro in fact went up and in
 17 that regard, I'd like to bring your attention
 18 to PUB-456 and this question asked for Hydro
 19 to state the total actual 2014 incentive
 20 payments that were paid, the number of
 21 employees who received an incentive payment
 22 related to 2014 performance, the list of
 23 positions that were eligible to receive an
 24 incentive payment and the criteria or factors
 25 that were used to determine, and I note that

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1 if you go down to Table 1, it shows that
 2 short-term incentive payments in 2015 and if
 3 you go further there's a footnote that says
 4 "payments received in any given year are based
 5 on the previous year's performance", so when I
 6 see the short-term incentive pay payments in
 7 2015 of \$380,000, that's, you know, some
 8 \$135,000 over 2014 performance, I'm wondering
 9 how can this be squared, I mean, how could
 10 short-term incentive payments go up after what
 11 could only be described as "annus horribillis"
 12 in 2014. I mean, what's your explanation for
 13 how could this be possible?

14 MR. MARTIN:

15 A. First off I need some help in understanding
 16 who is included in these numbers, so is it
 17 possible to revert on that because what I'm
 18 trying to understand what I don't have at the
 19 top of my mind right now. I know there's been
 20 transfers in and out of Hydro for
 21 organizational reasons and I don't know if
 22 this is an "apples to apples" comparison first
 23 off, so I'd like to understand that before I
 24 answer the question.

25 JOHNSON, Q.C.:

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1 Q. Let me see if I can shed a little bit of light
 2 on it. If you come up the screen a little bit
 3 to the beginning of the paragraph "Table 1".
 4 Table 1 it says provides the short-term
 5 incentive payments for '07 to 2015. 21
 6 positions were eligible to receive incentive
 7 payments related to performance in 2014.
 8 Senior managers of Hay level 16 and above and
 9 those at Hay level 15 who report directly to a
 10 vice-president are eligible for an incentive
 11 payment of 10 percent or 15 percent, depending
 12 on their Hay grade level. Does that help you?

13 MR. MARTIN:

14 A. It doesn't really and I'd like to come back to
 15 it because it gives a number of positions, but
 16 what I want to understand is what was the
 17 number of positions the year before, you know.
 18 Before I answer the question, which obviously
 19 it's a good question, I want to answer it, but
 20 I want to make sure I got the right numbers.
 21 I don't know if there was more or less the
 22 year before or the year after with the
 23 transfers that have occurred, so I'm just
 24 looking for a little bit of data so I can put
 25 it in context. If I could come back to that

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1 after a short break, I think I can get those
 2 numbers, if not, I'll have to refer to the HR
 3 committee because I just don't know the
 4 "apples to apples" here.
 5 (1:00 p.m.)
 6 JOHNSON, Q.C.:
 7 Q. Okay, and I'm not able, as I sit here, to
 8 point you to something else that might be in
 9 the record on the point, so that point can be
 10 revisited, okay.
 11 MR. MARTIN:
 12 A. Yes.
 13 JOHNSON, Q.C.:
 14 Q. I should say were you aware that short-term
 15 incentive payments actually went up
 16 considerably from 2014?
 17 MR. MARTIN:
 18 A. I have to revert back because I think what I
 19 need to understand is the individual people
 20 who had performance measures in Hydro tied to
 21 this, which they would, what the number was,
 22 if they went up or not. If this is the result
 23 of more people being in Hydro verses an
 24 individual getting more or less, I just want
 25 to get the numbers straight.

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1 JOHNSON, Q.C.:
 2 Q. Okay. And could I turn you to PUB-032? This
 3 is a question pertaining to bonus or incentive
 4 payment plan for any employees and the details
 5 of the plan, and I understand that at page 3
 6 or 3 of this particular document that there is
 7 a divisional component of the incentive pay
 8 made up of measures, which I'm reading on the
 9 screen now, specific to the relevant line of
 10 business, example, Hydro, performance
 11 indicators within the divisional component
 12 includes safety, is one, primary and secondary
 13 goals reflective of the divisional and/or
 14 departmental work plan for the specific line
 15 of business. Typically for Hydro, regulated
 16 operation's measures include reliability,
 17 financial performance and asset management.
 18 And I would be interested, Mr. Martin, in
 19 knowing for tomorrow what percentage of bonus
 20 or short-term incentive pay or what amounts
 21 were paid out in respect of reliability
 22 performance to anybody at Hydro in relation to
 23 2014.
 24 Mr. Martin, if I could refer you to page
 25 70 of the Grant Thornton Report, Table 49 in

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1 particular. Again there was some discussion
 2 obviously yesterday with Newfoundland Power's
 3 counsel as regards the amount of hours charged
 4 to Hydro by the leadership team, and Table 49
 5 provides those numbers from 2011 actual up to
 6 2015, and now in terms of the numbers actually
 7 charged by you for what work you did, 2011 is
 8 133 hours, 2012, 154 hours, 2013, 137 hours,
 9 actual 2014, 561, and I just want to
 10 understand very clearly is what does these
 11 numbers of hours charged by yourself, what do
 12 they represent?
 13 MR. MARTIN:
 14 A. So I'd like to break it into two parts to try
 15 to bring some clarity to it, one is, you know,
 16 what they do represent and two, what's not
 17 included or what's included and what's not
 18 included. From a perspective of what's
 19 included, it would be hours that were spent on
 20 activities that could be clearly defined as
 21 Hydro only, so the best of my ability
 22 assessing activities that were, when being
 23 performed, would have no benefit or
 24 relationship to any other business. What's
 25 not included are activities that I undertake

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1 that would have an impact on several lines of
 2 business, example, such as asset management
 3 development, safety programs and focus,
 4 environmental programs, development,
 5 developing overall budget processes,
 6 reporting, you know, processes and procedures,
 7 for example, and in those cases where it
 8 touches other businesses, I've chosen not to
 9 charge any time or any portion of that time to
 10 Hydro, albeit under any type of measure I can
 11 think of, the majority of the benefit goes to
 12 Hydro. It's just a decision I took from a
 13 cost containment perspective to remove any
 14 confusion that Newfoundland and Labrador Hydro
 15 was picking up any type of costs that could be
 16 associated with another business.
 17 JOHNSON, Q.C.:
 18 Q. I guess obviously, Mr. Martin, we saw from
 19 your job description at the start of my
 20 examination that you have a great deal of
 21 executive responsibility, I think everybody
 22 understands that in terms of the group of
 23 companies that come within Nalcor, and I'm
 24 trying to, you know, for instance if you look
 25 at the Lower Churchill work, I mean, that is

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1 obviously a very major thing that's been
 2 happening for you this last number of years
 3 and I mean, for instance, what percentage of
 4 time over the last three or four years would
 5 that have taken up in terms of you, you know,
 6 overseeing that important piece of work?
 7 MR. MARTIN:
 8 A. A couple of points there, I guess, one is
 9 obviously as I mentioned earlier Muskrat
 10 Falls, Labrador Island Link, Maritime Link,
 11 that's Hydro business. Hydro has to provide
 12 electricity to the people of the province and
 13 that's how we've chosen to do so, how we set
 14 up the Muskrat Falls corporate structure from
 15 a financing liability and other structure is
 16 an interesting detail, but this is a project
 17 for the, you know, for the benefit of
 18 Newfoundland and Labrador Hydro in the same
 19 fashion as Holyrood or Bay D'Espoir or Cat Arm
 20 would be, so I see that in my mind as a
 21 Newfoundland and Labrador Hydro activity, so
 22 that should be added in, not seen as
 23 different, that's point A. Point B, hard to
 24 put a number to it because from the accounting
 25 rule's perspective, I can't charge in time to

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1 that particular project from a capital
 2 perspective, so I don't record it that way,
 3 that's also rolled up into Nalcor. So it's
 4 hard to put a percentage on it, you know, but
 5 obviously a substantial portion of time, I
 6 mean, that would be obvious, but I would say
 7 that I spent as substantial a portion of time
 8 on direct Hydro business, although I see both
 9 the same.
 10 JOHNSON, Q.C.:
 11 Q. But if your assessment is that you spent
 12 roughly equal amount on direct Hydro business,
 13 I would have thought that you would have
 14 charged that to Hydro because that would be
 15 considered direct Hydro business, but it
 16 doesn't seem to be reflected in these -
 17 MR. MARTIN:
 18 A. Yeah, but you're--once again, we're in to
 19 what's direct and what's indirect to Hydro, so
 20 if I look at my work that I've done on--I'll
 21 go back to it again, safety environment,
 22 preparing reliability budget, a big portion of
 23 that work would relate to Hydro, but not all
 24 of it, so that is not getting charged into
 25 Hydro. Muskrat Falls happened to be charged,

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1 well it's being charged into Nalcor because
 2 from an accounting perspective I can't put it
 3 into capital, but as I see there's a, you
 4 know, that work combined is Hydro work, very
 5 very specific to what Hydro's mandate is. In
 6 trying to equate hours recorded to effort and
 7 focus put into it, they're not correlated here
 8 for a combination of my own decisions and
 9 accounting rules.
 10 JOHNSON, Q.C.:
 11 Q. So I guess taking your observation that, you
 12 know, anything done in relation to the Lower
 13 Churchill Muskrat Falls has a bearing on
 14 Hydro, which obviously it does, I guess there
 15 still remains the question of if that's such a
 16 big piece of work onto its self,
 17 notwithstanding the fact that it impacts Hydro
 18 and all the rest of it, I wonder how much is
 19 left over for the stuff that's truly direct to
 20 Hydro, I mean you've indicated that Hydro has
 21 the most employees, its an aging plant, you
 22 know, all these challenges that you've
 23 indicated, you know, what's left over for
 24 Hydro when there's that large a commitment
 25 from you on the Muskrat and related issues?

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1 MR. MARTIN:
 2 A. Are you looking for an assessment of hours and
 3 is it a comment or--I don't have the
 4 statistics on that.
 5 JOHNSON, Q.C.:
 6 Q. I guess, you know, I mean once the Muskrat
 7 Falls, the offshore oil, you know, those
 8 things are taking your time, it doesn't appear
 9 to me that there'd be a lot of time left over
 10 for direct Hydro work, I mean direct Hydro
 11 work in terms of the nuts and bolts under the
 12 hood and controlling costs et cetera.
 13 MR. MARTIN:
 14 A. That would be an incorrect statement. As I've
 15 said, you know, I've structured the business,
 16 I go back through the parameters on how I run
 17 the business from setting the line provision
 18 goals, objectives, performance measures,
 19 across the lines of business. A key part of
 20 it is putting the right people in place to be
 21 accountable for those businesses and putting
 22 performance measures around it and then, you
 23 know, my time is allocated to areas that need
 24 attention that are not meeting the performance
 25 measures and I've been able to do that. I

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1 will add, I think I've talked about this
 2 earlier as well, those things are changing and
 3 I don't want to, you know, drag the bigger
 4 corporation into this particular situation,
 5 but you know, the reality of the situation is
 6 there's going to have to be a change imminent
 7 with respect to the leadership, you know, make
 8 up of Hydro and some of the other companies.
 9 And once again, not to draw the rest of the
 10 companies in, this is a Hydro situation, but
 11 yes, the company has grown significantly
 12 overall, a larger corporation. It's always
 13 been the intent, as we evolve this thing, to a
 14 point where it gets to a certain level there
 15 has to be adjustments made because it won't be
 16 effective for me to do it and we're reaching
 17 that point now, there's no question about it.
 18 The triggers were the sanction of Muskrat, as
 19 I mentioned yesterday, Muskrat, Labrador
 20 Island if they hadn't been sanctioned, it
 21 would be a different world, we know that. In
 22 addition to that, you know, with respect to
 23 some of the other companies, things, you know,
 24 there's steps that are happening there as well
 25 in terms of additional acquisitions that are

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1 coming to their fruition or setting up of a
 2 new company or, you know, dealing with some
 3 issues at CF(L)Co, those things are reaching a
 4 point where yes, an adjustment has to be made.
 5 We're in the process of doing that right now.
 6 I believe the timing is right. Could we have
 7 done it earlier? No. Can we wait much
 8 longer? No, I think we're at the right point
 9 and right now we're in the process of making
 10 those adjustments which I certainly intend to
 11 share as soon as we have it in place.
 12 (1:15 p.m.)
 13 JOHNSON, Q.C.:
 14 Q. What's our sense of the opportunities that may
 15 have been lost for Hydro as the regulating
 16 utility for this decision having not being
 17 made up to this point?
 18 MR. MARTIN:
 19 A. I go back to the point that Hydro, you know,
 20 exists to provide lowest possible cost,
 21 reliable electricity and meeting the demands
 22 of the electricity needs of the province. In
 23 addition to the day-to-day operations of the
 24 company which we have single point
 25 accountability for, provision of extra power

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1 is not a decision Hydro has the ability to
 2 avoid, that decision had to be made part of
 3 the Hydro mandate. That would have happened
 4 in any event because the power needs
 5 increased. For 20 or 30 years, even though
 6 there was increases, there was associated
 7 closures of various facilities that lead and
 8 deferred that decision. When I got there,
 9 that's just the way it was, the decision had
 10 to be made and it was a Hydro decision,
 11 provision of power, and we made it and moved
 12 ahead and now that we've made it and we're in
 13 execution, I'm seeing is that we need to make
 14 some additional adjustments to handle that,
 15 we're doing it. The path has been laid out,
 16 the decisions were made and the HR team was
 17 going to have a good breakdown of the phases
 18 of organizational adjustments that have
 19 occurred since 2005, it's broken out into
 20 broad phases with subphases in, with
 21 explanation as to why we made the changes when
 22 we made the changes. Every time we made a
 23 change or we've held off on a change, there's
 24 a logic to it. There's a rationale for it and
 25 in any of these types of organizations as they

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1 evolve, knee-jerk reactions are not the way to
 2 go, it has to be planful, it has to be laid
 3 out properly, it has to be at the right time.
 4 We have documented what we have done, we're in
 5 that process right now, the time is right.
 6 JOHNSON, Q.C.:
 7 Q. The events of January 2014, I mean you've made
 8 public statements to the people of the
 9 province, customers, and apologizing on behalf
 10 of Hydro for those events and, but in that
 11 year you, it was obvious that you were
 12 intensely involved in dealing with Hydro, you
 13 charged 561 hours in 2014. It sort of strikes
 14 me that, you know, in a year where, you know,
 15 things went off the rails you've apologized
 16 and now Hydro is getting charged 561 hours of
 17 your time when in past years, you know, it's
 18 130, 140, you know, in that vicinity and I
 19 have to wrestle with that as to why that would
 20 be the year that Hydro would be charged so
 21 heavily in your involvement.
 22 MR. MARTIN:
 23 A. Could you ask that question again because to
 24 me it's appearance, so maybe I'm missing
 25 something.

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1 JOHNSON, Q.C.:

2 Q. Yeah, I mean, it just strikes me that you're

3 indicating there's all sorts of stuff you're

4 doing that Hydro benefits from that doesn't

5 get charged and then we have an event in early

6 January 2014 that, you know, there's public

7 acknowledgement that, there's an apology, you

8 know, things did not go right and that's the

9 year that Hydro gets a massive charge in terms

10 of your hours in looking after Hydro's matters

11 and why would you charge Hydro in 2014?

12 MR. MARTIN:

13 A. Because I was directly involved with Hydro

14 constantly on a day-to-day basis. I may be

15 missing it, maybe I should back up again,

16 sorry. I don't think we're connecting because

17 to me it seems obvious in terms of the

18 explanation, but--and that's the way I've

19 (unintelligible) to run the business, I mean I

20 extracted myself from other parts of the

21 business and actually got into specifically,

22 you know, an hour an hour with Hydro, so

23 naturally that's the way I run the business,

24 you know, where's there a need, I'm in. So to

25 me, it's obvious but that's what's concerning

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1 me, I may be missing the intent of your

2 question.

3 JOHNSON, Q.C.:

4 Q. I guess what I was getting at is that, you

5 know, in 2014, you know, things got really

6 really sideways to the point that, you know,

7 there's apologies about what's after happening

8 and, you know, there's a bit of a rescue

9 mission coming on in terms of all hands on

10 deck and that's the year that Hydro gets

11 charged. I mean, you'd think -

12 MR. MARTIN:

13 A. In 2014 you're saying?

14 JOHNSON, Q.C.:

15 Q. Yeah, 2014 actual numbers, I think it was 561

16 hours -

17 MR. MARTIN:

18 A. In 2014 when the January event occurred,

19 correct?

20 JOHNSON, Q.C.:

21 Q. Right, yes. You'd think, geez, let's take it

22 easy on Hydro, I mean, this didn't go right,

23 but that's not the thinking. I guess that's

24 where--you asked me to share my thinking with

25 you on.

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1 MR. MARTIN:

2 A. Sure. Mr. Johnson, we're not connected on

3 this one, so once again, you know, like we had

4 an event--so as I mentioned, you know, if you

5 take my allocation of time if I'm spending

6 hours directly in, you know, in the business

7 solely that can be identified, that goes in.

8 The rest of it, you know, is generally

9 absorbed by Nalcor. But the time that's being

10 absorbed in Nalcor is a lot of functional,

11 different kinds of things that impact all of

12 the businesses. The majority of it relates to

13 Hydro; I just don't charge it in. In a year

14 where an event occurred, to me, that's why I'm

15 constructed, it would be an obvious year where

16 I would not be spending--I would be spending

17 more hours, nothing to do with any of the

18 other businesses, but more directly,

19 specifically hour to hour with Hydro. And I

20 would go on to say that these hours are

21 probably, should be higher than that because

22 what wouldn't be counted in here would be time

23 I spent, you know, in an unscheduled meeting

24 or reviewing information myself or working

25 nights or weekends, going over information,

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1 none of that would be charged in either, but

2 that year obviously I would expect in an event

3 like that, with the root cause analysis, you

4 know, with the investigation that was ongoing,

5 with, you know, the need to have a key

6 understanding of what went on at every one of

7 those elements to be able to talk and relate

8 to the customer to explain what happened, what

9 was going to be done to improve that, to me it

10 makes logical sense that that would be the

11 year that it would be significant hours,

12 that's all I'm saying.

13 JOHNSON, Q.C.:

14 Q. Mr. Chairman, that might be a convenient time

15 to stop for the day and I will resume

16 tomorrow.

17 CHAIRMAN:

18 Q. Sure.

19 JOHNSON, Q.C.:

20 Q. Thank you.

21 CHAIRMAN:

22 Q. So we're adjourned until tomorrow morning at

23 9:00.

24 Upon conclusion at 1:28 p.m.

1 CERTIFICATE

2 I, Judy Moss, hereby certify that the foregoing is a true
3 and correct transcript of a hearing in the matter of
4 Newfoundland and Labrador Hydro's General Rate
5 Application heard on the 10th of September, A.D., 2015
6 before the Commissioners of the Public Utilities Board,
7 St. John's, Newfoundland and Labrador and was transcribed
8 by me to the best of my ability by means of a sound
9 apparatus.
10 Dated at St. John's, Newfoundland and Labrador
11 this 10th day of September, A.D., 2015
12 Judy Moss

<p>-\$-</p> <p>\$135,000 [1] 155:8 \$380,000 [1] 155:7</p> <hr/> <p>-'-</p> <p>'07 [1] 156:5 '10 [1] 81:12 '13 [2] 84:2 139:23 '14 [1] 139:23 '15 [1] 139:23 '70s [1] 81:21 '80s [1] 81:22</p> <hr/> <p>-.-</p> <p>.15 [1] 99:5 .6 [1] 99:9</p> <hr/> <p>-1-</p> <p>1 [12] 4:24 7:16 29:20 66:1,1 129:10 137:24 140:7 143:2 155:1 156:3 156:4 10 [2] 1:1 156:11 10/20 [1] 36:6 100 [1] 73:4 10:00 [1] 44:15 10:15 [1] 59:11 10:30 [1] 72:23 10:45 [1] 83:18 10th [2] 173:5,11 11 [1] 96:16 11:00 [1] 94:20 11:35 [1] 96:22 11:45 [1] 103:21 123 [1] 88:21 12:00 [1] 115:8 12:15 [1] 128:23 12:30 [1] 137:21 12:45 [1] 145:7 130 [2] 73:4 168:18 133 [1] 159:8 137 [1] 159:8 138 [2] 38:5 41:17 138.2 [1] 141:9 140 [1] 168:18 14001 [1] 104:7 15 [2] 156:9,11 154 [1] 159:8 16 [1] 156:8 18 [1] 151:5 19 [2] 66:1 75:7 1997 [1] 25:17 1:00 [1] 157:5 1:15 [1] 166:12 1:28 [1] 172:24 1st [1] 29:20</p>	<p>-2-</p> <p>2 [12] 2:1 29:17,18 37:24 82:21 83:24 123:24 128:20 129:8 131:20 144:9 153:15 2.2 [1] 29:24 2.3.4 [1] 144:10 2.52 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