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<p>1 NOVEMBER 17, 2015 2 (9:04 a.m.) 3 CHAIRMAN: 4 Q. I understand we've got one preliminary matter 5 to deal with. 6 MS. GLYNN: 7 Q. Yes, we just need to enter - there was an 8 undertaking provided by Liberty Consulting 9 Group and the undertaking has already been 10 distributed to the Commissioners and the 11 parties. It's Undertaking 136. 12 CHAIRMAN: 13 Q. Mr. O'Brien, you're on. 14 MR. SCOTT PELLEY: 15 MS. CARLA RUSSELL: 16 MS. CAROL ANN LUTZ: 17 CROSS-EXAMINATION BY MR. LIAM O'BRIEN (CONT'D) 18 MR. O'BRIEN: 19 Q. Thank you, Mr. Chair. Good morning, folks. 20 MR. PELLEY: 21 A. Good morning. 22 MS. LUTZ: 23 A. Good morning. 24 MS. RUSSELL: 25 A. Good morning.</p>	<p>1 information is administered essentially by the 2 Human Resources Department in accordance with 3 the salary administration matrix. 4 MR. O'BRIEN: 5 Q. And that's what I understood just in terms of 6 what you said. So in terms of setting 7 salaries, do you have any input at all into 8 that? 9 MS. LUTZ: 10 A. No, I don't. 11 MR. O'BRIEN: 12 Q. And in terms of your own units in terms of, 13 say, Ms. Russell, you have three units that 14 you look after, is it fair to say, I guess, in 15 terms of control over costs and salary costs, 16 really the only control you have is sort of on 17 a workforce requirement basis? 18 MS. RUSSELL: 19 A. Correct. 20 MR. O'BRIEN: 21 Q. Okay. I wonder if we could pull up NP-NLH-307 22 just for a second. I wanted to look at some 23 of the recent increases, and if we go to page 24 9, and if we can just blow that up, line 2 is 25 the salaries and benefits, and if we go over</p>
<p>Page 2</p> <p>1 MR. O'BRIEN: 2 Q. When we left off yesterday, I was going to 3 turn to a new topic, that was salary and 4 benefits. I wonder if we could pull up the 5 Grant Thornton Report, page 68, June 12th. I 6 just wanted to talk briefly about that piece 7 of the operating expenses, and if we look at 8 Tables 46 to 47, these tables show actual 9 costs and the number of FTEs from 2007 on to 10 2015. We were given some information in an 11 RFI that salaries over that period had 12 increased, gross salaries, on an inflation 13 adjusted basis by 43.3 percent. Are you aware 14 of that? 15 MS. LUTZ: 16 A. Yes. 17 MR. O'BRIEN: 18 Q. And is that above and beyond what you'd expect 19 to see - I guess, it is above and beyond what 20 you'd expect to see for inflation. In terms 21 of your role in the Finance Department, what 22 sort of role do you have for oversight over 23 the salary piece? 24 MS. LUTZ: 25 A. I think yesterday I mentioned the salary</p>	<p>Page 4</p> <p>1 to 2013 to 2014, there's a 6.95 million dollar 2 increase in actuals there from 74.9 to - 3 sorry, just under 6 million in terms of an 4 increase to 2014. Now I understand you don't 5 have necessarily in the Finance Department 6 control over setting those salaries, but is it 7 your opinion that that's a reasonable increase 8 over a one year period? 9 MS. RUSSELL: 10 A. Which years again are you talking about? 11 MR. O'BRIEN: 12 Q. 2013 to 2014. 13 MS. RUSSELL: 14 A. I think with respect to the variance there, 15 the HR panel discussed the reasons why, and 16 when you're looking at the increase, you need 17 to look at the drivers that's causing the 18 increase. You can't just look at the overall 19 percentage. There are reasons that are 20 driving that, workforce requirements, and 21 other things which the HR panel talked about, 22 progression, salary progression. So to make a 23 blanket statement that the cost by percentage, 24 you really have to look at the details behind 25 that which the HR panel would have provided.</p>

<p style="text-align: right;">Page 5</p> <p>1 MR. O'BRIEN: 2 Q. Were you involved in any discussions at the 3 time that there was an amendment to the GRA as 4 to whether or not that would be considered a 5 reasonable increase, just on a broad basis? 6 MS. RUSSELL: 7 A. The amendment? 8 MR. O'BRIEN: 9 Q. The amendment to the GRA from 2013 to 2014. 10 MS. RUSSELL: 11 A. So the new number, the new test costs that was 12 there? 13 MR. O'BRIEN: 14 Q. Yeah. 15 MS. RUSSELL: 16 A. Those numbers again are provided by the Human 17 Resources, as we said, so we wouldn't have any 18 - 19 MR. O'BRIEN: 20 Q. So when you file a test year, you don't have 21 any discussion amongst yourselves as to 22 whether or not the increase from, say, the 23 2013 number to the 2014 test year is a 24 reasonable increase? 25 MS. RUSSELL:</p>	<p style="text-align: right;">Page 7</p> <p>1 vacancies in between 2014 test year and 2014 2 actual. 3 MR. O'BRIEN: 4 Q. And I thought that might be the case. 5 MS. LUTZ: 6 A. Yes. 7 MR. O'BRIEN: 8 Q. And, I guess, on that point, I understood that 9 the actual experience for 2014 was 52 10 vacancies, is that right? 11 MS. LUTZ: 12 A. I would have to - I don't have that number 13 right here. 14 MR. O'BRIEN: 15 Q. We were given that, I think, in one of the 16 RFIs, so if you took that subject to check, 17 the vacancy adjustment that was included in 18 the GRA was for 40 for that year, is that 19 right? 20 MS. LUTZ: 21 A. The vacancy adjustment in the test year for 22 2015 is 40. 23 MR. O'BRIEN: 24 Q. And for 2014, do you know if that's the case? 25 MS. LUTZ:</p>
<p style="text-align: right;">Page 6</p> <p>1 A. We look at the increases, we provide the 2 variances and the discussion would be had 3 between the Vice Presidents of HR, and Mr. 4 Martin, and Mr. Henderson, on the actual HR 5 increases. That is not something that we 6 would - 7 MR. O'BRIEN: 8 Q. Not something that you would be involved in? 9 MS. RUSSELL: 10 A. No. We would be responsible for providing the 11 numbers and the variances. 12 MR. O'BRIEN: 13 Q. Okay, and are you able to tell me just, I 14 guess, on that basis - we looked at the test 15 year at 81.9 million and the actual at 80 16 million. Are you able to tell me why those 17 are different? 18 MS. RUSSELL: 19 A. Carol Ann. 20 MS. LUTZ: 21 A. Just give me a second here. 22 MR. O'BRIEN: 23 Q. Sure. 24 MS. LUTZ: 25 A. So in terms of the salaries, we did have some</p>	<p style="text-align: right;">Page 8</p> <p>1 A. I don't have the number for 2014. 2 MR. O'BRIEN: 3 Q. I understood that that was included. Do you 4 know whether it's 40, Ms. Russell? 5 MS. RUSSELL: 6 A. I would have to check the number. 7 MR. O'BRIEN: 8 Q. And whatever the adjustment was for that year, 9 there was a vacancy adjustment, I take it, for 10 the 2014 test year, was there? 11 MS. LUTZ: 12 A. In terms of an allowance in 2015 test year, 13 you can see an amount specifically for the 14 vacancy, which was 3.3 million. In terms of 15 the 2014 test year, that number is actually 16 included because the way the forecast was 17 done, it was forecasted out to the end of the 18 year, which is why I don't have a specific 19 component to explain. 20 MR. O'BRIEN: 21 Q. Well, can you confirm for me, can you give an 22 undertaking to confirm what adjustment was 23 included for the 2014 test year? 24 MS. LUTZ: 25 A. So just to be clear, that would be to confirm</p>

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<p>1 the number of vacancies that were included in 2 the - 3 MR. O'BRIEN: 4 Q. The number of vacancies that were included. 5 MS. LUTZ: 6 A. In 2014 test year? 7 MR. O'BRIEN: 8 Q. Right. 9 MS. LUTZ: 10 A. Yes. 11 MR. O'BRIEN: 12 Q. And to provide the actual experience, the 13 actual number of vacancies for that year? 14 MS. LUTZ: 15 A. Yes, we could get that information. 16 MR. O'BRIEN: 17 Q. You can provide that, and, I guess, the final 18 part of that would be to provide the impact 19 between the actual and what was included, can 20 you provide that? 21 MS. LUTZ: 22 A. Yes. 23 MS. GLYNN: 24 Q. Noted on the record. 25 MR. O'BRIEN:</p>	<p>1 Q. So it's not something the Finance panel or any 2 of you on the panel would have had any input 3 in? 4 MS. RUSSELL: 5 A. We would just build up the numbers, and again 6 as we talked about how the budgets are done, 7 facilitate the discussions and everybody would 8 come in and put forward the costs. There would 9 be discussion on each particular item. 10 MR. O'BRIEN: 11 Q. Okay. Do you recall any discussion about how 12 that particular figure could be mitigated or 13 managed or decreased before the test year was 14 put in? 15 MS. RUSSELL: 16 A. I do recall discussions about the FTE 17 complement, like, the looking at - it would 18 have been discussed, like, the number of FTEs 19 that different groups would have been putting 20 forward and the work plan, and those types of 21 discussions, the work versus the FTE - 22 MR. O'BRIEN: 23 Q. And anything in detail that you can give us or 24 is it just a generality? 25 MS. RUSSELL:</p>
<p>Page 10</p> <p>1 Q. If we look back up here at 307, NP-NLH-307, we 2 look at the difference between 2014 test year 3 to 2015 test year. Again, I guess, Ms. 4 Russell, the same question with respect to - 5 we see a big change there from 81.9 million in 6 the 2014 test year to the 2015 test year. 7 Would there have been any discussion you were 8 a part of as to whether or not that was 9 reasonable? 10 MS. RUSSELL: 11 A. Again we would have provided the numbers, we 12 would have looked at that and facilitated the 13 discussions with Mr. Henderson on the drivers, 14 what was driving those numbers. 15 MR. O'BRIEN: 16 Q. Okay. 17 MS. RUSSELL: 18 A. So there would have been again some 19 progression, which the HR panel has discussed 20 as to the nature of that, and also there would 21 have been FTE drivers, workforce to do work 22 plans and based off, I think, the aging assets 23 and that would be things that Mr. Henderson 24 would have spoke - 25 MR. O'BRIEN:</p>	<p>Page 12</p> <p>1 A. No, just a - 2 MR. O'BRIEN: 3 Q. Yeah. I wonder if we can pull up NP-NLH-310. 4 I want to just briefly talk about vacancies 5 here where we were talking about that earlier. 6 In this table, you were asked to - Hydro was 7 asked to provide vacancies from 2007 to 2014 8 actual and forecast. If we could scroll down, 9 and I understand as you said, Ms. Lutz, the 10 2015 vacancy adjustment is in at 40. The 11 actual vacancy adjustments or actual vacancies 12 in terms of experience, the last few years 13 were 52, 51, and 52. On what basis was Hydro 14 considering 40 to be a reasonable number? 15 (9:15 a.m.) 16 MS. LUTZ: 17 A. The 40 vacancies was determined by the Human 18 Resources Department based on their assessment 19 of the workforce planning activities, and I 20 believe Mr. McDonald and Mr. Roberts testified 21 to why they thought that the 40 was a 22 reasonable number go forward, and I also think 23 Mr. Henderson did as well. 24 MR. O'BRIEN: 25 Q. Okay, and the actual for that year, I believe</p>

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<p>1 - or the forecast now as of Mr. McDonald's 2 testimony, was 65 for the end of this year, is 3 that right? 4 MS. LUTZ: 5 A. I believe that's what Mr. McDonald said. 6 MR. O'BRIEN: 7 Q. Does Hydro intend to amend the 2015 test year 8 to reflect that? 9 MS. LUTZ: 10 A. No, we do not. 11 MR. O'BRIEN: 12 Q. And why is that? 13 MS. LUTZ: 14 A. I believe as Mr. McDonald and Mr. Roberts 15 testified, the workforce planning requirements 16 are what is required for the future to provide 17 the service, and they feel that that was the 18 reasonable number of staff that were required, 19 and 40 was reflective of what the vacancy 20 would be. 21 MR. O'BRIEN: 22 Q. And how would you square that with the 2015 23 cost recovery application? Is there an extra 24 25 - is there an adjustment now for an extra 25 25 vacancies still included in that cost</p>	<p>1 is that right? 2 MS. RUSSELL: 3 A. Yes. 4 MR. O'BRIEN: 5 Q. But for 2015 now, you're looking for cost 6 recovery for all of 2015 as well. You've got 7 built into that cost recovery, 40 vacancies 8 when you will have 65? 9 MS. RUSSELL: 10 A. We'd have to get the new estimate for the 11 vacancy at this point. 12 MR. O'BRIEN: 13 Q. Okay. 14 MS. LUTZ: 15 A. But some of the - so the reason that we had 16 the number of positions was to perform work 17 throughout Hydro. 18 MR. O'BRIEN: 19 Q. Right. 20 MS. LUTZ: 21 A. And without the staff, the work is being 22 accomplished through overtime or through 23 consultants and so on. So it doesn't 24 necessarily translate into the fact that 25 because those positions are vacant, that we</p>
<p>1 recovery request for 2015? 2 MS. RUSSELL: 3 A. When you say 25, you mean the difference, 4 you're talking about the difference - 5 MR. O'BRIEN: 6 Q. Yeah, there's an adjustment for 40 in there, 7 and right now you're asking in your 2015 cost 8 recovery application for costs in 2015 and 9 you're asking for additional costs, I would 10 suggest, in terms of that 25? 11 MS. RUSSELL: 12 A. So the 40 is the number that's in the test 13 year for vacancy, and again I'll have to go 14 back to Mr. McDonald's testimony because he 15 explained the reasoning for the variances in 16 the vacancy rate and why he felt the 40 was 17 justified and the number that they were 18 working towards for 2015. 19 MR. O'BRIEN: 20 Q. I understand that, and in terms of going 21 forward, I believe his testimony suggested 22 that for 2016, say, that you would be working 23 with a 40, and he believed you'd be able to 24 meet that 40 vacancy as opposed to the 65 in 25 2016 and 2017 going forward. That's the plan,</p>	<p>1 are - that the costs are a savings, if you 2 will, and you can see that by the fact that 3 our total costs right now they're in excess of 4 what the test year number was. 5 MR. O'BRIEN: 6 Q. And you're satisfied that's associated with 7 additional overtime or contract work for 2015? 8 MS. LUTZ: 9 A. That would be part of it, yes. 10 MR. O'BRIEN: 11 Q. And can you provide an undertaking to show the 12 breakdown of that? 13 MS. LUTZ: 14 A. Yes. 15 MR. O'BRIEN: 16 Q. Okay. 17 MS. GLYNN: 18 Q. Noted on the record. 19 MR. O'BRIEN: 20 Q. Mr. McDonald had indicated going forward, as 21 you say, Ms. Russell, that the 40 vacancy 22 would be an appropriate figure. In the 2012, 23 2013, and 2014 years, the vacancies were at 24 52, 51, and 50. Hydro had a recruitment 25 process going on during those years, is that</p>

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<p>1 correct?</p> <p>2 MS. RUSSELL:</p> <p>3 A. Yes, I believe so.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. But still managed - and still was unable to</p> <p>6 maintain a 40 vacancy?</p> <p>7 MS. RUSSELL:</p> <p>8 A. Again I'd have to defer back to Mr. McDonald</p> <p>9 because he is the person who speaks to the</p> <p>10 vacancy numbers and he has provided the</p> <p>11 testimony on that, so I really couldn't add</p> <p>12 anything more to that.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. Okay, sure. Let me ask you before we move off</p> <p>15 of salaries, the Mercer Review, the Mercer</p> <p>16 Report, is that something that either one of</p> <p>17 you would have reviewed or able to comment on?</p> <p>18 MS. RUSSELL:</p> <p>19 A. I wouldn't be able to comment on that.</p> <p>20 MS. LUTZ:</p> <p>21 A. I did not review it.</p> <p>22 MR. O'BRIEN:</p> <p>23 Q. Okay. In terms of FTEs then and budgeting, I</p> <p>24 guess, at the budgeting stage, based on your</p> <p>25 testimony yesterday, I guess, in each one of</p>	<p>1 MR. O'BRIEN:</p> <p>2 Q. I wonder if we could pull up NP-NLH-023.</p> <p>3 MS. GRAY:</p> <p>4 Q. Total FTEs, Mr. O'Brien?</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. Yes, please. That's just the FTE Table,</p> <p>7 permanent and standby. Go down here, okay.</p> <p>8 So those are the total - at the bottom there,</p> <p>9 total FTEs going across from 2007 on to the</p> <p>10 2016 forecast, I guess. For 2014, there was</p> <p>11 an increase from 808 to 860, and there was 52</p> <p>12 vacancies, was there, in that year?</p> <p>13 MS. LUTZ:</p> <p>14 A. From the previous table?</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Yeah.</p> <p>17 MS. LUTZ:</p> <p>18 A. Yes.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. So the actual FTEs for that year was 808, is</p> <p>21 that right? Is that how that works?</p> <p>22 MS. LUTZ:</p> <p>23 A. That's net FTEs, yes.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Okay, and for 2015, we've got 888, and let's</p>
<p>Page 18</p> <p>1 your groups you would be looking at a</p> <p>2 budgeting for a number of FTEs you'd need on a</p> <p>3 go forward basis each year, is that fair?</p> <p>4 MS. LUTZ:</p> <p>5 A. It's a combination, so the operations group</p> <p>6 would look at their FTE requirements, and so</p> <p>7 on, and obviously we would do it in Finance.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. In Finance, you would do the same thing?</p> <p>10 MS. LUTZ:</p> <p>11 A. Yes.</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. And overall responsibility for FTEs would lie</p> <p>14 with Mr. Henderson, is that fair, for Hydro's</p> <p>15 overall requirements?</p> <p>16 MS. LUTZ:</p> <p>17 A. Yes.</p> <p>18 MS. RUSSELL:</p> <p>19 A. And ultimately it's approved by Mr. Martin,</p> <p>20 though.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. Okay.</p> <p>23 MS. RUSSELL:</p> <p>24 A. So Mr. Martin does have the final say on FTE</p> <p>25 increases above Mr. Henderson.</p>	<p>Page 20</p> <p>1 assume Mr. McDonald's testimony is accurate,</p> <p>2 about 65, there may be a difference based on</p> <p>3 where we are today, but let's assume that</p> <p>4 that's accurate, then the 888 is really in a</p> <p>5 range of about 823, is that fair?</p> <p>6 MS. LUTZ:</p> <p>7 A. Based on the numbers that we looked at a</p> <p>8 minute ago.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Okay. I just wanted to talk about some of the</p> <p>11 reasons, and Ms. Russell, you had mentioned</p> <p>12 this just briefly yesterday, you alluded to</p> <p>13 one of the RFIs, PUB-NLH-409, I think, just</p> <p>14 some of the reasons for increases in FTEs.</p> <p>15 Are you prepared to discuss those in any</p> <p>16 detail?</p> <p>17 MS. RUSSELL:</p> <p>18 A. If it's the increases in FTE - sorry, the</p> <p>19 increases in FTEs, all of those increases are</p> <p>20 the Operations panel, so I would not be able</p> <p>21 to discuss.</p> <p>22 MS. LUTZ:</p> <p>23 A. Can I just ask -</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Sure.</p>

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<p>1 MS. LUTZ: 2 A. Can we just go back to the 882 that you 3 mentioned? 4 MR. O'BRIEN: 5 Q. Yes, sure. 6 MS. LUTZ: 7 A. Did you say 882, less the total - 8 MR. O'BRIEN: 9 Q. No, 888 there in forecast 2015, if the 65 is 10 accurate in terms of vacancies for 2015, then 11 you're down around 823? 12 MS. LUTZ: 13 A. I'd just like to say that the 40 is already 14 included in that number. 15 MR. O'BRIEN: 16 Q. The 40 is included in the actual FTES? 17 MS. LUTZ: 18 A. In the 2015 test year, yes. 19 MR. O'BRIEN: 20 Q. Okay, all right. So that's a net FTE there? 21 MS. LUTZ: 22 A. Yes. 23 MR. O'BRIEN: 24 Q. All right, and that's the same going - is that 25 the same going along for all the actuals? If</p>	<p>1 reasons for increasing, that's all operating. 2 I can move along with some of my questions. 3 Let's go to the finance function costs, and 4 that's something that you're prepared to 5 discuss, I take it, Ms. Russell? 6 MS. RUSSELL: 7 A. Yes. 8 MR. O'BRIEN: 9 Q. Okay. So back in 2008, one of the functional 10 groups of Hydro, the employees with finance 11 were moved from Hydro to Nalcor, is that 12 right? 13 MS. RUSSELL: 14 A. Correct. 15 MR. O'BRIEN: 16 Q. And there was a number of - that included the 17 VP Finance, and a number of comptrollers, I 18 think, at the time, is that right? 19 MS. RUSSELL: 20 A. Yes. 21 MR. O'BRIEN: 22 Q. And Nalcor, I understand, hired a number of 23 new employees in the Finance Department around 24 that time too, is that right? 25 MS. RUSSELL:</p>
<p>Page 22</p> <p>1 we look up maybe the fourth line there, the 2 total, 832, 806, 823, and then you come down 3 to 813, those are net? 4 MS. LUTZ: 5 A. The top number is before any recharges and so 6 on, I believe. 7 MR. O'BRIEN: 8 Q. Right. 9 MS. LUTZ: 10 A. So for comparative purposes, the 2015 test 11 year number of 903 - 12 MR. O'BRIEN: 13 Q. Is 943? 14 MS. LUTZ: 15 A. Correct. 16 MR. O'BRIEN: 17 Q. Okay, and the comparative for 2016 is? 18 MS. LUTZ: 19 A. I believe it's 940 - 20 MR. O'BRIEN: 21 Q. About the same thing? 22 MS. LUTZ: 23 A. I believe so. 24 MR. O'BRIEN: 25 Q. Okay, all right. So in terms of the actual</p>	<p>Page 24</p> <p>1 A. I'll let Carol Ann maybe - 2 MR. O'BRIEN: 3 Q. Sure. 4 MS. LUTZ: 5 A. I think it was not right in 2008, but - 6 MR. O'BRIEN: 7 Q. Around that time frame? 8 MS. LUTZ: 9 A. People were initially transferred out of Hydro 10 in 2008. 11 MR. O'BRIEN: 12 Q. Okay. 13 MS. LUTZ: 14 A. There was 24 people transferred initially. 15 MR. O'BRIEN: 16 Q. Right. 17 MS. LUTZ: 18 A. Yes. 19 MR. O'BRIEN: 20 Q. And there was - a fair number were finance 21 employees? 22 MS. LUTZ: 23 A. Finance and executive, yes. 24 MR. O'BRIEN: 25 Q. And executive, right, and so what happened</p>

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<p>1 from that point forward in terms of the 2 finance costs, they would have been charged 3 back into Hydro from outside in Nalcor? 4 MS. LUTZ: 5 A. Some of the finance costs, not all of them. 6 MR. O'BRIEN: 7 Q. Okay. 8 MS. LUTZ: 9 A. For those particular services that were - 10 MR. O'BRIEN: 11 Q. For Hydro? 12 MS. LUTZ: 13 A. For the people who provided service who had 14 transferred to Nalcor and were based in 15 Nalcor, to the extent that they provided 16 service to Hydro, the time would have been 17 charged back. 18 MR. O'BRIEN: 19 Q. Okay, and that's what I assume was the case 20 and that's my understanding from the evidence. 21 Mr. Henderson indicated that there was, I 22 guess, a restructuring of sorts in the Finance 23 Department fairly recently. Can you just give 24 me an overview as to what that involved, what 25 that entailed?</p>	<p>1 A. There was a change of 13 net FTEs. 2 MR. O'BRIEN: 3 Q. Okay, net FTEs, all right. 4 MS. LUTZ: 5 A. Not all of them transferred from Nalcor. 6 MR. O'BRIEN: 7 Q. There was additional people hired, was there? 8 Was that how that worked? 9 MS. LUTZ: 10 A. Yes. 11 MR. O'BRIEN: 12 Q. Okay, and the reason for that - I guess, the 13 reason for that had to do with additional 14 workload at Hydro for regulatory purposes, 15 reporting purposes, that sort of thing? 16 MS. LUTZ: 17 A. Yes, as Ms. Russell just mentioned. 18 MR. O'BRIEN: 19 Q. Are you able to say - now I understood the 20 initial transfer of employees in finance from 21 Hydro over to Nalcor, it's Hydro's position 22 that that resulted in some cost savings to 23 Hydro, is that fair? 24 MS. LUTZ: 25 A. Yes.</p>
<p>1 MS. LUTZ: 2 A. Yes. Do you want me to start? 3 MS. RUSSELL: 4 A. I can start off, I guess. 5 MR. O'BRIEN: 6 Q. Sure. 7 MS. RUSSELL: 8 A. There are some RFIs on that. NP-NLH-393, that 9 one discusses, if you go down to lines 21 to 10 26, the reason for the re-org was to position 11 Hydro to respond to increased work levels 12 associated with items such as the regulatory 13 proceedings, reporting, external public 14 reporting and auditing requirements. 15 MR. O'BRIEN: 16 Q. Right. 17 MS. RUSSELL: 18 A. So it was just to respond to the changes and 19 the increased work levels. 20 MR. O'BRIEN: 21 Q. Okay, so at that point in time, am I right in 22 saying there was a total of 13 employees 23 transferred over? Can you give me the right 24 figure there? 25 MS. LUTZ:</p>	<p>1 MR. O'BRIEN: 2 Q. Is there an offset now of those cost savings 3 as a result of this recent restructuring? 4 MS. LUTZ: 5 A. We had calculated an estimate of savings in 6 NP-NLH-084. 7 MR. O'BRIEN: 8 Q. Right. 9 MS. LUTZ: 10 A. And that was in total for the initial 24 11 people that were transferred to Nalcor from 12 Hydro. 13 MR. O'BRIEN: 14 Q. Uh-hm. 15 MS. LUTZ: 16 A. So we had calculated that up to 2013, I 17 believe - 18 MR. O'BRIEN: 19 Q. That's for all of those employees, right, and 20 executive included? 21 MS. LUTZ: 22 A. Yes, and so that, I believe, was 9.2 million 23 estimated. 24 MR. O'BRIEN: 25 Q. Right.</p>

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<p>1 MS. LUTZ: 2 A. Since that time, we haven't continued to 3 quantify the savings for that particular group 4 because, as you mentioned, as things keep 5 changing. 6 MR. O'BRIEN: 7 Q. Right. 8 MS. LUTZ: 9 A. So there would be some offset to the - because 10 of the restructuring that we just discussed in 11 2014. 12 MR. O'BRIEN: 13 Q. And that restructuring - 14 MS. LUTZ: 15 A. The extent of which, I don't have the number 16 here. 17 MR. O'BRIEN: 18 Q. Okay, I didn't mean to interrupt you. The 19 2014 - so the restructuring started in 2014 20 and is still ongoing, is it? Is that accurate 21 or is it - 22 (9:30 a.m.) 23 MS. RUSSELL: 24 A. Well, the restructuring started in 2014, and, 25 yes, we've gone through that restructuring.</p>	<p>1 please, Ms. Gray, this page here. I'm looking 2 at the - and there's a note on this. I just 3 wanted to ask a few questions on that. If we 4 look at the finance costs for 2013, it's 11.75 5 million. If we scroll over to 2014, there's 6 almost a 50 percent change there of 17.5. If 7 we look at note 5 then on the next page, 8 finance expenses have increased by 5.9 million 9 from 2013 to 2014 due to an increase in 10 salaries, .9 million. So would that capture 11 some of the restructuring? 12 MS. LUTZ: 13 A. It would capture some of it, yes. 14 MR. O'BRIEN: 15 Q. Okay, an increase of 4.4 million in 16 professional services primarily related to the 17 2.4 in regulatory activities, and 2.0 million 18 associated with outage inquiry, and a decrease 19 of .6 in cost recovery. So the 2.4 in 20 regulatory activities, is that largely GRA 21 related? 22 MS. LUTZ: 23 A. GRA and hearing related costs. 24 MR. O'BRIEN: 25 Q. And the outage inquiry of 2.0 million, is that</p>
<p>Page 30</p> <p>1 MR. O'BRIEN: 2 Q. So that's all complete now. So some is built 3 into 2014 year and some was done in 2015, is 4 that right? 5 MS. RUSSELL: 6 A. Yes. 7 MR. O'BRIEN: 8 Q. Okay, and are you able to provide an 9 undertaking to determine what the offsetting 10 cost would be as a result of that transfer? 11 MS. LUTZ: 12 A. Yes. 13 MS. GLYNN: 14 Q. Noted on the record. 15 MR. O'BRIEN: 16 Q. I wonder if we can bring up IC-NLH-024, 17 Revision 1, page 2 of that document, and we're 18 still looking here at finance function costs. 19 Under the heading there on the left hand side, 20 Corporate Services, Finance Department, and 21 this may assist, I guess, something you'd have 22 to look at in that offsetting situation. If 23 we go across to actuals for 2007 to 2013 - 24 maybe it's the next page, I'm sorry. Sorry, 25 looking at 2014, here we go. Scroll down,</p>	<p>Page 32</p> <p>1 an amount Hydro feels is appropriate to 2 recover from its customers? 3 MS. RUSSELL: 4 A. The amount in 2014 or 2015? 5 MR. O'BRIEN: 6 Q. Well, it's an increase in 2014 over 2013. 7 MS. RUSSELL: 8 A. So the amount that Hydro put forward in the 9 45.9 million dollar cost deferral, I believe 10 there's a million dollars in that particular 11 number, and that's the amount that Hydro is 12 putting forward for recovery. 13 MR. O'BRIEN: 14 Q. And is that associated with the outage 15 inquiry? 16 MS. RUSSELL: 17 A. There is a portion of that that's associated 18 with the outage inquiry, yes. 19 MS. LUTZ: 20 A. And there's also the 2 million for the outage 21 inquiry which is included - 22 MR. O'BRIEN: 23 Q. What's that? 24 MS. LUTZ: 25 A. The 2 million for the outage inquiry is also</p>

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<p>1 included.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. I just want to be certain. The 2 million for</p> <p>4 the outage inquiry is included in the 2014</p> <p>5 revenue deficiency request?</p> <p>6 MS. LUTZ:</p> <p>7 A. That's correct.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. And 1 million of the regulatory activities, is</p> <p>10 that what you were saying, Ms. Russell, or is</p> <p>11 it all 2 million - just 2 million for the</p> <p>12 outage inquiry?</p> <p>13 MS. RUSSELL:</p> <p>14 A. I'll defer to Ms. Lutz on this one.</p> <p>15 MS. LUTZ:</p> <p>16 A. Okay. There is 2 million for the outage</p> <p>17 inquiry and also there is an increase, as</p> <p>18 noted here, 2.4 for regulatory activities.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. Right.</p> <p>21 MS. LUTZ:</p> <p>22 A. 1.4 of it relates to legal fees and consultant</p> <p>23 costs and so on related to the GRA, and a</p> <p>24 million dollars relates to the hearing costs</p> <p>25 for 2014.</p>	<p>1 addition there's 2 million related to the</p> <p>2 outage inquiry.</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. Okay, I think I got you now. So in terms of</p> <p>5 the restructuring then, I guess, in that</p> <p>6 particular year, you've got .9 million in</p> <p>7 salaries, that's capturing a certain portion</p> <p>8 of that?</p> <p>9 MS. LUTZ:</p> <p>10 A. Yes.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. And I wonder if I can ask you just in terms of</p> <p>13 that restructuring, has that resulted in any</p> <p>14 further efficiencies within finance?</p> <p>15 MS. RUSSELL:</p> <p>16 A. What do you mean when you say "efficiencies"?</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. You find that the work is easier to do now or</p> <p>19 it's -</p> <p>20 MS. RUSSELL:</p> <p>21 A. Well, the workload has increased tremendously</p> <p>22 since 2007, so I would say that the workforce</p> <p>23 that's there is meeting the requirements, but</p> <p>24 the workload has been tremendously high since</p> <p>25 2007.</p>
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<p>1 MR. O'BRIEN:</p> <p>2 Q. And the outage inquiry, or is it separate</p> <p>3 costs?</p> <p>4 MS. LUTZ:</p> <p>5 A. The 1 million?</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. Yeah.</p> <p>8 MS. LUTZ:</p> <p>9 A. Is separate from the outage inquiry.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. And what's that for, hearing costs in 2014,</p> <p>12 GRA hearing costs?</p> <p>13 MS. LUTZ:</p> <p>14 A. Yes.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Okay, I'm not certain I got you. I thought</p> <p>17 you said 1.4 out of the 2.4 relates to GRA,</p> <p>18 and 1.0 relates to the hearing costs of the</p> <p>19 GRA?</p> <p>20 MS. LUTZ:</p> <p>21 A. Okay, so the 1 million would be the cost</p> <p>22 related to all the intervenors and the Board's</p> <p>23 costs and so on. 1.4 would be related to</p> <p>24 consultant costs and legal costs that Hydro</p> <p>25 would incur to prepare for the GRA, and in</p>	<p>1 MR. O'BRIEN:</p> <p>2 Q. Okay. If we go back up to the next page</p> <p>3 there, Ms. Gray, if we could, scroll up. In</p> <p>4 terms of with this restructuring from finance,</p> <p>5 there's a line down there under corporate</p> <p>6 services, finance deferred regulatory costs</p> <p>7 and allocation to non-regulated customer. So</p> <p>8 the allocation and non-regulated customer from</p> <p>9 2013 to 2014 hasn't really reduced much as a</p> <p>10 result of that - really it seems to have</p> <p>11 stayed the same. Would you have thought there</p> <p>12 would be some change if you're moving finance</p> <p>13 employees over from Nalcor into Hydro,</p> <p>14 wouldn't there still be charges out? Should</p> <p>15 there be more charges out?</p> <p>16 MS. LUTZ:</p> <p>17 A. Could you just clarify?</p> <p>18 MR. O'BRIEN:</p> <p>19 Q. I'm trying to get a flavour - initially in</p> <p>20 2008 when the finance employees were</p> <p>21 transferred into Nalcor, I would expect that</p> <p>22 charges from Nalcor to Hydro would increase as</p> <p>23 a result?</p> <p>24 MS. LUTZ:</p> <p>25 A. Correct.</p>

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<p>1 MR. O'BRIEN: 2 Q. Okay, so now that there's employees charged 3 back, shouldn't the charges to non-regulatory 4 lines increase from 2013 to 2014? It doesn't 5 seem to be much of an increase there. 6 MS. LUTZ: 7 A. This particular line here relates to the cost 8 of service for providing service to Iron Ore 9 Company of Canada, so the IOC. 10 MR. O'BRIEN: 11 Q. Okay, that makes sense. 12 MS. LUTZ: 13 A. So that's what that is. 14 MR. O'BRIEN: 15 Q. Okay. 16 MS. LUTZ: 17 A. And it happens to roll up in our structure 18 under finance. 19 MR. O'BRIEN: 20 Q. Okay. 21 MS. LUTZ: 22 A. As a cost recovery. 23 MR. O'BRIEN: 24 Q. Thanks for that, and if we look back, I guess, 25 in the 2015 - go across finance again in 2015,</p>	<p>1 Relations Department? 2 MS. RUSSELL: 3 A. Yes. 4 MS. LUTZ: 5 A. Yes. 6 MR. O'BRIEN: 7 Q. Okay. Likewise, I guess, anything with PETS 8 and human resources, that's not something that 9 you can talk about, the actual details of 10 those figures? 11 MS. RUSSELL: 12 A. No, that would be - 13 MR. O'BRIEN: 14 Q. Okay. If we could go to the GT Report, Grant 15 Thornton Report, page 43. There's a couple of 16 costs I just wanted to ask you about. Under 17 the heading of other costs, and this is in the 18 revenue requirement, I think we dealt with the 19 professional services. The equipment rentals 20 cost from 2014 actuals - sorry, 2014 forecast 21 of 1.8 million to the 2015 forecast of 3 22 million, are you able to comment on that? 23 MS. LUTZ: 24 A. Yes, the primary driver there is the 25 amortization of the black start lease.</p>
<p>Page 38</p> <p>1 so the 2014 is at 17.5 million, 2015 is at 2 16.8, so there's a reduction in that, and 3 there's no note on that. Is there any 4 increase in - I'm just wondering in the 2015 5 test year, was there any additional increase 6 in, say, the salaries and benefits within the 7 Finance Department due to the further 8 restructuring or continued restructuring, or 9 was it all captured in that .9 million? 10 MS. LUTZ: 11 A. I believe it's note 13. 12 MR. O'BRIEN: 13 Q. Okay. It wasn't across from that. Okay, here 14 we go, .7, all right. Now that's mainly due 15 to a decrease in the professional services, 16 okay. I didn't see that note 13 next to it. 17 I thought it was down below. Thanks for that. 18 I wonder if we could just have a look at the - 19 go back to NP-NLH-307. I just had a couple of 20 further questions on corporate relations 21 costs. Scroll to page 9 of that, please. I'm 22 sorry, not 307. 317, I'm sorry, NP-317. The 23 increase in corporate relations costs of 35. 2 24 percent over 2007 to 2015, is that something 25 that's best taken up with the Corporate</p>	<p>Page 40</p> <p>1 MR. O'BRIEN: 2 Q. So that's subject to the prudence review, is 3 that right? 4 MS. LUTZ: 5 A. Yes. 6 MR. O'BRIEN: 7 Q. Okay. I think we talked about system 8 equipment and maintenance yesterday. You were 9 going to provide - no, that was the overtime. 10 Maybe we can look at system equipment and 11 maintenance there, the increase from the 12 forecast of 2014, 22.9, to the actuals of 13 28.6. Do you have anything to - 14 MS. LUTZ: 15 A. I think I might have a note on that. 16 MR. O'BRIEN: 17 Q. Okay, good. 18 MS. LUTZ: 19 A. Okay, I believe that's further detailed in the 20 Grant Thornton Report on page 78, and the 21 primary drivers are 2.3 million in Holyrood 22 related to Unit 1 maintenance, condition 23 assessments, and other repairs, and 2.5 24 million in TRO, which is maintenance backlog 25 reduction, transformer relocation, and</p>

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<p>1 Stephenville gas turbine repairs.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Okay. Mr. Moore testified about some of that,</p> <p>4 I believe. Let's talk - we can take that one</p> <p>5 now. Talk about the capital budget. You're</p> <p>6 involved in the capital budget process as</p> <p>7 well, I take it, are you? How does that work?</p> <p>8 MS. LUTZ:</p> <p>9 A. In terms of finance, we prepare the schedules</p> <p>10 that are in the capital budget, the primary -</p> <p>11 engineering is the primary -</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. Primary driver of that?</p> <p>14 MS. LUTZ:</p> <p>15 A. Right.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. So is there an individual within Finance who</p> <p>18 has control there or assists or facilitates in</p> <p>19 that regard?</p> <p>20 MS. LUTZ:</p> <p>21 A. As I mentioned, we accumulate all of the</p> <p>22 proposals and prepare the schedules that</p> <p>23 accompany the capital budget submission.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. And what involvement - I believe yesterday you</p>	<p>1 A. Yes.</p> <p>2 MR. O'BRIEN:</p> <p>3 Q. Okay. Do you have any input at all in terms</p> <p>4 of labour requirement or anything like that</p> <p>5 for any of those projects?</p> <p>6 MS. LUTZ:</p> <p>7 A. No.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. Whether internal forces are going to be used</p> <p>10 or outside forces?</p> <p>11 MS. LUTZ:</p> <p>12 A. No, I would not.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. I wonder if we can bring up Grant Thornton</p> <p>15 Report, the June 12th report, page 110.</p> <p>16 There's a chart there, comparison of capital</p> <p>17 expenditures, actual to budget. It shows on a</p> <p>18 year over year basis, I guess, that Hydro is</p> <p>19 under budget each year. That's something you</p> <p>20 would see in the process as you go along, is</p> <p>21 it?</p> <p>22 MS. LUTZ:</p> <p>23 A. This is something that normally we would</p> <p>24 report to the Public Utilities Board in terms</p> <p>25 of variances by March 1st. This year, in</p>
<p>Page 42</p> <p>1 talked about, I guess, in your monthly</p> <p>2 meetings, you would track sort of where the</p> <p>3 capital process is, where each of the</p> <p>4 proposals are and projects are, is that right?</p> <p>5 MS. LUTZ:</p> <p>6 A. Yes, that's right.</p> <p>7 (9:45 a.m.)</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. And you had indicated your role is really from</p> <p>10 a cost perspective, is that fair?</p> <p>11 MS. LUTZ:</p> <p>12 A. Yes, we prepare a report that summarizes where</p> <p>13 the projects are in terms of the four metrics</p> <p>14 that I mentioned yesterday.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Right.</p> <p>17 MS. LUTZ:</p> <p>18 A. And, of course, we get the forecast from the</p> <p>19 operations or from the project engineering</p> <p>20 group and update the forecast accordingly.</p> <p>21 Therefore, we can do a comparison between the</p> <p>22 original estimate and the latest forecast.</p> <p>23 MR. O'BRIEN:</p> <p>24 Q. And you do that on a monthly basis?</p> <p>25 MS. LUTZ:</p>	<p>Page 44</p> <p>1 particular, and last year, we would have been</p> <p>2 doing - this year, in particular, we would be</p> <p>3 doing that reporting on a monthly basis.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. And I understand from this report that the</p> <p>6 plan is to keep within a 10 percent variance,</p> <p>7 is that right?</p> <p>8 MS. LUTZ:</p> <p>9 A. That's the - yes.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. And if we look at comments here starting at</p> <p>12 line 8, if we could scroll down a bit, please,</p> <p>13 even if we look down to line 16, "Based on the</p> <p>14 information above, the company's actual</p> <p>15 expenditures has been under budget every year,</p> <p>16 ranging from 6.43 percent under budget in 2011</p> <p>17 to 27.17 under budget in 2013. Would you</p> <p>18 agree that this table suggests Hydro tends to</p> <p>19 overestimate its capital expenditures during</p> <p>20 the approval process?</p> <p>21 MS. LUTZ:</p> <p>22 A. No, I would - before you could assume, make</p> <p>23 that conclusion, you would have to understand</p> <p>24 the reason that drove that discrepancy.</p> <p>25 MR. O'BRIEN:</p>

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1 Q. But in each year you're under budget -
 2 MS. LUTZ:
 3 A. But depending - it would depend on what the
 4 reasons were.
 5 MR. O'BRIEN:
 6 Q. So you can't make that broad suggestion on the
 7 basis of that chart?
 8 MS. LUTZ:
 9 A. No.
 10 MR. O'BRIEN:
 11 Q. Are you involved at all with the
 12 prioritization for capital projects?
 13 MS. LUTZ:
 14 A. I personally am not.
 15 MR. O'BRIEN:
 16 Q. Ms. Russell, are you involved with that at
 17 all?
 18 MS. RUSSELL:
 19 A. No, I'm not.
 20 MR. O'BRIEN:
 21 Q. I wonder if we can go to page 115 of that
 22 report. Sorry, I think it's the previous
 23 page, sorry. Actually, go back to 110. Yes,
 24 here we go. Table 85. So we go across Table
 25 85, there's the actuals and the budgets. For

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1 the 2014 actuals, this is where it shows a 27
 2 percent under budget amount, but the 2014
 3 forecast is 268,000 there, and the 2015
 4 forecast is 282 - sorry, million, and 2015 is
 5 282, is that right?
 6 MS. LUTZ:
 7 A. 2015 is 282, yes.
 8 MR. O'BRIEN:
 9 Q. If we go over to page 115, there's a
 10 discussion here about the reasons for a
 11 difference in each one of those years. So we
 12 see capital expenditures that's included in
 13 the rate base for those years, the total for
 14 2014 test year, and this shows a discrepancy
 15 of 63 million in the difference. The 114 here
 16 showing work in progress, does that relate to
 17 the CT?
 18 MS. LUTZ:
 19 A. Primarily the CT, yes.
 20 MR. O'BRIEN:
 21 Q. And so in terms of the actual there, that's
 22 205, and there's a difference of 63. There's
 23 a further difference of 63 million, and I
 24 believe there's a breakdown of that, but
 25 before I get to that, the CT itself - is the

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1 CT included in the 2014 revenue requirement?
 2 MS. LUTZ:
 3 A. It's included in the rate base.
 4 MR. O'BRIEN:
 5 Q. In the rate base?
 6 MS. LUTZ:
 7 A. Yes.
 8 MR. O'BRIEN:
 9 Q. And is it Hydro's position that it should
 10 remain in the 2014 rate base?
 11 MS. LUTZ:
 12 A. Yesterday we talked about in our latest
 13 forecast application that we made an
 14 adjustment to the revenue - the cost
 15 deficiency for 2015 related to not having the
 16 CT in use for the full year, but that will be
 17 in use all of 2016, so Hydro feels it is
 18 appropriate that that would be included in
 19 rate setting.
 20 MR. O'BRIEN:
 21 Q. I understand that, and I guess I'll get to
 22 that, but I'm wondering about the 2014,
 23 because 2014 you're asking for a revenue
 24 deficiency for that particular year. The CT
 25 wasn't in use in that particular year, is that

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1 fair?
 2 MS. LUTZ:
 3 A. No, it was not.
 4 MR. O'BRIEN:
 5 Q. And yet it's included in rate base, is that
 6 right?
 7 MS. LUTZ:
 8 A. I think I'd have to check that, but I believe
 9 it is.
 10 MR. O'BRIEN:
 11 Q. If it is, is there any reason why it should
 12 remain in there for the revenue deficiency
 13 recovery if it's not used and useable at all
 14 in that year?
 15 MS. LUTZ:
 16 A. I would have to check and get back to you.
 17 MR. O'BRIEN:
 18 Q. Can you undertake to check first of all, if
 19 it's in there.
 20 MS. LUTZ:
 21 A. Yes.
 22 MR. O'BRIEN:
 23 Q. And second, if there's any reason why it
 24 should remain in there, okay.
 25 MS. GLYNN:

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1 Q. Noted on the record.
 2 MR. O'BRIEN:
 3 Q. To be honest, I'm just interested in whether
 4 or not Hydro has an intention to remove it.
 5 MS. RUSSELL:
 6 A. So let's check to see if it's in there first
 7 and then we'll get back to you.
 8 MR. O'BRIEN:
 9 Q. Yes. I wonder if we can pull up NP-NLH-308.
 10 I just want to get a sense of the impact if
 11 it's in there, and there was a question asked
 12 here about - if we scroll up to the question,
 13 "In the table below, please provide the
 14 indicated amounts included in the 2014 test
 15 year", so this might assist in your answer,
 16 "related to capital projects that are subject
 17 to further review before being approved for
 18 inclusion in rate base", and there's a list of
 19 those projects there, and if you look down at
 20 the table below, it appears the Holyrood CT is
 21 included.
 22 MS. LUTZ:
 23 A. Yes, that's right.
 24 MR. O'BRIEN:
 25 Q. Okay, and on that basis, there's an

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1 amortization amount included of 261,000, is
 2 that right?
 3 MS. LUTZ:
 4 A. Yes.
 5 MR. O'BRIEN:
 6 Q. And then a return on rate base amount of 3.9
 7 million?
 8 MS. LUTZ:
 9 A. Yes.
 10 MR. O'BRIEN:
 11 Q. And are you able to tell me whether or not
 12 those figures are accurate figures if we're
 13 going to assess whether or not the CT should
 14 be removed from rate base? Are those the
 15 figures that we should look at as removing?
 16 MS. LUTZ:
 17 A. I believe they are.
 18 MR. O'BRIEN:
 19 Q. What's that?
 20 MS. LUTZ:
 21 A. I believe they are.
 22 MR. O'BRIEN:
 23 Q. Okay. So that's 3.9 and 261,000 for
 24 amortization. Can we bring up PUB-NLH-487.
 25 In this one, it's a question here, "Grant

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1 Thornton recommended that the Board obtain the
 2 impact that the variances between forecast and
 3 actual expenditures from 2014 and a revised
 4 forecast expenditures for 2015 would have on
 5 both the revenue requirements and rate base
 6 for the 2014 and 2015 test years. Please
 7 provide a table with written explanations
 8 indicating the impact on 2014 and 2015 test
 9 year revenue requirements and rate base". So
 10 if we go down to - there's a table here, and
 11 2014, if we can read it, the revenue
 12 requirement - there's a variance noted there
 13 of 2.1 million. So that's on the revenue
 14 requirement, and note 1, "The reduction", so
 15 if we scroll down just a little, "The
 16 reduction in 2014 test year revenue
 17 requirement of 2.1 million was primarily due
 18 to the reduction of 148 million in capital
 19 assets and service in 2014 actuals in
 20 comparison to test year. Of the 148 of assets
 21 additions that did not go into service in
 22 2014, 110 million relates to the Holyrood CT".
 23 How does that square with the figures Grant
 24 Thornton had of 114, and then there was a
 25 further 63 million for 2014? Can you - I'm

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1 trying to get a sense of variance of 2.1 and
 2 how that got calculated?
 3 MS. LUTZ:
 4 A. Can you say your question again?
 5 MR. O'BRIEN:
 6 Q. Yes, I'm just trying to get a sense of - when
 7 we looked at the Grant Thornton Report, there
 8 was 114 million in capital assets and 63 in
 9 work in progress, and here it says 148 million
 10 of assets, but doesn't sort of reference work
 11 in progress. I'm trying to get a sense of how
 12 the variance for the revenue requirement was
 13 calculated.
 14 MS. LUTZ:
 15 A. So if you're back to the Grant Thornton
 16 Report, the 148 is also noted here.
 17 MR. O'BRIEN:
 18 Q. Yes, that's a difference there, okay, and
 19 there's -
 20 MS. LUTZ:
 21 A. The 148.
 22 MR. O'BRIEN:
 23 Q. Right.
 24 MS. LUTZ:
 25 A. And then the capital expenditures, that's a

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<p>1 difference between the planned expenditures 2 versus the actual expenditures. 3 MR. O'BRIEN: 4 Q. Okay. 5 MS. LUTZ: 6 A. The 63. 7 MR. O'BRIEN: 8 Q. Yeah. 9 MS. LUTZ: 10 A. So I believe the number that's presented here 11 for work in progress is just the difference 12 between the two. 13 MR. O'BRIEN: 14 Q. Okay, alright. 15 MS. LUTZ: 16 A. I don't think it's actually reflective of what 17 our work in progress number was. 18 MR. O'BRIEN: 19 Q. That's what I was wondering, in terms of 20 whether or not that was the case. So the 21 revenue requirement is based on the removal of 22 the CT, that variance figure is based on the 23 removal of the CT, is that right? 24 MS. LUTZ: 25 A. The -</p>	<p>1 MS. LUTZ: 2 A. Yes, and that's essentially the last line here 3 in the capital expenditure variance, not 4 necessarily the rate base variance. 5 MR. O'BRIEN: 6 Q. No, I understand that, yeah, but in terms of 7 the projects themselves, can you confirm when 8 you have the 2.1 million dollar revenue 9 requirement variance, which one of these 10 projects are taken out then of that rate base? 11 MS. LUTZ: 12 A. Yes. 13 MR. O'BRIEN: 14 Q. Okay, because there's some here that were 15 scheduled, changed to 2015, some to 2018, or 16 one to 2018, one to 2016, one is completely 17 out, so I just want to make sure - 18 MS. LUTZ: 19 A. Yes. 20 MR. O'BRIEN: 21 Q. That we're working with apples to apples, so 22 can you provide an undertaking to confirm 23 that. 24 MS. GLYNN: 25 Q. The undertaking is noted.</p>
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<p>1 MR. O'BRIEN: 2 Q. The 2.5 million there in terms of variance, 3 revenue requirement. 4 MS. LUTZ: 5 A. I believe it's all the costs associated with 6 the 148. 7 MR. O'BRIEN: 8 Q. Okay, so that's 110 million of the CT and 38 9 million of other assets. 10 MS. LUTZ: 11 A. Other things, yeah. 12 MR. O'BRIEN: 13 Q. Other things that are included. Can you 14 confirm that for me because I want to get a 15 sense as to which projects are included in 16 that variance? 17 MS. LUTZ: 18 A. Yes. 19 MR. O'BRIEN: 20 Q. And just to assist you in that, I wonder if we 21 can pull up Undertaking 32, and there's a list 22 here. So that 63 million dollar variance 23 that's referenced in the Grant Thornton 24 Report, there's a breakout of deferrals on 25 certain projects.</p>	<p>1 MR. O'BRIEN: 2 Q. And for the 2014 revenue requirement, if we go 3 back to 487, so that variance, does that also 4 include associated amortization, interest 5 capitalized during construction, that sort of 6 thing? 7 MS. LUTZ: 8 A. Yes. 9 (10:00 a.m.) 10 MR. O'BRIEN: 11 Q. Okay. So can you provide the calculation of 12 that variance, the 2.1? 13 MS. LUTZ: 14 A. Yes. 15 MR. O'BRIEN: 16 Q. So we can see that breakout? 17 MS. GLYNN: 18 Q. Noted on the record. 19 MR. O'BRIEN: 20 Q. Okay. I'd like to turn to the energy supply 21 cost deferral account, if we could. I 22 understand from the evidence that the proposal 23 here is to capture a number of supply costs in 24 the one account in that particular deferral 25 account. Is that fair?</p>

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<p>1 MS. RUSSELL: 2 A. Correct. 3 MR. O'BRIEN: 4 Q. Okay. And I want to talk first, I guess, 5 about the Exploits generation aspect of that. 6 I understand from the last week, I guess, the 7 pricing on that has been extended at four 8 cents - 9 MS. RUSSELL: 10 A. Yes. 11 MR. O'BRIEN: 12 Q. - into next year. Is it August of 2016? 13 MS. RUSSELL: 14 A. I'll have to check. It's the middle of next 15 year. 16 MR. O'BRIEN: 17 Q. Middle of next year, okay. And is there any 18 sense from Hydro now that there's any price 19 variability or volatility, I guess, on the 20 horizon with respect to that cost? 21 MS. RUSSELL: 22 A. At this point we wouldn't expect any. 23 MR. O'BRIEN: 24 Q. Okay. And the reason for including Exploits 25 generation in this deferral account was what?</p>	<p>1 wind. 2 MR. O'BRIEN: 3 Q. On wind, was it volatility, something of that 4 nature, requiring a deferral account? 5 MS. RUSSELL: 6 A. Yes. There's uncontrollable -- the basis and 7 premise of the -- the premise of this account 8 is that it's a supply cost that are 9 uncontrollable by Hydro. 10 MR. O'BRIEN: 11 Q. No, I understand that's the premise of it, 12 being uncontrollable, but I'm wondering in 13 terms of volatility on wind. Is that 14 something that is a main concern for Hydro? 15 MS. RUSSELL: 16 A. It is a concern. As Mr. Henderson has 17 testified, yes, it is a concern and it would 18 be something that he would have spoken to in 19 his testimony. 20 MR. O'BRIEN: 21 Q. And those power purchases, there's -- in terms 22 of -- at least there's some negotiation 23 ability for Hydro to negotiate the purchase 24 price and that sort of thing. You wouldn't 25 disagree with that?</p>
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<p>1 MS. RUSSELL: 2 A. So this particular one has to do with the 3 supply mix variance and so Exploits would be 4 one of the items on that and Mr. Henderson 5 actually in his testimony talked about the 6 inclusion of Exploits. So, we just included - 7 - we grouped the supply costs together in that 8 particular deferral. 9 MR. O'BRIEN: 10 Q. Okay. So you haven't -- that's something that 11 Mr. Henderson talked about but it's not 12 something that you would consider in terms of 13 putting together the account from a finance 14 perspective? 15 MS. RUSSELL: 16 A. No. No, Mr. Henderson -- no. 17 MR. O'BRIEN: 18 Q. The other cost deferrals, wind generation and 19 Corner Brook Pulp and Paper Co-generation, for 20 those two, that's something that Hydro has 21 certain element of control over. Would you 22 agree? 23 MS. RUSSELL: 24 A. No, I believe Mr. Henderson also indicated 25 that there was variability in his testimony on</p>	<p>1 MS. RUSSELL: 2 A. The purchase price with respect to? 3 MR. O'BRIEN: 4 Q. To wind and those power purchases. 5 MS. RUSSELL: 6 A. To some degree, yes. 7 MR. O'BRIEN: 8 Q. To some degree. The combustion turbine, in 9 the 2015 cost deferral application, I wonder 10 if we can pull up Schedule 3 of Appendix C of 11 that? I wanted to ask you a little bit about 12 that as it pertains to the cost deferral 13 account. 14 MS. GRAY: 15 Q. Sorry, in the - 16 MR. O'BRIEN: 17 Q. In the evidence section of the Amended 2015 18 Cost Deferral Application. It would be 19 Schedule 3, Appendix C. 20 MS. GRAY: 21 Q. I'm sorry, Mr. O'Brien, what was the 22 reference? 23 MR. O'BRIEN: 24 Q. Sure, Appendix C. Sorry, Schedule 3, Appendix 25 C. It's a big application. It's in the</p>

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1 evidence.
 2 Okay. That's it. I think we've got it.
 3 MS. GRAY:
 4 Q. Sorry. Apologies for the delay.
 5 MR. O'BRIEN:
 6 Q. No problem. Okay. So I wanted to talk, I
 7 guess, about the different -- I guess there's
 8 different power purchases shown across the top
 9 and the one in particular, if we could scroll
 10 across, and this is for 2015. So this is the
 11 discrepancy between, I guess, what's in the
 12 test year and what forecast actuals were as of
 13 August 2015. Is that right?
 14 MS. LUTZ:
 15 A. Yes, that's correct.
 16 MR. O'BRIEN:
 17 Q. Okay. So if we look -- if we go across, the
 18 biggest discrepancy we see there is in the gas
 19 turbine use. Is that fair?
 20 MS. RUSSELL:
 21 A. Correct.
 22 MR. O'BRIEN:
 23 Q. Okay. And then, am I right in saying that the
 24 largest portion of that discrepancy is with
 25 respect to the use of the Holyrood CT?

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1 MS. RUSSELL:
 2 A. Yes.
 3 MS. LUTZ:
 4 A. Yes.
 5 MR. O'BRIEN:
 6 Q. Okay. And if we look down and see the total
 7 energy supply cost deferral balance of about
 8 seven million, so the bulk of that is Holyrood
 9 CT?
 10 MS. RUSSELL:
 11 A. Yes.
 12 MR. O'BRIEN:
 13 Q. And that's after the cost variance threshold
 14 that's proposed of 500,000, okay. And that's
 15 over and above -- and Mr. Goulding, I think
 16 testified to this as well. It's over and
 17 above, well over and above what's included in
 18 the test year in terms of production for the
 19 CT, and I believe he indicated that there was
 20 a change in philosophy on the use of the CT
 21 some time around March with the March outage.
 22 Is that fair?
 23 MS. RUSSELL:
 24 A. I think, yes, Mr. Goulding testified to the
 25 reasons why.

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1 MR. O'BRIEN:
 2 Q. To the reasons why, yeah. Now he also
 3 testified -- and I understand in terms of
 4 Hydro's proposal that with respect to this
 5 deferral account that this is subject to at
 6 the end of each year, in terms of balances, in
 7 terms of what Hydro would recover, the
 8 proposal is that it would be subject to an
 9 application to the Board. Is that right?
 10 MS. RUSSELL:
 11 A. After for recovery, do you mean?
 12 MR. O'BRIEN:
 13 Q. Yes.
 14 MS. RUSSELL:
 15 A. Yes. I believe on March 1st for disposition
 16 of the previous -- the next year.
 17 MR. O'BRIEN:
 18 Q. For the next year. I think that was built
 19 into the proposal for it.
 20 MS. RUSSELL:
 21 A. Yes.
 22 MR. O'BRIEN:
 23 Q. And Mr. Goulding gave some evidence in terms -
 24 - I'd asked him about what types of things
 25 that the Board should consider in terms of

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1 that sort of application and I believe he had
 2 indicated that really you have to look at the
 3 circumstances over the use of the CT over the
 4 year to look at why it was being used, that
 5 sort of thing. Is that fair?
 6 MS. RUSSELL:
 7 A. I can't recall what Mr. Goulding had said.
 8 MR. O'BRIEN:
 9 Q. Maybe I can bring up his evidence on October -
 10 - the October 20th transcript, page 140, and
 11 there's a question there starting at line nine
 12 that I'd asked him. "Okay. From your
 13 perspective, what sort of factors should the
 14 Board consider in whether or not the balance
 15 should be -- how the balance should be dealt
 16 with?" And Mr. Goulding responded "I guess,
 17 as part of the report, the Board may ask that
 18 we provide an indication, like a summary
 19 report of when gas turbines were ran and maybe
 20 even what the circumstances were." And I
 21 wonder whether you agree with that as being
 22 what you'd expect the Board to consider?
 23 MS. RUSSELL:
 24 A. I wouldn't comment. I guess I wouldn't be
 25 able to comment on what the Board would

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<p>1 consider with respect to the details of how 2 the gas turbines -- you know, Mr. Goulding can 3 speak from the perspective of the technical 4 side of things with respect to that. 5 MR. O'BRIEN: 6 Q. Okay. I understood you could talk about the 7 deferral accounts, so I'm wondering in terms 8 of the terms of the deferral account, if 9 there's to be an application for - 10 MS. RUSSELL: 11 A. Right. 12 MR. O'BRIEN: 13 Q. - disposition of balance - 14 MS. RUSSELL: 15 A. There would be. 16 MR. O'BRIEN: 17 Q. - what sorts of things the Board should 18 consider. 19 MS. RUSSELL: 20 A. So I think at the time, if we put that 21 forward, we would be looking at those things 22 and we could put together something in that 23 application at that time. 24 MR. O'BRIEN: 25 Q. Okay. And would you agree that it would be</p>	<p>1 A. I can't recall. On management running the CT? 2 MR. O'BRIEN: 3 Q. Yeah, yeah. 4 MS. RUSSELL: 5 A. I can't recall at this point. 6 MR. O'BRIEN: 7 Q. Okay. So in terms of say the 2015 cost 8 recovery application, would you anticipate 9 that that sort of information would be put to 10 the Board by Hydro? 11 MS. RUSSELL: 12 A. With respect to the disposition, we would pull 13 together evidence and an application that 14 would detail all those items. The system 15 operations panel discussed, I believe, the 16 changes that were going on with the running of 17 the CT in its evidence. 18 MR. O'BRIEN: 19 Q. Right. 20 MS. RUSSELL: 21 A. But with respect to the disposition, we would 22 put forward an application that would discuss 23 some of those items in there. 24 MR. O'BRIEN: 25 Q. Some of those items and why it was run and why</p>
<p>1 reasonable for the Board to consider the 2 circumstances of when the CT was run, 3 management decisions that sort of thing, 4 whether it was appropriate to run it at that 5 one time or another, that sort of thing? 6 MS. RUSSELL: 7 A. I think it would be appropriate to look at the 8 circumstances under the items there. 9 MR. O'BRIEN: 10 Q. Okay. And how familiar are you with what sort 11 of factors the Board might want to consider? 12 Do you have any - 13 MS. RUSSELL: 14 A. I wouldn't be - 15 MR. O'BRIEN: 16 Q. Have any comment on that? 17 MS. RUSSELL: 18 A. No, not with respect to the CT. 19 MR. O'BRIEN: 20 Q. Okay. And one of the things I noticed, and 21 maybe you can correct me if I'm wrong, is 22 there any evidence at this point in time on 23 the record about what sorts of factors could 24 impact management decision for running the CT? 25 MS. RUSSELL:</p>	<p>1 it was appropriate to run it, that sort of 2 thing? 3 MS. RUSSELL: 4 A. We would consider -- yes, I think we would 5 consider all those items. 6 MR. O'BRIEN: 7 Q. Okay. And in terms of the cost recovery then 8 application for 2015, would that include the 9 similar -- that similar evidence? 10 MS. RUSSELL: 11 A. For the cost - 12 MR. O'BRIEN: 13 Q. 2015 cost recovery application because you 14 asked - 15 MS. RUSSELL: 16 A. The one that we just filed? 17 MR. O'BRIEN: 18 Q. Yeah. 19 MS. RUSSELL: 20 A. I'm sure if there's information that's 21 required on that we can provide it. 22 MR. O'BRIEN: 23 Q. I guess my point is you've asked for it in 24 that application for cost recovery of that 25 variance, but there is no evidence in that</p>

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<p>1 application as to why the CT was run at 2 certain times and why it was appropriate to 3 run it at those times. 4 MS. RUSSELL: 5 A. Right. 6 MR. O'BRIEN: 7 Q. So would there be further evidence put forth 8 by Hydro in that regard for that application? 9 MS. RUSSELL: 10 A. I'm not anticipating any further evidence, no. 11 MR. O'BRIEN: 12 Q. And how does that square with what Mr. 13 Goulding has testified to would be the normal 14 course of things or expects to be the course 15 of things with respect to disposition of that 16 deferral account in the future? 17 (10:15 a.m.) 18 MS. RUSSELL: 19 A. So I think Mr. Goulding -- and I can't -- I 20 haven't read the whole sort of premise of 21 this, but this was probably on the general -- 22 when you put through the test year on -- once 23 you get a Board order approval. I'm assuming 24 this was about the test year and that, you 25 know, March 1st you'd do your disposition and</p>	<p>1 MS. RUSSELL: 2 A. So it would be based on what -- we would 3 provide an application to the Board that would 4 lay out. 5 MR. O'BRIEN: 6 Q. Okay. And you would agree with me, I guess, 7 in terms of this type of -- like the CT, the 8 running of the CT here is a management 9 decision in terms of when the CT is going to 10 be run and it's not the same thing as say the 11 volatility in the cost of fuel that you have 12 under the RSP. This is something a little bit 13 different. 14 MS. RUSSELL: 15 A. So I think that I'd have to revert back to the 16 testimony given by Mr. Goulding on the reasons 17 for the CT and the changes and the volatility 18 of the CT. 19 MR. O'BRIEN: 20 Q. And how about the band there? If we go back 21 to Schedule C of the 2015 deferral 22 application, we see the band here, the cost 23 variance threshold. So that's the 500,000 24 band. And we see -- and there's some 25 evidence, I guess, in terms of an undertaking</p>
<p>1 then you would go forward at that point in 2 time. I'm not sure if he was referring to the 3 cost deferral application in this. 4 MR. O'BRIEN: 5 Q. No, he wasn't. 6 MS. RUSSELL: 7 A. Yeah. 8 MR. O'BRIEN: 9 Q. To be fair, he wasn't referring to that. He 10 was referring to just the general deferral 11 account. 12 MS. RUSSELL: 13 A. Right. 14 MR. O'BRIEN: 15 Q. And how he would see it playing out in terms 16 of disposition, and that's what I was asking 17 about. And so if the Board does order that a 18 deferral account be put in place, how would 19 you deal with the disposition of a balance at 20 the end -- I guess in March 1st type of thing? 21 MS. RUSSELL: 22 A. So for 2016? 23 MR. O'BRIEN: 24 Q. For 2016 and into the future, what sort of 25 process?</p>	<p>1 that it would take 30 to 85 hours to actually 2 get past that band. Is that your 3 understanding as well? And I can provide the 4 undertaking. 5 MS. RUSSELL: 6 A. Yeah, I believe that undertaking, yes. 7 MR. O'BRIEN: 8 Q. And are you still satisfied, based on looking 9 at those figures, that that \$500,000 band is a 10 reasonable band from an incentive perspective? 11 MS. RUSSELL: 12 A. Yes, because Hydro feels that all those costs 13 that are in that deferral account are supply 14 costs which are used for the provision of 15 electricity and they are considered to be 16 uncontrollable and therefore the one million 17 dollars, so the band between -- there's also a 18 band on the Island Isolated. One million 19 dollars in risk on supply costs, Hydro felt is 20 reasonable. 21 MR. O'BRIEN: 22 Q. How uncontrollable is the gas turbine cost? 23 MS. RUSSELL: 24 A. So again, I'm going to have to revert back to 25 Mr. Henderson and Mr. Goulding's testimony.</p>

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<p>1 They provided a lot of the testimony on the 2 uncontrollableness of that.</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. You can't comment on how uncontrollable it is?</p> <p>5 MS. RUSSELL:</p> <p>6 A. I wouldn't be able to comment on the 7 uncontrollableness of the CT. That would be 8 the operations group.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Okay. When it comes to this type of a 11 deferral account and say like the running of 12 the gas turbine separate from say diesel costs 13 -- you talked about volatility in diesel 14 prices and that sort of thing, but the running 15 of the gas turbine is -- I would put to you is 16 a manage -- it's partially management versus 17 just sort of a pricing issue.</p> <p>18 MS. RUSSELL:</p> <p>19 A. Again, I can't -</p> <p>20 MR. O'BRIEN:</p> <p>21 Q. Can't comment on that?</p> <p>22 MS. RUSSELL:</p> <p>23 A. I'm going to repeat myself here.</p> <p>24 MR. O'BRIEN:</p> <p>25 Q. Okay.</p>	<p>1 accounts, the one million dollars between the 2 -- you know, on the dead bands, is risk that 3 is acceptable amount of risk on supply costs, 4 which are for provision of electricity to 5 customers.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. And there's no dead band proposed on the 8 Holyrood conversion factor account?</p> <p>9 MS. RUSSELL:</p> <p>10 A. There isn't, no.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. No. And I understood Mr. Henderson's 13 testimony that the dead band on the other 14 accounts was sufficient.</p> <p>15 MS. RUSSELL:</p> <p>16 A. Correct.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Okay. And had Hydro at any point while 19 preparing the Amended General Rate Application 20 considered putting a dead band on the Holyrood 21 conversion factor account?</p> <p>22 MS. RUSSELL:</p> <p>23 A. No, because it feels the one million dollars 24 of risk on supply costs for the provision of 25 electricity is reasonable.</p>
<p style="text-align: right;">Page 74</p> <p>1 MS. RUSSELL:</p> <p>2 A. I have to go back to the previous testimony.</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. The Holyrood fuel conversion factor deferral 5 account, is that something you can address as 6 well?</p> <p>7 MS. RUSSELL:</p> <p>8 A. From the perspective of the numbers and the -</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Of the account itself, the numbers?</p> <p>11 MS. RUSSELL:</p> <p>12 A. Yeah.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. So from the perspective of whether or not it 15 provides an incentive to run efficiently, can 16 you comment on that?</p> <p>17 MS. RUSSELL:</p> <p>18 A. On the Holyrood conversion factor?</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. Yeah, if one is set up.</p> <p>21 MS. RUSSELL:</p> <p>22 A. Mr. Henderson I know did, in his testimony, 23 provide evidence on that and as well, with 24 respect to the dead band, going over -- Hydro 25 feels with the combination for those three</p>	<p style="text-align: right;">Page 76</p> <p>1 MR. O'BRIEN:</p> <p>2 Q. And that's on the supply cost variance, 3 500,000 either way?</p> <p>4 MS. RUSSELL:</p> <p>5 A. Correct.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. I wonder if we could turn to -- and I think, 8 Ms. Lutz, you can probably speak to this, to 9 the shared services model. Is that part of 10 your review, I guess?</p> <p>11 MS. LUTZ:</p> <p>12 A. Yes.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. I wonder if we can pull up the evidence, 15 3.7.2, page 3.38? I just want to talk just 16 briefly about the methodology. Cost covering 17 methodology is discussed here in the evidence 18 and in terms of the cost -- or I guess the 19 first, under line 18, "cost based intercompany 20 charges among lines of business are cost based 21 only." Under fair and reasonable, line 20, 22 "the results of allocations should be fairly 23 and reasonable -- should fairly and reasonably 24 reflect the cost of providing a service. The 25 allocation of a cost should reflect a costive</p>

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1 relationship between the provision of services
2 and the cost." And I understand as well --
3 sorry, if we could scroll down just a little
4 bit to the next page? Yes, the next one.
5 "The acceptability in a regulatory context" is
6 that something that you can comment on of how
7 Hydro goes about determining how costs are
8 acceptable in a regulatory context?
9 MS. LUTZ:
10 A. I think I can comment on that.
11 MR. O'BRIEN:
12 Q. Okay.
13 MS. LUTZ:
14 A. Those particular -- those items that are there
15 were an extract from the report that we had
16 done by Deloitte on our intercompany
17 transaction policy and we had asked them to
18 review our process and procedures and they
19 determined that it was reasonable and in line
20 with other utilities and these are some of the
21 ways that they described the process that we
22 were using.
23 MR. O'BRIEN:
24 Q. Okay. And so that came out of that report,
25 those -- and is it something that -- do you

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1 define it as being acceptable in a regulatory
2 context on the basis of having it reviewed by
3 Deloitte?
4 MS. LUTZ:
5 A. No. I think that was just -- I just wanted to
6 provide some context about what those things
7 were.
8 MR. O'BRIEN:
9 Q. Sure, yeah.
10 MS. LUTZ:
11 A. And acceptable in a regulatory context would
12 be least cost for rate payers.
13 MR. O'BRIEN:
14 Q. In terms of -- and I did ask this of the Human
15 Resources panel. I'll ask it of you, but I'm
16 not sure you can comment on it, whether or not
17 there are any different policies in place for
18 hiring employees say in Nalcor versus Hydro
19 who may have the same skill set?
20 MS. LUTZ:
21 A. That have the same skill set, is that what you
22 said?
23 MR. O'BRIEN:
24 Q. Yeah.
25 MS. LUTZ:

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1 A. I couldn't comment on the hiring.
2 MR. O'BRIEN:
3 Q. Okay. And do you know whether or not say pay
4 scales for Hydro match the pay scales for
5 Nalcor, when it comes to same skill set?
6 MS. LUTZ:
7 A. I understand that they do, but I wouldn't be
8 privy to any pay scale that was different. I
9 wouldn't -- the pay scales are published.
10 MR. O'BRIEN:
11 Q. Okay. So that -
12 MS. LUTZ:
13 A. But if there's an except -
14 MR. O'BRIEN:
15 Q. So that's something falls in the Human
16 Resources department?
17 MS. LUTZ:
18 A. Yes, yeah.
19 MR. O'BRIEN:
20 Q. Okay. All right. Well, let's move on. In
21 your direct evidence, you talked about some of
22 Mr. Rolph's indications where Hydro's -- where
23 he needed more information, I guess, on the
24 payroll situation, but also the concern over
25 whether or not -- about fully burdened costs.

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1 So one of those -- so that concern relates to
2 whether or not charges for common services
3 rendered by Hydro are fully burdened to other
4 lines? Is that right?
5 MS. LUTZ:
6 A. That's correct.
7 MR. O'BRIEN:
8 Q. And I believe you acknowledged that Mr. Rolph
9 had a point on that?
10 MS. LUTZ:
11 A. Yes, I did.
12 MR. O'BRIEN:
13 Q. Okay. And in his evidence, he does point to
14 sort of a potential impact or overstatement of
15 costs of somewhere in the range of about
16 \$70,000 I think for 2015. Is that fair?
17 MS. LUTZ:
18 A. That's what he had in his evidence.
19 MR. O'BRIEN:
20 Q. Okay. And has Hydro looked at whether or not
21 that's -- has confirmed that figure or looked
22 at that at all?
23 MS. LUTZ:
24 A. I have looked at that.
25 MR. O'BRIEN:

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<p>1 Q. And are you able to confirm that's an 2 accurate-</p> <p>3 MS. LUTZ:</p> <p>4 A. I estimate between -- just preliminary 5 analysis, between 70 and 100,000.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. Okay. And can you provide confirmation of 8 that in an undertaking?</p> <p>9 MS. LUTZ:</p> <p>10 A. Yes.</p> <p>11 MR. O'BRIEN:</p> <p>12 Q. And that's for 2015. Can you do the same for 13 2014?</p> <p>14 MS. LUTZ:</p> <p>15 A. Yes.</p> <p>16 MR. O'BRIEN:</p> <p>17 Q. Okay. Because I think Mr. Rolph only 18 addressed 2015 in his report. Okay.</p> <p>19 MS. GLYNN:</p> <p>20 Q. Noted on the record.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. And Mr. Rolph also indicated -- you didn't 23 mention this, but I'd like to get your 24 thoughts on it. He indicated that it may be 25 reasonable for Hydro to consider marking up</p>	<p>1 Q. There's not?</p> <p>2 MS. LUTZ:</p> <p>3 A. Well, with the exception of Churchill Falls.</p> <p>4 MR. O'BRIEN:</p> <p>5 Q. Okay. And so on that line, with respect to 6 transacting with Churchill Falls, if there was 7 a markup provided, you could calculate that?</p> <p>8 MS. LUTZ:</p> <p>9 A. I could calculate it, yes.</p> <p>10 MR. O'BRIEN:</p> <p>11 Q. Okay. Could you do that for the two test 12 years?</p> <p>13 MS. LUTZ:</p> <p>14 A. Yes.</p> <p>15 MR. O'BRIEN:</p> <p>16 Q. Okay.</p> <p>17 MS. GLYNN:</p> <p>18 Q. Noted on the record.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. And there is one other thing I wanted to ask 21 you, Ms. Lutz. In terms of common services 22 allocations, can you confirm that employees 23 who provide common care services or shared 24 services are all considered Hydro employees? 25 They're home based in Hydro?</p>
<p>Page 82</p> <p>1 intercompany charges to entities who had 2 private interests involved.</p> <p>3 MS. LUTZ:</p> <p>4 A. Yes.</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. Are you aware of that?</p> <p>7 MS. LUTZ:</p> <p>8 A. Yes.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. And do you have any comment on that?</p> <p>11 MS. LUTZ:</p> <p>12 A. Well, I was considering his testimony on that 13 and what he had written in his report and in 14 terms of the entities that Hydro transacts 15 with are any Nalcor line is 100 percent owned 16 by Nalcor. It's not a third party.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Okay. So even though it might be a reasonable 19 suggestion, it's not a practical one, I guess, 20 in that there's no situation where Hydro would 21 transact with an entity with a private 22 interest?</p> <p>23 MS. LUTZ:</p> <p>24 A. Well, at this point in time.</p> <p>25 MR. O'BRIEN:</p>	<p>Page 84</p> <p>1 MS. LUTZ:</p> <p>2 A. Can you say it again?</p> <p>3 MR. O'BRIEN:</p> <p>4 Q. That employees who provide the core shared 5 common services are Hydro based, are they?</p> <p>6 MS. LUTZ:</p> <p>7 A. I just want to clarify.</p> <p>8 MR. O'BRIEN:</p> <p>9 Q. Yeah, okay.</p> <p>10 MS. LUTZ:</p> <p>11 A. The people who are in the administration fee?</p> <p>12 MR. O'BRIEN:</p> <p>13 Q. Yeah.</p> <p>14 MS. LUTZ:</p> <p>15 A. There's two main ways that shared services are 16 costed.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. Okay.</p> <p>19 MS. LUTZ:</p> <p>20 A. One is through labour recharges which is a 21 direct method.</p> <p>22 MR. O'BRIEN:</p> <p>23 Q. Which is a direct method, yes.</p> <p>24 MS. LUTZ:</p> <p>25 A. And the other way is the admin fee. At this</p>

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<p>1 point in time, everyone is based in Hydro, 2 yes. 3 MR. O'BRIEN: 4 Q. Okay. So the admin fee method, they're all -- 5 that method is based in Hydro, those employees 6 are home based? 7 MS. LUTZ: 8 A. For the 2015 test year, yes. 9 MR. O'BRIEN: 10 Q. Yeah, okay. And in terms of -- would it make 11 a difference, in terms of the bottom line 12 costs payable to Hydro if those employees were 13 home based in Nalcor? 14 MS. LUTZ: 15 A. We had -- there was a request from 16 Newfoundland Power with different scenarios. 17 MR. O'BRIEN: 18 Q. Yeah, and I want to take you through that. 19 Maybe we can bring that up. 20 MS. LUTZ: 21 A. Sure. I think it's NP-20 - 22 MR. O'BRIEN: 23 Q. NP-204, yeah. And there was three scenarios 24 there, I think, and this is out of the 2013 25 test year. I don't think it's updated for</p>	<p>1 the employees that you're allocating the cost 2 from so you wouldn't actually include them in 3 Nalcor or Hydro. Is that right? 4 MS. LUTZ: 5 A. You remove them from the allocation base. 6 MR. O'BRIEN: 7 Q. From the allocation, okay. And let's scroll 8 down to the table here. So we see in the 9 first scenario where all are in Hydro, there's 10 a 8.9 million dollar common service cost to 11 Hydro out of the total of 14.6. Is that 12 right? And if you moved those employees and 13 rather than just have them Hydro home based, 14 you had them Nalcor home based, there's a 15 900,000 -- almost a \$900,000 difference. Is 16 that fair? 17 MS. LUTZ: 18 A. That's correct. 19 MR. O'BRIEN: 20 Q. Okay. And so that \$900,000 difference would 21 be 900,000 not required to be paid by rate 22 payers of Hydro? 23 MS. LUTZ: 24 A. That's correct. 25 MR. O'BRIEN:</p>
<p>1 2014 and '15. Is that correct? 2 MS. LUTZ: 3 A. I don't think it is. 4 MR. O'BRIEN: 5 Q. No, okay. But there are three scenarios asked 6 to be calculated here and that's the shared 7 services costs, scenario one, the 2013 test 8 year, that's where all of the employees are 9 home based in Hydro, correct? 10 (10:30 a.m.) 11 MS. LUTZ: 12 A. Yes, the way it was -- the way the 13 calculations were done. 14 MR. O'BRIEN: 15 Q. The way it is now. 16 MS. LUTZ: 17 A. Right. 18 MR. O'BRIEN: 19 Q. And we see scenario two is 2013 test year and 20 that's if all them were home based in Nalcor? 21 MS. LUTZ: 22 A. That's right. 23 MR. O'BRIEN: 24 Q. Okay. And then the third one is a scenario 25 whereby you would, in your allocation, remove</p>	<p>1 Q. And if you did the third option where you just 2 removed the employees themselves from the 3 allocation, you got something in between here, 4 but there's still a savings for Hydro? 5 MS. LUTZ: 6 A. That's correct. 7 MR. O'BRIEN: 8 Q. Can you tell me why Hydro wouldn't have 9 considered -- why it was important to have 10 those home based -- those employees home based 11 into Hydro, why it made that much of a 12 difference? 13 MS. LUTZ: 14 A. Why it made that much difference to the 15 calculation? 16 MR. O'BRIEN: 17 Q. Why you would do it that way? 18 MS. LUTZ: 19 A. Well, as you can see, there are a number of 20 ways. Even in this particular RFI, there's -- 21 this is three different ways that you could do 22 the admin fee. You could also apportion out 23 the people, similar to what Mr. Rolph had 24 suggested. 25 MR. O'BRIEN:</p>

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<p>1 Q. Right.</p> <p>2 MS. LUTZ:</p> <p>3 A. So there are a number of ways that it could be</p> <p>4 done. We just happen to have chosen the first</p> <p>5 method in scenario one and as I mentioned, we</p> <p>6 had an independent review done as well to</p> <p>7 assess, you know, what process we were using</p> <p>8 and is it reasonable and in line with other</p> <p>9 utilities and the answer was yes that it was,</p> <p>10 and similarly, when Mr. Rolph reviewed the</p> <p>11 process that we used, he also acknowledged</p> <p>12 that our process was reasonable.</p> <p>13 MR. O'BRIEN:</p> <p>14 Q. Now that's after the fact, I guess. My</p> <p>15 question to you now is did Hydro consider,</p> <p>16 when they were making the determination to</p> <p>17 have these employees either Hydro home based</p> <p>18 or Nalcor home based, which would be most cost</p> <p>19 effective for the regulated utility?</p> <p>20 MS. LUTZ:</p> <p>21 A. Well, we -- the employees who provide the</p> <p>22 service are in Hydro, so we -- that's where we</p> <p>23 counted them. So we didn't sit down and -- if</p> <p>24 that's what you're asking.</p> <p>25 MR. O'BRIEN:</p>	<p>1 Hydro or oil and gas or whatever, and the</p> <p>2 people who were in these business units like</p> <p>3 could be somebody on the help desk in the IS</p> <p>4 department, they're answering calls for many</p> <p>5 different people. So it's -- the nature of</p> <p>6 their work doesn't lend itself to being able</p> <p>7 to track their time individually. That's why</p> <p>8 they're in admin fee business unit.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. I understand the difference between the two</p> <p>11 sets. I guess if you're talking about someone</p> <p>12 at an IS desk or a help desk, what does it</p> <p>13 matter if they have an orange Nalcor hat on or</p> <p>14 a blue Hydro hat on?</p> <p>15 MS. LUTZ:</p> <p>16 A. Well, I guess they had a blue Hydro hat on.</p> <p>17 MR. O'BRIEN:</p> <p>18 Q. At the time?</p> <p>19 MS. LUTZ:</p> <p>20 A. At the time, yeah.</p> <p>21 MR. O'BRIEN:</p> <p>22 Q. Yeah, and I'm just wondering why that wasn't</p> <p>23 considered as a possible cost savings.</p> <p>24 MS. LUTZ:</p> <p>25 A. We didn't consider it. We didn't look at it</p>
<p>Page 90</p> <p>1 Q. Yeah.</p> <p>2 MS. LUTZ:</p> <p>3 A. Did we sit down and say if I move them here,</p> <p>4 if I move them there?</p> <p>5 MR. O'BRIEN:</p> <p>6 Q. Right.</p> <p>7 MS. LUTZ:</p> <p>8 A. No, we did not.</p> <p>9 MR. O'BRIEN:</p> <p>10 Q. Because there were other areas where you, back</p> <p>11 in 2008, considered well this is where we can</p> <p>12 make some changes and save some -- potentially</p> <p>13 have a cost savings for Hydro and you had some</p> <p>14 24 employees moved out. But this particular</p> <p>15 scenario wasn't considered?</p> <p>16 MS. LUTZ:</p> <p>17 A. No, and I don't think those two situations are</p> <p>18 exactly the same because those people who</p> <p>19 moved were people who are not, by definition,</p> <p>20 in a business unit that lends itself to the</p> <p>21 administration fee because they're able to</p> <p>22 track their time and charge their hours to the</p> <p>23 work activity. So the people who moved were</p> <p>24 the ones who were going to charge their time</p> <p>25 and share it among the lines of business,</p>	<p>Page 92</p> <p>1 that way when we set up this process. And</p> <p>2 then we did continue on to find -- to have it</p> <p>3 independently assessed whether or not the</p> <p>4 process that we used was reasonable and the</p> <p>5 result was yes, it is reasonable.</p> <p>6 MR. O'BRIEN:</p> <p>7 Q. And just before I conclude, I just had a</p> <p>8 couple of questions. I wanted to return to</p> <p>9 the 2015 cost recovery application. Just on</p> <p>10 that, some clarification, and we did discuss</p> <p>11 this a little bit today, but with respect to</p> <p>12 the five million dollar adjustment, in terms</p> <p>13 of the capital assets for that particular</p> <p>14 year, and that includes the Holyrood CT and</p> <p>15 other -- does that include other projects as</p> <p>16 well for 2015?</p> <p>17 MS. RUSSELL:</p> <p>18 A. Yes.</p> <p>19 MR. O'BRIEN:</p> <p>20 Q. And can you confirm just like you had</p> <p>21 indicated earlier, Ms. Lutz, you can confirm</p> <p>22 about 2014, what projects. Can you do the</p> <p>23 same confirmation as to what projects were</p> <p>24 included in that 5.1 million, in terms of</p> <p>25 revenue?</p>

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1 MS. LUTZ:
 2 A. Yes.
 3 MR. O'BRIEN:
 4 Q. Okay.
 5 MS. GLYNN:
 6 Q. Noted on the record.
 7 MR. O'BRIEN:
 8 Q. Now, and Ms. Russell, you did indicate that
 9 for 2016 then, and I guess to backtrack, the
 10 idea here is with respect to the CT that it's
 11 already included in the rate base now for
 12 2015, correct?
 13 MS. RUSSELL:
 14 A. It's already in the -
 15 MR. O'BRIEN:
 16 Q. It's included in the rate base calculations
 17 for 2015?
 18 MS. RUSSELL:
 19 A. Yes.
 20 MR. O'BRIEN:
 21 Q. And with the cost deferral application, what's
 22 your -- in order to deal with that, you are
 23 suggesting an adjustment of the -
 24 MS. RUSSELL:
 25 A. Correct.

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1 MR. O'BRIEN:
 2 Q. - of the 5.1 million that's CT related and
 3 other project related, but that's included in
 4 the 5.1 million?
 5 MS. RUSSELL:
 6 A. Correct, just for the 2015 cost deferral.
 7 MR. O'BRIEN:
 8 Q. Just for the 2015. What's the normal approach
 9 to calculating a rate base for a test year?
 10 Would you normally include in that rate base
 11 something that's not used and useable at the
 12 beginning of the year or expected to used and
 13 useable at the beginning of the year? How
 14 would you normally calculate that rate base
 15 for a test year?
 16 MS. LUTZ:
 17 A. Could you say that again?
 18 MR. O'BRIEN:
 19 Q. So for the 2015 test year, for any test year,
 20 would you normally include in that test year
 21 in the rate base an asset that's not used and
 22 useable at the beginning of the year?
 23 MS. LUTZ:
 24 A. At the time that we prepared it, we
 25 anticipated that it would have been in service

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1 at the end of 2014.
 2 MR. O'BRIEN:
 3 Q. Okay, and the fact that it's not in service,
 4 why didn't you anticipate taking it out of
 5 service or taking it out of the rate base
 6 because it wasn't in service?
 7 MS. LUTZ:
 8 A. By the time -- the application had been filed
 9 by the time that we knew it wasn't going to be
 10 in service.
 11 MR. O'BRIEN:
 12 Q. Or making an amendment when you knew it wasn't
 13 in service to the rate base? Why didn't you
 14 consider that?
 15 MS. RUSSELL:
 16 A. So we had it -- it was in the -- when we did
 17 the amendment, it was in there because at the
 18 time, we anticipated it was going to be in
 19 service at the end of 2014. And then it's
 20 since been in 2015 before it came into
 21 service. So again, it goes back to just the
 22 timing of where we are in this hearing and
 23 typically a test year is done on the forecast
 24 basis and just because we are dealing with a
 25 2015 cost deferral on that, so for 2015

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1 specifically, separate from setting rates
 2 going forward. So we put forward the
 3 adjustment to just 2015, but that it should be
 4 included in the 2016.
 5 MR. O'BRIEN:
 6 Q. So if you're including it in the 2016 test
 7 year, I just want to be certain in terms of
 8 it's included in the revenue -- sorry, in the
 9 rate base for 2016, but you're not providing -
 10 - why wouldn't you provide costs for 2016 in
 11 the rest of the revenue -- sorry, rate base
 12 and revenue requirement for 2016 as if it's a
 13 test year?
 14 MS. RUSSELL:
 15 A. I'm not sure I understand your question.
 16 MR. O'BRIEN:
 17 Q. Well, this is just one -- you're asking now
 18 really for one adjustment to the 2016 year.
 19 MS. RUSSELL:
 20 A. To the 2015.
 21 MR. O'BRIEN:
 22 Q. Well, to the 2016 really because you're saying
 23 it's going to be in -
 24 MS. RUSSELL:
 25 A. We're saying that it's in the 2015 test year,

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<p>1 so we're putting forward the 2015 test year as 2 the test year. We're not asking for any 3 adjustments like - 4 MR. O'BRIEN: 5 Q. But are you taking it out with that adjustment 6 of the 5.1? 7 MS. RUSSELL: 8 A. We're only taking it out of the 2015 cost 9 deferral. The rates that -- the test year as 10 we've done, as we've gone through this 11 hearing, includes that amount. So we're not 12 recommending any different adjustment to 2016. 13 It's the test year as we've - 14 MR. O'BRIEN: 15 Q. It's just for the cost deferral that you're 16 recommending an adjustment? 17 MS. RUSSELL: 18 A. Correct, yeah. There is no adjust -- yeah. 19 MR. O'BRIEN: 20 Q. Okay. And you're not intending to put forth 21 any further - 22 MS. RUSSELL: 23 A. No. 24 MR. O'BRIEN: 25 Q. - costs for 2016 to assess it?</p>	<p>1 understanding is yes, you would be accounting 2 for that in 2016. 3 MR. O'BRIEN: 4 Q. Do it all in one year. Would there be any 5 benefit to not having 100 percent recovery in 6 the 2015 and having a lower -- and then if you 7 had to adjust in 2016, does that benefit Hydro 8 at all? Would there be a lower adjustment in 9 2016? 10 MR. PELLEY: 11 A. I'm not sure I follow. 12 MR. O'BRIEN: 13 Q. If there's not 100 percent recovery, let's 14 assume that's the case - 15 MR. PELLEY: 16 A. Sure. 17 MR. O'BRIEN: 18 Q. - for the 2015. You've already booked 2014 at 19 100 percent recovery for the 2014 revenue 20 requirement. For 2015, if you didn't book 100 21 and say you booked 70 or 50 or whatever, one 22 of those figures that we had in the table you 23 provided, if we booked one at a lower 24 percentage, all right, and you actually got an 25 order that gave you that lower percentage, you</p>
<p>Page 98</p> <p>1 MS. RUSSELL: 2 A. To assess the 5 - 3 MR. O'BRIEN: 4 Q. The rate base and -- I mean, you're not doing 5 a 2016 test year? 6 MS. RUSSELL: 7 A. No, not anticipating, no. 8 MR. O'BRIEN: 9 Q. And I wonder, there's one further question for 10 you, Mr. Pelley. I think you had indicated, 11 and I guess for the panel, you had indicated 12 in terms of the accounting assessment of the 13 cost deferral -- I guess how you would account 14 for in 2016 if there were -- if there were 15 disallowances for the 2015 cost recovery and 16 2014 cost recovery, you would account for them 17 in 2016. Is that right, completely in 2016? 18 MR. PELLEY: 19 A. That would be correct, yes. If a ruling was 20 to come in 2016 on both the 2014 -- proposed 21 2014 deferrals and the 2015 deferrals. 22 MR. O'BRIEN: 23 Q. Okay. 24 MR. PELLEY: 25 A. Subject to me confirming that, my</p>	<p>Page 100</p> <p>1 wouldn't have to book a loss then in 2016, 2 would you? 3 MR. PELLEY: 4 A. No. 5 MR. O'BRIEN: 6 Q. Okay. Would there be a benefit to doing it 7 that way over another or the way you're 8 proposing? 9 MS. RUSSELL: 10 A. No. 11 MR. O'BRIEN: 12 Q. And why is that? 13 MS. RUSSELL: 14 A. Hydro feels -- Hydro has put forward the 15 amount that it feels is reasonable to earn a 16 return in 2015, which is the cost deferral 17 application and it is not recommending any 18 adjustments to that. It would earn below the 19 return, the rate of return on rate base if you 20 did that for 2015. 21 MR. O'BRIEN: 22 Q. No, I understand what you're saying. 23 MS. RUSSELL: 24 A. Yeah. 25 MR. O'BRIEN:</p>

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<p>1 Q. And I understand the premise behind the 2 application, but I guess my point is that if 3 you book 100 percent and ultimately the order 4 only gives you 70, you have to book the loss 5 then in 2016. Why not book 70 now and not 6 have to book that loss? 7 MS. RUSSELL: 8 A. Because we're putting forward the 100 percent 9 to earn the reasonable return in 2015. So 10 Hydro feels that's the right number for 2015. 11 MR. O'BRIEN: 12 Q. Okay. So there's no assessment of whether or 13 not there's a risk of having to book loss in 14 2016? 15 MS. RUSSELL: 16 A. No, we would -- once we had a Board order, we 17 would determine whatever the Board order and 18 we would, at that point in time, when we had 19 the Board order, make any adjustments. 20 MR. O'BRIEN: 21 Q. Okay. I don't have any further questions for 22 this panel. 23 CHAIRMAN: 24 Q. Mr. Johnson. 25 CROSS-EXAMINATION BY THOMAS JOHNSON, Q.C.</p>	<p>1 that amount in. 2 JOHNSON, Q.C.: 3 Q. But that's abnormal, isn't it, from the point 4 of view of how regulation is supposed to work? 5 You're supposed to end up with -- at the end 6 of 2014, you ask what's used and useful and 7 then that starts an opening balance for 2015? 8 Isn't that how it's supposed to operate? 9 MS. RUSSELL: 10 A. Correct. We would do that when the -- at the 11 end of the year, you would do your rate base. 12 JOHNSON, Q.C.: 13 Q. At the end of the year, yes, but we're 14 departing from a normal rule here, aren't we? 15 Is Hydro looking to depart from a normal rule 16 as to what's counted in rate base for 2015 in 17 relation to this CT? 18 MS. LUTZ: 19 A. I don't -- I think in terms of the test year, 20 we followed normal practice. It just so 21 happened that we filed 2014 test year and 2015 22 test year at the same time. So we had to make 23 some assumptions and one of those assumptions 24 was that the CT would have been in service at 25 the end of December. So we included that in</p>
<p>Page 102</p> <p>1 JOHNSON, Q.C.: 2 Q. Thank you, Mr. Chairman. Panel, just to 3 follow up on that discussion you were having 4 with my friend, Mr. O'Brien. I wasn't sure I 5 got the answer to the question. Mr. O'Brien 6 said look, the CT was not in fact in service, 7 was not in fact used and useful at the 8 beginning of 2015, right? And he said what's 9 the normal approach as to whether it would be 10 included in rate base, and then what I heard 11 was -- I don't know if I got an answer to that 12 question because what I heard was "well, it 13 was anticipated when we were filing the 14 amended application that it was going to be in 15 rate base" and I understand that, and then it 16 didn't end up being used and useful, but 17 what's the answer to the question of what 18 would be the normal approach? 19 MS. RUSSELL: 20 A. For 2015? 21 JOHNSON, Q.C.: 22 Q. Yeah. 23 MS. RUSSELL: 24 A. So 2015, we would put forward our test year 25 number which has it in and then we would leave</p>	<p>Page 104</p> <p>1 our rate base for the full year for 2015. So, 2 the only exception I could think here is for 3 the purpose of the cost deferral application 4 the 2015 cost number has been adjusted for the 5 fact that the CT had not been in service for 6 all of 2014 -- sorry, for all of 2015. 7 JOHNSON, Q.C.: 8 Q. So when you filed the amended application in 9 November of 2014, had you known then that it 10 wouldn't have been in service at the end of 11 the year, would your application have been any 12 different? 13 MS. RUSSELL: 14 A. Would it have been different? 15 MS. LUTZ: 16 A. In November? 17 JOHNSON, Q.C.: 18 Q. Yeah. 19 MS. LUTZ: 20 A. I think we had some testimony earlier from Mr. 21 Henderson as well about the time that it takes 22 to prepare the application. So we had already 23 had the application in process at that point 24 in time. 25 JOHNSON, Q.C.:</p>

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<p>1 Q. I guess what I'm asking though is when the 2 application was getting screwed together for 3 filing in November, had Hydro known that this 4 CT is not going to be in service at the end of 5 2014, would you have looked for another 6 regulatory treatment of the CT in 2015? 7 (10:45 a.m.) 8 MS. RUSSELL: 9 A. At the time we did that, we would have been 10 under -- we would have assumed we would have 11 had an order and that rates would have been in 12 place sometime during 2015. So then, no, we 13 wouldn't. The differences here is that rates 14 are in place will start in 2016. So we 15 believe they should be recovered. 16 JOHNSON, Q.C.: 17 Q. Okay. Just start off then, Ms. Russell, you 18 indicated that you started in your current 19 position in the beginning of 2014, in January? 20 MS. RUSSELL: 21 A. Yes. 22 JOHNSON, Q.C.: 23 Q. And I take it up until the very recent 24 appointment of Mr. MacIsaac as president of 25 Hydro, you would have reported -- to whom you</p>	<p>1 responsibility for finance for Hydro, doesn't 2 he? 3 MS. RUSSELL: 4 A. He has responsibility for the finance for all 5 of Nalcor and my accountability would be 6 dealing specifically with the Hydro piece of 7 that. 8 JOHNSON, Q.C.: 9 Q. Okay. And what level of interaction did you 10 have with Mr. Sturge when you came into the 11 role in 2014 in your role as the general 12 manager? 13 MS. RUSSELL: 14 A. So when I first came into the role, every -- 15 and since then and every week since then, 16 every Monday we'll get together and discuss, 17 go through any potential -- any issues, 18 updates on things for Hydro we'll go through 19 and then throughout, if there's any particular 20 things that would be discussed or updates I 21 would give him with respect to Hydro issues, 22 that could happen in separate meetings. So 23 he's very available and we do go back and 24 forth on Hydro issues. 25 JOHNSON, Q.C.:</p>
<p>1 now report in this new role as president, but 2 up until that, you reported to the Vice- 3 President of Finance and CFO, Mr. Sturge? Is 4 that right? 5 MS. RUSSELL: 6 A. Yes. 7 JOHNSON, Q.C.: 8 Q. Okay. And Mr. Sturge has been the Vice- 9 President of Finance and CFO for a number of 10 years I take it? 11 MS. RUSSELL: 12 A. Yes. 13 JOHNSON, Q.C.: 14 Q. And why isn't he testifying in this 15 proceeding, given he's the top of the food 16 chain in terms of finance and CFO? 17 MS. RUSSELL: 18 A. Well, I believe that when we looked at the 19 issues for this GRA, my accountability is for 20 the finance and regulatory roles for Hydro and 21 when we were going through the witness list, 22 this panel would be able to answer the 23 questions on that. 24 JOHNSON, Q.C.: 25 Q. But you report to him and he has ultimate</p>	<p>1 Q. So you meet with Mr. Sturge every Monday? 2 MS. RUSSELL: 3 A. Yes, but more than just Monday. 4 JOHNSON, Q.C.: 5 Q. Yes. 6 MS. RUSSELL: 7 A. Like Monday is the set meeting, but throughout 8 the week, I probably talk to Mr. Sturge every 9 day. 10 JOHNSON, Q.C.: 11 Q. Right, and these scheduled meetings on Monday, 12 who -- and I'm referring now to the scheduled 13 ones. 14 MS. RUSSELL: 15 A. Yes. 16 JOHNSON, Q.C.: 17 Q. Who sits in on those? 18 MS. RUSSELL: 19 A. Well, he would have all his direct reports. 20 JOHNSON, Q.C.: 21 Q. Okay. And who would they be? 22 MS. RUSSELL: 23 A. It would be the general manager of finance for 24 Nalcor, the general manager of finance for the 25 Lower Churchill Project, and the general</p>

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<p>1 manager of commercial and other treasury and 2 that individual. 3 JOHNSON, Q.C.: 4 Q. So how many people in all at these meetings? 5 MS. RUSSELL: 6 A. There would be five in total, four plus Mr. 7 Sturge. 8 JOHNSON, Q.C.: 9 Q. Okay. How long do these meetings typically 10 last? 11 MS. RUSSELL: 12 A. They're just an hour. 13 JOHNSON, Q.C.: 14 Q. One hour? 15 MS. RUSSELL: 16 A. Yes. 17 JOHNSON, Q.C.: 18 Q. And they're not all dedicated to Hydro 19 obviously? 20 MS. RUSSELL: 21 A. No, they're not all dedicated to Hydro, but I 22 would say that in most of the meetings, Hydro 23 takes up a lot of the time. 24 JOHNSON, Q.C.: 25 Q. And so what sort of issues get discussed at</p>	<p>1 the regulatory applications we would discuss. 2 JOHNSON, Q.C.: 3 Q. Okay. And I take it Mr. Sturge doesn't -- 4 he's not a member of the Hydro leadership 5 team? 6 MS. RUSSELL: 7 A. No. 8 JOHNSON, Q.C.: 9 Q. You're his designate in sitting in on those 10 meetings? Would that be a fair 11 characterization? 12 MS. RUSSELL: 13 A. That would be fair, yes. 14 JOHNSON, Q.C.: 15 Q. Okay. And so how often are these Hydro 16 leadership meetings? 17 MS. RUSSELL: 18 A. The Hydro leadership meetings are once a 19 month. 20 JOHNSON, Q.C.: 21 Q. They're once a month? 22 MS. RUSSELL: 23 A. Correct. 24 JOHNSON, Q.C.: 25 Q. Okay. And how long do these last?</p>
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<p>1 these regular meetings? 2 MS. RUSSELL: 3 A. So we give -- I would provide him with an 4 update as to what are all the items that the 5 groups, the finance, regulatory and supply 6 chain, the updates on what those groups are 7 working on, what the future -- what the 8 upcoming items are of importance to talk 9 about, and any issues, and if I need to, I 10 will bring to him and then usually any 11 particular issues that require more than just 12 the update, because it's only an hour meeting, 13 I would indicate to him that we'd have to talk 14 about it after the meeting separately, just 15 him and I, about it. 16 JOHNSON, Q.C.: 17 Q. What would be an example of an issue that 18 you'd have to bring to him for some - 19 MS. RUSSELL: 20 A. Separately? 21 JOHNSON, Q.C.: 22 Q. Yeah. 23 MS. RUSSELL: 24 A. We would talk about the GRA. We would talk 25 about cost deferral applications. A lot of</p>	<p>1 MS. RUSSELL: 2 A. They last upwards of four hours. 3 JOHNSON, Q.C.: 4 Q. Okay. Is there a set day in the month, last 5 Wednesday of the month or something like that? 6 MS. RUSSELL: 7 A. It is a set day of the month, usually around 8 the middle of the month. 9 JOHNSON, Q.C.: 10 Q. Okay. And so you attend, you provide a report 11 then from your group at that meeting, do you? 12 MS. RUSSELL: 13 A. Correct. 14 JOHNSON, Q.C.: 15 Q. Okay. And then what's the reporting 16 afterwards back to Mr. Sturge following the 17 Hydro leadership meetings? 18 MS. RUSSELL: 19 A. Well, he would be aware -- anything that I was 20 bringing forward, he would already be aware of 21 those things because we would talk on a 22 regular basis, as would Mr. Henderson, because 23 I would have informed him of the items that I 24 was bringing forward. So anything that I'm 25 bringing forward in that meeting, Mr.</p>

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<p>1 Henderson, who is in there, would already be 2 aware of those items and it would be for more 3 the information of the rest of the members of 4 the Hydro leadership team. 5 JOHNSON, Q.C.: 6 Q. I see. Now you indicated that you dual 7 report. 8 MS. RUSSELL: 9 A. Correct. 10 JOHNSON, Q.C.: 11 Q. So in addition to reporting to Mr. Sturge, you 12 reported to Mr. Henderson when he was in that 13 role? 14 MS. RUSSELL: 15 A. Yes. 16 JOHNSON, Q.C.: 17 Q. And how is the reporting different in terms of 18 the issues that are dealt with with Mr. 19 Henderson versus Mr. Sturge? 20 MS. RUSSELL: 21 A. A lot of the issues are the same. The issues 22 that impact Hydro impact both Mr. Sturge and 23 Mr. Henderson, so we would talk about a lot of 24 the same issues, but I would go into probably 25 more detail with Mr. Henderson with respect to</p>	<p>1 this position, you indicate that was a new 2 position? 3 MS. RUSSELL: 4 A. Correct. 5 JOHNSON, Q.C.: 6 Q. And so who was having the -- who was 7 performing the equivalent role that you 8 started performing before that? 9 MS. RUSSELL: 10 A. So before that, there was a general manager of 11 finance and corporate services, that role, and 12 that role took in Hydro as well, and then 13 there was also a manager -- and that person 14 reported to Mr. Sturge. 15 JOHNSON, Q.C.: 16 Q. Okay. 17 MS. RUSSELL: 18 A. And then there was also the manager of rates 19 and regulatory at that point in time, prior to 20 me, would have reported directly to Mr. 21 Sturge. So those people would have been -- he 22 would have been directly involved with those 23 people. 24 JOHNSON, Q.C.: 25 Q. So who are these individuals?</p>
<p>Page 114</p> <p>1 costs that Hydro was incurring, if we were 2 talking about specific costs. 3 JOHNSON, Q.C.: 4 Q. I see, I see. So in 2014 and 2015, would you 5 have spent around the same amount of time 6 dealing with Mr. Sturge in the communications 7 and meetings with him? Were both of those 8 years pretty equivalent? 9 MS. RUSSELL: 10 A. I would say yes. 11 JOHNSON, Q.C.: 12 Q. Okay. Now we saw yesterday in PUB, Revision 13 5, PUB-228, Revision 5, that there was, you 14 know, very few hours that are being charged by 15 Mr. Sturge to Hydro, I mean, next to nothing. 16 I mean, 2012, 48 -- I'm just taking from 2012, 17 48 hours. 2013, 60 hours. 2014, it steps up 18 to 300 and forecast 2015 is higher again. And 19 do you know how Mr. Sturge records his time? 20 Do you have any insight on that? 21 MS. RUSSELL: 22 A. I'm not aware of exactly how Mr. Sturge 23 records his time. 24 JOHNSON, Q.C.: 25 Q. So before you came along in January of 2014 in</p>	<p>Page 116</p> <p>1 MS. RUSSELL: 2 A. So prior to my time, that person was Kent 3 Legge. He's no longer with Nalcor, but he was 4 in that role. And then it would have been the 5 manager of rates and regulatory who I believe 6 at that time was Mr. Harris, Dave Harris. 7 JOHNSON, Q.C.: 8 Q. Okay. And in terms of the -- because there's 9 only 48 hours and 60 hours reported for 2012 10 and 2013, I'm wondering would it be possible 11 to get the actual descriptions of what made up 12 these charges in 2012 and 2013? Could you 13 undertake to provide those? 14 MS. RUSSELL: 15 A. To get the descriptions? 16 JOHNSON, Q.C.: 17 Q. Yeah, of what actually -- how did we arrive at 18 the 48 hours and the 60? What was it 19 comprised of? 20 MS. RUSSELL: 21 A. Okay. 22 JOHNSON, Q.C.: 23 Q. Okay. 24 MS. GLYNN: 25 Q. Noted on the record.</p>

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<p>1 JOHNSON, Q.C.:</p> <p>2 Q. Okay. And in respect of 2014 and 2015, these</p> <p>3 are -- as we're seeing here, I take it these</p> <p>4 are forecasts?</p> <p>5 MS. RUSSELL:</p> <p>6 A. In the Rev 5?</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. Yes.</p> <p>9 MS. RUSSELL:</p> <p>10 A. Yes.</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. Okay. And do we know what the actuals were</p> <p>13 for 2014 and 2015 to date?</p> <p>14 MS. RUSSELL:</p> <p>15 A. I think Ms. Lutz can -</p> <p>16 MS. LUTZ:</p> <p>17 A. Yes, I do know that.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Okay.</p> <p>20 MS. LUTZ:</p> <p>21 A. I just need a second. So was your question</p> <p>22 with regards to 2014 actual?</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Yes, and 2015 once you get an opportunity.</p> <p>25 MS. LUTZ:</p>	<p>1 CHAIRMAN:</p> <p>2 Q. So Mr. Johnson.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Thank you, sir. So in terms of where we left</p> <p>5 off, you were talking about the actual hours</p> <p>6 of the position of VP Finance and CFO in 2014</p> <p>7 and the actual hours, just for the record, at</p> <p>8 page 70 of the GT report, they're 258 hours.</p> <p>9 Of course, we don't have them for 2015. I</p> <p>10 wonder could we have an undertaking to provide</p> <p>11 what those actual hours are to date, if we</p> <p>12 could?</p> <p>13 MS. LUTZ:</p> <p>14 A. I do have them here.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. You do?</p> <p>17 MS. LUTZ:</p> <p>18 A. Yes.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Okay.</p> <p>21 MS. LUTZ:</p> <p>22 A. For Mr. Sturge, year to date, 113.5</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Pardon me?</p> <p>25 MS. LUTZ:</p>
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<p>1 A. Okay. So the 2014 actual was 32 -- sorry, it</p> <p>2 was 4,090 and that is detailed in the Grant</p> <p>3 Thornton report.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. 4,090 hours?</p> <p>6 MS. LUTZ:</p> <p>7 A. Correct. Are you referring to Mr. Sturge</p> <p>8 himself?</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. I'm sorry, yes, Mr. -- I'm just referring to</p> <p>11 VP of Finance and CFO.</p> <p>12 MS. LUTZ:</p> <p>13 A. Oh, sorry.</p> <p>14 CHAIRMAN:</p> <p>15 Q. Stopped a lot of people.</p> <p>16 MS. LUTZ:</p> <p>17 A. Okay, just let me -- it's in the Grant</p> <p>18 Thornton report as well.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. We're close enough to the break now, Mr.</p> <p>21 Chairman, if we wanted.</p> <p>22 CHAIRMAN:</p> <p>23 Q. Sure.</p> <p>24 (BREAK - 10:57 a.m.)</p> <p>25 (RESUME - 11:35 a.m.)</p>	<p>1 A. 113.5</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. 113.5?</p> <p>4 MS. LUTZ:</p> <p>5 A. Yeah.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. And in terms of your interaction with Mr.</p> <p>8 Sturge in 2015, Ms. Lutz, would you have</p> <p>9 direct involvement with Mr. Sturge or would it</p> <p>10 just be Ms. Russell?</p> <p>11 MS. LUTZ:</p> <p>12 A. Ms. Russell. Could I correct what I -- I was</p> <p>13 looking in the wrong column, sorry.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. Okay.</p> <p>16 MS. LUTZ:</p> <p>17 A. For Mr. Sturge's hours, sorry, it's 161.5.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. 161.5?</p> <p>20 MS. LUTZ:</p> <p>21 A. Yes.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. Okay. And would it be -- 2015, would that</p> <p>24 have been a particularly busy year, Ms.</p> <p>25 Russell, in terms of your interactions with</p>

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<p>1 Mr. Sturge?</p> <p>2 MS. RUSSELL:</p> <p>3 A. Well, as I said, from '14 and '15, they've</p> <p>4 been the same level of interaction for me.</p> <p>5 Like I wouldn't -- since I've been in this</p> <p>6 role, it's been the same amount of interaction</p> <p>7 for me with Mr. Sturge.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. So you'd both -- you'd characterize both years</p> <p>10 as fairly busy?</p> <p>11 MS. RUSSELL:</p> <p>12 A. They've been busy years, yes.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. Okay, okay. And is any of it outage inquiry</p> <p>15 related or, you know, what's been making it</p> <p>16 busy specifically, if you could provide us a</p> <p>17 flavour for that?</p> <p>18 MS. RUSSELL:</p> <p>19 A. Primarily the issues that I would be</p> <p>20 discussing with Mr. Sturge would be GRA</p> <p>21 related items, the amended application,</p> <p>22 interim rates, those -- Hydro's financial</p> <p>23 results, quarterly financial results, budgets,</p> <p>24 that type of thing.</p> <p>25 JOHNSON, Q.C.:</p>	<p>1 and revenue deficiency recovery. And so, do I</p> <p>2 understand, I mean, we're not -- we don't see</p> <p>3 operation, operating costs under your bullets</p> <p>4 and do I understand from the discussion that</p> <p>5 you've been having with Mr. O'Brien that</p> <p>6 you're not the panel -- if the Board is</p> <p>7 looking for the reasonableness of Hydro's</p> <p>8 operating costs, you're not the panel to look</p> <p>9 to? That was the responsibility of Mr.</p> <p>10 Henderson's panel, was it?</p> <p>11 MS. RUSSELL:</p> <p>12 A. Correct, the operating -- most of those</p> <p>13 discussions would have been in Section 2.4 of</p> <p>14 Section 2 of the evidence.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. Right, okay.</p> <p>17 MS. RUSSELL:</p> <p>18 A. Which was the operations.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Yes, okay. And you talked about your role is</p> <p>21 sort of to bring information together?</p> <p>22 MS. RUSSELL:</p> <p>23 A. Correct.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. And then somebody else approves it?</p>
<p>Page 122</p> <p>1 Q. So in a non-GRA year, your expectation would</p> <p>2 be that there'd be less need for interaction</p> <p>3 with Mr. Sturge? Would that be right?</p> <p>4 MS. RUSSELL:</p> <p>5 A. Well, I think now just due to the change in</p> <p>6 the reporting structure now.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. Right.</p> <p>9 MS. RUSSELL:</p> <p>10 A. Like where Mr. MacIsaac is there and I don't</p> <p>11 report to Mr. Sturge any more, so with respect</p> <p>12 to Mr. Sturge, that may change, but even with</p> <p>13 Mr. MacIsaac, there are still things I would</p> <p>14 still discuss with Mr. Sturge as CFO.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. I see. So if I could just direct the panel to</p> <p>17 the August 28th, 2015 GRA witness and topic</p> <p>18 list for a moment? I was staring at my dead</p> <p>19 screen. Anyway, sorry about that. So we see</p> <p>20 under the Finance Panel, the three of you, and</p> <p>21 we see I guess the seven bullet points:</p> <p>22 calculation of rate base, return on rate base,</p> <p>23 debt guarantee fee, deferral account</p> <p>24 proposals, five-year plan, GRA regulatory</p> <p>25 costs, intercompany transactions methodology</p>	<p>Page 124</p> <p>1 MS. RUSSELL:</p> <p>2 A. We bring information together. We facilitate</p> <p>3 the discussions. We do, you know, bring --</p> <p>4 look at the variances, provide those, but at</p> <p>5 the end of the day when it comes to is a</p> <p>6 certain expenditure going to get spent,</p> <p>7 anything above say budgets, that would be Mr.</p> <p>8 Henderson's call.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Right, okay. Let me just turn to PUB-NLH-229</p> <p>11 for a moment, Attachment 1, page 3 of 19.</p> <p>12 This is a -- there's a position description</p> <p>13 here. Now this is the general manager of</p> <p>14 finance and corporate services. So this is</p> <p>15 not how you're described any more, right?</p> <p>16 MS. RUSSELL:</p> <p>17 A. That's not my position and this, even for Mr.</p> <p>18 Sturge's, this would be an older job</p> <p>19 description now because it would have been</p> <p>20 before some of the restructuring he did.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. I see. So in terms of some of the line items</p> <p>23 here for this position, are any of these still</p> <p>24 your responsibilities, in terms of external</p> <p>25 and internal financial reporting? Would that</p>

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<p>1 be yours?</p> <p>2 MS. RUSSELL:</p> <p>3 A. Yes, so I do have -- we will -- I think</p> <p>4 there's an undertaking for my job description.</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. Yes.</p> <p>7 MS. RUSSELL:</p> <p>8 A. Just one moment, because I do have this here.</p> <p>9 So my job description in here says the general</p> <p>10 manager will ensure effective coordination and</p> <p>11 interface with Nalcor corporate finance team</p> <p>12 with respect to financial reporting,</p> <p>13 budgeting, forecasting, treasury, cash</p> <p>14 management, insurance, financial planning,</p> <p>15 information system, so some of those things</p> <p>16 would -</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. I see. This -- there's a line item in the</p> <p>19 previous position about business unit</p> <p>20 controllers and business unit support. That's</p> <p>21 not you?</p> <p>22 MS. RUSSELL:</p> <p>23 A. That's not in my current job description.</p> <p>24 That particular line isn't in my current job</p> <p>25 description.</p>	<p>1 through like the Hydro -- Mr. Henderson and -</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Okay. Is there anyone tasked in your</p> <p>4 department, I'm calling it your department,</p> <p>5 okay, finance, with any overall cost control</p> <p>6 responsibility in Hydro?</p> <p>7 MS. RUSSELL:</p> <p>8 A. Not for cost control for all of Hydro.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. For any of Hydro?</p> <p>11 MS. RUSSELL:</p> <p>12 A. We would just be looking at -- we would have</p> <p>13 to look at like the areas that our own</p> <p>14 departments.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. Yes.</p> <p>17 MS. RUSSELL:</p> <p>18 A. But other than that, every manager is</p> <p>19 responsible for the budget and explaining any</p> <p>20 variances.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. Okay. So there was discussion yesterday and</p> <p>23 it pertained to the number of business units,</p> <p>24 and I take it -- actually, before I go there</p> <p>25 actually, I want to revisit something with Ms.</p>
<p>Page 126</p> <p>1 JOHNSON, Q.C.:</p> <p>2 Q. Okay. Who looks after business unit</p> <p>3 controllers now?</p> <p>4 MS. RUSSELL:</p> <p>5 A. That is now under the general manager of</p> <p>6 finance for Nalcor.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. Okay.</p> <p>9 MS. RUSSELL:</p> <p>10 A. This position was split into a general manager</p> <p>11 of finance Hydro and a general manager of</p> <p>12 finance for Nalcor, and I guess -- I can't --</p> <p>13 I'm not sure what's in that person's job</p> <p>14 description, but that definitely would be what</p> <p>15 -- those positions report to him.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. So would that mean that business units from</p> <p>18 Hydro report to that individual? No?</p> <p>19 MS. RUSSELL:</p> <p>20 A. No.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. No, okay.</p> <p>23 MS. RUSSELL:</p> <p>24 A. No, business units like -- Hydro, all the</p> <p>25 costs for Hydro, from a -- would report up</p>	<p>Page 128</p> <p>1 Lutz first, and that was in relation to Mr.</p> <p>2 O'Brien was asking yesterday about the role</p> <p>3 that the finance department played in</p> <p>4 analysing and justifying requests for new</p> <p>5 FTES, okay, and you indicated that the finance</p> <p>6 department facilitates the presentation of the</p> <p>7 information for the decision making and then</p> <p>8 it was ultimately for Mr. Henderson to</p> <p>9 approve, right?</p> <p>10 MS. LUTZ:</p> <p>11 A. That's correct.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. And can you explain that facilitation role?</p> <p>14 What are we talking about here?</p> <p>15 MS. LUTZ:</p> <p>16 A. Yes, I can. So if it's a particular -- we</p> <p>17 have templates for budget presentations and</p> <p>18 one of the requirements in the template would</p> <p>19 be to outline your change in FTES, so by the</p> <p>20 number of FTES, which positions you're looking</p> <p>21 for and a rationale as to why, and also, we</p> <p>22 would look to the change in the salary costs</p> <p>23 and which piece is related to salary</p> <p>24 progression or the change due to the increase</p> <p>25 of FTES. So we would help to compile that</p>

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<p>1 information and that would be in the 2 presentation for Mr. Henderson. 3 JOHNSON, Q.C.: 4 Q. Okay. And does the finance department, do 5 they -- do you folks vet this information to 6 see if it meets a certain threshold of 7 explanation or justification? 8 MS. LUTZ: 9 A. Well, yes. Personally, I try to understand 10 what the request is and whether the rationale 11 is there to support it, but ultimately it 12 would be Mr. Henderson who in a lot of times, 13 particularly in the operations, he's more in 14 tune with the requirements and he's in a 15 better position to interpret the request and 16 he has dialogue with the managers in 17 operations. 18 JOHNSON, Q.C.: 19 Q. Is there any guidelines provided to the 20 business units, et cetera, when they're coming 21 forward with these requests to add additional 22 FTEs as to the type of justification that 23 would be required, the type of explanation, 24 you know, whether there's alternatives to 25 adding FTEs? Is there any guidance provided</p>	<p>1 again. 2 JOHNSON, Q.C.: 3 Q. And would someone from finance sit in on the 4 meetings where this is justified with Mr. 5 Henderson? 6 MS. RUSSELL: 7 A. So we would sit in on the original -- we would 8 sit in on the first meeting when everyone 9 presents. If there was a particular issue 10 with a particular area, say Holyrood or 11 something else, after that meeting, if there 12 were -- say Mr. Henderson had eight requests 13 for additional information, budget information 14 or things he wanted from -- that weren't in 15 that presentation, he may work offline with 16 that person without us, just to get to -- they 17 may work together just for him to understand 18 more the costs or if there was a particular 19 area he wanted more understanding in. They 20 may work like that. But then, we usually -- 21 there's a final meeting for the budget and 22 then we would get together and we would be in 23 that meeting and we would probably see the 24 outcome from that. But, more than likely they 25 may work together on that.</p>
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<p>1 in that regard? 2 MS. LUTZ: 3 A. There wouldn't be particular guidance, no, not 4 from finance. 5 (11:45 a.m.) 6 MS. RUSSELL: 7 A. But I would add to that that we would ask for 8 there to be justification for the number of 9 FTEs and if there were any reductions, like 10 offsets to those costs, like if you're adding 11 an FTE make sure you look at it to see did you 12 get any -- was there any -- is there any 13 potential savings in overtime or any other 14 related O&M costs to increasing an FTE or is 15 it strictly due to increase in workload. So 16 we would make -- we would give them -- there 17 might not be formal guidance but Carol Ann 18 does work with the business unit owners going 19 through those well in advance of when the 20 meeting is, and at the same time, in the 21 meetings, I have been in meetings where if Mr. 22 Henderson didn't feel the justification was 23 adequate enough or he may have extra 24 additional questions that he may want, then 25 they would go back and get that and come back</p>	<p>1 JOHNSON, Q.C.: 2 Q. I see, okay. So the way it's set up, I guess, 3 Mr. Henderson is the one who is, at the end of 4 the day, testing the justification? 5 MS. RUSSELL: 6 A. He ultimately is testing the justification of 7 an FTE against whether or not it's required 8 for the work plans that were put forward and 9 his work plan for Hydro for the operations 10 team, yes. 11 JOHNSON, Q.C.: 12 Q. And if we could turn to Undertaking 51, which 13 deals with FTE additions in 2014 and 2015? 14 And this was an undertaking asked by Ms. 15 Greene, I believe, to provide a breakdown by 16 position of additional FTEs included in the 17 2014 test year and the 2015 test year, and I 18 guess we see at the bottom here, the total net 19 FTE change in 2014, there was 52.4. 2015 20 there was a further 28. Is that right? Am I 21 reading that properly? 22 MS. LUTZ: 23 A. I believe so, yes. 24 JOHNSON, Q.C.: 25 Q. Okay. And so I notice that one of the</p>

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<p>1 positions, if you go into Table 3, Table 3 2 gives the FTE change from 2014 test year to 3 2015 test year, home based, and I notice two 4 new positions under the engineering and 5 operations group, cost controller. Are you 6 familiar with that position and what that 7 entails? 8 MS. LUTZ: 9 A. I'm not in detail, but I am familiar with the 10 position. 11 JOHNSON, Q.C.: 12 Q. Okay. What can you tell us about -- is it two 13 positions by the way? 14 MS. LUTZ: 15 A. Yes, actually yes. So there's two separate 16 positions. One would have been a cost 17 controller for TRO, which is one of the larger 18 areas of the operations division, and that 19 position would be accountable for the costs 20 control, both capital and operating, out in 21 TRO. So it's a significant portion of Hydro's 22 costs, so in terms of variance analysis that I 23 received in the financing office, I would 24 participate and get a lot of information from 25 that particular individual. So that's a new</p>	<p>1 the position titles are exactly the same now, 2 but it's a position down in the PETS group 3 that helps -- the position has been recently 4 filled and it helps monitor the cost in 5 capital and accruals and things like that. 6 JOHNSON, Q.C.: 7 Q. Okay. So the second one is cost control, 8 strictly capital? 9 MS. LUTZ: 10 A. Yes, in the project execution group. 11 JOHNSON, Q.C.: 12 Q. In project execution, okay. 13 MS. LUTZ: 14 A. Yeah. 15 JOHNSON, Q.C.: 16 Q. I wonder -- so you say that one was recently 17 filled. The other one, Mr. Maye, when did he 18 assume duties? 19 MS. LUTZ: 20 A. I believe it was in the fall. 21 JOHNSON, Q.C.: 22 Q. Of? 23 MS. LUTZ: 24 A. This year. 25 JOHNSON, Q.C.:</p>
<p>1 position. 2 JOHNSON, Q.C.: 3 Q. So who is that individual? 4 MS. LUTZ: 5 A. The individual's name is Derrick Maye. 6 JOHNSON, Q.C.: 7 Q. Pardon me? 8 MS. LUTZ: 9 A. Derrick Maye. 10 JOHNSON, Q.C.: 11 Q. Okay. And where does he work out of? 12 MS. LUTZ: 13 A. Bishops. 14 JOHNSON, Q.C.: 15 Q. Bishops. 16 MS. LUTZ: 17 A. Grand Falls -- no, Bishops. 18 JOHNSON, Q.C.: 19 Q. Okay. And the other position? 20 MS. LUTZ: 21 A. The other position, from my understanding, is 22 a cost controller, not -- certainly it's a 23 different -- they both have the same title and 24 I don't -- that may have been what they were 25 called in the budget ask and I'm not sure if</p>	<p>1 Q. Of this year, okay. 2 MS. LUTZ: 3 A. Yes. 4 JOHNSON, Q.C.: 5 Q. I wonder if you could undertake to provide the 6 job descriptions or position descriptions for 7 these? 8 MS. LUTZ: 9 A. Yes. 10 JOHNSON, Q.C.: 11 Q. Okay. 12 MS. GLYNN: 13 Q. Noted on the record. 14 JOHNSON, Q.C.: 15 Q. Okay. To your knowledge, and I'd ask the 16 panel more generally, is this the first time 17 that someone with a cost control designation 18 and focus has been placed within Hydro? I 19 mean, they've got a -- they seem -- I take 20 your point that they're referred to cost 21 controller and maybe that's not exactly their 22 description in their ultimate title, but is 23 this the first time you can think of where 24 there was like a dedicated person on cost? 25 MS. LUTZ:</p>

<p style="text-align: right;">Page 137</p> <p>1 A. No, we have -- in each region, we have a site 2 service administrator, a team lead site 3 services, and that particular individual is 4 basically the person in the operations group 5 that would -- they're actually based in the 6 region and they would participate in variance 7 analysis, compilation of budgets, forecasts, 8 that type of thing.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Yeah. And in the case of the individual at 11 the Bishop Falls operation, he would report to 12 Mr. Moore, would he?</p> <p>13 MS. LUTZ:</p> <p>14 A. Yes.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. Okay. And the other individual would probably 17 report to -- in PETS, would he have been on 18 the panel here previously? I forget his name 19 now.</p> <p>20 MS. LUTZ:</p> <p>21 A. Terry Gardiner.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. Yeah.</p> <p>24 MS. LUTZ:</p> <p>25 A. Yes, ultimately to Terry, I believe.</p>	<p style="text-align: right;">Page 139</p> <p>1 expected that there were some things out there 2 that we could be looking at in terms of 3 benchmarking, to get a sense of labour 4 productivity.</p> <p>5 And I'd just ask this panel, are any of 6 you aware of what measures are out there to 7 assess Hydro's labour productivity?</p> <p>8 MS. LUTZ:</p> <p>9 A. I'm not.</p> <p>10 MS. RUSSELL:</p> <p>11 A. I wouldn't be aware specifically.</p> <p>12 MR. PELLEY:</p> <p>13 A. From my perspective, that's outside my area.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. Okay. So if there was a request made say by 16 the person running operations, okay, that we 17 need to have some insights into labour 18 productivity, your department wouldn't be 19 involved in that. Who would be tasked with 20 that?</p> <p>21 MS. RUSSELL:</p> <p>22 A. On labour productivity, I'm -- I can't -- I'm 23 not for sure. I'm not sure if maybe the Vice 24 President of HR would be involved in some of 25 those discussions.</p>
<p style="text-align: right;">Page 138</p> <p>1 JOHNSON, Q.C.:</p> <p>2 Q. Okay, okay. So if you go back down through 3 this undertaking, if we could just start up to 4 the top for a bit, you know, and -- come down 5 a little bit further, Ms. Gray, sorry. So 6 here we see all of the various positions that 7 have been added, the change from 2013 actual 8 to 2014 test year. So that takes up the first 9 part and they're broken down by engineering 10 and operations and executive admin. So this 11 is where the Board could look to to see what's 12 been added and where they've been added.</p> <p>13 Now I asked when on -- about labour 14 productivity back on September 23rd. I asked 15 Mr. Henderson if he believed that Hydro had 16 good labour productivity and I just wanted to 17 put something to the panel for a moment, and 18 I'll give you the background on it, and just 19 for the record, I asked him that on page 153. 20 And he indicated that since he had been in the 21 role and he had, of course, started that role 22 I think in April 2013, but since he had been 23 in that role, he had not done any benchmarking 24 in that regard, and he told us that he wasn't 25 sure what benchmarking was out there, but he</p>	<p style="text-align: right;">Page 140</p> <p>1 JOHNSON, Q.C.:</p> <p>2 Q. Okay. I also discussed with Mr. Henderson on 3 that same date, a few pages later, page 156 4 for the record, that I had pointed out to him, 5 and of course, he was aware of the reference 6 that the Public Utilities Board back in 2001 7 in a GRA order, they had said that there was 8 an onus on Hydro to bring forward performance 9 measures which -- and I'm quoting -- "which 10 clearly demonstrate the efficiency of its 11 operations." Okay. And as a finance panel of 12 Hydro, do you -- what type of -- do you have 13 any knowledge of what type of performance 14 measures the Board should be looking to to 15 have an insight on the efficiency of Hydro's 16 operations? Would that be a fair question for 17 this panel?</p> <p>18 MS. RUSSELL:</p> <p>19 A. Well, we could only speak to -- like we put 20 forward the operating costs as one of the 21 measures to follow. From the financial point 22 of view, we have spoken to the metrics or the 23 things that we look at in finance, the 24 operating, the net income, the cash flow. 25 Those areas would be what we could, you know,</p>

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<p>1 speak about.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Yes, okay. So nothing outside of the ones</p> <p>4 you've addressed.</p> <p>5 MS. RUSSELL:</p> <p>6 A. Correct.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. And again, I guess sort of harkening back to</p> <p>9 some of the line of questioning that Mr.</p> <p>10 O'Brien discussed with you yesterday, and I</p> <p>11 just want to put it to you, we've heard</p> <p>12 evidence already, as I think you're aware,</p> <p>13 that salaries are up 43.3 percent on an</p> <p>14 inflation adjusted basis from '07 to 2015.</p> <p>15 Operations and maintenance costs are up about</p> <p>16 33 percent above inflation over that period.</p> <p>17 Finance department costs up 19.6 percent over</p> <p>18 that period. Corporate relations costs up</p> <p>19 35.2 percent. This is all on the record.</p> <p>20 And I just want to be clear from your</p> <p>21 panel, is your panel able to -- in a position</p> <p>22 to draw any conclusions about what these</p> <p>23 numbers say about efficiency at Hydro on the</p> <p>24 operating side?</p> <p>25 MS. RUSSELL:</p>	<p>1 MR. PELLEY:</p> <p>2 A. Yeah, treasury Hydro and treasury Nalcor.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Right. And in terms of the number of business</p> <p>5 units in regulated Hydro, how many are we</p> <p>6 talking about?</p> <p>7 MS. RUSSELL:</p> <p>8 A. I'll refer to Ms. Lutz.</p> <p>9 MS. LUTZ:</p> <p>10 A. I don't have the exact number, but there are</p> <p>11 quite a number.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Okay. I think there was some reference to</p> <p>14 nine or something yesterday in direct.</p> <p>15 MS. LUTZ:</p> <p>16 A. Oh, that wouldn't -- that would be</p> <p>17 departments.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Okay.</p> <p>20 MS. LUTZ:</p> <p>21 A. It wouldn't be business units.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. I see, okay.</p> <p>24 MS. LUTZ:</p> <p>25 A. There's multiple, multiple business units out</p>
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<p>1 A. No, not with respect to the operating costs.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. No. There was a discussion as well regarding</p> <p>4 business units and Ms. Russell, you indicated</p> <p>5 you own a budget for -- so would you have one</p> <p>6 business unit or three business units? How</p> <p>7 would that work?</p> <p>8 MS. RUSSELL:</p> <p>9 A. I have three different areas.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Yes. So, supply chain?</p> <p>12 MS. RUSSELL:</p> <p>13 A. Correct, and rates and regulatory</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. Rates.</p> <p>16 MS. RUSSELL:</p> <p>17 A. And the finance group.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. And finance, so that would be three business</p> <p>20 units. Mr. Pelley, you said you own one or</p> <p>21 two?</p> <p>22 MR. PELLEY:</p> <p>23 A. Two. One at -</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. One at Hydro?</p>	<p>1 in TRO, for instance.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Right. And each one of those business units,</p> <p>4 would that be right, my understanding, they</p> <p>5 would put forward a submission for FTEs and</p> <p>6 the like? Is that how that would work?</p> <p>7 (12:00 p.m.)</p> <p>8 MS. LUTZ:</p> <p>9 A. Yes. If we take TRO as an example, so there's</p> <p>10 many business units in TRO and they would --</p> <p>11 each manager of the particular business units</p> <p>12 would do their work force planning and</p> <p>13 determine any FTE requirements and then that</p> <p>14 would be consolidated up through the TRO</p> <p>15 budget. TRO budget then would be assessed in</p> <p>16 one of those meetings that I had mentioned.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. I see, I see. So the individual business unit</p> <p>19 owner, they're not there answering direct</p> <p>20 questions about their budget request? Someone</p> <p>21 above them is answering questions with Mr.</p> <p>22 Henderson? Would that be how it works?</p> <p>23 MS. LUTZ:</p> <p>24 A. For instance, in TRO's case, it would be Mr.</p> <p>25 Moore who would -</p>

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<p>1 JOHNSON, Q.C.:</p> <p>2 Q. In TRO, yes.</p> <p>3 MS. LUTZ:</p> <p>4 A. - take accountability for the budget that was</p> <p>5 put forth and that he is bringing forth for a</p> <p>6 particular year.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. I see, okay. So in terms of the -- is there -</p> <p>9 - do you know if on the record there is a</p> <p>10 listing of -- I looked last evening and I</p> <p>11 couldn't find a listing of the business units</p> <p>12 on the record. Are you aware where that might</p> <p>13 be on the record?</p> <p>14 MS. LUTZ:</p> <p>15 A. I don't think it is on the record actually.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Okay. Could we have an undertaking to provide</p> <p>18 what Hydro's business units are?</p> <p>19 MS. LUTZ:</p> <p>20 A. Yes.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. Okay.</p> <p>23 MS. GLYNN:</p> <p>24 Q. Noted on the record.</p> <p>25 JOHNSON, Q.C.:</p>	<p>1 those business units in his area before it got</p> <p>2 presented in that meeting with Mr. Henderson.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Okay. I just want to switch gears for a</p> <p>5 second and talk about the energy supply cost</p> <p>6 variance deferral, and in this regard, I want</p> <p>7 to bring you Dr. Wilson's evidence, page 38</p> <p>8 and the top of page 39.</p> <p>9 MS. GRAY:</p> <p>10 Q. Sorry, Mr. Johnson, can you repeat that again?</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. Sorry?</p> <p>13 MS. GRAY:</p> <p>14 Q. Can you say that again, please?</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. Dr. Wilson.</p> <p>17 MS. GRAY:</p> <p>18 Q. Okay.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Yes, here we go. So, here in Dr. Wilson's</p> <p>21 report, he's discussing the deferral of energy</p> <p>22 supply cost variances and he says in the -- he</p> <p>23 says "Hydro proposes a new deferral and</p> <p>24 recovery mechanism for energy supply cost</p> <p>25 variances" and he says "Hydro is proposing an</p>
<p>Page 146</p> <p>1 Q. Thank you. And I take it -- and if you can</p> <p>2 testify to this, good, but a person who's</p> <p>3 owning a business unit, they would not know</p> <p>4 necessarily what type of FTE requests that the</p> <p>5 business unit next to them might also be</p> <p>6 making at the same time, right?</p> <p>7 MS. LUTZ:</p> <p>8 A. That's possible.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. Yeah, okay.</p> <p>11 MS. RUSSELL:</p> <p>12 A. But in that case, that's where -- as she</p> <p>13 indicated, like all the business units, I</p> <p>14 guess, have an owner, like Mr. Moore would</p> <p>15 have -- let's just say there was a hundred,</p> <p>16 for arguments sake. Mr. Moore, as general</p> <p>17 manager of TRO, he might own let's say 30 of</p> <p>18 those, and so while you're correct that each</p> <p>19 individual of the 30 might not know what</p> <p>20 everybody is doing, the person out in that</p> <p>21 area, the cost controllers we'll say, I don't</p> <p>22 know the exact title, would pull all that</p> <p>23 information together for him for the 30, we'll</p> <p>24 say, for his group. Then he would be</p> <p>25 responsible for making sure and looking across</p>	<p>Page 148</p> <p>1 annual cost variance threshold of plus or</p> <p>2 minus 500,000 with variances up to that amount</p> <p>3 to be borne by Hydro and amounts in excess to</p> <p>4 be deferred in this account." And then he</p> <p>5 refers to the amended application and he notes</p> <p>6 that this deferral proposal differs from the</p> <p>7 original GRA.</p> <p>8 He goes on to say then in the paragraph</p> <p>9 under that, "under this new energy supply cost</p> <p>10 variance deferral, any increase or decrease in</p> <p>11 test year energy supply for the Island</p> <p>12 Interconnected system would be stabilized at a</p> <p>13 value calculated as the difference between the</p> <p>14 test year cost of that supply and the test</p> <p>15 year No. 6 fuel cost of supply." He notes</p> <p>16 that this deferral would cover both variations</p> <p>17 in quantity and variations in price, et</p> <p>18 cetera.</p> <p>19 Then he goes on to say "this would</p> <p>20 further shift business risk that Hydro now</p> <p>21 faces in planning for and acquiring needed</p> <p>22 power resources to Hydro's customers. When</p> <p>23 such risk shifting is permitted by regulators,</p> <p>24 it is appropriately accompanied by offsetting</p> <p>25 changes to the utility's allowed equity</p>

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<p>1 return."</p> <p>2 Then he says, and I'll bring you to this,</p> <p>3 "that would not occur if Hydro's equity return</p> <p>4 level is automatically set at the level of</p> <p>5 Newfoundland Power's allowed equity return"</p> <p>6 and he says "and the end result would be a</p> <p>7 double burden to customers". Is the panel</p> <p>8 familiar with what Dr. Wilson has said there?</p> <p>9 MR. PELLEY:</p> <p>10 A. Um-hm.</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. Okay. Now this is the viewpoint of Dr.</p> <p>13 Wilson, and I think you probably agree with me</p> <p>14 that the material attached to his report would</p> <p>15 indicate that he holds a PhD in Economics from</p> <p>16 Cornell. He's got a list of expert testimony</p> <p>17 that runs about 55 pages in his CV as to the</p> <p>18 various places that he's testified over the</p> <p>19 years, including here. And that's his</p> <p>20 viewpoint, that it would constitute a double</p> <p>21 burden to customers.</p> <p>22 Now, I take it that your panel is not</p> <p>23 being put forward as an expert panel that</p> <p>24 would be in a position to disagree with Dr.</p> <p>25 Wilson's contention, is it?</p>	<p>1 opinion that this constitutes a double burden</p> <p>2 on customers?</p> <p>3 MR. PELLEY:</p> <p>4 A. I would have to acknowledge that, yes.</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. That's right, and -</p> <p>7 MR. PELLEY:</p> <p>8 A. But again just to be clear, you said Hydro has</p> <p>9 not filed an expert's opinion?</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Right.</p> <p>12 MR. PELLEY:</p> <p>13 A. Yes, I would have to agree.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. That's right, because Dr. Wilson is providing</p> <p>16 an expert opinion, right?</p> <p>17 MR. PELLEY:</p> <p>18 A. Agreed.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Right, and Ms. McShane, who was retained by</p> <p>21 Hydro to file a report on the allowed range of</p> <p>22 return, she was not asked to give evidence on</p> <p>23 these deferral accounts, right?</p> <p>24 MR. PELLEY:</p> <p>25 A. She was not, no.</p>
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<p>1 MR. PELLEY:</p> <p>2 A. I don't think this panel would be in a</p> <p>3 position to disagree because we're not here in</p> <p>4 the capacity as cost to capital experts, no.</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. Right, right, so from the point of view of -</p> <p>7 you would have no basis to say that Dr. Wilson</p> <p>8 is incorrect on this?</p> <p>9 MR. PELLEY:</p> <p>10 A. No.</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. Right.</p> <p>13 MR. PELLEY:</p> <p>14 A. And that's not to suggest that there aren't</p> <p>15 alternative viewpoints as there always are. I</p> <p>16 mean, there's typically experts on both sides</p> <p>17 of arguments.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Right, but from an expertise point of view,</p> <p>20 you'd certainly have to defer to Dr. Wilson?</p> <p>21 MR. PELLEY:</p> <p>22 A. Or another expert, yes.</p> <p>23 JOHNSON, Q.C.:</p> <p>24 Q. Right, and do you confirm that Hydro has filed</p> <p>25 no expert evidence to refute Dr. Wilson's</p>	<p>1 JOHNSON, Q.C.:</p> <p>2 Q. And if we could - I guess, I'd ask you to</p> <p>3 confirm that Hydro asked a number of RFIs,</p> <p>4 just for the record, NLH-PUB-006 to NLH-PUB-</p> <p>5 017, so a number of RFIs, and you're aware</p> <p>6 that Dr. Wilson was made subject to the RFI</p> <p>7 process?</p> <p>8 MR. PELLEY:</p> <p>9 A. Yes.</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Right, and can you confirm for me that none of</p> <p>12 the RFIs that Hydro asked Dr. Wilson raised</p> <p>13 any question about his position as regards</p> <p>14 this being a double burden to customers?</p> <p>15 MR. PELLEY:</p> <p>16 Q. Can you repeat that question?</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. Would you agree with me that Hydro asked no</p> <p>19 RFIs to Dr. Wilson challenging his contention</p> <p>20 on this being a double burden to customers?</p> <p>21 MR. PELLEY:</p> <p>22 A. I would have to go back and review the</p> <p>23 responses to those RFIs before I could confirm</p> <p>24 that.</p> <p>25 JOHNSON, Q.C.:</p>

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<p>1 Q. Well, maybe what we could do is bring up the 2 questions themselves, NP-PUB-6 through 17. I 3 don't know if you have the questions 4 themselves or -</p> <p>5 MS. GRAY:</p> <p>6 Q. Sorry, Mr. Johnson -</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. There you go. So 06 deals with the rural 9 deficit?</p> <p>10 MR. PELLELY:</p> <p>11 A. Uh-hm.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. 07 deals with the rural deficit, 08 deals with 14 the rural deficit, 09 deals with the rural 15 deficit, 10 cost of service, methodology, 11 16 is evidence relating to transmission plant and 17 costs, 12, the same thing, 13 deals with 18 transmission and recommended methodology, 14 19 again dealing with classification of 20 distribution lines, 15 again dealing with 21 electricity delivery systems and facilities, 22 16 dealing with transmission classification, 23 so -</p> <p>24 MR. PELLELY:</p> <p>25 A. Also deals with transmission.</p>	<p>1 JOHNSON, Q.C.:</p> <p>2 Q. And now Hydro has been operating Holyrood for 3 45 years plus, and I understand that this is 4 the first time that Hydro has ever looked to 5 shift this burden onto its customers about 6 this uncertainty or variability about fuel 7 conversion, right?</p> <p>8 MS. RUSSELL:</p> <p>9 A. This is the first time there would have been a 10 deferral account applied for for this 11 particular -</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Right, and the deferral account shifts the 14 risk away from Hydro and onto customers, would 15 you agree with that much?</p> <p>16 MS. RUSSELL:</p> <p>17 A. I would say that for the island isolated 18 systems and the energy supply cost - like, 19 where there's a dead band here, like -</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. But I want to - we'll talk about those other 22 accounts, but I'm talking about Holyrood fuel 23 conversion, there's no dead band on that?</p> <p>24 MS. RUSSELL:</p> <p>25 A. There's no dead band on that because, as I</p>
<p style="text-align: right;">Page 154</p> <p>1 JOHNSON, Q.C.:</p> <p>2 Q. So can you now confirm that there was no 3 questions asked of Dr. Wilson on this 4 contention, right?</p> <p>5 MR. PELLELY:</p> <p>6 A. I would agree that based on the RFIs in front 7 of me, and assuming that that was the complete 8 list that was sent, which it appears to be, we 9 did not appear to ask any questions that 10 challenged his view - challenged his view of 11 the so-called double burdening of rate payers.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. Okay.</p> <p>14 MR. PELLELY:</p> <p>15 A. So I would agree with your assessment.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Thank you. Now in relation to the Holyrood 18 conversion factor deferral, I guess, the idea 19 is that once - with this account, is that once 20 we have a fuel to energy conversion rate set, 21 Hydro wants to defer all fuel cost variances 22 that result when the actual conversion factor 23 differs from the ones set, right?</p> <p>24 MS. RUSSELL:</p> <p>25 A. Correct.</p>	<p style="text-align: right;">Page 156</p> <p>1 said, we feel the million relates to all 2 supply costs, would be sharing the risk 3 between Hydro and the customers.</p> <p>4 JOHNSON, Q.C.:</p> <p>5 Q. Okay, but in terms of - this is the first time 6 that Hydro has ever looked to shift the risk 7 away from itself to customers in relation to 8 the conversion factor, right?</p> <p>9 MS. RUSSELL:</p> <p>10 A. On the conversion factor one, yes, but I still 11 refer -</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. That's what I'm asking about now.</p> <p>14 MS. RUSSELL:</p> <p>15 A. Back to the million that is considered to - 16 that Hydro feels is in total for all the 17 supply costs.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Okay, now you don't take any exception to my 20 characterization that you're shifting the risk 21 totally on the customers on this fuel 22 conversion deferral account, right?</p> <p>23 MS. RUSSELL:</p> <p>24 A. For the variances that are in the deferral 25 account that are there in that particular</p>

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1 account, those amounts would be put in that
 2 deferral based on amounts differing, yes.
 3 JOHNSON, Q.C.:
 4 Q. So a complete shift of the risk. Now if you
 5 refer to Table 2.21 of the regulated
 6 activities evidence.
 7 MS. GRAY:
 8 Q. I'm sorry, 2.21 or page -
 9 JOHNSON, Q.C.:
 10 Q. I thought it was Table 2.21. There you go.
 11 Now we see here the Holyrood fuel conversion
 12 performance and Hydro financial impact table,
 13 and in 2009, of course, we see - well, we see
 14 from '09 right on up to forecast 2014 the 2007
 15 test year conversion factor, which is 630,
 16 right, that was set a number of years ago?
 17 MS. RUSSELL:
 18 A. Yes.
 19 JOHNSON, Q.C.:
 20 Q. The last GRA, and we see that the actual fuel
 21 conversion has not kept pace over that period
 22 of time. So we see the impact on Hydro's
 23 financial loss or financial impact on Hydro of
 24 2.4 million in '09, 4.9 million in 2010, 3.5
 25 million in 2011, and on and on it goes. Now

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1 is it - these sustained losses that we're
 2 seeing here in this table, is this what's
 3 driving the proposal in this GRA for this
 4 proposed deferral account on this?
 5 (12:15 p.m.)
 6 MS. RUSSELL:
 7 A. So these type of costs, yes, between the
 8 actual and the test year.
 9 JOHNSON, Q.C.:
 10 Q. Yeah, because when you add them up, it's a
 11 considerable amount of money on that bottom
 12 line, okay. Now I just want to put it to you,
 13 though, that Hydro in no way, shape, or form
 14 was forced to sit back over all of these years
 15 and absorb the full effects here, right? You
 16 agree with that, right?
 17 MS. RUSSELL:
 18 A. When you say "sit back to fully absorb", you
 19 mean to not -
 20 JOHNSON, Q.C.:
 21 Q. Yeah, not come in and do something about it,
 22 not apply for a GRA and look to have a fuel
 23 conversion factor that was more consistent
 24 with what its experience was, right?
 25 MS. RUSSELL:

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1 A. Right, this has been the first GRA since that
 2 period.
 3 JOHNSON, Q.C.:
 4 Q. Right, right, it's been the first one, but
 5 it's certainly not been the first opportunity
 6 that Hydro has had to come in before the Board
 7 and try to get a rebalancing of some of these
 8 factors, correct?
 9 MS. RUSSELL:
 10 A. In a different application of some sort?
 11 JOHNSON, Q.C.:
 12 Q. Of course, like a GRA or -
 13 MS. RUSSELL:
 14 A. Earlier. So, yes, this is the first GRA since
 15 that time.
 16 JOHNSON, Q.C.:
 17 Q. Right, and would you agree with me that if
 18 Hydro had come in and got a rebalancing of -
 19 I'm calling it a rebalancing, but a new fuel
 20 conversion rate built into its rates, it
 21 wouldn't have had to face the year by year
 22 losses to the extent that it has because it
 23 got set at a fairly high amount several years
 24 ago and then nothing was done about it, right?
 25 MS. RUSSELL:

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1 A. So if it had come in and gotten reset, then,
 2 yes, the bottom number 630 would have been a
 3 different number.
 4 JOHNSON, Q.C.:
 5 Q. Absolutely, in all likelihood much lower.
 6 MS. RUSSELL:
 7 A. Correct.
 8 JOHNSON, Q.C.:
 9 Q. Right, and if Hydro - how is it that Hydro -
 10 it seems to me that Hydro is now in sort of,
 11 you know, complaining that, oh, we really need
 12 this deferral account now, look at the track
 13 record we've had here of losses, look at what
 14 happens when our test year conversion factor
 15 gets out of whack, and we now want a deferral
 16 account, but is that the appropriate - is that
 17 the appropriate answer, or is the more
 18 appropriate answer for Hydro to have filed
 19 rate cases on a more regular basis?
 20 MS. RUSSELL:
 21 A. Well, there is an RFI on the delays, NP-369, I
 22 believe, as to the delays that have caused -
 23 and this is the first time Hydro has been back
 24 with a GRA and is thus proposing under this
 25 GRA for those costs.

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<p>1 JOHNSON, Q.C.:</p> <p>2 Q. And so - but these delays, I mean, that's</p> <p>3 Hydro's issues if Hydro had delays, isn't it?</p> <p>4 MS. RUSSELL:</p> <p>5 A. I'm just going to turn to that RFI.</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. Sure.</p> <p>8 MS. RUSSELL:</p> <p>9 A. So give me one second. So the delays were - I</p> <p>10 mean, there were a lot of different reasons</p> <p>11 for the delays. There was RSP process, there</p> <p>12 was some rates policy issues, there were lots</p> <p>13 of different things that caused the delay, but</p> <p>14 Hydro does feel that at this point these costs</p> <p>15 are uncontrollable and should be recovered.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Well, I mean, the fact of the matter is that</p> <p>18 for 40 odd years you've not looked or Hydro</p> <p>19 has not looked to shift the full risk onto</p> <p>20 customers, and now it is, and I'm wondering</p> <p>21 whether Hydro would agree with me that a way</p> <p>22 to - if Hydro views this as a risk, a way to</p> <p>23 mitigate this risk is to have more frequent</p> <p>24 GRA filings?</p> <p>25 MS. RUSSELL:</p>	<p>1 Hydro to acknowledge that the way for them to</p> <p>2 mitigate this type of situation from happening</p> <p>3 again is to have more frequent cases?</p> <p>4 MR. PELLEY:</p> <p>5 A. I would agree with that 100 percent, and on a</p> <p>6 go forward basis, more frequent GRAs are a way</p> <p>7 to deal with this type of variability.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. Yes, and wouldn't more frequent GRAs be a</p> <p>10 fairer way to deal with this from the</p> <p>11 customer's point of view than just saying,</p> <p>12 look, this is your risk from here on out?</p> <p>13 MR. PELLEY:</p> <p>14 A. Over the long run, perhaps - yes, I would</p> <p>15 agree with that, that it's a more fair way to</p> <p>16 do it, but what I would say is that doesn't -</p> <p>17 I mean, we're talking now about - I believe</p> <p>18 you raised the point about a potential for a</p> <p>19 two to three year cycle, but I think that</p> <p>20 doesn't change the fact that we're dealing in</p> <p>21 the near term, Hydro still is exposed to</p> <p>22 significant losses and that deferral account</p> <p>23 we view as important in the interim until we</p> <p>24 hit that two to three year cycle on a go</p> <p>25 forward basis, which I completely agree with</p>
<p>Page 162</p> <p>1 A. Hydro would agree with coming in in a two to</p> <p>2 three year period for GRAs.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Right, and that - agreeing to come in every</p> <p>5 two or three years for a GRA, that to some</p> <p>6 degree removes the need for this risk shifting</p> <p>7 mechanism to customers, doesn't it?</p> <p>8 MS. RUSSELL:</p> <p>9 A. So I would agree with the point about the two</p> <p>10 to three years. In this GRA, we're not asking</p> <p>11 to recoup the costs in between those - we're</p> <p>12 not asking to recoup the cost on that chart in</p> <p>13 between there. We're asking from a go forward</p> <p>14 basis.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. Oh, I understand that, I understand that.</p> <p>17 MR. PELLEY:</p> <p>18 A. Could you perhaps just ask the question again?</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Isn't the answer - like, customers are looking</p> <p>21 at this and saying, hold on now, we haven't</p> <p>22 had this risk ever. Now Hydro is coming in and</p> <p>23 saying we want to put this risk on you, and</p> <p>24 what I'm suggesting to you is that the better</p> <p>25 solution for customers at least would be for</p>	<p>Page 164</p> <p>1 you is a fair way to deal with variability of</p> <p>2 that nature on a go forward basis.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Well, you know, Hydro, as I understand it, is</p> <p>5 committed to filing its next GRA by no later</p> <p>6 than March 31st, 2017, right?</p> <p>7 MS. RUSSELL:</p> <p>8 A. Yes.</p> <p>9 JOHNSON, Q.C.:</p> <p>10 Q. So, you know, in all honesty, in light of</p> <p>11 that, is there a compelling need for the Board</p> <p>12 to be petitioned to set up yet another</p> <p>13 deferral account?</p> <p>14 MS. RUSSELL:</p> <p>15 A. Yes, there is because this is a cost from the</p> <p>16 period between now and the next GRA. This is</p> <p>17 a real cost to providing service for customers</p> <p>18 and it's an uncontrollable cost that should be</p> <p>19 recovered.</p> <p>20 MR. PELLEY:</p> <p>21 A. And I would add that if - you know, just from</p> <p>22 the Board's perspective, if Hydro's financial</p> <p>23 position and performance is a relevant</p> <p>24 consideration in terms of all the trade offs</p> <p>25 that go into setting rates, I do think over</p>

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<p>1 the next two to three years that it is</p> <p>2 relevant to have that account, and I go back</p> <p>3 to some of the discussion from yesterday that,</p> <p>4 you know, given that Hydro operates under a</p> <p>5 provincial guarantee for its borrowings, you</p> <p>6 know, over very short periods of time we do</p> <p>7 have the luxury perhaps of having perhaps less</p> <p>8 equity in our capital structure than an</p> <p>9 investor owned utility would, or perhaps not</p> <p>10 earning the required ROE for a year, but again</p> <p>11 over the long run, two, three, four, five year</p> <p>12 periods, those types of losses start to erode</p> <p>13 Hydro's equity base and you end up in a</p> <p>14 position where Hydro's financial self-</p> <p>15 sufficiency could be questioned. Again I'm</p> <p>16 talking over three, four, five year period of</p> <p>17 time.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Yes, but over a five year period, you will</p> <p>20 have come in for a GRA in the middle of that</p> <p>21 period, wouldn't you?</p> <p>22 MR. PELLEY:</p> <p>23 A. Yes, within a three year period.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. In terms of the isolated system supply cost</p>	<p>1 Q. You just don't know what degree they</p> <p>2 fluctuated in the past?</p> <p>3 MR. PELLEY:</p> <p>4 A. That's a good characterization.</p> <p>5 MS. RUSSELL:</p> <p>6 A. Or in the future because they are</p> <p>7 uncontrollable costs.</p> <p>8 JOHNSON, Q.C.:</p> <p>9 Q. Right.</p> <p>10 MR. PELLEY:</p> <p>11 A. But what I was saying is, I think, most of us</p> <p>12 know that there has been more volatility in</p> <p>13 fuel prices lately than historically has been</p> <p>14 over a five or ten year period.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. Well, what's the purpose of the plus or minus</p> <p>17 \$500,000.00 dead band on that particular</p> <p>18 account?</p> <p>19 MS. RUSSELL:</p> <p>20 A. So those dead bands are there to - they would</p> <p>21 be there to provide incentive on either side</p> <p>22 to - anything that's additional, 500, would</p> <p>23 either be returned to customers or Hydro would</p> <p>24 take the impact from it outside of that</p> <p>25 amount.</p>
<p>Page 166</p> <p>1 variance account, I mean, Hydro has been</p> <p>2 supplying isolated communities around</p> <p>3 Newfoundland and Labrador for decades by</p> <p>4 virtue of its remote diesel operations, right?</p> <p>5 MS. RUSSELL:</p> <p>6 A. Correct.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. And I take it that we'll all agree that</p> <p>9 there's always been some degree of ups and</p> <p>10 downs in the cost of diesel, right, that's not</p> <p>11 new?</p> <p>12 MS. RUSSELL:</p> <p>13 A. No, there would always be variations in the</p> <p>14 diesel.</p> <p>15 JOHNSON, Q.C.:</p> <p>16 Q. Right.</p> <p>17 MR. PELLEY:</p> <p>18 A. Without further analysis, I would agree that</p> <p>19 there's always been fluctuations in diesel. I</p> <p>20 wouldn't be able to conclusively say that the</p> <p>21 fluctuations we're facing now or are</p> <p>22 anticipated to face on a go forward basis</p> <p>23 could potentially be higher or lower than they</p> <p>24 were historically.</p> <p>25 JOHNSON, Q.C.:</p>	<p>Page 168</p> <p>1 JOHNSON, Q.C.:</p> <p>2 Q. Right, so you said just a second ago that it</p> <p>3 would provide an incentive, right?</p> <p>4 MS. RUSSELL:</p> <p>5 A. Yes, if you're -</p> <p>6 JOHNSON, Q.C.:</p> <p>7 Q. Yes, and Hydro - so this is an incentive that</p> <p>8 Hydro would have, right?</p> <p>9 MS. RUSSELL:</p> <p>10 A. Well, there would - if there was incentive in</p> <p>11 doing fuel contracts or anything like that,</p> <p>12 when you're doing tenders or, you know, for</p> <p>13 any particular fuel.</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. Right, so Hydro would -</p> <p>16 MS. RUSSELL:</p> <p>17 A. To the degree that there is any particular</p> <p>18 area that you can manage costs. Like, Hydro</p> <p>19 always tries to get the least cost possible.</p> <p>20 JOHNSON, Q.C.:</p> <p>21 Q. Right.</p> <p>22 MS. RUSSELL:</p> <p>23 A. So -</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. So within that band, Hydro would be incented</p>

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<p>1 to think smart in terms of management and 2 operations as to how they can protect 3 themselves? 4 MS. RUSSELL: 5 A. Well, that would be the purpose of an 6 incentive would be, yes, to do that, and on 7 the other side there's the risk as well. 8 JOHNSON, Q.C.: 9 Q. Right. 10 MS. RUSSELL: 11 A. So it's both shared between Hydro and the 12 customer. 13 JOHNSON, Q.C.: 14 Q. And right now where Hydro is - and you said 15 Hydro is already taking steps to try to be 16 smart, etc, about how it goes about 17 procurement of oil, is that right? 18 MS. RUSSELL: 19 A. That's part of our process on an every day 20 basis is to look for the least cost for all 21 services. 22 JOHNSON, Q.C.: 23 Q. Exactly, and Hydro has got people on the 24 payroll whose job it is to do that, right? 25 MS. RUSSELL:</p>	<p>1 Q. And Hydro is doing that at a lower ROE, which 2 is your approved ROE is 4.47, is that right? 3 MS. RUSSELL: 4 A. From the last GRA, yes. 5 JOHNSON, Q.C.: 6 Q. From the last GRA, right, and I guess we could 7 assume that if Hydro gets this isolated system 8 supply cost variance deferral, that Hydro 9 would want to keep that long term? This is 10 not temporary? 11 MS. RUSSELL: 12 A. It would be - that particular deferral, we 13 have a study that we will be undergoing in 14 between now and the next GRA. There are 15 numerous studies which have been identified on 16 the settlement agreement on supply cost and 17 the RSP, and we will be looking at all of 18 these before we come back with the next GRA. 19 JOHNSON, Q.C.: 20 Q. So, therefore, the obvious question is if 21 you're embarking on these studies, would it 22 make sense to hold off and continue the 23 studies as opposed to looking to implement 24 these novel accounts, at least in this 25 jurisdiction, at this point?</p>
<p>Page 170</p> <p>1 A. In the procurement - we have a procurement 2 section, yes. 3 JOHNSON, Q.C.: 4 Q. Right, and customers pay the salaries of those 5 people, so the customers are already paying 6 management to do that, right? 7 MS. RUSSELL: 8 A. Correct, those salaries are - 9 JOHNSON, Q.C.: 10 Q. Yeah. 11 MS. RUSSELL: 12 A. Yes. 13 JOHNSON, Q.C.: 14 Q. And, in fact, customers are paying for that in 15 the context of a much lower presently approved 16 ROE than what Hydro is seeking in this 17 hearing? 18 MS. RUSSELL: 19 A. Sorry, could you repeat that question? 20 JOHNSON, Q.C.: 21 Q. Customers are paying Hydro to manage this for 22 them at this point, right? 23 MS. RUSSELL: 24 A. Correct. 25 JOHNSON, Q.C.:</p>	<p>Page 172</p> <p>1 MS. RUSSELL: 2 A. There is an RFI that we've answered on that, 3 that we believe, no, that we do feel we need 4 to have these right now because they are 5 uncontrollable costs, they would impact 6 Hydro's ability to earn a fair and reasonable 7 return, and I believe the RFI that we answered 8 on that - just one second. We've answered an 9 RFI, NP-381, with respect to some of the 10 future - 11 (12:30 p.m.) 12 JOHNSON, Q.C.: 13 Q. So in Clause 2 - I'm sorry, the question, 14 "Please explain in detail why Hydro considers 15 it appropriate to propose three new supply 16 cost variance deferral accounts". The reply 17 stated by Hydro in Sub 2 there, "Hydro will 18 not - I'm not following that at the moment. 19 If we could scroll down on the answer. That's 20 the full answer there. So this is what - 21 MS. RUSSELL: 22 A. Yes, this relates to why it's appropriate for 23 those three new, and then it was asked about, 24 "Hydro will not", in the question it asks 25 about, you know, due to - I think as you were</p>

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<p>1 indicating that the RSP, the future reviews 2 that are to happen, and basically this is the 3 GRA that we're here now is from this period 4 until our next GRA, and then at that point in 5 time - so these are the costs and the rates 6 for rates to be set until that point in time. 7 JOHNSON, Q.C.: 8 Q. So being realistic for the moment now, if 9 Hydro gets this isolated system supply cost 10 variance, under what circumstances would you 11 see Hydro coming back in and saying, no, 12 Board, we don't need that any more now? 13 MS. RUSSELL: 14 A. Well, because the next GRA that we're looking 15 at will be the Muskrat - when we integrate, 16 when we have all the integration of Muskrat 17 Falls, there are a lot of studies, the cost of 18 service, there's a marginal cost, there's an 19 RSP - there is an RSP study as well as supply 20 costs, and that would all fall in part of 21 that, and so it would form part of the next 22 GRA to be under consideration. 23 JOHNSON, Q.C.: 24 Q. But these communities that are supplied by 25 diesel, they're not going to be hooked up to</p>	<p>1 A. I would agree. 2 JOHNSON, Q.C.: 3 Q. Right, and as we heard yesterday, Grant 4 Thornton, the Board's consultants, they've 5 done a report where they've commented on the 6 proposed debt guarantee fee, and they've 7 pointed out some problems with Scotiabank or 8 Scotia Capital's analysis in its October 2013 9 report that Hydro had commissioned, right? 10 MR. PELLEY: 11 A. Correct. 12 JOHNSON, Q.C.: 13 Q. Right, and they have raised - would it be fair 14 to say that Grant Thornton has raised 15 substantive issues with what they see as 16 problems with the approach as outlined by 17 Hydro's advisors? Would it be fair to call 18 them substantive issues? 19 MR. PELLEY: 20 A. I'm not going to opine on whether or not those 21 are substantive. 22 JOHNSON, Q.C.: 23 Q. Okay. What do you think, they're minor or 24 trifling or - 25 MR. PELLEY:</p>
<p>1 the in-feed and get their power from that 2 source, so what would cause Hydro to say, no, 3 we don't need this any more? 4 MS. RUSSELL: 5 A. I'm not saying that Hydro would say we 6 wouldn't need it. I'm saying it would be 7 looked at through the studies. I didn't say 8 it wouldn't be needed. I just said we would 9 look at it and it would be discussed at the 10 next GRA as well. 11 JOHNSON, Q.C.: 12 Q. Turning to the debt guarantee fee, we 13 established yesterday, I think, Mr. Pelley, 14 that Hydro says that the Board is not bound by 15 any directive or legal compulsion to allow a 16 guarantee fee to be provided through rates, 17 right, that's your position? 18 MR. PELLEY: 19 A. That was - yes, that's our position. 20 JOHNSON, Q.C.: 21 Q. And I take it that you'd be in agreement that 22 Hydro does accept that it has the burden of 23 establishing that the debt guarantee fee put 24 forward by it is reasonable? 25 MR. PELLEY:</p>	<p>1 A. As I stated yesterday, they pointed out - I 2 think the major point of departure - there was 3 agreement on the methodology that Scotia took. 4 As we all know, experts often differ in their 5 opinions on how things are done, but I think 6 there was agreement in the general approach 7 that Scotiabank took. Where they took 8 exception was the fact that Scotia didn't 9 apportion the benefit of the guarantee between 10 the guarantor and, I guess, the person giving 11 the guarantee, and as I stated yesterday, and 12 the reason I say it's not concerning, I didn't 13 mean to imply it was trifling, was that the 14 only other case I know of where this is done 15 in Canada, it's not done that way in Quebec, 16 they're allowed to flow their full guarantee 17 through to their rates by the Regie, and the 18 other was - you know, in my view, the position 19 that Grant Thornton put forward with respect 20 to that, let's call it benefit sharing, was 21 based largely around how things were done for 22 purposes of transfer pricing and tax law, so 23 there's a general question as to whether or 24 not that's a relevant recommendation in a 25 regulatory framework.</p>

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<p>1 JOHNSON, Q.C.:</p> <p>2 Q. But you're not in a position to opine on the</p> <p>3 appropriateness of Grant Thornton's</p> <p>4 recommendation, though, are you?</p> <p>5 MR. PELLEY:</p> <p>6 A. No.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. And this Quebec precedent you're talking</p> <p>9 about, that was something set in 2002, is that</p> <p>10 right?</p> <p>11 MR. PELLEY:</p> <p>12 A. Yes, and it's still in effect.</p> <p>13 JOHNSON, Q.C.:</p> <p>14 Q. It's still in effect, and I take it Hydro has</p> <p>15 not undertaken a further analysis to the</p> <p>16 Scotiabank analysis of October, 2013, that's</p> <p>17 the last one?</p> <p>18 MR. PELLEY:</p> <p>19 A. The October 2013 other than - we haven't</p> <p>20 engaged them to do a formal study, but we do</p> <p>21 have regular contact with them to determine</p> <p>22 what their view on the market value of the</p> <p>23 guarantee is over time.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. And I take it Hydro never asked Ms. McShane to</p>	<p>1 better or no worse off, but the argument that</p> <p>2 she's put out there in the past is that -</p> <p>3 because the fee used to be a full 1 percent</p> <p>4 before it was revised downward 25 to 50, and</p> <p>5 she provided evidence in the past that the</p> <p>6 value of the fee was likely even greater than</p> <p>7 that 1 percent. So in our view, you know, I</p> <p>8 guess in consideration of that framework and</p> <p>9 in consideration of the fact that I agree with</p> <p>10 you, the burden is on Hydro to prove the cost</p> <p>11 is reasonable, we engaged Scotiabank who are</p> <p>12 experts in this area, much like Hydro Quebec</p> <p>13 engaged Merrill Lynch, these folks are all big</p> <p>14 players in the capital markets, and we used</p> <p>15 that to substantiate our case. I don't -</p> <p>16 obviously, Grant Thornton looked at that and</p> <p>17 they have some different views, and ultimately</p> <p>18 I would suggest that - you know, ultimately</p> <p>19 it's the Board's decision as to how that plays</p> <p>20 out.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. Yeah, now I mean, Grant Thornton, the Board's</p> <p>23 financial consultants, they've been the</p> <p>24 consultants for quite awhile and have reviewed</p> <p>25 numerous GRA applications from Hydro and</p>
<p>Page 178</p> <p>1 advise on the appropriateness of the debt</p> <p>2 guarantee fee?</p> <p>3 MR. PELLEY:</p> <p>4 A. No, and I can - the reason for that, because</p> <p>5 she has in the past opined on the value of the</p> <p>6 debt guarantee fee.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. That's right.</p> <p>9 MR. PELLEY:</p> <p>10 A. And if you go back to some of the previous</p> <p>11 testimony she gave on that, you know, the</p> <p>12 general framework that Ms. McShane put forward</p> <p>13 for the reasonableness of the fee is that, you</p> <p>14 know, if - just to come up with a simple</p> <p>15 example perhaps to help, if you don't mind, to</p> <p>16 put that point out there, let's assume that on</p> <p>17 a standalone basis Hydro could issue long term</p> <p>18 debt at 3.5 percent, but the province, of</p> <p>19 course, being a more creditworthy counterpart</p> <p>20 can issue debt at, say, 3 percent, then your</p> <p>21 implied value of the guarantee is about .5</p> <p>22 percent. So what Ms. McShane argued in the</p> <p>23 past was as long as the value of the fee is at</p> <p>24 least equal to that, but not greater, all</p> <p>25 other things being equal, the rate payer is no</p>	<p>Page 180</p> <p>1 Newfoundland Power, et cetera, would you be--</p> <p>2 and Grant Thornton has, you know, expressly</p> <p>3 said that further examination is required to</p> <p>4 determine an appropriate methodology to</p> <p>5 apportion the benefit of the guarantee between</p> <p>6 Hydro and the Province, right. You wouldn't</p> <p>7 be suggesting that the Board shouldn't follow</p> <p>8 this advice?</p> <p>9 MR. PELLEY:</p> <p>10 A. I'm not suggesting what the Board should or</p> <p>11 shouldn't do. My statement was that the Board</p> <p>12 has opinions from two experts and Hydro's</p> <p>13 position and that's a decision the Board needs</p> <p>14 to make. I'm not at all suggesting they</p> <p>15 should ignore that.</p> <p>16 JOHNSON, Q.C.:</p> <p>17 Q. Now, as I read Grant Thornton's report, if you</p> <p>18 get into an apportionment situation, that can</p> <p>19 only be good for rate payers, right?</p> <p>20 MR. PELLEY:</p> <p>21 A. That can only be good for rate payers.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. Yeah, because it would lower the guarantee</p> <p>24 fee, wouldn't it?</p> <p>25 MR. PELLEY:</p>

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<p>1 A. Absolutely.</p> <p>2 JOHNSON, Q.C.:</p> <p>3 Q. Right. And that would be good for Hydro</p> <p>4 because Hydro would have to pay less for the</p> <p>5 debt guarantee.</p> <p>6 MR. PELLY:</p> <p>7 A. You're making the assumption that the Province</p> <p>8 would--I can't see how that would work in that</p> <p>9 situation because if the Province continues to</p> <p>10 charge us a fee of 50 basis points, where,</p> <p>11 let's say, through apportioning we only</p> <p>12 recovered 25 in rates, that difference has to</p> <p>13 flow to Hydro's bottom line, does it not?</p> <p>14 JOHNSON, Q.C.:</p> <p>15 Q. Well, has anybody since Grant Thornton's</p> <p>16 report's been filed talking about this</p> <p>17 apportionment issue, are you aware of anybody</p> <p>18 at Hydro that has gone to Government and said,</p> <p>19 look, there might be a problem with this</p> <p>20 request. There should be some apportionment?</p> <p>21 Has anybody done that?</p> <p>22 MR. PELLY:</p> <p>23 A. No, no.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. And likewise, I'm interested in, is Hydro</p>	<p>1 different opinions in how it should be done,</p> <p>2 is not an unreasonable fee for the rate payer</p> <p>3 to pay for that guarantee. I don't see that</p> <p>4 as pushing back.</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. Well the rate payer has the right to least</p> <p>7 cost guarantee fee, don't they?</p> <p>8 MR. PELLY:</p> <p>9 A. Yes, but what we're saying is the 25 to 50</p> <p>10 basis points is least cost, we're setting it</p> <p>11 at market value of the fee.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. But I put to you that Grant Thornton is saying</p> <p>14 that that may not be the least cost because</p> <p>15 you haven't figured it to an apportionment.</p> <p>16 MR. PELLY:</p> <p>17 A. Sure, I don't disagree.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Right.</p> <p>20 MR. PELLY:</p> <p>21 A. If that's the accepted framework for -</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. So just to be clear -</p> <p>24 MR. PELLY:</p> <p>25 A. But I would add to that, I guess the question</p>
<p>Page 182</p> <p>1 seriously pushing back at the customer's</p> <p>2 opportunity to get a cheaper debt-guarantee</p> <p>3 fee? I mean, Grant Thornton seems to be</p> <p>4 looking at apportionment, which would be</p> <p>5 cheaper.</p> <p>6 MR. PELLY:</p> <p>7 A. I wouldn't characterize it as pushing back.</p> <p>8 We're talking an alternative position, I</p> <p>9 wouldn't characterize it as "pushing back".</p> <p>10 JOHNSON, Q.C.:</p> <p>11 Q. Right, but you know, from the customers' point</p> <p>12 of view, they'd want it as cheap as possible.</p> <p>13 Would Hydro be in favour of a fee that would</p> <p>14 be as cheap as possible, the one that provided</p> <p>15 apportionment?</p> <p>16 MR. PELLY:</p> <p>17 A. I think what we're saying here, in any</p> <p>18 regulatory decision, you're balancing two</p> <p>19 things. You're balancing, making sure that</p> <p>20 the utility is recovering its costs; on the</p> <p>21 other side, making sure that, of course, the</p> <p>22 natural trade off of that is what the impact</p> <p>23 on rate payers is, and what we're saying at a</p> <p>24 25 to 50 basis points valuation, putting aside</p> <p>25 the fact that there's two experts who have</p>	<p>Page 184</p> <p>1 of how come apportioning hasn't been proposed</p> <p>2 before in this jurisdiction if it is relevant.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Well I mean, I guess it's just a function of</p> <p>5 what evidence is called at the time, et</p> <p>6 cetera. I mean, maybe things were different,</p> <p>7 you know, but now parties are looking at it.</p> <p>8 MR. PELLY:</p> <p>9 A. And we also have to factor into that, I think,</p> <p>10 in terms of the overall view of rate payers, I</p> <p>11 mean the fee used to be, and it's put forward</p> <p>12 in our evidence that there's been a</p> <p>13 significant savings from us going back to</p> <p>14 ensure the fee was adjusted to market because</p> <p>15 it used to be 100 basis points, now it's 25 to</p> <p>16 50.</p> <p>17 JOHNSON, Q.C.:</p> <p>18 Q. So since you've done the Scotia study, you're</p> <p>19 now convinced that the old fee was too high?</p> <p>20 MR. PELLY:</p> <p>21 A. No, the old fee was what it was, we adjusted</p> <p>22 it to market. It was too high for current</p> <p>23 market conditions which is why we corrected</p> <p>24 it.</p> <p>25 JOHNSON, Q.C.:</p>

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<p>1 Q. Can I refer the panel to section 3.1 of the 2 finance evidence? At line 4 and this ties 3 into the claimed entitlement for 8.85 percent 4 return in 2014. It says, "Hydro's amended 5 application is based on a 2014 test year for 6 the purposes of recovery of a 2014 revenue 7 deficiency and is based on a 2015 test year 8 for the purpose of setting rates for 9 customers". So, just to be clear, I guess, as 10 an obvious point at this point that 2014, that 11 test year is not being put forward for the 12 purpose of setting rates for customers, right? 13 MS. RUSSELL: 14 A. Correct. 15 (12:45 p.m.) 16 JOHNSON, Q.C.: 17 Q. Now if we turn up the directive which is at 18 CANLH 024 Attachment 4. This is the directive 19 OC 2009 063 where it states that the 20 Lieutenant Governor in Council is pleased to 21 direct the Board of Commissioners of Public 22 Utilities to adopt policies as follows for 23 all future general rate applications by 24 Newfoundland and Labrador Hydro commencing 25 with the first general rate application by</p>	<p>1 function of how that directive is intended to 2 work, is that fair? 3 MR. PELLY: 4 A. Again, I would defer to legal counsel there. 5 JOHNSON, Q.C.: 6 Q. Okay. And as regards to 2014 revenue 7 deficiency, I take it that out of the and 8 we're talking about the 2014 revenue 9 deficiency of 45.9 million, again I guess for 10 the record we can go to Table 3.1 of the 11 evidence? So, I take it from this that about 12 twenty two and a half million dollars is tied 13 up with the assumption that Hydro would be 14 entitled to an 8.8 percent return in 2014, is 15 that right? 16 MS. RUSSELL: 17 A. Yes. 18 JOHNSON, Q.C.: 19 Q. So, I take it from this that about twenty two 20 and a half million dollars is tied up with the 21 assumption that Hydro would be entitled to an 22 8.8 percent return in 2014, is that right? 23 MR. RUSSELL: 24 A. Yes. 25 JOHNSON, Q.C.:</p>
<p>Page 186</p> <p>1 Newfoundland and Labrador Hydro after January 2 1, 2009. And in Clause 1, "in calculating the 3 return on rate base for Newfoundland and 4 Labrador Hydro to set the same target return 5 on equity as was most recently set for 6 Newfoundland Power through a general rate 7 application or calculate it through a 8 Newfoundland Power automatic adjustment 9 mechanism. And the Newfoundland and Labrador 10 Hydro is entitled to earn annually a rate of 11 return equal to the weighted average cost of 12 capital", et cetera. Now, I just want the 13 Panel's perspective on if Hydro is not 14 applying to set rates using a 2014 test year, 15 okay, what's the theory behind how this 16 directive would entitle Hydro to an ROE of 8.8 17 percent for 2014? 18 MR. PELLY: 19 A. My position on that is that would be part of a 20 legal interpretation of the OIC and I would 21 defer that to legal argument. 22 JOHNSON, Q.C.: 23 Q. I see. So, whether that 8.8 percent in 2014 24 and the attendant consequences of the 2014 25 revenue deficiency, you get that, is all the</p>	<p>Page 188</p> <p>1 Q. Okay. Now, I just wanted to bring you down to 2 Section 3.2 of the evidence starting at Line 3 11. Now, this states "a revenue deficiency 4 occurs when existing rates are not adequate to 5 recover the prudently incurred costs of 6 operating utility. Hydro has not adjusted its 7 base rate since 2007. However, Hydro's costs 8 have been steadily increasing since 2007. And 9 therefore, 2014 revenue based on existing 10 rates is not sufficient to cover the current 11 costs of supplying electricity to customers. 12 An the inadequacy of revenues to cover current 13 costs has resulted in revenue deficiency of 14 55.9 million". Do we take from this 15 statement, particularly that statement that 16 the "2014 revenue based on existing rates is 17 not sufficient to cover the current cost of 18 supplying electricity", do we take it from 19 that that the current cost of supplying 20 electricity to customers is 30.5 million, 21 that's the current costs, is that right, 22 that's the logic? 23 MS. RUSSELL: 24 A. The 30.5 is the - 25 JOHNSON, Q.C.:</p>

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<p>1 Q. Yes, that's the amount that is in the 2014 2 test year for return on equity. 3 MS. RUSSELL: 4 Q. In the previous table? 5 JOHNSON, Q.C.: 6 Q. Right. 7 MR. PELLY: 8 A. It's actually in Table 3, there you go. 9 JOHNSON, Q.C.: 10 Q. Table 3.1. 11 MS. RUSSELL: 12 Q. Can you just scroll back up for one second? 13 This statement refers to that the current, 14 like the 2007 test--2014 was put forward as a 15 test year, not as a year to set rates, but 16 2014 and '15 were both test years in this GRA 17 and the numbers that were put forward did 18 include the 8.8 percent in there. 19 JOHNSON, Q.C.: 20 Q. Right, and so the, for the 2007 test year, the 21 return on equity would be about 8 million 22 dollars, right? 23 MR. PELLY: 24 A. That's correct in looking at the table, yeah. 25 JOHNSON, Q.C.:</p>	<p>1 MS. RUSSELL: 2 A. And basically that again goes back to the OC 3 with the 8.8 that we have. 4 JOHNSON, Q.C.: 5 Q. Yeah, like - 6 MR. PELLY: 7 A. This is based on an interpretation - 8 JOHNSON, Q.C.: 9 Q. Solely on an interpretation of that, right? 10 MR. PELLY: 11 A. I'm not going to disagree with that. 12 JOHNSON, Q.C.: 13 Q. Right, and if we could just turn up page 22 of 14 the Grant Thornton report and particularly 15 Table 9. In your actual 2014, this is Table 16 9, Return on Book Equity, and there might be a 17 slight difference between book equity and 18 regulated equity, would that be fair? 19 MS. RUSSELL: 20 A. Correct. 21 JOHNSON, Q.C.: 22 Q. But return on book equity looks to be 5.19 23 percent, which would be higher than the 24 Board's order of 4.47, obviously, so it 25 doesn't look to be, in terms of--absent the</p>
<p>Page 190</p> <p>1 Q. Yeah, looking at the table. And why isn't the 2 current cost of supplying electricity to 3 customers, which incorporates a cost of equity 4 of 8 million dollars, sufficient? 5 MR. PELLY: 6 A. Sorry, can you repeat the question? 7 JOHNSON, Q.C.: 8 Q. Yeah. Why isn't the current cost of supplying 9 electricity to customers, which are based on a 10 cost of equity of 8 million dollars, from the 11 2007 test year, why is that in any manner 12 insufficient? 13 MR. PELLY: 14 A. And we're just talking about, to be clear, the 15 difference between the 8 million and the 30.5 16 million? 17 JOHNSON, Q.C.: 18 Q. Right, yeah. What would be insufficient about 19 the 8 million? 20 MS. RUSSELL: 21 A. The 8 million, that has to do with the return, 22 that return is based on the 4.47 versus the 23 8.8. 24 JOHNSON, Q.C.: 25 Q. Right.</p>	<p>Page 192</p> <p>1 order-in-council, there doesn't seem to be any 2 insufficiency. 3 MR. PELLY: 4 A. Agreed, if you're using the 2007 approved 5 return on equity, I would agree. 6 JOHNSON, Q.C.: 7 Q. Yeah. There was discussion about the 8 adjustment to Hydro's return on equity between 9 rate cases and I think there was an 10 acknowledgement yesterday that the Board 11 wouldn't necessarily be bound to keep Hydro, 12 if Hydro got a ROE based on Newfoundland 13 Power, the Board wouldn't be bound to keep 14 that in place if something happened afterwards 15 that changed Newfoundland Power's return on 16 equity, right? 17 MR. PELLY: 18 A. I think again that comes down to an 19 interpretation of the order in council. 20 JOHNSON, Q.C.: 21 Q. Okay, so yesterday I thought you believed that 22 the Board had that discretion. 23 MR. PELLY: 24 A. With respect to the ROE issue, not the debt 25 guarantee fee issue, sorry.</p>

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<p>1 JOHNSON, Q.C.:</p> <p>2 Q. I mean adjustments to the Hydro's ROE between</p> <p>3 rate cases.</p> <p>4 MR. PELLY:</p> <p>5 A. I would have to go back and check the</p> <p>6 transcript.</p> <p>7 JOHNSON, Q.C.:</p> <p>8 Q. Okay.</p> <p>9 MR. PELLY:</p> <p>10 A. So I agree with you, subject to checking that,</p> <p>11 but clearly it's in the transcript.</p> <p>12 JOHNSON, Q.C.:</p> <p>13 Q. And I guess, you know, from a point of view of</p> <p>14 principle, like we have a situation now where</p> <p>15 Newfoundland Power's ROE is 8.8 percent, that</p> <p>16 was set in its most recent GRA, as you're also</p> <p>17 aware, Newfoundland Power has an application</p> <p>18 before the Board which will be going to a</p> <p>19 hearing in the Spring.</p> <p>20 MR. PELLY:</p> <p>21 A. Yes.</p> <p>22 JOHNSON, Q.C.:</p> <p>23 Q. Where one of the major issues will be the</p> <p>24 return on equity.</p> <p>25 MR. PELLY:</p>	<p>1 may say is appropriate for Newfoundland Power?</p> <p>2 MR. PELLY:</p> <p>3 A. If you're looking at it from the customer's</p> <p>4 perspective, they wouldn't want to.</p> <p>5 JOHNSON, Q.C.:</p> <p>6 Q. Right.</p> <p>7 MR. PELLY:</p> <p>8 A. They could just as easily end up in a</p> <p>9 situation where they're paying in rates less</p> <p>10 than what Hydro is entitled to.</p> <p>11 JOHNSON, Q.C.:</p> <p>12 Q. But wouldn't it -</p> <p>13 MR. PELLY:</p> <p>14 A. I think you're talking about the specific</p> <p>15 instance of Newfoundland Power's next GRA</p> <p>16 under the assumption that the ROE is going to</p> <p>17 go down.</p> <p>18 JOHNSON, Q.C.:</p> <p>19 Q. Well no, I'm talking about what's fair is</p> <p>20 fair. I mean, at least we're basing it on</p> <p>21 something that's at least been tested in a</p> <p>22 regulatory proceeding, whether it goes up or</p> <p>23 down or sideways or stays the same, but do you</p> <p>24 see that there would be more fairness to that</p> <p>25 approach than just locking Hydro in?</p>
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<p>1 A. Yes, full cost of capital hearing assessment,</p> <p>2 yeah.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. Full cost of capital hearing, et cetera, so it</p> <p>5 could be that the allowed return on equity</p> <p>6 goes down, right? And I take it would you not</p> <p>7 agree with me that from a fairness perspective</p> <p>8 to customers that it would be somewhat unfair</p> <p>9 if the Board, after hearing all of the</p> <p>10 evidence of Newfoundland Power and were to be</p> <p>11 persuaded that their return on equity should</p> <p>12 go down, that Hydro should just keep on</p> <p>13 sailing on through with a return on equity</p> <p>14 that the Board felt was too high for</p> <p>15 Newfoundland Power, can you comment on that?</p> <p>16 MR. PELLY:</p> <p>17 A. If you look at it over the long run, it could</p> <p>18 just as easily go, I mean, the next hearing,</p> <p>19 it could just as easily go up as it could go</p> <p>20 down.</p> <p>21 JOHNSON, Q.C.:</p> <p>22 Q. Yes, so there's some attraction in there being</p> <p>23 some symmetry, would you think? I mean, why</p> <p>24 would customers want to pay a return on equity</p> <p>25 to Hydro that's higher than what this Board</p>	<p>1 MR. PELLY:</p> <p>2 A. I don't have an opinion either way.</p> <p>3 JOHNSON, Q.C.:</p> <p>4 Q. So it's not something, I take it, that Hydro</p> <p>5 feels strongly about then if you don't have an</p> <p>6 opinion either way.</p> <p>7 MR. PELLY:</p> <p>8 A. You're going to have to chime in here.</p> <p>9 MS. RUSSELL:</p> <p>10 A. I said yesterday that Hydro's position would</p> <p>11 be to deal with any changes in ROE during a</p> <p>12 GRA, that was in my testimony yesterday. I</p> <p>13 think I may have been asked, what if the Board</p> <p>14 decided to do something, if the Board decided</p> <p>15 to do something different than that, that was</p> <p>16 fine. If the Board decided to do something</p> <p>17 than between GRAs but Hydro's position was</p> <p>18 that ROEs are typically dealt with in a GRA.</p> <p>19 JOHNSON, Q.C.:</p> <p>20 Q. Okay, but you heard the discussion I just had</p> <p>21 with your colleague, now.</p> <p>22 MS. RUSSELL:</p> <p>23 A. Yes.</p> <p>24 JOHNSON, Q.C.:</p> <p>25 Q. Do you see an element of unfairness that could</p>

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1 be worked to the customer if there's not a -
 2 MS. RUSSELL:
 3 A. Again in the respect of if it goes down, and
 4 in that case too, it would be--and if
 5 Newfoundland Power went in, there ROE went up,
 6 then Hydro's would go up as well in that same
 7 scenario.
 8 JOHNSON, Q.C.:
 9 Q. Yes, there'd be symmetry wouldn't there.
 10 MS. RUSSELL:
 11 A. So in that way it's the balancing back and
 12 forth, so Hydro again, if it follows that, we
 13 had put forward the GRA but again if the Board
 14 decides to do something different, that would
 15 be up to their discussion.
 16 MR. PELLY:
 17 A. Agreed.
 18 JOHNSON, Q.C.:
 19 Q. I want to ask you about this latest
 20 application, this amended 2015 cost deferral
 21 application and I'd like to, if we could bring
 22 up page 14 of the evidence, I think it's
 23 Schedule 3 of that application.
 24 MS. GRAY:
 25 Q. Sorry, Mr. Johnson, you want page 14 or

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1 Schedule 3?
 2 (1:00 p.m.)
 3 JOHNSON, Q.C.:
 4 Q. Page 14, I thought that was part of Schedule--
 5 sorry, that's fine what you have there, thank
 6 you. And it says in that paragraph, under
 7 Table 6, "Approval of the proposed cost
 8 deferral of 60.5 million dollars will provide
 9 Hydro the opportunity to earn a reasonable
 10 return in 2015 and maintain the Board's
 11 ability to test 2015 costs throughout the
 12 GRA." So let's just break this down for a
 13 moment. First of all, you would agree that
 14 the Board is presently testing 2015 costs, so
 15 it's ability to test those costs have not been
 16 enhanced in anyway by this application, we'll
 17 accept that, right?
 18 MS. RUSSELL:
 19 A. Correct.
 20 JOHNSON, Q.C.:
 21 Q. Okay. Now in terms of providing this
 22 application, this proposed cost deferral
 23 providing Hydro the opportunity to earn a
 24 reasonable return in 2015, isn't that what
 25 we're doing now? I mean, we have interim

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1 rates in place, right? And given we have
 2 interim rates in place, how is it that Hydro
 3 can say that it's not having a reasonable
 4 opportunity to earn a just and reasonable
 5 return in 2015 without this application?
 6 MS. RUSSELL:
 7 A. So the problem or the issue with the interim
 8 rates is that the interim rates came into
 9 play, like in July, and it was passed, the
 10 peak season would have been the first quarter
 11 or the first half of the year is when Hydro's
 12 peak season would be and we did not have any
 13 rates, the interim rates does not cover that
 14 period. It only covers a certain month
 15 period, a six-month period, which is--and
 16 missed the sort of peak period, so we're
 17 missing--so this application is basically
 18 taking the other, the rest of those costs that
 19 the interim rates does not cover.
 20 JOHNSON, Q.C.:
 21 Q. So this is designed to give another crack at
 22 the first six months?
 23 MS. RUSSELL:
 24 A. It's designed for recoveries that Hydro has an
 25 opportunity to earn the reasonable return in

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1 2015 for 2015.
 2 JOHNSON, Q.C.:
 3 Q. How does this amended 2015 cost deferral
 4 application benefit customers?
 5 MS. RUSSELL:
 6 A. From the perspective--what, can you--I'm not
 7 sure of your -
 8 JOHNSON, Q.C.:
 9 Q. In terms of a customer, how would their
 10 interest be enhanced by the approval of this
 11 amended application?
 12 MS. RUSSELL:
 13 A. Well this particular application is focused,
 14 we're here on the 2015 test year and this is
 15 for, because again of coming past the December
 16 31st timeline of where we are for 2015, this
 17 would be to defer costs that we're going to
 18 get an order for at the end of this
 19 application, so if there was a change in any
 20 costs, this is just the deferral. If there
 21 was a change from the order, the final order
 22 on anything that was given in this particular
 23 application, that would be adjusted when the
 24 final order came for customers. So customers
 25 would only see the impact of whatever the

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1 Board's final order on Hydro's GRA.
 2 JOHNSON, Q.C.:
 3 Q. But how does this application put a customer
 4 better off versus just leaving things as they
 5 are or to let them -
 6 MS. RUSSELL:
 7 Q. Well, a customer, by this application, it is
 8 no better off or worse off, it is just a
 9 deferral of costs. The customer is not
 10 impacted by this particular application. This
 11 application is just setting up a deferral on
 12 Hydro's balance sheet. Customers are impacted
 13 until when we get the final order, then we
 14 will do up--or whatever the order is there,
 15 that's what rates will be set on.
 16 JOHNSON, Q.C.:
 17 Q. Would customers potentially have to pay more
 18 if Hydro gets this application -
 19 MS. RUSSELL:
 20 A. No.
 21 JOHNSON, Q.C.:
 22 Q. - versus the status quo.
 23 MS. RUSSELL:
 24 A. No, they will pay whatever comes out from the
 25 final GRA order, at the end of this

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1 proceeding.
 2 JOHNSON, Q.C.:
 3 Q. And so then, I guess what's envisioned now is
 4 a further process on this application within
 5 this already ongoing process.
 6 MS. RUSSELL:
 7 A. Yes, and I can't speak to what the process
 8 would be. That would have to be determined by
 9 the Board as to what that process would be.
 10 JOHNSON, Q.C.:
 11 Q. Yes, okay. Page 13 of the evidence, if you
 12 could. If you can go down a bit further, I
 13 think. Now, I'm looking for the section--I
 14 thought it was on page 13 where it talked
 15 about how the approval of the settlement
 16 agreement on an interim basis would provide
 17 Hydro with a degree of certainty with respect
 18 to deliverable dates, that's what I'm looking
 19 for. Maybe if we just scroll up a bit, there
 20 you go, that paragraph that's now at the top
 21 of the screen. "In the settlement agreement
 22 Hydro committed to providing a number of
 23 reports and applications by specific agreed
 24 upon dates. Specifically Hydro committed to a
 25 marginal cost study, cost of service

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1 methodology report, report on the RSP, filing
 2 date for its next GRA. Approval of a
 3 settlement agreement on an interim basis will
 4 provide Hydro with a degree of certainty with
 5 respect to these deliverable dates". But does
 6 Hydro need a further degree of certainty? I
 7 mean, you've agreed, presumably the work is
 8 well underway on some of these things.
 9 MS. RUSSELL:
 10 A. Yes, they are, yes.
 11 JOHNSON, Q.C.:
 12 Q. They are?
 13 MS. RUSSELL:
 14 A. Yes.
 15 JOHNSON, Q.C.:
 16 Q. That's not a strong justification for this, is
 17 it?
 18 MS. RUSSELL:
 19 A. I'm not sure of the context of that sentence,
 20 but I can assure you that all of the costs of
 21 the studies that were agreed to in the
 22 settlement agreement are well underway and
 23 will be done by the dates that were put
 24 forward in the settlement agreement.
 25 JOHNSON, Q.C.:

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1 Q. Okay. Just going back to the business about
 2 customers benefitting. Will customers be
 3 negatively impacted at all if the application
 4 that you're seeking, your amended application
 5 is not granted?
 6 MS. RUSSELL:
 7 A. No, there's no impact to customers from this
 8 application. It's strictly like a deferral of
 9 costs on Hydro's balance sheet. And what
 10 customers will see will be whatever comes out
 11 of the final order of the GRA from the Board.
 12 That's what customers--once everything is
 13 finalized.
 14 JOHNSON, Q.C.:
 15 Q. Okay. And I take it there is some sort of--
 16 the people who are looking at Hydro's books,
 17 they want to see some sort of regulatory
 18 asset, some sort of deferral account? Is that
 19 what Hydro is keen to achieve here?
 20 MS. RUSSELL:
 21 A. The reason for this is, again, as we had
 22 talked about--I talked about yesterday and the
 23 fact that the December 31 year end for 2015
 24 and we're sort of the same position as would
 25 have been at the end of 2014 with going past--

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1 and the order will not be before the end of
2 the year for us to record whatever the impact
3 of this GRA. So, this application provides
4 Hydro with that opportunity to earn that
5 return within that financial year end.

6 JOHNSON, Q.C.:

7 Q. Okay. Mr. Chairman, I think we're breaking
8 early and before going on, no sense, I don't
9 think. So, if we could stop now.

10 CHAIRMAN:

11 Q. Okay.

12 JOHNSON, Q.C.:

13 Q. Thank you.

14 Upon conclusion at 1:08 p.m.

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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 17th day of November, 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 17th day of November, A.D., 2015

12 Judy Moss

<p>-\$-</p> <p>\$500,000 [1] 72:9 \$500,000.00 [1] 167:17 \$70,000 [1] 80:16 \$900,000 [2] 87:15,20</p> <hr/> <p>-?-</p> <p>'07 [1] 141:14 '09 [2] 157:14,24 '14 [1] 121:3 '15 [3] 86:1 121:3 189:16</p> <hr/> <p>-.-</p> <p>.5 [1] 178:21 .6 [1] 31:19 .7 [1] 38:14 .9 [3] 31:10 35:6 38:9</p> <hr/> <p>-0-</p> <p>017 [1] 152:5 024 [1] 185:18 06 [1] 153:8 063 [1] 185:19 07 [1] 153:13 08 [1] 153:13 09 [1] 153:14</p> <hr/> <p>-1-</p> <p>1 [11] 30:17 33:9 34:5,21 40:22 51:14 124:11 179:3 179:7 186:2,2 1.0 [1] 34:18 1.4 [3] 33:22 34:17,23 1.8 [1] 39:21 10 [2] 44:6 153:15 100 [9] 82:15 99:5,13,19 99:20 101:3,8 163:5 184:15 100,000 [1] 81:5 10:00 [1] 56:9 10:15 [1] 69:17 10:30 [1] 86:10 10:45 [1] 105:7 10:57 [1] 118:24 11 [2] 153:15 188:3 11.75 [1] 31:4 110 [4] 43:15 45:23 51:22 54:8 113.5 [3] 119:22 120:1,3 114 [3] 46:15 51:24 52:8 115 [2] 45:21 46:9 11:35 [1] 118:25 11:45 [1] 130:5 12 [1] 153:17 12:00 [1] 144:7 12:15 [1] 158:5 12:30 [1] 172:11</p>	<p>12:45 [1] 185:15 12th [2] 2:5 43:15 13 [7] 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