NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
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Hearing Transcript

REFERENCE TO THE BOARD
RATE MITIGATION OPTIONS AND IMPACTS
MUSKRAT FALLS PROJECT

October 4, 2019

PRESENT:

The Board:
Darlene Whalen, Chair and CEO
Dwanda Newman, Vice-Chair
John O'Brien, Commissioner

Board Counsel/ Staff:
Jacqueline Glynn, Board Counsel
Maureen Greene, Q.C., Reference Counsel
Cheryl Blundon, Board Secretary

Parties

Nalcor Energy/
Newfoundland and Labrador Hydro
Geoff Young, Q.C., Counsel - NL Hydro
David Eaton, Q.C., Counsel – Nalcor Energy

Newfoundland Power:
Kelly Hopkins, Counsel
Liam O'Brien, Counsel

Consumer Advocate:
Dennis Browne, Q.C. – Consumer Advocate
Stephen Fitzgerald, Counsel – Consumer Advocate

Island Industrial Consumer Group:
Paul Coxworthy, Counsel
Dean Porter, Counsel
Denis Fleming, Counsel

Witnesses:

The Liberty Consulting Group – Panel
John Antonuk
Brian Daschbach
Kevin Cellars
Dr. James Letzelter
Randall Vickroy

(9:00 a.m.)
CHAIR:
Q. Good morning, everybody. Ms. Greene, are there any, or Jacqui, are there any preliminary matters, issues that you're aware of?
GREENE, Q.C.:
Q. No, Madam Chair, there's not issues that I'm aware of.
CHAIR:
Q. Okay. I guess we're going straight to Newfoundland Power then for questions.
MR. O'BRIEN:
Q. Thank you, Madam Chair. Good morning, Madam Chair, Commissioners. Good morning, Panel. Good to see most of you again. I'm not sure I've seen all of your before, but most of the faces look familiar. I'll try to direct my questions, I guess, this morning just to the Panel and I guess maybe directly to Mr. Antonuk, but as Mr. Eaton said yesterday, if anybody on the Panel has information, you feel free to share on any one of the questions that I might have. And I don't have too many for you today. I think you

for your presentation yesterday. You covered off most of the questions that I would have had. So, I do have mostly clarify questions really today. The first one I wanted to ask you had to do with the financial mitigation opportunities, and you identified the LCP dividends as the main sort of financial opportunity we have here for mitigation. It's the largest I guess in terms of potential funds there. I wonder, I notice you indicated that you felt it was outside of your scope to look at sort of policy issues with respect to whether or not all or any of those would be applied towards mitigation, but I wonder whether you considered, is there any risk that any—that all of those dividends might be available? Are there economic risks or other risks that might influence whether all of those dividends might be available in the future? Did you consider that?
MR. ANTONUK:
A. We did not do that. We know that there are certainly some significant uncertainties with respect to load and sales.

MR. O'BRIEN:
Q. Yes, okay.
MR. ANTONUK:
A. There have been issues raised about whether the rates are kind of sustainable in an economic basis. We did not get into those issues.
MR. O'BRIEN:
Q. Okay.
MR. ANTONUK:
A. The only issues we looked at or identified, we didn't examine them, were the economic issues to the province by having funds directed away from other uses and toward mitigation, and then the other issue was the whole question of maintaining the self-sustaining status of Hydro. So, when we talked about policy issues with respect to mitigation, it was those. It was those kinds of issues.
MR. O'BRIEN:
Q. It was those types of issues, yes. Okay. And just sort of moving along from that, you did identify some smaller sort of potential financial sources. And one of the ones I

noted you identified were water revenues, for water rentals. Newfoundland Power pays water rentals. Is that a source that you could see as a potential pot for mitigation?
MR. ANTONUK:
A. I don't see any reason why the issues that caused us to look at Nalcor and Hydro rentals in that way would not apply to Newfoundland Power.
MR. O'BRIEN:
Q. Okay, yes.
MR. ANTONUK:
A. I would put those in the same category.
MR. O'BRIEN:
Q. On the same principle, I guess?
MR. ANTONUK:
A. Correct.
MR. O'BRIEN:
Q. Yes.
MR. ANTONUK:
A. The same logic would apply to those, I think.
MR. O'BRIEN:
Q. Yes. And did you have a look at what potential revenues were there or what impact

that might have on your numbers?
MR. ANTONUK:
A. We did not.
MR. O'BRIEN:
Q. Okay.
MR. ANTONUK:
A. So, those would be additive.
MR. O'BRIEN:
Q. Additive to what you've got there, okay. Thank you. And you did mention yesterday one of the other ones was the HST. You didn't really look at taxation policy, but you did flag that in the past some of the provincial sort of side of HST has been applied as a rebate. You don't see any barrier to that happening in the future subject to government policy, do you?
MR. ANTONUK:
A. Correct.
MR. O'BRIEN:
Q. Yes, okay. Do you have any idea sort what kind of impact that might have on your numbers?
MR. ANTONUK:
A. I think the numbers were somewhere in the

vicinity of 50.
MR. VICKROY:
Q. Yes, 50.
MR. O'BRIEN:
Q. Yes. And I think -
MR. ANTONUK:
A. Let me stand on the numbers in the report.
MR. O'BRIEN:
Q. Yes, yes.
MR. ANTONUK:
A. But it would be fairly direct to calculate.
MR. O'BRIEN:
Q. Yes.
MR. ANTONUK:
A. Actually, what I'd like to do, we probably could do that, and rather than doing it off the top of my head, if you don't mind, we can do that and provide that after the break.
MR. O'BRIEN:
Q. I'd appreciate that. Yes, thank you. Okay. And one of the other areas you talked about yesterday and briefly in your report, and I kind of wanted just to get a little bit more information on that, was depreciation and

what sort of analysis you might have done there. I got the point with respect to Newfoundland and Labrador Hydro's assets sort of already having gone through a study recently, and you kind of looked at that and didn't see any reason to modify that. And I gather with respect to the LCP assets, that you took the position that they're sort of set in stone with the commercial agreements. Is that fair?
MR. ANTONUK:
A. That's correct.
MR. O'BRIEN:
Q. In your report, and I wonder if we could bring up page 28, the top of the page there. And I just wanted to ask you about that, that first line, "Nevertheless, we did examine whether the unwinding of arrangements that may involve Emera, the federal government and all bond investors might produce sufficient benefits to warrant pursuit." Did you do any sort of analysis around that, the unwinding of those arrangements and what benefits you could see?

MR. ANTONUK:
A. Randy, do you want to take that one?
MR. VICKROY:
A. Pretty much it's the last sentence in that particular paragraph.
MR. O'BRIEN:
Q. Okay.
MR. VICKROY:
A. We did look at 75 years to get a rough example of what might happen.
MR. O'BRIEN:
Q. Yes.
MR. VICKROY:
A. Yes.
MR. O'BRIEN:
Q. So, if you extended them out, service logs I guess, you extended them out 75—to 75 from the 50 in the agreement. This last sentence there, you indicated there's a one-to-one ratio. So, I guess there's—any dollar saved, was a dollar lost on dividends? Is that fair?
MR. VICKROY:
A. Yes, that's true.
MR. O'BRIEN:

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Q. And this is I guess all subject to the parties agreeing to unwind those arrangements. Is there any benefit to looking at methodologies? Would that assist with moving depreciation funds around? Would that assist in a rate mitigation perspective?
MR. VICKROY:
A. Yes, as John says, the PPA and the TRA are locked in.
MR. O'BRIEN:
Q. Right.
MR. VICKROY:
A. Inflexible. But if those agreements are opened up, I would expect everything to be on the table, including depreciation.
MR. O'BRIEN:
Q. Okay.
MR. VICKROY:
A. Returns, everything. If that ever happened.
MR. O'BRIEN:
Q. Okay, and if that were to be the case, so I guess depreciation could be modified to assist with the rate mitigation process?
MR. VICKROY:

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A. Sure.
MR. O'BRIEN:
Q. Okay.
MR. VICKROY:
A. I would think.
MR. O'BRIEN:
Q. Okay, and moving along to--the next topic I had was the Hydro and Power Supply Integration. And you spoke a fair bit about that yesterday and I appreciate that. And one of the comments I noted and you were brought to in terms of there being, in your report, no sound operational reason for continuing with that. Could you just expand on that just a little bit on what was in your report?
MR. ANTONUK:
A. I'm not quite sure I'm tracking with the point that –
MR. O'BRIEN:
Q. Okay. No, Mr. Eaton had pointed out to you a line in the report where you had indicated there is no sound operational reason for maintaining the distinction any more between Hydro and power supply.

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MR. ANTONUK:
A. Oh, I'm sorry.
MR. O'BRIEN:
Q. Could you expand on that?
MR. ANTONUK:
A. Yeah, I can. We looked at how the Power Supply assets are managed, we looked at how the Hydro Power Supply assets are managed and we found that combining them would not pose any operational barriers, and in fact, would promote operational improvements as a matter of fact in addition to producing staffing reductions.
MR. O'BRIEN:
A. Okay.
MR. ANTONUK:
A. So, that was the point.
MR. O'BRIEN:
Q. All right, okay. And in terms of the figures that you identified, you identified, I think there 113 FTE reductions. Is that correct?
MR. ANTONUK:
A. Yes.
MR. O'BRIEN:

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Q. I got the import from your evidence yesterday, you felt that was a conservative figure?
MR. ANTONUK:
A. We're comfortable with that figure and any figure like that has risks, error risk. I would say it this way, the risk that that number is high is, in our opinion, lower— higher than the risk that the number is high. In other words, if I would take a 50 percent probability, I think we're well above that in terms of that number. So, I would expect is it more likely that those numbers will go up than down.
MR. O'BRIEN:
Q. All right. Than down, okay.
MR. ANTONUK:
A. And I don't want to try to get it any more precise than that because I think we have to accept the fact that we're dealing with something that not subject to mathematical certainty.
MR. O'BRIEN:
Q. That's fair, okay. I wonder if we could bring up the Nalcor submission, page 26?

And I'm not certain you can answer this question, but I'm going to ask it anyway. So, it's page 26 on the bottom, I think. Yes, so there's a heading there, "Finding Efficiencies," and there's a discussion there about a table that starts on the next page, but if we start on line 23, it says, "The table below shows actual Nalcor FTE numbers in 2016 and steady state 2022 forecast post-reliable in service of the new assets." And the plan transition of Holyrood Thermal Generating Station to synchronous condenser facility." So, if we go to the next page then, now there's a table up top. So, Nalcor has—it shows the actual FTEs in 2016 up to a forecast in 2020 and a '22, 2022 forecast. And I gather from this submission there's an indication that the actuals increased from 2016 to 2020 and that's sort of associated with the commissioning, getting ready for commissioning, that sort of thing, but there's an indication of a decrease forecast from 2020 to 2022. Those figures, do you know and did you consider those figures and

whether or not they include your 113 FTEs? Are you able to answer that?

MR. ANTONUK:
A. No, we can't parse that. I can say that to the extent that they assume the change in Holyrood, that certainly would be different.

MR. O'BRIEN:
Q. Yes.

MR. ANTONUK:
A. And I imagine some folks in this room have read our Reliability Report and we certainly do not—did not proceed from the assumption that Holyrood would be retired.

MR. O'BRIEN:
Q. Okay.

MR. ANTONUK:
A. We think that's a matter we're probably going to be talking a little more about in a month or two.

MR. O'BRIEN:
Q. Okay.

MR. ANTONUK:
A. Beyond that, we did not parse these numbers to try to see if they did or did not include—I think the clearest statements in

the Nalcor submission related to a 2.5-million-dollar reduction associated with Exploits.

MR. O'BRIEN:
Q. With Exploits.

MR. ANTONUK:
A. And then, I think an additional $2,000,000, but we weren't able to determine, and I'm not sure Hydro has either, exactly where that 2 million would come from.

MR. O'BRIEN:
Q. Well, I guess on that point, in the submission that $2,000,000 is raised as an efficiency goal, but it's also indicated that that was suggested by Liberty. Is that the case?

MR. ANTONUK:
A. No, that's not. I don't think that's correct. It's not easy to tell what that 2 million is from our perspective, but our numbers are the 113.

MR. O'BRIEN:
Q. Okay.

MR. ANTONUK:
A. And that includes changes at Exploits.

MR. O'BRIEN:
Q. All right.

MR. ANTONUK:
A. It would be wrong to suggest that we're saying 2.5 million from Exploits and only 2 million more.

MR. O'BRIEN:
Q. Okay.

MR. ANTONUK:
A. Somehow, I don't think that can possibly be what Hydro or Nalcor were saying there, but as I said, it's a little unclear.

MR. O'BRIEN:
Q. But that 2 million, that's not a figure that you put on the table as being a reasonable figure. It's a figure that you see as additive to the 113?

MR. ANTONUK:
A. No. What would be additive to the 113 would be the results of what we do recommend which is a comprehensive efficiency and effectiveness review by Hydro.

MR. O'BRIEN:
Q. Okay.

MR. ANTONUK:

A. I think they have put on the table something that sounds close to that, but I don't know its dimensions. So, there is a number in excess of the 113, but I would not suggest that that number is 2 million.
MR. O'BRIEN:
Q. Okay.
MR. ANTONUK:
A. I would suggest that that number would be determined after the effort that hydro is talking--I think Hydro is talking about and certainly the effort that we recommend Hydro undertake.
MR. O'BRIEN:
Q. Okay, that's clearer to me, thank you. And in terms of—if we go back just to the 113, I gather from your report that you identified that after reaching a "steady state," you—the figure I guess in terms of dollars and cents you put on it was somewhere in the range about 17 million dollars? Is that the annual –
MR. ANTONUK:
A. Yes. Yeah, the number obviously will grow after that.

MR. O'BRIEN:
Q. Yes, yes.
MR. ANTONUK:
A. Because inflation will occur.
MR. O'BRIEN:
Q. Okay.
MR. ANTONUK:
A. So, I can't remember the numbers. I mean, we certainly have them plotted out more specifically.
MR. O'BRIEN:
Q. Yes.
MR. ANTONUK:
A. We tried to stick with—more with averages. So -
MR. O'BRIEN:
Q. Okay. And does that include, and I'm going to just ask you a few more questions in a minute on this, but does that include the 12 million that you identified for the O&M costs? Is there an overlap in that?
(9:15 a.m.)
MR. ANTONUK:
A. The fellow whose son is getting married could do this a little better, but the only

overlap relates to a category with LCPM, the three that was administration.
MR. O'BRIEN:
Q. Okay.
MR. ANTONUK:
A. I believe that's the title for it. And those were costs that were in the LCP O&M budget as an allocation of certain corporate and service costs.
MR. O'BRIEN:
Q. Okay.
MR. ANTONUK:
A. We addressed corporate and service costs reductions directly in the rest of the report. So, that administrative portion, while the elimination of the positions we're talking about would lower the LCP O&M budget, that portion is not additive.
MR. O'BRIEN:
Q. Okay.
MR. ANTONUK:
A. You know the problem we have, not the problem we have. The need we had was to address the total reductions.
MR. O'BRIEN:

Q. Right.
MR. ANTONUK:
A. But then, also to say, "Well, what's going to happen with LCP O&M?"
MR. O'BRIEN:
Q. Right, okay.
MR. ANTONUK:
A. You know, so the fact that that administrative portion that we remove from LCP O&M is not additive, still doesn't mean it's not going to show in the LCP O&M budget.
MR. O'BRIEN:
Q. No, I get that, yes.
MR. ANTONUK:
A. It's not really a matter of where the dollars are allocated. They're not additional dollars.
MR. O'BRIEN:
Q. It's not addition, okay. And do you have any sort of idea as to what that kind of figure might be in terms of that you'd see in both categories?
MR. ANTONUK:
A. We do and I think that's in the report.

MR. O'BRIEN:
Q. Okay.
MR. ANTONUK:
A. I don’t recall it, and do know where that is?
MR. O'BRIEN:
Q. If it’s in the report, I can pull that up just in terms our –
MR. ANTONUK:
A. Is it the--where is that? Where would we find that? Well, why don’t we do this? We already have one mission at the break. I think we can take this one on, too.
MR. O'BRIEN:
Q. I’d appreciate that, thank you. Yes.
GREENE, Q.C.:
Q. And just to be clear, Mr. O’Brien, could you clarify your question, please?
MR. O'BRIEN:
Q. Just to see what the impact of the dollars and cents were in the overlap between the LCP, that administration cost between the overlap, I guess the overlap between the LCP O&M and the 113. So, your Power Supply Integration figure.

MR. ANTONUK:
A. Yes, and I’ll clarify. I called it administrative.
MR. O'BRIEN:
Q. Yes.
MR. ANTONUK:
A. We’ll clearly identify what the category actually is.
MR. O'BRIEN:
Q. Perfect.
MR. ANTONUK:
A. If it’s other than that, and we’ll identify the dollars associated with that.
MR. O'BRIEN:
Q. The dollars and cents. Yes, okay. With respect to the analysis you did for the Hydro Power Supply and I’ll call it reintegration, I believe is what you had called it in your report. You made a comment yesterday about sort of allowing Nalcor then to focus on Nalcor efforts, I guess, and future, and I got the impression that that would allow then Hydro to focus on utility efforts and there not being an overlap once Power Supply came back in. Is

that fair?
MR. ANTONUK:
A. I think that’s correct. I think our recommendations would in effect say that the consolidation of the utility assets and their operation under Hydro would be the end result and that would leave Nalcor to pursue the other elements of whatever mission the province decides is appropriate for it with respect to energy development or anything else for that matter.
MR. O'BRIEN:
Q. And that’s sort of what I took from your comment yesterday and I wonder whether or not the idea or the thought process that Nalcor will be continuing to focus on oil and gas in the future, was that something that was in your mindset when you analyzed this integration process from the start?
MR. ANTONUK:
A. Yes. Yes, we understood—I think we started with the belief that the entirety of the oil and gas business, both operation or management of current assets and future assets would move to another entity. Then,

we came to understand that from an investment management perspective and equity investment management perspective, if you will, that certain functions would remain. And we saw those sounding like they were largely a financial and accounting function. We assumed that they would stay.
MR. O'BRIEN:
Q. Okay.
MR. ANTONUK:
A. Not per our ideal scenario, but I think where we ended up on that is that if you sort of consolidate under Hydro and you leave Nalcor to pursue these, whatever else in on its agenda separately, that that function could just as easily move, that those are not the -
MR. O'BRIEN:
Q. Okay.
MR. ANTONUK:
A. The kind of resources who are going to manage investments in oil and gas resources aren’t the kind of resources you could find only at Hydro. You know, you could-- presumably somewhere else in the province,

those kinds of resources exist and it would be just as easy it seems to us to provide that, those services, from elsewhere.

MR. O'BRIEN:
Q. Okay, all right.

MR. ANTONUK:
A. Or there's another way of looking at it, too. If they truly are nominal, if it's a nominal level of effort, it would not not also be a big deal to keep those in Hydro. It just seems to us that there's no real reason to do that and there's no real efficiency in doing that.

MR. O'BRIEN:
Q. Okay. Did you consider or can you answer this, whether or not there may be any risks associated with moving Power Supply back into Hydro? Does anything there jump out at your as being a risk to the customer?

MR. ANTONUK:
A. No, I think it's mitigative of both price and operational risk to do so.

MR. O'BRIEN:
Q. Okay, thank you. Just moving on to another topic. You talked yesterday about some

jurisdictions where you may see T&D or Transmission and Distribution regulated, but generation in a competitive market. So, I guess I'd say regulated by competition or the discipline of competition. Have you ever come across a jurisdiction where transmission is not regulated?

MR. ANTONUK:
A. There are cases where some elements of transmission is unregulated at the local level. It is always regulated at the federal level.

MR. O'BRIEN:
Q. Okay.

MR. ANTONUK:
A. In the US. The issue is still the same though in terms of the reason it is not regulated at the state level. When it becomes unregulated at the state level, it's because it is operating in an interstate competitive market and the retail customers are not kind of price-and-service takers from it. Deregulation of transmission is largely a function of, in fact, deregulating the generation market. It's been decided

that in certain cases, the bulk power market would be advantaged by encouraging entry of competitive players who are willing to take investment risks.

MR. O'BRIEN:
Q. So, absent that kind of scenario, are you aware of any situation where transmission is not regulated?

MR. ANTONUK:
A. No. No.

MR. O'BRIEN:
Q. Or is regulated, I should say.

MR. ANTONUK:
A. No, and as I said, the better way to look at transmission is not so much deregulation, but movement of regulation from the state to the federal level.

MR. O'BRIEN:
Q. Okay.

MR. ANTONUK:
A. We're trying very hard to promote a fully integrated electricity market in the US, at least our federal energy regulatory commission is. Some old buzzards don't necessarily like that, but that's really the

goal, is to encourage investment that will promote linkage of systems so that generation, market-based generation, can now have a greater reach that it could before transmission constraints get eliminated.

MR. O'BRIEN:
Q. Okay, thank you.

MR. ANTONUK:
A. It's not a departure from the classic model though.

MR. O'BRIEN:
Q. It's not? No, okay. And the last area I wanted to cover with you was the LCP O&M costs. So, I had a few questions on that. You've talked about yesterday and it's in your report about the basis that you sort of worked from, from the O&M costs, and I believe it's the more recent June or March and October of 2018 figures. The last one I think being in the 97-million-dollar range for annual O&M costs. And you mentioned that you thought that was a sound baseline. Can you explain that to me just a little bit further in terms of the any analysis you went into to come to the conclusion that was

a sound baseline?
MR. ANTONUK:
A. Yeah, I cannot start, and if we want to pursue details, I guess Kevin is going to my next stand-in.
MR. O'BRIEN:
Q. Sure.
MR. CELLARS:
A. I'll be his proxy for a second.
MR. ANTONUK:
A. In other words, we may pass this ball a lot before we shoot it. We looked at the basis for the estimate.
MR. O'BRIEN:
Q. Okay.
MR. ANTONUK:
A. The staffing, the internal contractors, services, contingency. We looked at all of those, questioned how they were developed and with any estimate on something that is under development, estimates get smarter as you go along. You have more information. You narrow ranges of uncertainty around key elements of that estimate. And I think where we were is we reached the conclusion

that they had a sound foundation. They used assumptions that were solid. They were using information that was reasonably current. So, we decided it wasn't anymore conceptual. It really was pretty well founded.
So, the issue became not so much kind of saying is the structure of the estimate any good. It was. Are the assumptions wide open? They weren't. It was really more a question of now we can dig into each specific assumption, question it and see if refinements are possible. So, I'd say our process was more saying how can we, if possible, refine this estimate in a way that would have an effect on the costs.
MR. O'BRIEN:
Q. And did you do any sort of benchmarking sort of based on the cost of construction and that kind of thing, the project? Is that something that happens? Did look at O&M costs?
MR. ANTONUK:
A. As came up yesterday with the sanity check that we talked about, we did do some

staffing and O&M cost benchmarking with other hydro projects. But the work that we did to actually come up with the specific adjustments was based on a look at what's happening here and what management was assuming here.
MR. O'BRIEN:
Q. And I guess in terms of if you apply just a benchmarking approach at the start, you'd get into issues surrounding costs of delay, cost in the project itself. We saw a project that went way over budget, that kind of thing, and with delays and that sort of thing. If you use that as a benchmark, you don't get a good feel for what the real O&M costs would be going forward? Is that correct?
MR. ANTONUK:
A. That's certainly a factor and there are other factors too, which is, you know, the LCP here involves a significant transmission component. So, you know, to benchmark just Muskrat Falls, you have isolate. Trying to benchmark LTA or the LIL would – I'm not even sure how you'd start to do that. You

know, they're so unique. So, there were a lot of – there are a lot of reasons for that. And there's a fairly high level of variability in those costs from plant to plant too. You know, the – you have adjust for size because there's not a linear relationship, for example, between the number of people it takes to run a plant and the megawatts or the megawatt hours it produces. So, it's a difficult exercise to do that with these kinds of assets, particularly with the mix of assets involved in LCP because your O&M budget is not just Muskrat Falls.
MR. O'BRIEN:
Q. And that wasn't your main analysis, a benchmark?
MR. ANTONUK:
A. No, it -
MR. O'BRIEN:
Q. Just your sanity check?
MR. ANTONUK:
A. That's correct.
MR. O'BRIEN:
Q. And I guess in the end, in terms of those

costs, customers would be looking at paying actual costs anyway in future and I believe you did speak yesterday about a number of things, processes the Board could do if this is regulated to look at those costs as to whether or not they're reasonable. Is that fair?

MR. ANTONUK:
A. Yes.

MR. O'BRIEN:
Q. The reductions that you noted, the 12 million dollars, I guess, in total -- it's in that range – am I right in understanding that Nalcor was given a mandate to try to come up with 12 million dollars in reduction in that area?

MR. ANTONUK:
A. I know there was a mandate. I don't know what the number was.

MR. O'BRIEN:
Q. Okay.

MR. ANTONUK:
A. I'm sure I knew it at one time. It doesn't – it didn't stick with me. It wasn't something that we considered and I don't

know if that number came out before or after anything we did. It wasn't a factor to us.

MR. O'BRIEN:
Q. And I guess that's really the point of my question, just wondering whether or not your process was to look at that figure and verify that's an appropriate reduction or did you look at areas that Nalcor suggested to you as areas to reduce or was this your own process? How did that work?

(9:30 a.m.)

MR. ANTONUK:
A. Oh, I think it's – it was our own process, but we certainly worked very closely with the folks who know the estimate from a financial perspective and the folks whose operations drive the cost. So, we worked pretty closely with them in trying to identify areas. There were some areas where they talked about possible changes. There were areas we talked about possible changes. As a result of that dialogue though, we kind of stepped away from it and said "what's our judgment?" So, I'm going to give them a lot of credit for participating and for putting

suggestions on the table in real – you know, real savings suggestions, but in the final analysis, we didn't just use anything they gave us.

MR. CELLARS:
A. That's correct.

MR. ANTONUK:
A. We processed it through our own analysis.

MR. O'BRIEN:
Q. And were there any areas where you differed? Where they might have said well, that's not an area where you can see savings or vice versa, that you can re-cost (sic.)?

MR. ANTONUK:
A. I don't. Kevin, do you recall any?

MR. CELLARS:
A. Yeah, I think the contingency area John talked about I think yesterday was an area where we probably differed somewhat and some timing of some of the reductions. But, as John indicated, we did a line-by-line review of that estimate back from the original estimate to three generations of it. We looked at the drivers of those costs. We even dove deeply into the environmental

costs. So that speaks to your benchmarking. The environmental costs here were so unique that it'd be hard to do some benchmarking here. But there was benchmarking done by other consultants in some of the numbers of people. We reviewed all that. So, there were recommendations we did make that were different than theirs. And as John had indicated, we agreed with some and disagreed with some.

MR. ANTONUK:
A. I think what we – you know, we may know where they – where we – when our discussions ended, we might have known their last statements and our last statements. I think you really need to ask – it's worth asking them now where they are after seeing the report, because, you know, when they saw our report, I assume they went through another process of saying "are there areas where we disagree? Where do we disagree?"

So, all I'm saying is I think that we can describe to you the discussions, but I think it's a little harder for us to kind of tell you where today where we sit, there might be disagreements about the pieces. I suspect they'll have a sense of that though.

MR. O'BRIEN:
Q. Those are all the questions I have for this panel, Madame Chair.

CHAIR:
Q. Thank you, Mr. O'Brien. Who are we going to next? The Island Industrial Customers or Consumer Advocate?

GREENE, Q.C.:
Q. Consumer Advocate, Madame Chair.

CHAIR:
Q. So, Mr. Browne.

BROWNE, Q.C.:
Q. Thank you. Thank you, Madame Chair and Panel. And members of the panel, we generally agree with your findings and are pleased that you entered into so many areas which will certainly be of assistance to – ultimately, I guess, to the Government in following the Board's recommendation in assisting consumers to find a ways and means to have affordable electricity.

In terms of an overview, everything has context. How are the electricity markets

doing in the United States right now and can you comment in terms of the future? Where are energy markets headed generally in the future, just from your own knowledge? And you all have healthy resumes and I'm sure you could comment on that.

MR. ANTONUK:
A. Wow. I'm going to start with the transmission and distribution side. I think those markets are healthy. I think in the US, we have made a substantial commitment to addressing aging infrastructure, which was, I believe, the most challenging problem that we had. I think we've also done a good job of incorporating intelligence into the networks in ways that shorten outage durations, in ways that allow customers to have more control of and understanding of their usage. I think there's still substantial room to grow there.

On that side of the business, I think the main challenge we face is a strong interest in allowing distributed generation and customer provided generation. We are in the process of working through what are some

pretty substantial technical technological issues and allowing that form of integration, but I'm optimistic that we're going to work through those and we're going to start to create, even at the T&D level, some interesting and important means of competition, increased customer choice, increased customer benefits.

With respect to transmission, I think we already talked about the fact that we're doing a lot to strengthen interties. I'm not sure we've been very smart about subjecting them to the right kind of economic analysis all the time, but I'm comfortable with that because I think we're moving in the right direction there, which is to allow generation to reach farther, a greater population, and the more it does that that means the more competitive choice that will exist.

I have a lot of concern about the energy supply business. Prices are very low. We have a lot of sources of generation. They are sources that, on the whole, are less carbon intensive, primarily

natural gas. I think surprisingly you'll find that the biggest carbon reductions in the world are occurring in the US electricity industry and it's primarily through the substitution of natural gas for coal. The problem we have there right now is that a lot of the people in the energy business or trading business, generation business, are struggling because prices are so low because there are so many low cost sources of generation around and that competition is driving prices down. But another factor that's just as important is there's an increasing level of required take of wind and solar generation. Whether it's economic or not, that's being put into the system for economic reasons and that is effectively having an adverse effect on those who are generating by traditional resources now because the available pool to sell is smaller because so much more of it is now through renewable resources.

So, I'm not sanguine about the energy market. There's over supply now. There are continuing uncertainties about how much more we're going to move towards clean sources of energy. I think it's a very open question of whether there will be room for many – for new entrants in the business and the fact that the existing entrants are struggling suggests to me that we face, not in the near term but in the longer term, a shortening of what is now an amble and fairly economical source of supply.

Overriding all of this is where we and the rest of the world come out on production of carbon. I think that that's an issue whose outcome I have no ability to foresee, but I think it has the potential for more fundamental changes in the energy market then I've ever lived through, as someone who's been in this business for closing in on 40 years now. I'm sorry, that probably was pretty longwinded, but that's it.

BROWNE, Q.C.:

Q. Does anyone else have something to offer in terms of where you see the future, in terms of energy, electric, electric versus natural gas, the competitive American market pricing?

DR. LETZELTER:

A. To put the future into context you have to look at where the US power markets are over the past decade. Thanks largely to fracking, natural gas prices are at extremely low price levels and since in most of the mature competitive power markets in the US, PJM, the New York ISO, ISO New England, ERCOT, and the CAL ISO, a lot of the time energy prices in these markets are set by gas-fired units and with gas prices so low, we've seen extremely depressed power prices. And there's no reason to believe that the gas commodity and delivered prices are going anywhere much higher than they are in the foreseeable future, which means that power prices will continue to remain at fairly low levels from an historical standpoint.

BROWNE, Q.C.:

Q. So, when you said – one of you said there's no room probably for new entrants into the market. What does that mean?

MR. ANTONUK:

A. Well, with prices so low, the cost of entry

is installation of the source of supply and you're just not – you're not seeing the ability to make the kind of returns with extremely low gas prices that would make the market as rich as it was. We had a literal explosion of new – I shouldn't say it that way. We had a vast increase in natural gas supplied resources. It was very healthy. And I think the problem is this is what happens with competition, you know. Everybody's chasing a good deal 'til they make it a bad deal. So, you can still get into the business. I mean, the barriers to entry are low in the sense of you can – just about anybody who has the money can build a plant, but the barrier is trying to get enough revenue to justify the cost of it and the best evidence that that's problematic is this is all the major players in the game pretty much are reducing – projecting significant reductions in their investment on the generation side of the business now. Exelon.

MR. CELLARS:

A. PS.

MR. ANTONUK:

A. Yeah. They're all cutting back because they all see basically a glut of capacity and natural gas prices that are so low that they foreclose pretty much any other option, except options that will continue to have value because we will support them kind of despite higher costs. We're supporting them because they're reducing carbon production basically.

So, the market is still probably pretty good for people who can find a way to provide solar and wind, but for those who are supplying traditional sources, I think they're struggling with what their future is and frankly, a lot of them are actually turning towards investment in their utility operating companies.

I told you a little bit ago, I was happy to see infrastructure development because I think it was solving a big problem we had, but you can go too far there too. You know, if I'm a – if I have a generation and trading business and a utility business and I can't put my cash flow into the generation, where do I end up starting to put too much into the T&D side. So we may actually be moving into that position in the US where we're gold plating the T&D systems because the affiliates who are in the energy and generation business don't find investment there as attractive as they did over the last ten years anyway.

BROWNE, Q.C.:

Q. So, it's a fair comment that there wouldn't be too many in the United States that are building large hydroelectric projects right now?

MR. ANTONUK:

A. I can't think of any. I can't think of any.

BROWNE, Q.C.:

Q. And it's because of this natural gas competition that's out there and the cost of building versus the cost of producing natural gas and -

MR. ANTONUK:

A. There's no doubt that natural gas prices are going to become so low and the competition in competitive markets is so great that hydro is not the bargain it used to be.

That's for sure. And there's risk, you know. If you build the plant, even if it looks cheap by comparison, it's still hard to find folks who are kind of building on spec. In other words, trusting to the market to provide them with the revenues that they need to cover the cost of the investment and the operations.

BROWNE, Q.C.:

Q. So there's no financers giving money for hydroelectric because there are no long term contracts people are signing onto, in reference to the purchase of the same? Is that a fair comment?

MR. VICKROY:

A. Go ahead.

MR. CELLARS:

A. Absolutely.

BROWNE, Q.C.:

Q. What's that?

MR. ANTONUK:

A. I'd say that's fair. That's fair. Now what's going to happen – I don't want to project that indefinitely into the future because as I said, I think we're – I think

we're wrestling very mightily with the balance between the threat that carbon produces and the need to sustain a strong economy and I don't know who's going to win that wrestling match, to be honest with you. I'm not sure where I come out on it, to be very candid with you. I think it's almost an existential threat and even if it's not so from a climatological point of view, it is from an industry structure point of view for sure. I'm just kind of out investment in the energy business.

BROWNE, Q.C.:

Q. And yes, anecdotally, we hear that large companies such as Hydro Quebec are having difficulties securing contracts. People prefer the spot market. Is that correct?

MR. ANTONUK:

A. I don't know about Hydro Quebec specifically, but I do know that the spot markets are – there's heavy use of them and I think they're not considered as risky as they were before because of the nature of the relationship between supply and demand in our country. I can't – I don't – I think

it would be presumptuous to speak for Canada. We haven't looked at that aspect of the issue north of the friendly line that divides us.

(9:45 a.m.)

BROWNE, Q.C.:

Q. I think just yesterday, and I think it's Dr. Feehan who checked when we were meeting, the New England market price for electricity was 2.4 cents, 2.5 cents US.

MR. ANTONUK:

A. Yeah, that's not surprising. We manage – or not manage, we oversee the conduct of auctions that are done across an entire state to provide supply and what we were yesterday calling restructured markets and I think we're constantly surprised at the level of the prices that we're seeing. Pleasantly so in the short run; somewhat worryingly so in the long run because when you see those kind of prices and you think about the kind of costs that are driving them, it should give you concern about who are going to be new entrants as the old facilities wear out and as people leave the business.

You know, we just had a major bankruptcy by a company called First Energy and the last I heard, they were having trouble selling their assets. So, it's likely those assets are going to shut down. So, what does that mean in the long term? Anybody's guess, I think.

BROWNE, Q.C.:

Q. When you're talking about the future, future is a large word, are we talking 5, 10, 15 years? When will we see some level of certainty in reference to pricing or will we ever? There's a new game in town, I guess, in reference to fracking and what that does for the business, period.

MR. ANTONUK:

A. Yeah. I think Jim's right. I think the consensus is pretty clear that gas prices are down to stay and I'm not – I used to be a Pennsylvanian and we produce a heck of a lot of it. So, I'm not sure I'm happy about that. But that's – I think that's the reality. So, I think gas is really going to set a very, very high bar because of its

price is staying so low. Again, I think what's really the big factor that's going to change is whether we do or don't expand the percentage of energy production that we demand to be produced from non-carbon producing sources.

BROWNE, Q.C.:

Q. Just moving on, it's good to have that context because as we're here preparing and preparing for the future, it's good to know what's out there and this is helpful that we have this context. Just as an update because we're trying to make a determination here of how much money will be needed to mitigate against Muskrat Falls and you referred yesterday to General Electric, the LIL software issues. Do you have any idea when we can see electricity coming down through the LIL when the software issue will be remedied?

MR. ANTONUK:

A. I find the persistence of that issue troubling, without intending to cast any aspersions on management's ability to get GE to perform. I have – as I think we've been

saying in our quarterly reports, we've lost confidence in the ability to have faith in a firm date. There have just been too many, too many misses. The problems are still pretty substantial. And again, I say that without intention of saying that I think – I'm not intending to say management's not on top of it and when we meet with them, it's clearly as big a concern as they have in running the business. But, no, I don't think I have an ability to state with confidence when we think the LIL will be fully functional. I think we're about due to start – every time I think we just finished the last quarter, another one's starting. So, we're going to be looking again beginning, I guess, in a couple of weeks. So, we will be issuing another report in the reasonably near future on that and I hope we'll be able to say that management sees the light at the end of the tunnel and the light's bright enough to conclude that it's just around the corner.

BROWNE, Q.C.:

Q. Because from our perspective, from a rate

payers perspective, and I guess from what we're doing here, until the LIL is operational and there's electricity coming down, we are effectively dependent still on Holyrood and on oil, and what transpires there, but you also mentioned here a few moments ago that in reference to Holyrood and the closure of Holyrood, did you not say you were uncertain of whether or not that would happen?

MR. ANTONUK:

A. Yes, our reliability report, I think, attempts to make clear the need to look very carefully at reliability even after the LIL is in full and dependable operation, and to determine whether there will remain exposures that other alternatives, potentially including Holyrood, could mitigate, risk those options could mitigate. I would commend you to that report where we go into a great deal of detail on those issues.

BROWNE, Q.C.:

Q. So it's not inconceivable that after spending all of this money to bring electricity to the island and to the Avalon Peninsula, that we still might need Holyrood?

MR. ANTONUK:

A. That is not inconceivable. I don't think I'm in a position to say whether it's probable or not, but it's certainly not inconceivable.

BROWNE, Q.C.:

Q. In reference to your report, initially in your report part of what you were studying in the first phase of your report was financing, the federal and provincial governments, and the possibilities there and it's referenced in Phase 1 of your report. I think it's page 11, if we can just go to that, page 11 of your report and the first phase. So we're in Phase 2 now, Madam Clerk. If you can go to Phase 1, on Phase 1, you were looking there at various financing options and you had these there because, I guess, you anticipate, or the Board anticipated that the federal and provincial governments would be studying these and, therefore, you were given a

directive not to study them any further to avoid duplication, but from what you knew from Phase 1, what are the possibilities, what would the federal and provincial governments be looking at in terms of ways to, I guess, defer or bring down rates or find some money to deal with in the short term so we can mitigate against rates and probably postpone something for down the road. One of the things you state you're looking at is Sinking Fund Payments. Exactly how would that work?

MR. ANTONUK:

A. I have to – I'm not hesitating because I don't have an answer. I just want to make sure that I'm on solid ground with respect to what's public and not, so as soon as I get the green light, I'll go for it.

GREENE, Q.C.:

Q. It may help if I clarify. Certain information in terms of dollar amounts are only available on a confidential basis, but in terms of what the options are, they are in your Phase 1 report. I'm not sure how helpful the commissioners will find it at

this point to go into a lot of detail, but I think at a high level if you identify what you found the potential options were without any knowledge of what the current discussions are, because Liberty has not been involved and has not been informed of any of the specifics of any of the discussions, nor has the Board.

MR. ANTONUK:

A. Okay.

GREENE, Q.C.:

Q. So if you stay at a high level without getting into numbers, we should be fine.

BROWNE, Q.C.:

Q. And if we could do a general number, I'm not interested in breaching any kind of confidentiality which may or may not be there in reference to these, a lot of them have been publicly discussed, so Sinking Funds certainly have been discussed for a while and that it's one covenant that could be looked at.

GREENE, Q.C.:

Q. Yes, and the fact that it could be looked at, but unfortunately the information as to

the amount and the impact it would have is available in the confidential information and remember there was two days notice required if you wanted to get into the specifics of what the numbers are. So if you want to pursue it further, you would have to raise that issue with the Chair and we would have to decide how the process would continue from here if you want the numbers.

BROWNE, Q.C.:

Q. Well, maybe we could do it in a general fashion. If we're talking 50, 100, or 200 million or in that vicinity, we can do vicinities as opposed to specifics because, I guess, the specifics change anyway. So just to get on with this, rate payers need to know, people are looking for certainty out there. It's not just a matter of the reference to the Board and the Board giving government. People are curious as to how this is going to occur, and is this a song and dance that's being done between the federal and provincial governments, or are there real opportunities here to mitigate.

So that's where I'm coming from to ensure rate payers out there that there are real possibilities here, and one such possibility probably would be the Sinking Fund payments. If you could just generally describe the way Sinking Fund Payments work, and we've all seen the covenants, the agreements are all out there publicly. The loan guarantees and the various financial instruments are there, they're out there. So can you just comment generally what the real possibilities are? Maybe that's the way we can approach and everyone be in general agreement, is that okay?

GREENE, Q.C.:

Q. That would be – I believe, Madam Chair, that would be consistent with the process that we've outlined.

MR. ANTONUK:

A. Randy, can you describe basically how the Sinking Funds work? I think we should stay away from amounts, right, and then I'll try to pick up and tell you how we might use something like Sinking Funds to sort of, what I'll say, manage the future rate path.

So can you just describe, without numbers, what the Sinking Funds are doing?

MR. VICKROY:

A. The Sinking Funds are established in the debt agreements, and basically the idea of the Sinking Fund Payment is to set aside in escrow funds for the repayment of the bonds at maturity. Now the Sinking Funds in this case would be applied to Tranche A and Tranche B of the FLG, and they are substantial. Now the reason that the Sinking Fund Payments are there is primarily so that the federal government is assured that the projects have the capital on hand or have the cash on hand to pay for the bonds at maturity. So it's really the Sinking Funds in this case are for the comfort of the federal government that the bonds will be repaid. This is not for the investors. This is for the federal government's comfort, we would say.

MR. ANTONUK:

A. Now Randy has just established the diving board, I'm going to jump in. Can you put up page 15, Slide 15, from our presentation

yesterday. I think that's real Slide 15. While she's doing that, think of Sinking Funds as payments made early that have the effect of reducing payments you will make later. So thinking of Sinking Funds as moving mitigation around not necessarily increasing it. If you look at this chart, you'll see the mitigation line goes up quite substantially, and what that means there's a corresponding rate effect. Because it goes up late, we have a large – even after mitigation, we have a large spike in rates. Then we have an essentially flat path, not even moving with inflation. So think of Sinking Funds avoided in the early years as increasing the magnitude of this line you're seeing in the early years, and then in turn decreasing it in the later years. There's not a net. There's not much of a net gain or loss. It's just when you get it. What you would do with the financial alternative, Sinking Funds among them, would be to try to move the time when financial payments would be made later when there are other larger sources of mitigation available. So on the

whole, you wouldn't be saving customers money, you would rather be producing a rate increase path that looks a lot more like you'd see for a utility whose costs are just moving with inflation, let's say. So that was the goal of looking at those kind of alternatives. We weren't going to save more money. We were just going to be able to produce a rate path that would look a little more like what you'd see from a normal utility versus what we have here, and there's a chart that shows this, but let me just use my hands where the rate jumps like this and then stays flat for a long time. So it was really managing when customers see the benefits, not so much changing the benefits.

(10:00 a.m.)

BROWNE, Q.C.:

Q. Back to Sinking Funds and that covenant, so what would be discussed just from a common-sense perspective is that covenant that's required by the federal government, if there were no Sinking Funds that the province had to pay annually, that would reduce the amount that the province needs for Muskrat Falls, is that a fair comment?

MR. ANTONUK:

A. That would reduce what it needs to pay on the current basis, but it would move the obligation to pay it back, and the central point being, as Randy said, and I think you just said, that's essentially between the federal government and us because it exists to give the federal government greater comfort that the project will produce the revenues needed ultimately to pay back the debt. So if the government is willing to see that its risk position isn't changed much by losing those, or if it's willing to take additional risk if it sees it, then changes in Sinking Funds would become an option, not to increase the benefit to customers, but to provide it sooner.

BROWNE, Q.C.:

Q. In addition to Sinking Funds, what else would they be looking at generally in these agreements? Would they be looking at interest payments?

MR. ANTONUK:

A. Principally, it would be the amount of increase in the amount of debt that's allowable under those agreements. By issuing debt now, it would probably take federal guarantees to make that rate attractive, and then applying those monies to lower rates now, rates would be somewhat higher later, not by much. So on a net basis, you wouldn't be increasing the benefit, but again you would be producing a more typical future rate path rather than kind of requiring a big jump now and then kind of keeping rates flat for quite a long time.

BROWNE, Q.C.:

Q. So there are possibilities within those agreements which will be of assistance ultimately in the larger picture for rate mitigation for the present generation of rate payers. Is that a fair comment?

MR. ANTONUK:

A. Yes, that is fair, and they would require the federal government's agreement and participation, but unlike breaking up the PPA and the TFA, it would not require

agreements by other parties or debt holders. It really would be a deal that could be made between basically us and the federal government, "us" meaning the province.

BROWNE, Q.C.:

Q. I think there's been a publicly stated figure in the vicinity of 200 million of the 750 million that's required in the first year of Muskrat Falls that could be applied to that. So that would be a general figure that obviously the province has stated, so it might be a provincial objective.

MR. ANTONUK:

A. Yeah, I don't know what that 200 is, whether that's cash on the table, whether that's some kind of support, but the options that we're talking about are not necessarily confined to making 200 million dollars available. Again what we're talking about would not require any direct contribution from the federal government. With Sinking Funds, it would require the federal government to say I'm not going to force you to make them.

BROWNE, Q.C.:

Q. Yes.

MR. ANTONUK:

A. With respect to the other option, which is increasing debt to allowable levels under the agreements, I believe there to make it economically attractive, it probably would require a federal guarantee, but again none of that would be direct cash out of the federal government's pocket today. If it has any effect on the federal government really is a matter of whatever risk it puts on the federal government relative to non-payment of either the current debt or any debt that would be issued in addition.

BROWNE, Q.C.:

Q. So that would obviously be one large financial measure that could assist overall in finding some contribution, a larger contribution toward the 750 million, and there are other ways, some of which you have in your report – well, most of which you have in your report, but you didn't study oil and gas and what revenues Nalcor have in reference to oil and gas because that was outside the Board's mandate, or perceived as

being outside the Board's mandate. Is that true?
MR. ANTONUK:
A. That is correct. The basis on which we conducted our study was that we were not asked to look at whether mitigation sources from oil and gas were available. I don't know that it was so much there was a direct exclusion of anything, but there was a direct statement of what we were supposed to do is the way I view it.
BROWNE, Q.C.:
Q. And in terms of oil and gas, did you have discussions with Nalcor or Hydro regarding their oil and gas revenues?
MR. ANTONUK:
A. Not their revenues, no. I profess complete ignorance as to what they even are at a general level.
BROWNE, Q.C.:
Q. Because we had some comments from Nalcor and Hydro in their most recent filings, sort of an admonition, you were being admonished for not looking at oil and gas. Is that not true? Did you see that, did you observe

that?
MR. ANTONUK:
A. Yeah, I saw the statement. I couldn't tell if we were intended to take it personally or not.
YOUNG, Q.C.:
Q. Well, you could -
MR. ANTONUK:
A. It was a statement, you know, there was not – I didn't see a finger pointing, but I think the folks coming next week can say whether I missed a criticism or not.
GREENE, Q.C.:
Q. And again, Madam Chair, if you want at this point in time to discuss the mandate that the government asked the Board to look at in the reference questions which was related to the electricity industry in the province, which was why the Board did not ask Liberty to look at any other source, whether it be other sources of taxation that might be available to the province, or any other business that Nalcor might have, such as oil and gas, and as you know, the Board did advise the parties of that after seeing the

filing by Nalcor. I just want to put on the record that the oil and gas mandate from the perspective of the Board was not part of the reference questions from the government addressing options in the electricity industry in the province.
BROWNE, Q.C.:
Q. Yeah, we all are aware of that because we all got the letter from the Board stating that, but nonetheless, from a rate payers perspective, if Nalcor or Hydro are telling rate payers that there is 2.4 billion, I think they used, available, although they didn't give a period of time for that, we note, and granted I take the comments of my learned friend that they can address is better because they're the ones that made the comments, but where we're into rate mitigation and if there is a funding out there of 2.4 billion dollars which Nalcor is saying should be on the table, I think it's not irrelevant to what we're doing here.
CHAIR:
Q. I would agree, Mr. Browne, but I think, as Mr. Young said, you can ask Hydro.

BROWNE, Q.C.:
Q. Pardon, Madam Chair?
CHAIR:
Q. I agree, but you can ask Hydro perhaps next week or Nalcor next week.
BROWNE, Q.C.:
Q. Sure.
YOUNG, Q.C.:
Q. Thank you, Madam Chair. We certainly will have witnesses who can address that.
BROWNE, Q.C.:
Q. So you'll speak to that next week?
YOUNG, Q.C.:
Q. Well, we will. However, we've been instructed by the Board as to what is before it, which is a little different than we first thought when that information was provided. It's been fine tuned, I would say in that regard, because we thought it was relevant, and we can speak to that issue. It's something like this other issue that arose this morning in a sense about matters that might be confidential. We understand that these things are generally relevant. We also understand that the Board has been

given terms of reference, some further instructions, and has to make decisions about this. So we're certainly willing to act within that.

GREENE, Q.C.:

Q. I would like to respond to that, Madam Chair. I would point out that no information was provided by Nalcor throughout the reference period with respect to any information on oil and gas, whether the forecast were dividends, so Liberty has not had the opportunity to review the information to determine whether it's realistic. They do not know what's available by year or over the entire period. So when we say we're going to ask questions, I do want to make it clear on the record that that information was not provided by Nalcor at any time during the process, nor did Liberty have the opportunity to analyze it, nor were they asked to analyze it. So I just caution as to the level of detail we should and can get into next week about oil and gas.

CHAIR:

Q. I would expect it will just be at a general level, and I would go farther to say, as we indicated in our correspondence, we're not going to be addressing it in our report.

BROWNE, Q.C.:

Q. Yes, and I understand. I understand why because you didn't get an opportunity to delve into it, but at the same time it seems to be a late offering that's been dropped into this proceeding.

CHAIR:

Q. And promptly removed by the Board's directive.

BROWNE, Q.C.:

Q. Sure. So from a rate payers perspective, we're very interested in anyone who says there could be 2.4 billion that should have been considered for rate mitigation.

CHAIR:

Q. It's not something the provincial government can't – they don't have to ignore it. They can take it up as part of their discussions, but we won't be dealing with it.

BROWNE, Q.C.:

Q. Sure. It's nice to know, though.

CHAIR:

Q. Yeah.

GREENE, Q.C.:

Q. It might have been nicer to know even earlier.

BROWNE, Q.C.:

Q. I take your point. We would have enjoyed finding that out as well.

CHAIR:

Q. It still doesn't change our terms of reference, though.

BROWNE, Q.C.:

Q. So thank you, and we'll take Nalcor at its word and Hydro that they will take us on a side trip in reference to that when they give evidence because for all of us here it will be interesting information.

YOUNG, Q.C.:

Q. Madam Chair, I don't think that was what we said. I think we said when we provided the information, it was done in good faith. It's now clear that that's not part of the reference, and I don't expect, and I'd like to be set straight on this, but I don't expect that this will be a matter discussed

next week by Hydro's witnesses and Nalcor's witnesses.

CHAIR:

Q. My point is, I don't think we need to have this discussion here with our consultants on the stand. Carry on, Mr. Browne, please.

BROWNE, Q.C.:

Q. Thank you, Madam Chair. In your final report, and I think it's page 22, if we can go to that, you make reference to Hydro's rate of return, and Hydro's rate of return is guaranteed to be the same as Newfoundland Power's rate of return because of an Order in Council. You might call it a Fiat, and the Order in Council, as you know, tags Newfoundland Power's efficient rate of return because Newfoundland Power is a private utility, and they go through Board scrutiny in reference to all matters in order to get their rate of return. Hydro doesn't have to do any of that. Hydro just takes it sort of a "me too, we get it as well". Whether they earn it or not is another matter. Are you suggesting that Hydro should have to actually earn its rate of return and be awarded a rate of return by this Board other than by way of an Order in Council?

MR. ANTONUK:

A. I'll say we did not think of it in that context, so give me a minute to think of it in that context. Let me tell you how we did approach it, and then I'll try to get at your question. We approached it from the point of view of how much of that return can the province afford to put to mitigation, and we tried to sort of do that from two bases. One is using the objective Hydro has and then kind of saying what would happen if we thin that objective. So we did not look at it from the point of view of what is a fair return for Hydro. We just took that current return and said how much of it can we put to mitigation. So that's just to tell you what we did do. It is a hard question to answer. It is a very hard question to answer, Hydro's rate of return from the perspective of how does it or how should it compare to that for an IOU, and the reason is that for an IOU, the rate of

return needs to be set at a rate that will attract the investment that is needed to keep the business healthy, make investments and such.

(10:15 a.m.)

A. Public owners don't issue equity, so we don't really, we don't ever really think financially from the perspective of what rate of return does the government need to provide its investors, whoever they are, to attract money. So I don't think there's a way to do that under traditional principles. You can say what does the government need to do to attract debt investors because the government issues debt, they've got to attract, they've got to persuade people to lend them money. So you start from that as I'd say a floor, you know, you got to give them that much. Therefore, the way this always ends up getting approached is each government owner decides what they want out of their investment. I've seen this everywhere from generation and transmission cooperative to municipal utilities, all the way up to massive G and T authorities like

the New York Power Authority, one of the biggest in the country. So what you generally see are two things then, one is a) how much in funds from operation do you need to make your debt remain attractive and make the debt financial community comfortable that you're self-sustaining. And then the other thing you tend to do is compare among the various government owners and use that as a leveler to say, well, if they're all asking for a range between 7 to 9, that's how you end up saying that's what looks reasonable. But I think even the word "reasonable" is difficult there because, you know, in theory if I were the mayor of a municipal utility and I had a really low cost source of power and the investor own utilities all around me had to charge 5 cents, I'd think I could make a pretty good case of saying, well, I'm going to charge 4 ½ cents and then I'm going to build the money to build roads to improve schools, so I really think you get into a situation where if you go anywhere beyond saying how much equity do they need to be self-

sustaining and how much does the owner decide it needs to get as its return, its tribute, its margin, whatever you want to call it, I have trouble going much beyond that in terms of saying, you know, how much is appropriate to earn as a rate of return. So I tend to look at things like what's the rate of return here look like compared to others, and then I would take that, if I were the Commission, and say, well, if I reduce that return, what effect is it going to have on the ability to earn enough funds to stay self-sustaining, and there's a big range in there, so I don't think you'll ever get me in a position of saying there is one rate of return for Hydro that is too high or too low. There's no magic line there. The key is making sure they have enough funds from operation to be self-sustaining and then having the regulator recognizing the interest of the government, as owner, and what it's doing with those returns, say what's fair. And I don't see anything wrong with 8 ½, it's pegged at a fairly typical rate in the provinces. If this Commission decided it wanted to significantly lower that rate for customer objectives because they wanted to keep rates down, I think as long as you give them enough funds for operation, you're in good shape, then I think it's just a matter of, you know, the government kind of telling you in one way or another, however they express their pleasure or displeasure with you, I don't like that, because now you've taken away money I'm using for hospitals or roads. So I think this is a very fuzzy issue and it's not driven by logic; it's really driven by a balance of assuring that the utility keeps enough funds to be self-sustaining, figuring out from a customer perspective what's affordable and then doing that all with reference to the fact that you need to understand that whatever you take away form that rate of return leaves the government with a need to either adjust the level of service it provides or find another funding source for it. Sorry, bit I don't think you can –

BROWNE, Q.C.:

Q. Yes, and I appreciate what you're saying, we know why the government has set it at that particular rate, rate of return, but in terms of the general topic of efficiencies and largesse and all that goes with that, if one utility, Newfoundland Power, has to bring forward all its efficiencies and show where everything is and the lay of the land and are scraping through to make sure that they are a lean mean machine before coming before the Board to even suggest a rate of return or any kind of an increase or where they should be, and the other utility doesn't have to do any of that, what kind of efficiency does that signal to the other utility, to Hydro in this instance?

MR. ANTONUK:

A. I think it would be improper for the Board to assure Hydro recovery of all of its cost and a 8 ½ percent return regardless of whether Hydro is operating prudently or not, but it wasn't all that long ago we were here fussing pretty hard over that and the Board, I think, I usually don't look at kind of what Boards do after we leave, we like to

move on to the next mission. I think Hydro paid a price for some things that we said were not done prudently and the Board agreed. So I think there is some accountability there. I think there is also accountability when Hydro comes in for a rate case, I believe the Board actually, and again, we didn't do this so I may be wrong, but I think the Board has said things like your staff, "we're not accepting cost rates based on staffing that's at your level, we're knocking some out." So there is accountability there, there's also accountability when capital projects get reviewed. The Board has the power to say "No, we don't approve those expenditures." So I think the Board has a reasonable set of tools. I think I can make a theoretical argument that it would be good if the Board had more flexibility with respect to rate of return, but again, even if you gave the Board that flexibility, the Board and you know what the government is doing with its money and I think when you need to know that if you use that flexibility, if you had it,

that if you cut the rate of return, you're making government make some tough decisions, so I don't know if that flexibility really would change much. I think it would make your life a little tougher, you know, because you'd be kind of in the middle of those things now of making that decision about, you know, what needs am I pushing off the government if I cut returns, so theoretically I like it, but I think about if I were sitting up there, I might have a different view of having to make those kind of decisions.

BROWNE, Q.C.:

Q. And it's interesting you should say that because the first time that Hydro came forward when it was put under the jurisdiction of the Board to seek a rate of return and I'm going back a ways there, but I think it's around 1996 or thereabouts, and the Board had a dilemma in setting its rate of return because of all the other things that Hydro does out there which affects government policy, but I think at the end of the day they set the rate of return of somewhere less than 4 percent and therefore, I guess what we had was the government involvement then trying to cope with what they needed out of Hydro and so on. But what we're doing here, in trying to find efficiency and ways and means to ensure consumers are getting good value and not forgetting the fact that the entire problem of what we're doing here emanates from Nalcor and Hydro, they caused this, that by reducing Hydro's rate of return would there be more, some more money available to mitigate against rates, would that be a simple proposition?

MR. ANTONUK:

A. It is quite simply true that their return can be reduced without foreclosing their development of a needed equity base and there is no doubt that reducing that return would provide mitigation. We actually took—and we actually tried to show that full amount and the amount you see us showing is attributable to the returns the province receives from Hydro was intended very specifically to say if you accept 25 percent

as a target, this is how much you can gain by either having the province return those monies it makes or dropping it from rates in the first place. Then we said, well, 25 not necessarily the rate target, you can thin it, what we tried to show is what happens if you reduce that equity amount and we didn't pick that, the minimum amount we think will work, but what we did show is that if you reduce it from 25 percent and set rates on the basis of achieving 20 percent, you get about 110 million more dollars now when other sources of mitigation are low, but you will lose that 110 million when mitigation sources are high. So on a net basis you haven't done anything, but what you have done is instead of having rates go, like this, they go like a little lower in the earlier years and they don't go much higher in the later years, so you produce a more typical pattern of growth you'd see in the industry which is utility rates growing by somewhere on the order of inflation, subject, of course, to every utility now and then has a big investment that causes a step

increase. So I think we tried to do what you're saying, but we expressed it as a pod because, said I said, if you take that money and apply it to rates, you're taking it away from the government to use for other sources and in effect, I think all our job here is to tell the government what can be done and I think what we ought to make clear to the government is here's how much we're asking you to give up and that's what this part of it is all about. And then they're going to decide how much of it they can give up, based on whatever considerations they apply.

BROWNE, Q.C.:

Q. At least it's an avenue that should be mentioned.

MR. ANTONUK:

A. Sure. I think it's an avenue that should be pursued, it's a valuable one and I think it's a question of how far and how much.

BROWNE, Q.C.:

Q. You mentioned already about reducing Hydro's equity and I think they're at about 19 percent, but they are able to go to 25, that's their target. So by moving it back

to 20 percent, they really wouldn't be too far from where they are actually, would it?

MR. ANTONUK:

A. That's correct and it would be even higher than some others.

BROWNE, Q.C.:

Q. Yes, there are others out there and I think you gave a schedule there of various equities that are there throughout Canada.

MR. ANTONUK:

A. Yes.

BROWNE, Q.C.:

Q. And certainly they're within a range, Hydro is within a range, maybe at the higher end of the range even at 25 percent, but in reality a lot of them are striving for higher equities, but in reality they're down below 20 percent.

MR. ANTONUK:

A. I think that's right, I think you will find the 25 percent target is not out of order and I think you will also find that companies operating at significantly below that 25 percent, that's also not out of order, that's the typical situation.

BROWNE, Q.C.:
Q. And mindful of the province's financial situation and debt rating agencies, the credit rating agencies, if it were to—that's why you're suggesting 20 percent and you're being cautious, because of that if you suggested 15 percent or 10 percent, that might have ramifications?
MR. ANTONUK:
A. It might, yes, and we did not study that. We have done that in other situations, it can be studied, you can make some judgments. You will never get the firm, you know, line in the sand below which you won't go, but that was not part of what we did. I'm certain that's what the government is going to do, I hope that's what the government is going to do because they need to do it right, because the way financing occurs here, if there are adverse financial consequences at Hydro, they affect right now all the debt that the government issues because that's how the government issues debt for Hydro under the current financial strategy and policies of the government.

(10:30 a.m.)
BROWNE, Q.C.:
Q. Sure, and your prudence is noted, but at the same time if we can move it from 25 to 20 percent, that's 110 million over what period of time did you say?
MR. ANTONUK:
A. I think 4 years.
BROWNE, Q.C.:
Q. Over 4 years, that is not insignificant given the situation with which we find ourselves.
MR. ANTONUK:
A. No, it's not inconsiderable, but remember that 111 (sic.) that you gain in those four years, you will lose in later years, so again the value is producing a stable kind of rate incline, it's not producing more net dollars for mitigation. It just moves when you get those dollars.
BROWNE, Q.C.:
Q. But for this generation of rate payers who are about to deal with this situation, it's not necessarily a bad thing.
MR. ANTONUK:

A. It's not at all a bad thing, no, I think that's a call that's going to have to be made by those who—sorry, I should look at you because you are those, who are charged with deciding what kind of rate path you want to produce.
BROWNE, Q.C.:
Q. Now you hint at some more savings which may be available, some more mitigation which may be available, on page 7 of your report, if we can go to page 7 of your September 2, 2019 report, Madam Clerk. And you're dealing with the issue of Hydro and Newfoundland Power integration and you decided to stay away from that because there are no values, no real values that would come out of these type mergers ultimately, I think that was your comment?
MR. ANTONUK:
A. I think that's fair, the values we identified were subject to such substantial risk that we thought that ability to execute on them was too uncertain, so it was likely that you would not—it was a very high risk, you wouldn't even attain the dollars that we

identified as possible.
BROWNE, Q.C.:
Q. And we have to be very careful in reference to that as well because as you're aware, Hydro does not pay income tax, but Newfoundland Power does and that's ultimately paid for by rate payers.
MR. ANTONUK:
A. Correct.
BROWNE, Q.C.:
Q. So we want to be very careful of moving any kind of large rate base items into Newfoundland Power because it could have an interesting effect for rate payers generally.
MR. ANTONUK:
A. It would be a negative for customers.
BROWNE, Q.C.:
Q. Sure. Your last paragraph is sort of interesting, if not timely, because on page 7 you say, right above paragraph 3, "In addition, we found striking the nearly 0.5 billion dollars and five-year capital spending, Hydro and Newfoundland Power combined have identified reductions in the

amount of capital spending will reduce revenue requirements as much or greater than those obtainable through reorienting the longstanding division of responsibility that exists in the province for providing electricity service." Now, we have two capital budgets we're looking at currently, by way of example, Newfoundland Power is seeking 96 million, Hydro is seeking one hundred and something million, so between the two of them, they're looking for 200 million dollars in capital spending, and as you are aware, we're in a rate base system here, so they're not disinterested, either utility, from spending to increase their rate base. From Newfoundland Power's perspective that helps its shareholder and that's fair, that's the system we have right now, and it also affects Hydro. But can you expand upon that? We're in difficult times here now and for these utilities to be presenting large capital expenditure budgets to the Board, seems to be out of sync with what we're trying to do here. And I pity the Board because they bring these large

capital budget applications before the Board and I'm not unempathetic because they say essentially unless we do a), b), c), d) and do it over this period of time, we could lose electricity, that's essentially what they're saying, that's implicit. And indeed, I've been before this Board on occasion dealing with capital budgets and one of the utilities actually brought in rusty bolts that they found, bit of a "show and tell" along their transmission line to emphasize the point if you are challenging them for building a particular transmission line, "these appear, look what we found", show and tell, Kindergarten. So, how can we cope with these large budget applications in the Muskrat era, can you help us there?

MR. ANTONUK:

A. Yes, I'm going to say I've seen my share of rusty bolts that are still good bolts, but that's a different issue.

BROWNE, Q.C.:

Q. You did that trick as well.

MR. ANTONUK:

A. I think you do need to look at capital

programs from the perspective always of how they will affect service quality and reliability verses what you're paying for. I don't think that's ever irrelevant. I think they way you look at it in what I'd call a steady stay, where costs are moving kind of as you'd expect based on changes in the consumer price index, whatever your metric is, is different from where we are now. I think now, if nothing else, the analysis of capital programs has to consider another factor. Even if you decide that you need it, even if you decide that on the whole it's cost effective, I think you have to look, if nothing else, now very closely at what risk will we be taking by deferring some of those projects, and by doing so, you can have consequences that are good, you can say we'll save in rates now and when we put them in the effective inflation or whatever it is, will be worth the small extra cost we pay for putting them in later. Some investments you may say they are so critical that we aren't going to defer them, even if we could save money because we think

reliability would be threatened at a level that is troubling. So I think you really need to do, I'm going to refer you to our reliability report, it's exactly what we said in the reliability report here is that you can sit here and look at reliability standards in the abstract and say, oh, we've got to have this, but I think we're in a position now where we have to say, well, we don't got to, we ought to, but if we don't do it, you know, what risks—how do we measure the risks we're taking and are those risks enough to say we would rather give customers a short-term break on rates because I think we all are from, I don't know if we all are, but I'm with you, customers need a break, particularly in the short-run here. Even if you do everything we said, even if the province gives up every penny we identified, we still have a rate, a pretty significant rate jump coming in the near term, so I don't know if it's too early, too late or not to deal with it in this capital budget, but I do want to say that this is the time to look very carefully at what we can delay, what we will be risking and what we will be saving by undertaking that delay.

BROWNE, Q.C.:

Q. Now the ordinary measurement for reliability in the SAIDI and SAIFI regulating, all the regulators are governed by those and in the case of Newfoundland Power, their frequency of outages and the length of outages, they are much, much, much better than the national average in that regard. They have fewer nationally than most other utilities in terms of they have a really good record. So they present the Board with this record and at the same time are presenting a large capital budget, at what point does that count? Are they overbilling, are they over capitalizing? We've never going to have a perfect system, at some point the lights will go out for some reason or another.

MR. ANTONUK:

A. Yeah, I think the way you need to look at it is not at a global level of where they are now and use that as an indicator of where they will be, whether they spend money or

not. I think you have to try to look as best you can at the incremental change. So if you're at a level, let's assume we're at a level of reliability with which we're comfortable and I have to do this on assumptions because I'm not, I don't have the data you have on it. I would say then you have to look at what are you spending and tell me what non spending that or the avoidance or the elimination of the delay of this project or that project, what effect will that have? You have to put the company to the burden of showing you that. That's how we valuate the logic of capital expenditures when we do it. And then, frankly, we have seen cases where—we're just finishing one now, where utility was in the dumps on reliability, they engaged in a really admirable program to improve reliability quickly and they did it. They actually went, I think from the third quartile to the first quartile. Now, what's the problem? Well the problem is they're proposing the continuation of all the programs that got them to the first

quartile, so the question becomes where do you go next, you know. You could be No. 1 I guess in the country, but it's time to step back and say what programs do we need to sustain where we are, and it if want to get better—and there are still ways to get better that are worth it. For example, some forms of automatic meter reading will allow the company to tell much quicker where outages are and get to them quicker. So you can still do things that are cost effective, but as I'm saying, I think you've got to look at every program that has material dollars to it and say, what's the difference if we don't spend it? How do we measure that difference? It's not always easy or straightforward, but it's always doable.

BROWNE, Q.C.:

Q. When you made your comment here on page 7 concerning the reductions in amount of capital spending, had you studied the capital budgets or what led you to these comments?

MR. ANTONUK:

A. What we've been talking about is given the

need to look at ways to reduce rates and given the fact that it's much harder to reduce them in the near term than it is over the full 20 years, we wanted to kind of inject just what we're talking about, this whole notion of showing the value to be gained by doing it, the consequences of delaying it and then assessing whether there are real opportunities to delay things that cost big money, because then you will be able to smooth out the rate path. It was not a concern about whether the Board's process is adequate or not, I think it's fine, it's often done after the fact in the US and that's troubling because then you really have to kind of get to a level of showing imprudence to say something, you know, some costs should not be recovered. So there's merit in doing it this way, but you know, it does take an effort if you do it this way, it takes effort on the Board's part, it takes effort on the part of people like you who have interest to bring before the Board's attention.

BROWNE, Q.C.:

Q. Should there be an annual cap put on capital spending in this situation so that the cap annually is 40 or 50 million dollars, you prioritize your projects around that cap, would that be a way of dealing with it?
MR. ANTONUK:
A. I wouldn't do that in a flat way, but what's intriguing about what you raise is the notion of saying show we what you're going to do if I only give you "X". Tell me what's going to happen if you only spend "X". I think that's a more, that sounds like a more tender hearted way of doing one.
MR. CELLARS:
A. I like that.
BROWNE, Q.C.:
Q. I notice Mr. Cellars is trying to get in there. Do you have a comment on that?
MR. CELLARS:
A. No, no, I can agree with everything John said, I mean, what he said is exactly true. A cap is a good start and then you look at the one off from there and you, it's never the end, but it does produce a real critical thought.

MR. ANTONUK:
A. I think the approach you're recommending I wouldn't offer as a kind of a sustaining way of doing it.
MR. CELLARS:
A. Right.
MR. ANTONUK:
A. I think it will lead to short-sighted decisions, but I think under the circumstances that kind of a look, it's interesting. I don't want to say I'm recommending it because, you know, you hit me with it kind of –
BROWNE, Q.C.:
Q. You want to think about it.
MR. ANTONUK:
A. Yeah, it wasn't exactly a soccer punch, but I wasn't expecting, so I'd like to think more before I say that's what the Board ought to do by getting some sense of what burdens that would put on the Board, but it is an option. I would say it this way, from management's perspective in the interest of my customers, I think I would certainly be thinking that way now in terms of what I'm

bringing before the Board.
(10:45 a.m.)
BROWNE, Q.C.:
Q. Did you deal in reference to this comment, the duplications, for instance Newfoundland Power has 25 million dollars over, I think a four or five year period has been approved for improvement of its information systems. Well, I mean, you know, Hydro is looking for something similar, is out there now with new information systems. Couldn't there be mergers there in the interest of rate payers so there could be one information system that they share and track according to their usage for the regulated verses the unregulated and so on?
MR. ANTONUK:
A. I think on a steady state basis there might be some very small savings. I don't think I'd recommend that as long as they each remain responsible for their own customers because there are ramifications of making them use the same system in terms of how they staff, how they train, all of that. I would be concerned that the small gain you

might get though a common system would be wiped out by all the changes they would have to make. If there's benefit in commonality that kind of gets my attention, it's more, you know, if you're going to start doing more with respect to customers' ability to influence their usage of the kind of information customers should have about usage so they can make decisions about conservation measures, that sort of thing. I see value there in kind of requiring the companies to do similar things so that their customers have the same kind of access to choices, to knowledge about what they're using, so those sort of things, I think. But for the most part I think a lot of those are not that hard to develop within the context of their own system. It's more a matter of the Board saying, you know, we want you to make sure customers have this kind of information, that kind of information. So I don't see a lot of dollars there. You know, we looked pretty closely at combining the customer service functions and I will say that I think when we started, we saw that as the most likely source of gain. It just seemed almost illogical to have one company serving so many people at retail and then Hydro serving here or there or the next place. I think it was surprising when we dug into it that the savings there weren't as nearly as great as we thought they were going to be.

BROWNE, Q.C.:

Q. Well I guess savings is in the eye of the beholder from a rate payer who is paying for both, any savings.

MR. ANTONUK:

A. Well I think that's fair and we certainly went from that premise. We cranked the numbers first and we saw some dollars there, but as we said earlier, I think when we looked at what it would take to accomplish those changes, there were things that were going to wipe out a portion of that directly and there were risks that we think were much more likely than not to wipe out most, if not all of the remainder, so –

BROWNE, Q.C.:

Q. Was there anywhere else when you studied

that area of duplications, just based on your comment, where you saw some promise in combining services for the benefit of reducing costs?

MR. ANTONUK:

A. No, I think we looked at all the areas of potential. I think the one that we didn't really get as far along as I had hoped we would, was in common purchasing. I think opportunities remain there. I think they would effectively require Hydro to have the same purchasing flexibility that Newfoundland Power has to be able to capture them, and the barriers, I don't want to call them "barriers", the rules under which Hydro operates are statutory, so that barrier is not inconsiderable, but I don't think we were ever able to kind of get the dialogue between the companies far enough along to nail that one down, but I think we still think they are potentially some dollars there that continue to be worth exploring and we encourage that. I believe Hydro acknowledge the value in that discussion. I don't remember exactly what Newfoundland

Power said in its filing about that option, but I certainly don't recall them opposing it. So I would hope that those discussions would continue and be transparent to the Board and the stakeholders. It would be good to see those come to some kind of resolution in a way that has transparency.

BROWNE, Q.C.:

Q. In terms of systems and the different systems that are out there, in the Muskrat era, does this rate base system make any sense at all? Should we be looking at alternatives?

MR. ANTONUK:

A. Yeah, you're talking about maybe performance based rate making, something like that. You know, we—forgive me for saying "me", I'm not being presumptuous, maybe I'm starting to feel comfortable here, you all face a need to swallow the cost of the LCP. There's not really any way around that. The financial consequences of default under those agreements are just horrific to contemplate. So I don't really see anything, other than saying as bad as it sounds and as harsh as

it sounds, customers have to take the medicine for what's happened. So no, I don't with respect to what's happened so far. I do, as I tried to emphasize yesterday, think that it's important for the Board to have a role in kind of making sure that the costs going forward are managed effectively. I talk, I think pretty directly, about Board oversight of continuing cost, but you know, there is 13 or however many billion it ends up being out there that we just have to deal with. So I think the issue becomes where do you go from here?

BROWNE, Q.C.:

Q. Would it make any sense in reference for Newfoundland Power to be placed in some kind of, would it be better for them and probably better for us if they had some flexibility?

MR. ANTONUK:

A. I haven't thought about it in their context, so I can only tell you my general view. I have, in all the cases I have found that have attempted to use some sort of metrics or standard, I've had trouble getting comfortable with the standard adopted was a correct one, and correct more from the perspective of customers than the company. I've seen a lot of incentive methods that say if you do well here you will get rewarded, or if you don't do well there, you will get penalized. My problem is that they way I've seen that work is there are usually four or five metrics, so if I have my own company I can say I'm not going to get anywhere close on metrics one, so I'm not spending a lot of attention time or money there, I'm going to move over to metric two where I'm on the cusp of reward or penalty, so I'm going to put my resources there. So what happens? You get a very small gain in metric two, company makes profit and then performance on metric one goes to you know where. So conceptually I don't have a problem with it, but I have not seen, nor have I devised some way to set a standard that I think is going to set a full holistic set of incentives that's going to be consistent both with keeping service at high levels and promoting effective costs. So if

you can show me a way that made me think there was no way to gain in the system, then I'd sure be interested because I like it, because I'm a firm believer, as I said yesterday, in the fundamental concept that regulation is a substitute for competition. There are many ways to potentially to substitute for it.

BROWNE, Q.C.:
Q. Because it's my understanding that Fortis Energy companies in Ontario and Alberta are into some form of performance based rate making, are you familiar with that?

MR. ANTONUK:
A. I'm not. I don't know what its scope, nature or results are there. I just know every one I've looked for, I've sort of put myself in the position of the company and say I think I can gain it. Sometimes it's gain –

BROWNE, Q.C.:
Q. What do you mean you can gain, what are you suggesting there?

MR. ANTONUK:
A. Well if there are a number of metrics, like

I said, I can say, my optimum performance says to hell with metric one, I'm going to go for metrics two, three and four and I'm going to make a small enough gain in those to make incentives and then I'm going to sort of leave number one with a major drop in performance. And I look at all that and I say, wait a minute, on a net basis nothing has changed for customers, I've just put all my resources in three of the five or four of the five, or short verses long run and that's even more serious, is I can do something with my expenditures now to make a gain and then sort of I'll worry about the chickens coming home to roost in three years, four years or five years, and if I'm a CEO and I've got three years left, do I really worry about whether my production of gains under an incentive system is going to leave my successor with a problem or not. Like I said, I just have never seen a sufficiently holistic approach to make me comfortable that it's in the long run.

BROWNE, Q.C.:
Q. And it's fair enough, and you haven't

studied it in this context, but it's certainly is something we will be recommending that the Board recommend to government that some form of performance based rate making be studied and particularly for the private enterprise Newfoundland Power that's mutually beneficial to the utility and to the rate payer. Do you think it's worthy of study?

MR. ANTONUK:
A. That's a hard one because I'm not—I sort have thought about it and I like it conceptually, but I guess I've just seen too many times, all the times it just doesn't do what I think it ought to do, so I think I'm kind of pessimistic that anything will come out of it, but, you know, it would be nice to think something could. So I think it becomes a question of with all the things that the Board has to decide is this something—how much attention is this worth verses other opportunities.

BROWNE, Q.C.:
Q. Well when we're spending 200 million annually on capital budgets, it's worth a

lot.

MR. ANTONUK:

A. I agree completely with the importance of focussing on capital expenditures.

BROWNE, Q.C.:

Q. So you'd see why we would suggest there might be merit in studying this because these huge capital expenditures are unsustainable in the Muskrat era the way they are currently devised, that the utility can just come forward and pretty well get what they're looking for and as I said before, I'm not unempathetic to the Board because, you know, the implication give us this or you're responsible when the lights go out, and that's hardly a fair presentation, but it's there, it's implicit in it.

MR. ANTONUK:

A. I think we've talked a lot about sort of the difficulties and again, I'm going to tell you I think the key thing for me in the short run is the whole question of would we be taking material reliability risk or not in deferring projects. I sort of see that

in the short term of much more –

BROWNE, Q.C.:

Q. Sir, while we're waiting or studying the issue, because remember, we have examples in Ontario and Alberta of the same company that owns Newfoundland Power that seem to be in some kind of a performance rate base and I admittedly haven't studied the particular yet, but I'm looking forward to the opportunity. But in the meantime, yes, we do have to deal with these capital budget issues, so maybe the cap is the way to go or something similar.

MR. ANTONUK:

A. Yes, and subject to the –

BROWNE, Q.C.:

Q. Subject to the discretion of the Board.

MR. ANTONUK:

A. - subject to everything I have said about it before without hopefully having to remember it and repeat it.

BROWNE, Q.C.:

Q. Okay, well it's 11:00 now. I will be about another half hour, I think. I just want to caucus with my colleagues and see the few

remaining areas that I have to –

CHAIR:

Q. Okay, we will break now and reconvene at 1:30.

BROWNE, Q.C.:

Q. Thank you very much, Chair.

(BREAK AT 11:00 A.M.)

(RECONVENED AT 11:35 A.M.)

CHAIR:

Q. Thank you. I understand, Ms. Greene, you're going to address Mr. Antonuk's two takeaways that he addressed over the break?

GREENE, Q.C.:

Q. Yes, thank you Chair. At this point we were going to respond to the two requests to date that Mr. Antonuk said he would take away. The first concerns the portion of the HST that is paid by Domestic customers and what impact that would have it that were rebated by the province or if the province gave up that revenue. So, Mr. Antonuk, could you explain about the portion of the HST and what that would mean for customers?

MR. ANTONUK:

A. Yes, if you go to Chart 17 from my

presentation, I think that's a good starting point, those are rates without the tax. So the best way to measure that would be to, in effect, drop that line by the province's portion of the tax. That starts at 50 million dollars a year under current rates, which is with revenue requirement, with each 66 million dollars in revenue requirements equalling about a cent in rates, that means that the waiver return, elimination of that tax would reduce rates initially by about three quarters of a cent more. That, because the tax is levied on a percentage basis, if the tax continues at the same rate, its cents per kilowatt hour contribution to mitigation would increase, although on a percentage basis it would stay the same. So if you drop the line shown on page 17 by 10 percent, you will see the effect on a cents per kilowatt hour. We could draw that line, you know, it's simple arithmetic, but essentially what didn't occur to us until we were on the break is that we showed the rates without the tax, so in effect we're already showing the rates

mitigated by not considering or eliminating it, so –
GREENE, Q.C.:
Q. Yes, so a savings for the Domestic customer for their pocketbook, but it's not actually in the actual rate because they pay it after the rate is applied.
MR. ANTONUK:
A. Correct.
GREENE, Q.C.:
Q. The second takeaway that you had related to, as I understood it, potential duplication related to how you track and account for Lower Churchill Project operating and maintenance and whether the reduction in the labour component was included in your 113 FTEs overall reduction and also included in the LCP O & M, so could you explain that, please?
MR. ANTONUK:
A. Yes, I've referenced to two pages in our report will help. The first is page 64, Table 5.1, if we turn there first, that will set us up for, I think, a fairly straightforward explanation. You will see

the total 94 there, keep that in mind and also keep in mind Corporate Services, which is listed there as 24. Less important, but also note Engineering 21. So we have a total of 94 in that page, 24 of which is from Corporate Services. So now if we could turn to page 89, if you look at conclusion 3, the targeted reduction there is 19. That 19 is additive to the 94 which produces the 113 that we've been talking about. Now, if you go down, I believe it's the last conclusion on that page, I believe it was No. 6, I was calling the category "Administrative", it's really "Corporate Support". If you go down to the second half of that paragraph, you will note that we say that while the reduction in allocations for Corporate Support will reduce the O & M budget, that reduction has already been— unlike the other one I just mentioned, has already been accounted for in the Corporate Services reduction shown on Table 5.1. So that portion is not additive; the remainder, however, is.
MR. O'BRIEN:

Q. So it's 19 FTEs is really the calculation.
MR. ANTONUK:
A. That's correct, that's correct.
GREENE, Q.C.:
Q. One final question, Mr. Antonuk, just to confirm that when you were talking about the HST for Domestic customers, the 50 million dollars is only related to the provincial portion which is approximately 10 percent, is that correct?
MR. ANTONUK:
A. That's correct.
GREENE, Q.C.:
Q. Thank you, Chair, that concludes what we wanted to say on what we will call the takeaways.
CHAIR:
Q. Thank you, Ms. Greene. Does that meet your needs, Mr. O'Brien?
MR. O'BRIEN:
Q. It does, thank you, Madam Chair, thank you Mr. Antonuk.
CHAIR:
Q. Back to you, Mr. Browne.
BROWNE, Q.C.:

Q. Thank you, thank you Chair and thank you, Ms. Greene. It's your evidence that Nalcor should be void of anything doing with electricity or power, all these functions should go to Hydro, is that correct?
MR. ANTONUK:
A. As they relate to existing assets and operations, that is correct.
BROWNE, Q.C.:
Q. You made some comments about Nalcor Energy Marketing. Nalcor Energy Marketing, what exactly are they marketing, that's my question.
MR. ANTONUK:
A. In broad terms they are marketing all of the capability of the generation transmission portfolio, including Churchill Falls, that can be made available to customers off system, meaning outside, effectively outside of Labrador and Newfoundland.
BROWNE, Q.C.:
Q. But you told us previously that there are only spot markets there currently, people are dealing in the spot markets and Hydro Quebec is as well, so if the spot markets

are there for what purpose, why—how do they fit into that equation?

MR. ANTONUK:
A. Okay, well I certainly made the point earlier that spot markets are very strong and very common now. There are bilateral deals, if you will, on longer-term deals that are made. I don't know the degree to which they're being made in Canada or not, but it is not, it's less common, but it is not unknown to find term deals. Also there are several ways to market or to sell. You can sell at different delivery points and that's really a matter that requires some flexibility. You can sell at your first off system point of delivery and then either the buyer or the market takes care of the flow from there, or you can make an arrangement further, deeper into the US, let's say as an example. So there needs to be flexibility to determine what's the best delivery point to pick. In the spot market that's usually pretty straightforward, but particularly if you're looking for other kinds of deals, it's not necessarily the case that you're

going to make the transfer at the first delivery point.

BROWNE, Q.C.:
Q. So the only thing they could be marketing right now would be the recall power, so called recall power from the Upper Churchill?

MR. ANTONUK:
A. Yes, Churchill Falls is the only source that –

BROWNE, Q.C.:
Q. And historically we didn't have, we were marketing that power, but we didn't have Nalcor Energy Marketing, in fact, we didn't have Nalcor initially recall power. As a matter of fact, it was marketed through Hydro Quebec and by Hydro Quebec until it became politically unpopular to use Hydro Quebec for that purpose and then we had Emera doing the marketing for us and we were told at a hearing here that that was effectively cost efficient. Why do we need this creation to do what others have done already and it seems to be less expensive?

(11:45 a.m.)

MR. ANTONUK:
A. Well, you would use the creation if the value added by the outside source is less than the cost it takes to retain the outside source. I think it's that direct. I would add this factor, which is I do agree that if you have what I'm going to call a tangible, coherent, near to medium term plan for growth, it is correct to consider whether you should design for your ultimate approach initially, meaning potentially an internal option, or whether you should use an external source for a period of time while still allowing you to explore bringing it in-house or other options, even if it's another contractor, as that growth occurs.

So, I don't think there's necessarily one way to do it. I do agree there is a point at which size does end up not necessarily dictating, but strongly favouring development of an in-house capability.

BROWNE, Q.C.:
Q. And that was probably very well the plan because when Nalcor Energy Marketing was

conceived and developed first, it was pursuant to Nalcor's plan to do Gull Island and when they pivoted from that plan to do the lesser project, Muskrat Falls, and they kept Nalcor Energy Marketing intact. So, I'm wondering if they've gone beyond their purpose.

MR. ANTONUK:
A. The discussions I had with – and the information I shared with the folks from Nalcor did make clear that Gull Island and what it would present in terms of tradability, if you will, was a factor and that factor did appear to have materiality in deciding on an in-house option.

It is also fair to say that the options that were on the table for Nalcor to consider included were it to be a much – have a much smaller portfolio to trade. The options that were considered appropriate and legitimate, not necessarily conclusively preferable, but at least the options to consider did include a contracted – what we would call an asset manager approach. I'm not sure that's their term, but that's the

common term we use.
BROWNE, Q.C.:
Q. Because even with Muskrat Falls when it finally comes on stream, and we all wish for the best there and expeditiously of course, there's an excess agreement with Emera that we have to follow anyway in reference to anything over and above what they're entitled to under the agreements. So, you just wonder, umph, you know, there's not going to be much left after that, I wouldn't think.
MR. ANTONUK:
A. What is left we consider it to be still comparatively small in the industry and it is conceivable that it is – it is certain that it could be managed effectively by an outside experienced firm. It is possible that it could be managed more cost effectively. And again, cost effectiveness means what does it cost me to do it internally and what value will I produce, and what's an asset manager going to charge me and is the asset manager going to give me more value or not. It's really an economic

trade-off at that point.
BROWNE, Q.C.:
Q. And that's why it's your recommendation that a look be taken to see what this would cost; if there would be anyone interested in marketing the power, first and foremost, and to go out and seek proposals from those who may be interested to see if there's cost efficiencies there? That's your evidence?
MR. ANTONUK:
A. Yes, on a phase basis. I think the first step is what I'll call a solicitation of interest, if you will. This is a newer market. It's a market that probably is – takes a little more thought for the actors to get their arms around. So, I think the first question to ask before a solicitation, which takes time and effort, is to determine whether there's likely enough interest to suggest that you're going to get proposals in response to an RFP.
Using that information then I think you make a preliminary analysis of whether it looks like there's a potential for producing greater value, and if so, then you would

move to some form of a solicitation, not necessarily an open RFP. A lot of times these things are better done through private negotiation. But in any event, a formal process of actually trying to get dollars and cents and commitments on the table.
BROWNE, Q.C.:
Q. What risks are inherent in marketing the power ourselves? The word "risk" seems to come up in reference to Nalcor Marketing out marketing that power themselves.
MR. ANTONUK:
A. I think the biggest risk is loss of value by not taking maximum advantage of the opportunities. Other folks here have tended to focus on trading risk and those trading risks certainly exist, but as I was saying yesterday, I think they have been successfully mitigated by both the regulated and the market or unregulated participants. With the proper controls, with the proper approach to risk, tolerance identification and management, I do not consider those risks significant. They are significant if unmitigated, but they are mitigatable and

successfully mitigatable and that's proven time and time and time again in the US markets where utility entities manage the trading of utility rate funded assets.
BROWNE, Q.C.:
Q. Well, if you have an experienced entity out doing it, presumably the risk will be to them and wouldn't fall upon Nalcor or Hydro or the Province should liabilities ensue from marketing the power ourselves.
MR. ANTONUK:
A. That risk sharing issue is usually part of the negotiations and there are ways to make it extremely simple. There are ways that you can basically make the portfolio, meaning the excess portion, available for liquidated amounts, which means that the trading entity will either – the trading entity will pay you certain liquidated amounts and then they either will or won't do better than that in the market. And as I said, it's not a clear conclusion whether that's better for you or not. I think that takes economic analysis and serious consideration of the market alternatives and

then ultimately getting the dollars and
cents on the table and signed on to.
BROWNE, Q.C.:
Q. Okay. I guess that's one to watch. It's
your evidence that Nalcor Energy Marketing
should go into Hydro?
MR. ANTONUK:
A. It should be controlled by Hydro. I'm
indifferent as to whether it remains a
separate legal entity, but its operations
should be directed by the same entity that
has responsibility for managing and
operating utility assets.
BROWNE, Q.C.:
Q. If all the power and electricity associated
energy goes into Hydro, directly or
indirectly, what is there left in Nalcor at
the end of the day?
MR. ANTONUK:
A. Well, as I understand it, and there'll be
people here next week who can give you a
better answer of what the latest thinking
is, some element of managing investments in
oil and gas and energy development, and
again, remember we're assuming that we're

past the construction and putting into
service of LCP. So that's gone by
definition as well.
BROWNE, Q.C.:
Q. Thank you very much.
CHAIR:
Q. Thank you, Mr. Browne. Industrial
Customers, who's taking the lead?
MR. COXWORTHY:
Q. Thank you, Madame Chair and Commissioners.
Good morning, gentlemen. My name is Paul
Coxworthy. I'm counsel for the Industrial –
Island Industrial Customer Group. I'd like
to start, Mr. Antonuk, with you and some
comments you made yesterday in your evidence
at page 91 of the transcript. I'm not sure
if we need to go there, but just to make
reference to that, and I'll just briefly
read. "The conundrum that you first face,
Liberty first faced when you started working
in this jurisdiction, looking at
reliability, we sort of looked at
reliability first, economy second when we
were doing work early here. You can see on
our reliability import, we now have kind of

put them on almost an equal footing." So, I
won't go on to read it, but I guess there's
been a shift in emphasis, in terms of where
Liberty thinks concern needs to be exercised
about the regulation and the management of
Hydro and Nalcor. Has there been a shift in
Liberty's thinking?
MR. ANTONUK:
A. I'd say there's been a shift in the balance
as you just described.
MR. COXWORTHY:
Q. And I think this is in another proceeding,
but I understand that Liberty has made
recommendations which I understand to be to
the effect that Hydro should be consulting
with its stakeholders, I'll put it
colloquially, in how much are they willing
to pay for reliability or for more
reliability. Is that a fair
characterization of at least one of the
recommendations that Liberty has made?
MR. ANTONUK:
A. I think that's fair. That's quite fair,
yes.
MR. COXWORTHY:

Q. And I guess my question is: are we at a
point – you're having examined the system
here in this Province for some years now and
from several different aspects – are we at a
point where reliability, in terms of the
norms that you're aware of across North
America, across Canada, are we at a point
where we have to sacrifice our reliability
if we want to have costs that are reflective
of the norms across Canada and across North
America? Are we at a zero sum game?
MR. ANTONUK:
A. I think we're at a point where we have to
look very closely at a rate situation that
is extreme. It's not commonly faced. It
kind of takes me back to – I grew up at the
time of the oil embargo. Most people here
may not even remember it. I went through
that as I was starting my career and then
the next thing was the explosion of nuclear
cost. So, I've seen these sort of huge step
function changes, but I point those out
because that tells you how long ago it was
since I've seen something that reminds of
this. So, I think absolutely we need to

look very carefully at what risks we are willing to take that we wouldn't have even considered taking five years, six years or seven years ago when rates were much lower. And I think that choices we make need to be as conscious and as informed about reliability consequences on the one side and the cost of mitigating them on the other side as we can make it. Recognizing that we don't necessarily have forever to make these decisions.

MR. COXWORTHY:
Q. And I guess, I'd suggest, you know, one difference between the examples you gave from the '70s and what we're facing here in this Province is those were fairly broadly based concerns that arose – I mean, not fairly, very broadly based concerns that arose across North America, across the western world in respect of the oil embargo.

MR. ANTONUK:
A. For sure that.

MR. COXWORTHY:
Q. And certainly in the United States with respect to nuclear issue or at least perhaps

the eastern United States. I'm not sure how widespread the nuclear -

MR. ANTONUK:
A. Yeah, some of the worst were out on the other end of the country too.

MR. COXWORTHY:
Q. Where here, of course, this is confined. This issue is confined to a much smaller rate payer base.

MR. ANTONUK:
A. Well, it is. I think the – what I was saying is particularly the nuclear era, the consequences that were faced company by company and by company and customer group by customer group. But, you're right. The causes were broad and people – certainly different people managed different nuclear projects better and worse, but nobody got off without huge consequences.

MR. COXWORTHY:
Q. Sure, and you mentioned that at one point in response to questions from Mr. Browne, but the rate payers – I'm paraphrasing – are going to have to absorb this. The rate payers here in one way or another are going

to have to absorb the impact of Muskrat Falls.

MR. ANTONUK:
A. I see no other way around it, given the brilliance of the financial people who made sure that the debt holders would be fully protected.

MR. COXWORTHY:
Q. The customer groups you spoke about who are impacted by the issues with nuclear generation in the United States in the '70s, were the full impacts of that visited on those customer groups or was it a question of companies failing and those customer groups being served by other sources?

MR. ANTONUK:
A. There were – in response to the nuclear calamity, the issue was largely dealt with through disallowances of costs, which because of the financial agreements here don't present the same options. There was a fundamental change in the industry to change risk of generation assets. I saw that more driven by the belief that a competitive market could operate more effectively. So,

I saw that as an improvement opportunity, as perceived by some, not everybody agreed with it, as opposed to a response to a crisis.

(12:00 p.m.)

MR. COXWORTHY:
Q. Thank you. And again, I'm not sure that we need to refer to it, but you were asked some questions at page seven of your report with respect to Liberty having found it striking that the five-year capital spending by Hydro and Newfoundland Power combined over the next five years has been proposed to be half a billion dollars. And in other parts of your report, you prepared comparator tables. For instance, Table V.6 with respect to comparing operating expenses, employee and officer levels, across different Canadian Crown corporations as a sanity check, as the terminology. And I don't believe you've done that for this report, and I guess I'd ask: was there any process, I guess, that's not evident from the report that Liberty went through to come to the observation that this was striking, this half billion?

MR. ANTONUK:

A. No, there was no – we have no – we've done no investigations that would give us concern about whether any project proposed by either company was inappropriately proposed. We have no – we've done no comparison of capital programs here versus elsewhere. The only reason it was striking is that when we looked at the amount of dollars on a maximum basis that could be saved through combining Hydro and Nalcor – or Newfoundland Power, it was obvious that even small changes, if hypothetically achievable, in capital cost could produce similar savings. So that was – what was striking was sort of the ability for relatively moderate changes to produce savings. It was not in any way a criticism of those proposals, nor an expression of concern about any of the projects or of the Board's ability to address them as part of its normal processes.

There's even another factor here too, which is that, you know, we know the Board has a process going on now. There may or may not be time to change its process now, but you know, these things come each year.

So, we weren't even looking at it as something that said, you know, the Board better do something different tomorrow. It was more, you know, as you look at capital costs like this, if they're going to be proposed at a sustained level, just making sure that they're analysed with the new twist we're talking about, which is the balance between reliability and price that you kind of started me off with.

MR. COXWORTHY:

Q. Would it be fair to say that if Government, in its wisdom, restores or extends to the Board jurisdiction, the ability to regulate costs, capital investment costs on a go-forward basis in relation to the Muskrat Falls project and the associated components of it, that that's only going to be a more challenging task for the Public Utilities Board in future capital proceedings to assess the wisdom, the appropriateness of that level of cost? Is that job going to get easier for the Board or harder if that's added to their task?

MR. ANTONUK:

A. I don't think it forces them to ask different questions or make different judgments. I think it asks them to make them on a somewhat larger base of capital costs and operating costs.

MR. COXWORTHY:

Q. But you're not concerned that it creates a regulatory overburden on the Board or on Nalcor or on Hydro?

MR. ANTONUK:

A. I don't have concern about it with respect to Nalcor or Hydro because I think the key thing that they should be doing to justify their work better darn well be done before they come to the Board. I don't think the regulatory burden is particularly greater. With respect to the workload of the Board, again they're already doing these things for everything else. They're going to be doing them for Muskrat Falls capital additions and Muskrat Falls O & M cost – LCP's, I should say, sorry.

MR. COXWORTHY:

Q. Thank you. Thank you, Mr. Antonuk. If we could turn to page 23 of the Liberty Report,

and this is with respect to the comparative Crown corporation financial targets, and Mr. Antonuk, you've already been asked a number of questions, perhaps questions I might have asked myself, but I just want to contextualize what you've said in this report with what I understood to be your evidence here this morning, and, I guess, under that Section 4, the last sentence reads, "If there were a third hand, it would be raised in favour of not pressing for a sustained level materially below 20 percent", and that's 20 percent of target equity, is that correct?

MR. ANTONUK:

A. Yes. I'm sorry.

MR. COXWORTHY:

Q. "Given the open questions the province faces", and you, of course, expressed what those questions are earlier in the paragraph, "and their implications for its credit standing", and, I guess, my question is, do you have any empirical evidence or have you come across any empirical evidence that target equity or actual equity below 20 percent has had any adverse impact on the credit standing of any province where a Crown Corporation like this, an electric Crown Corporation is operating?

MR. ANTONUK:

A. I'm going to let Randy answer, but keep in mind sustained is the issue there, and I think a better choice of words there would have been "steady state". So we didn't mean to say two years of sustained, three years of sustained.

MR. COXWORTHY:

Q. So two or three years might be one thing in terms of the level of risk to the credit rating in terms of it might be a lesser risk as opposed to a steady state of a lower –

MR. ANTONUK:

A. That's a fair example of the point I was trying to get across.

MR. COXWORTHY:

Q. You were going to ask your colleague to comment on it further.

MR. VICKROY:

A. Yes, I believe that the main audience we're talking about here really is the rating

agencies. The rating agencies work for debt holders. Of course, since debt holders and raising debt capital are very important in this business, getting their attention is important. I think, for instance, the Manitoba Hydro case, they're trying to finish a very large production and transmission project, which is even more expensive than Muskrat Falls is, and they're under severe pressure there as to how much to increase rates that won't really hurt their customers too badly, while also allowing generation of enough funds from operations in order to satisfy the debt holders, and it's that balance that certainly Manitoba is struggling with, and it would be the case for all Crown Corporations.

MR. COXWORTHY:

Q. Do you have any examples or any empirical evidence where, in fact, there has been, for instance, the Manitoba Hydro example, a negative impact on the province's credit rating as a result of in their cases having an actual equity level of only 11 percent?

MR. VICKROY:

A. I'm sure that New Brunswick Power in the past has been downgraded. That has not happened with –

MR. COXWORTHY:

Q. And they, of course, have a very poor performance at 5 percent actual equity?

MR. VICKROY:

A. Yes.

MR. COXWORTHY:

Q. They are an outlier, aren't they, in that regard?

MR. VICKROY:

A. Well, again the real important factor is the funds flow from operations, and that would be, of course, a combination of the equity level and the rate of return on equity, and how much the company actually earns on that return. So all of those factors come into whether they have sufficient funds from operations or not. I mean, a rating agency isn't going to say, hey, last year your earnings were insufficient and the cash flow was insufficient. You know, they're not knee-jerk reactors at all. This takes a

long time for something like that to show up, and it's only after its proven that they have insufficient funds flow do they make a move.

MR. COXWORTHY:

Q. It's not a year or two of being under 20 percent that's a problem.

MR. VICKROY:

A. Yes, exactly.

MR. COXWORTHY:

Q. If it looks like it's going to be that way for the next five years, ten years?

MR. VICKROY:

A. I would agree with that, yes.

MR. COXWORTHY:

Q. And I think you said that ultimately it's a question for government to balance those risks, but, I guess, the extent that you're making or identifying opportunities, if I can put it that way, or call them recommendations that are then going to feed into recommendations that the Board may make to the province, is this a big flashing red light or a yellow light you're trying to send to government saying don't go below 20

percent?
MR. ANTONUK:
A. No, it was really more an attempt to say if you look at the targets, 25 percent is certainly in the range, and it's not fat by comparison. So we started from that and our analysis was more an attempt to say with reference to the 20 percent is what will it buy you in terms of mitigation. Then I think the last point is really designed to say that, look, we're not weighing in on what you should do in the short run, we're not weighing in on whether it should be 25, 20, or maybe even 18. What we are saying is that 20 percent, however, is kind of a long-term marker that should say to you, if you want to keep it below 20 percent on a long-term basis, allow the province the discretion to say whether that's comfortable enough or not.
MR. COXWORTHY:
Q. And you have identified, or calculated, or estimated that dropping from 25 to 20 percent would represent about 110 million dollars in savings per year in terms of

revenue requirement?
MR. ANTONUK:
A. It would represent an advance of 111 million dollars, for which you would pay a little more than 111 later.
MR. COXWORTHY:
Q. Thank you, and if you were to drop from 20 to 15 percent, is it possible for you to say is it the same magnitude of benefit, if I can put it that way?
MR. ANTONUK:
A. It's pretty much directly proportional.
MR. COXWORTHY:
Q. Thank you.
MR. ANTONUK:
A. If you're searching for a conceptual answer, that's correct. If you want a precise one, it's calculable.
MR. COXWORTHY:
Q. Sure.
GREENE, Q.C.:
Q. And I will point out that the response to PUB-NALCOR 255 does give the impact at different capital structures and different ROE's for the impact on dividends and over

the period we're talking about.
MR. COXWORTHY:
Q. Thank you, Ms. Greene. If we could move on to page 82 of the Liberty Report, and Table V.6, you were asked questions by Mr. Eaton yesterday about this table, and again I don't know that it's necessary to turn to the particular passage, but I am just going to – Mr. Eaton, in relation to the table said, "When you take all of that in consideration, right, every one of these numbers could be adjusted for some factor or another", and you didn't agree with that proposition?
MR. ANTONUK:
A. Well, maybe I should read it because I don't remember that.
MR. COXWORTHY:
Q. Well, I'll direct you to your evidence if you wish.
MR. ANTONUK:
A. Thanks.
MR. COXWORTHY:
Q. Page 156. You did go on to say why you didn't agree with that.

MR. ANTONUK:
A. 156?
MR. COXWORTHY:
Q. Yes, starting at line 10.
MR. ANTONUK:
A. Okay. I was so emphatic; I should have remembered it. I now do.
MR. COXWORTHY:
Q. You were emphatic yesterday, Mr. Antonuk. Are you less emphatic about that today?
MR. ANTONUK:
A. No, I just didn't remember it.
MR. COXWORTHY:
Q. Well, I just wanted to ask you some questions about some of the numbers on Table V.6 in that regard, and how we should understand them, understanding that obviously there were differences from Crown Corporation to Crown Corporation, but how meaningful are those differences in terms of using this information as a sanity check for your observations that flow out of this table? So I wanted to go to Table V.7 below and in relatively smaller type, I'm not sure if that was deliberate or not, but you

provide the ratios with respect to with or without including the output of Churchill Falls in the bottom two lines. I guess, I'd ask you to comment on why is it important for the Board, and anyone who's looking at this, to understand the difference of those ratios with or without Churchill Falls?

MR. ANTONUK:

A. Oh, a very large unit can produce a very big change in output, and that diminishes the value of comparing it this way because employee needs aren't a function of output on large hydro projects. If they were, then I think you'd say if you use the Churchill Falls ratio, it would conclusively prove that Muskrat Falls is grossly overstaffed, which is not our conclusion. So I wanted to get another measure and I don't think the measure is without value, but I think when you consider the existence of an out-size unit like Churchill Falls, you at least need to bound the numbers by saying "with" and "without".

(12:15 p.m.)

MR. COXWORTHY:

Q. Sure. So when we're looking at Table V.7, what comparators are the more valid ones for the Board to consider? Is it the ones "with" or "without" the Churchill Falls in terms of the point you're trying to make between – the sanity check that you're trying to exercise?

MR. ANTONUK:

A. I'd do it a different way. I'd say that the existence of that large out size unit has a much more dramatic impact on the results than any changes that might – or any differences that might exist with respect to employees, customers, or the other factors. So I tend to use that to say I would place less emphasis on the GWh factor as a whole.

MR. COXWORTHY:

Q. Okay.

MR. ANTONUK:

A. By the way, again we don't place primary evidence on any of them. You know, what we would have done had any of these ratios come into closer balance with means and average, we would have gone back and done our direct analysis again. I'll put it a different

way, I would have made the team do that. So this was my way of looking at a way of saying, you know, is there anything I see in these numbers that tells me that we were too heavy handed.

MR. COXWORTHY:

Q. And you haven't changed your conclusion in that regard that you have not been too heavy handed?

MR. ANTONUK:

A. No.

MR. COXWORTHY:

Q. If we could turn to, and this is again in your report, page 94, and Figure VII.3, Rate Impacts of Financial Mitigation Opportunities, and I think this is just an example. You refer to domestic rate mitigation by year, and there's been other references to domestic rates, and I just wanted to clarify or confirm my understanding, does that exclude industrial rates or does that include industrial rates? When I say "industrial", I mean rates of the industrial customers of Hydro.

MR. LETZELTER:

A. Yes, one of the benchmarks we were looking to impact was the domestic rates, so that was the target we were trying to adjust for mitigation.

MR. COXWORTHY:

Q. And I don't mean that question as an implied criticism. You may not have had the data or all of the data to factor in industrial rates.

DR. LETZELTER:

A. No, we used a module within our mitigation model that was based on Nalcor's own model for assessing the impact of revenue requirement adjustments on rates, but it's not a rate making or a policy decision on our part. We just allowed the mitigation dollars to flow through that model to understand the general approximate impacts to that domestic.

MR. COXWORTHY:

Q. And that model just happened to be a domestic rate model?

DR. LETZELTER:

A. The model also showed industrial class impacts as well, but we were focused on the

impact to the domestic rates.
MR. COXWORTHY:
Q. To the extent you recall or can comment, did the results for industrial rates differ when you ran – for instance, for this table here, would they differ?
DR. LETZELTER:
A. Yes.
MR. COXWORTHY:
Q. Significantly, materially, if you were looking at it from the perspective of an industrial customer?
DR. LETZELTER:
A. I would say they were significant, but I can't point to specific numbers without going into the model because we really didn't focus on that.
MR. COXWORTHY:
Q. And why not?
DR. LETZELTER:
A. Frankly, we did as directed, and the key point for us to look at was the domestic rate. The model is something that can be used going forward to look at the impact of rates on different customer groups.

MR. COXWORTHY:
Q. That takes me back to a comment that Mr. Antonuk made in his evidence yesterday. It's at page 28, and again I don't know if we need to turn to it, but you talk about, I think, we operate the model in two ways. One is to show total revenue requirements, dollars and cents per kilowatt hour, we did not do segregation by customer class. We did total revenue requirement, and then you go on to say that Synapse will say things about individual classes. You haven't done that. You haven't done any segregation by customer class, is that correct?
DR. LETZELTER:
A. Not in terms of the overall mitigation in terms of dollars, no.
MR. COXWORTHY:
Q. Is someone going to need to do that in this rate mitigation exercise? If it wasn't within your scope, if it wasn't what you were directed to do, does it need to be done to understand rate mitigation vis-à-vis the industrial customers and what may be possible, necessary?

MR. ANTONUK:
A. I think once a level of mitigated revenue requirements are determined, the Commission is going to face on an ongoing basis the need to how to proportion the recovery of them, but our point being that we didn't really seek to do that.
DR. LETZELTER:
A. By saying we're not showing the impacts to the industrial class does not in any way mean that we took the full mitigation and applied it to the domestic.
MR. COXWORTHY:
Q. I was hoping not, but thank you for that confirmation.
MR. ANTONUK:
A. There was no effort to leave you out in the cold.
MR. COXWORTHY:
Q. I think with that, those are all my questions. Thank you very much, gentlemen.
CHAIR:
Q. Thank you, Mr. Coxworthy. Ms. Greene, do you have any follow-up that you need to take the panel through?

GREENE, Q.C.:
Q. No, thank you, Madam Chair, I have no re-direct or no additional questions.
CHAIR:
Q. Thank you. Any questions?
MS. NEWMAN:
Q. No questions.
CHAIR:
Q. And I don't have any questions, so I guess with that, we can bring this day to a close. I thank you, panel. You've been two full days at least or the better part of two full days, and I wish you safe travels home. I'm assuming we'll see at least one of you again, I think, soon.
MR. ANTONUK:
A. Possibly.
CHAIR:
Q. So with that, I guess, we're adjourned for today. We're reconvening at 9 a.m. on Monday, and Synapse will be sitting where Liberty is today. Have a good weekend, everybody.
(UPON CONCLUDING AT 12:22 p.m.)

CERTIFICATE

I, Judy Moss, hereby certify that the foregoing is a true and correct transcript in the matter of Reference to the Board, Rate Mitigation Options and Impacts, Muskrat Falls Project, heard on the 4th day of October, 2019 before the Newfoundland and Labrador Board of Commissioners of Public Utilities, 120 Torbay Road, St. John’s, Newfoundland and Labrador and was transcribed by me to the best of my ability by means of a sound apparatus.

Dated at St. John’s, Newfoundland and Labrador this 4th day of October, 2019

Judy Moss

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