NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
120 Torbay Road, P.O. Box 21040, St. John's, Newfoundland and Labrador, Canada, A1A 5B2

Hearing Transcript

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

October 11, 2019

PRESENT:

The Board:

Board Members
Darlene Whalen, Chair
Dwanda Newman, Vice-Chair
John O'Brien, Commissioner

Board Counsel / Staff
Maureen Greene, Q.C., Reference Counsel
Sara Kean, Assistant Board Secretary

Parties:

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

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

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

Island Industrial Customer Group
Paul Coxworthy, Counsel
Denis Fleming, Counsel

Witnesses:

Nalcor Energy / Newfoundland and Labrador Hydro
Panel 1
Jim Haynes, Executive Vice President, Nalcor
Jennifer Williams, President, Newfoundland and Labrador Hydro
Michael Roberts, Senior Vice President Corporate Services & CHRO, Nalcor
Greg Jones, Director, Nalcor Energy Marketing, Nalcor

Panel 2
Jim Meaney, Vice President, Finance, Power Supply, Nalcor
Lisa Hutchens, Vice President, Financial Services, Newfoundland and Labrador Hydro
Auburn Warren, General Manager (Financial Planning, Treasury & Risk Management), Nalcor

(9:01 a.m.)
CHAIR:
Q. Good morning, everybody. Happy Friday. It's been a long week. I guess there's nothing preliminary. We'll go right back to Ms. Greene, and you can carry on. Good morning.
GREENE, Q.C.:
Q. Thank you, Chair. Good morning.
MR. HAYNES:
A. Good morning.
MS. WILLIAMS:
A. Good morning.
MR. ROBERTS:
A. Good morning.
MR. JONES:
A. Good morning.
GREENE, Q.C.:
Q. I wanted to pick up where we left off yesterday. So Slide 10 is there on the screen, and I'm trying to get an understanding of the organization and how it has changed over the years and what your plans are for the future. So if we could look at that slide. I gave you some

homework, Mr. Roberts, so maybe we'll start with that.
MR. ROBERTS:
A. You did, and I made sure I passed that right on to my team, so they worked hard yesterday evening to come up with some numbers to just support, I guess, some of the evidence that was provided there yesterday. So as I was saying before, if you look through the growth from 2016 through to present day, the forecasted numbers we were to grow by 191 positions from 1463 to the 1654. Of those 191, 151 were specific to Muskrat Falls, and Power Supply, and Power Development, as I was saying, bringing in people now to start learning the operations of the business that will be there to run the operations once the construction and final commissioning is complete. In addition to that, as I did mention, there's another small group in there, the 14 or 15 associated with this business system project. So that was the IT components that I alluded to yesterday in terms of bringing in a new financial system to support the ongoing business, but also

all of these new assets as well. So that was the bulk, as I mentioned before, of what you're seeing there. I also asked them to take a look into 2019, because as I said, 2016 or 2018 are actuals, 2019 through 2022 are forecasted FTE's, and I'm pleased to say that all of the efforts we've been putting in this year through the gating-in process and so forth has us tracking actually to a much lower number than the projected 1654. So we forecasted, and it's still a forecast, but with some more certainty now at this stage down to 1564. Now I will say that some of that is largely because some of these people I've mentioned that we've been bringing on for the new assets, we brought them on at a slower pace. So we've adjusted the schedule as we've gone. So that's what's driving some of the reduction in 2019. As far as projecting out from 2020 to 2022 -
GREENE, Q.C.:
Q. Can we just stop there before we go to the future?
MR. ROBERTS:
A. Oh, sorry, yes, of course.

GREENE, Q.C.:
Q. I was going to ask you what the numbers represented. So in your answer you indicated that the numbers up to this year are actual numbers at year end?
MR. ROBERTS:
A. That's correct.
GREENE, Q.C.:
Q. Can you tell us what the forecast was for 2016?
MR. ROBERTS:
A. No, I do not have that information with me, but we certainly could get it for you.
GREENE, Q.C.:
Q. And do you know what the FTE's were prior to 2016, roughly, approximately in 2014, 2015?
MR. ROBERTS:
A. No, I didn't go look for that information either. I apologize, I thought you were looking for further detail on the chart.
GREENE, Q.C.:
Q. I'm trying to get a picture of where you were, where you are now, and where you're going.
MR. ROBERTS:

A. Right.
GREENE, Q.C.:
Q. Do don't have from your general knowledge what the FTE's would have been in 2015?
MR. ROBERTS:
A. As I said before, I mean, we've been bringing on staff as needed in support of this project. So the project was sanctioned in 2010 – 2012?
GREENE, Q.C.:
Q. 2012.
MR. ROBERTS:
A. 2012. I mean, since the time of sanction once that became evident, we would have started to bring people in to the organization slowly, obviously. That's ramping up and you see the peak this year because of the fact that we're getting closer to completion. So I would imagine that there's been some slow growth in the prior years to support that effort. There's also the merging businesses. During these years, we've started an oil and gas company, we had some people dedicated to the Bull Arm Fabrication site, we created an energy

marketing company, so that would create obviously some new positions as well as we've developed over those years.
GREENE, Q.C.:
Q. Now of the 191 positions you said were associated and specific to Muskrat Falls, is there a breakdown between those who were hired for permanent to remain on for operating the assets versus those who were brought on for testing and commissioning?
MR. ROBERTS:
A. That's where I was going to go. So for 2020 through 2022, if I look at the reductions for Muskrat Falls, there is –
GREENE, Q.C.:
Q. But of the 91 that you – first before we get to what you're going to take out, of the 91 new hires in that period, do you know the breakdown between, I'll call them temporary term, they were brought on for the commissioning aspect for putting it in service commissioning, but not for the longer term picture?
MR. ROBERTS:
A. I'm not sure if this answers your question,

but what I was saying is that of the 151 that have been brought in over the last three years for Muskrat Falls, Power Supply, Power Development, 53 will go. So a part of that reduction plan that we have there, 2020 through 2022, 53 of those individuals are within Muskrat Falls, Power Supply, and Power Development.
GREENE, Q.C.:
Q. Okay. If we look now then to your forecast for 2022, I understood from your evidence yesterday that of those numbers, you indicated 25 were for Power Development, were in the Power Development area, 10 were with respect to transition to operations, and if you like, we can go to your transcript because you're looking a bit puzzled over there, but –
MR. ROBERTS:
A. No, no, you're talking about where we saw some of the reductions coming, yeah?
GREENE, Q.C.:
Q. Yeah, your 1492 forecast. So taking these numbers from your evidence yesterday on page 35 to 36, so this is where Mr. O'Brien asked

you the forecast and you gave us the breakdown starting on line 23 of page 35.
MR. ROBERTS:
A. Uh-hm.
GREENE, Q.C.:
Q. So the Power Development was 25, the transition operations was roughly 10, the people you brought on for the new business systems project was 15, Corporate Services, 15 possibly 20, and Holyrood was 90?
MR. ROBERTS:
A. Yeah, that's right. I can help try to reconcile these now. I have a bit more specifics.
GREENE, Q.C.:
Q. How does that relate to the 53 you just gave me -
MR. ROBERTS:
A. Exactly.
GREENE, Q.C.:
Q. Because if I add 25 and 10, I get 35.
MR. ROBERTS:
A. That's right, and the rest would be those Corporate Services ones you were referring to just now. So you've got roughly again 25

FTE's there in the Power Development. The other 10 that you referenced roughly in TTO, these numbers may vary a bit, but basically what that 53 is resembling is the folks that are in Power Development today, the folks that are on the TTO team today, as well as the other Corporate Services functions that would be supporting those assets as they come. I do just want to make a quick point because of the public nature of this. Positions that go away don't necessarily mean the people that are in those positions.

GREENE, Q.C.:
Q. Yes, we understand that.

MR. ROBERTS:
A. I just wanted to make sure everybody is sensitive to that.

GREENE, Q.C.:
Q. So when those people were hired in that ramp up period from 2016 to 2019, the plan was always that those people would go when the project was complete, is that correct?

MR. ROBERTS:
A. Yes, the majority of those cases for certain. I mean, we may have filled some of

those term or temporary jobs with existing staff, with the plan of giving them some experience and then bringing them back into the organization, but those roles that were created in support of bringing on the new assets were always envisioned at some point to transition out.

GREENE, Q.C.:
Q. You also mentioned yesterday that more than half of your forecast FTE's relates to the closure of the Holyrood plant, and again that was Hydro's long term plan?

MR. ROBERTS:
A. That's correct.

GREENE, Q.C.:
Q. Okay. When I look at the forecast reduction for 2022, I was trying to understand if that's already built into the forecast that we have been looking at. So this was your long term plan, you knew that they were going to go, they were hired for a temporary purpose. In the forecast that we have been looking at of your cost and your dividends and what's available for financial mitigation opportunities, those numbers

would ordinarily have been built into a reduction in the cost or to an increase in the dividends. So we would already be seeing in the forecast we have been looking at that produced the 2289 for 2022. So I'm trying to understand is this new money, new savings, or is it already built into all the forecasts that Hydro gave us of its forecast cost for 2022 and beyond, and its forecast dividends? This was your long term plan when you hired them, when you started in 2016, so is it new money or is it just reflecting what is already built in there?

MR. ROBERTS:
A. I'm going to look to my colleagues here on this one, and if not them, the panel that comes up after us because I don't look at it from that revenue or forecast finance perspective. All I know is from a staffing perspective, and, yes, it's always been contemplated, you know, this bubble that we have in bringing on these assets. That's about as deep as I can get on it. I don't know if there's somebody here that can speak to it.

GREENE, Q.C.:
Q. And would you have provided those forecasts and would that have been part of the corporate plan when you did your forecasting from 2019 to 2029, for example, the information you gave the Board?

MS. WILLIAMS:
A. As Mike mentioned, I think we'd have to ask the Finance Panel exactly what made its way into this set of evidence, and then certainly what is in the long term forecast that has been created for the whole organization. I don't know that we have that direct labour forecast built into it or not. I think we have to check on that and make sure.

GREENE, Q.C.:
Q. Okay, so can I ask that the Finance Panel be prepared to speak to it.

MS. WILLIAMS:
A. Absolutely.

GREENE, Q.C.:
Q. We're trying to understand is this additional new money or is it something that's already been reflected in the numbers

that we have?
MS. WILLIAMS:
A. Correct, sure.
GREENE, Q.C.:
Q. Our understanding would have been it would have been in the long term plan that was provided in terms of your forecast if this had been your plan?
MS. WILLIAMS:
A. Yes, I agree. I think we need to double check that the forecast definitely did make its way into the evidence that's been provided here.
GREENE, Q.C.:
Q. So these additional savings that you're talking about would already have been possibly reflected in the forecast, 2289 for domestic customers in 2021? I know it's been reduced because you produced a later forecast down to just over 21 cents a kilowatt hour. so that's the question or the conundrum that we're in here now.
MS. WILLIAMS:
A. Yes, sure.
GREENE, Q.C.:

Q. When Liberty did its analysis, and you were involved quite a bit with Liberty's work, Liberty did not take into account in its numbers the closure of the Holyrood plant, is that correct?
MR. ROBERTS:
A. That would be correct, not from what I could see, no.
GREENE, Q.C.:
Q. And isn't it also correct that Liberty did not take into account the reduction in the staffing associated with the transition to steady state. Their recommendations deal with Hydro post-LCP completion, and I can take you to some of their report where they say that?
MR. ROBERTS:
A. Yeah, maybe that would be helpful because my understanding was when they looked at the organizational structure and charts, there seemed to be to me kind of three buckets, from what I could tell at least, and maybe you can help me with this, where they were projecting reductions. Some were due to efficiencies that could be gained by

integrating Hydro and Power Supply. Some where there's vacancies today, so the recommendation not to fill them, and then some were because we represent some of these folks that are in the transition operations team or even some of the other people supporting the Muskrat Falls Project, and, say, some of the Corporate Services roles, they identified through those org charts some positions that could go that are represented in our numbers here. So I do think there's overlap there.
GREENE, Q.C.:
Q. With respect to Lower Churchill Project, I guess, there would have been in the reduction of the O & M, but in Engineering Services, for example?
MR. ROBERTS:
A. Sorry, what's the question?
GREENE, Q.C.:
Q. When you looked through the numbers and the positions that they had identified, were any of those associated with transition to operations or with respect to the Lower Churchill Project?

MR. ROBERTS:
A. No. I mean, the two biggest buckets of the 94, because the 113 represent 19 contractors, I think, we're both aligned on.
GREENE, Q.C.:
Q. Yes.
MR. ROBERTS:
A. Of the 94, the two biggest buckets, there was 24 in Engineering and I think there was – 21 in Engineering and 24 in Corporate Services. Maybe someone can help me with that, but roughly those numbers. I believe we're aligned on the Corporate Services numbers, but the 24 in Engineering, I think, is a point of divergence. Even when we assessed through working with them and we had our Vice Presidents of Engineering sitting with Liberty, and through exhaustive discussions and so forth, I think that's one area where we definitely diverged where they felt there was more synergies that could be gotten by putting that group together than we could see.
GREENE, Q.C.:
Q. On the Engineering Services?

(9:15 a.m.)
MR. ROBERTS:
A. Absolutely, yes.
GREENE, Q.C.:
Q. Okay. The forecast that you have for 2022, is that essentially how you're achieving the 20 million dollars direction that was in the Shareholders Plan?
MR. ROBERTS:
A. Yes. I mean, the shareholder indicated to us that they were looking for us to try to save 20 million dollars from today's costs, and today's costs are reflective of what 2019 would be, and this would bring roughly that 20 million in savings, and again it's a plan that we're working towards. I'm sure it'll change over the next few years.
GREENE, Q.C.:
Q. The closure of Holyrood obviously is one of the main linchpins for your plan, is that correct?
MR. ROBERTS:
A. Absolutely. This plan couldn't be achieved in this manner without the repurposing of the Holyrood plant.

GREENE, Q.C.:
Q. And as you know, the future of the Holyrood plant is currently under consideration, is that correct?
MR. ROBERTS:
A. That's correct.
GREENE, Q.C.:
Q. Have you any alternative plan to how you would achieve savings if the closure of the Holyrood plant is deferred?
MR. ROBERTS:
A. No, I do not.
GREENE, Q.C.:
Q. Pardon?
MR. ROBERTS:
A. No, we do not.
GREENE, Q.C.:
Q. I'd like to turn now to Slide 5 of the Sustainable Cost Management Presentation. I just wanted to confirm, I understand from your evidence yesterday, Ms. Williams, that the 2 million dollars in savings, and the one you have identified separately for Exploit, the 2.5, that's not on top of the 15 to 20 million dollars that I just talked

to Mr. Roberts about, is that correct, it's part of it?
MS. WILLIAMS:
A. I think there will likely be some overlap. So from an FTE reduction perspective, if we end up reducing FTE's through the 2 million dollar commitment, and the 2.5 million dollar commitment, that would be a subset of the eventual achievement of the 15 to 20 million dollar corporate savings. It's not directly on top of. I think there will be some overlap.
GREENE, Q.C.:
Q. Do you have any idea of the additional potential savings, so the maximum that we could possibly be looking at?
MS. WILLIAMS:
A. I do not. Like I said, we are hoping to have more clarity on this in a report that we will put forward next year.
GREENE, Q.C.:
Q. Is it fair to describe this commitment to 2 million dollars and what you have proposed in your evidence as really a plan to get to a plan? You can't tell us now where you

hope to achieve savings, you can't tell us exactly where they will be. You've provided a schedule and you're going to come back with a plan. So I call it a commitment to develop a plan to get us somewhere?
MS. WILLIAMS:
A. Yes.
GREENE, Q.C.:
Q. You mentioned yesterday as well that the Board had in the recent GRA directed a disallowance in the salary and benefit costs.
MS. WILLIAMS:
A. Yes.
GREENE, Q.C.:
Q. That was the second consecutive General Rate Application where the Board came to that finding, is that correct?
MS. WILLIAMS:
A. Correct.
GREENE, Q.C.:
Q. So in the 2016 GRA, the Board determined that Hydro had not demonstrated that it was operating efficiently, and directed a reduction of 4 million dollars in addition

Page 21

to some increase in the FTE vacancies, and the removal of the short-term incentive or the bonus plan from customer rates?

MS. WILLIAMS:
A. Correct.

GREENE, Q.C.:
Q. And said that Hydro had to demonstrate improved efficiencies?

MS. WILLIAMS:
A. Correct.

GREENE, Q.C.:
Q. In 2019, the Board found that you had not done that and again ordered the disallowance. So, I guess, the question I wanted to ask, and I'll give all of you the opportunity to address to the Commissioners, one is first to Mr. Roberts, and in the reorganization you said that cost efficiencies was one of the driving factors, but at least with respect to Hydro, the Board, and the stakeholders weren't satisfied that that had been demonstrated by 2019. So to Mr. Roberts and then Ms. Williams, what assurances can you give the Board that your commitments here will

Page 22

actually be achieved based on that track record?

MR. ROBERTS:
A. Well, I'll speak first, I guess, since you pointed to me first. You know, we are committed, as we said to the Board and putting it on record now, that we are striving to be better. I think we'll always tell you that, that we're going to be striving to be better and we'll always be better. So that's what we're focused on, and we haven't demonstrated that well enough in the past. I think we would be remiss if we weren't saying here now that we're going to do our very best to be better, and I believe that the structure that we put in place will help support and facilitate that going forward. It takes time, as I said before, for these types of structures to take hold. Having a group of people who are dedicated and solely focused on Newfoundland and Labrador Hydro now, I think will bring those efficiencies to you in the future. I'm confident that Ms. Williams and her team will be about to achieve that because that's

Page 23

a big part of their mandate.

MS. WILLIAMS:
A. Sure, and as I went through, I can't recall if it was yesterday or the day before, I think when we discussed this slide in PUB-Nalcor 218, there was a number of initiatives that we have already started and they wouldn't have been able to be fully on the record for the GRA. I am not suggesting that that's – we're done. I am suggesting that it is an indication of where we are headed and not to speak for Liberty, by any stretch, but I think that they had also commented that they have seen signs that Hydro is very willing and able to make better steps forward on cost savings and becoming more efficient.

So, building on what we have demonstrated of late is the commitment that we have here and we are committed to providing that report. There has been thinking put into where we can do better, as is evidenced by what we've put forward with our work management and execution and the operational technology. Absolutely, I think

Page 24

we feel very confident that we are going to be able to deliver more savings and become more efficient go forward.

GREENE, Q.C.:
Q. So, stay tuned for the next rate case for Hydro. Is that where we'll see the four million dollars, plus the other half million from the bonuses and then the two – four and a half million that you've – you indicated yesterday was also in addition to the four million dollars disallowance?

MS. WILLIAMS:
A. I also think I testified that we cannot turn on a dime. So, you know, our hope is to get the two million dollars in operating savings, but as our plan that was put forward in evidence indicated, some of these initiatives are going to take time to implement and to get those cost savings. So, I can't just, you know, wave and major wand and suggest that we got two million dollars out tomorrow. We have to put the appropriate thinking in place and do the appropriate human resource programs and approaches in order to achieve those full

Page 25

savings.
So, the rate case is due next September. I expect that the outcome of this reference question could have an impact on that. Perhaps it won't. Maybe the timing will be just fine. But absolutely, we will have a report to this Board next year and then obviously within the rate case, it will demonstrate exactly how far we've been able to achieve.

GREENE, Q.C.:
Q. I'd like to go to Slide 6 and 7 of the same presentation. In discussing this yesterday, I think I'm correct in saying that both Ms. Williams and Mr. Haynes expressed the view that they challenge each other, so that we should take comfort from the fact that when they are looking at the budgets that there is challenging between Hydro and Nalcor. I assume that within Hydro as well, there's challenging between the Hydro people when they're looking at various costs to bring forward with respect to operations?

MS. WILLIAMS:
A. Absolutely.

Page 26

GREENE, Q.C.:
Q. Okay. So, I wanted to give you again the opportunity to – I assume you're not suggesting that the challenging is a substitute for oversight by an independent third person and what value or do you see that as a substitute for regulatory oversight of future O&M costs for the Lower Churchill Project?

MR. HAYNES:
A. The way the budgets are developed and all those things, it's different managers bring them up. They're scrutinized by the finance people, by the leadership team. They are developed. They go to the Board of Directors eventually and approved. The scrutiny is always positive from that point of view. There's lots of questions asked and when we talked about challenging each other, I mean, it's a matter of bringing a least cost mentality, if you will, to the unregulated assets.
Currently, they're unregulated. If they do get regulated, obviously that brings in another level. But at the current time,

Page 27

I'm – from my perspective, I'm bringing that least cost mentality to the budgets, to the capital and the operating budgets, looking for least cost and I'm not – you know, another level of oversight, there's nothing wrong with that. But the current construct does not require – you know, it doesn't dictate to happen. If it happens, then obviously we'll respond. But you know, I'm not uncomfortable that the budgets that we're bringing forward are not what is required to bring safe, reliable service to the off-takers of Muskrat Falls' power.

GREENE, Q.C.:
Q. And I'm sure that when Hydro brings forward its capital programs to the Board, they're also satisfied. It's the issue of that independent oversight that -

MR. HAYNES:
A. Of course.

GREENE, Q.C.:
Q. - the fresh eyes from an objective person with experience brings.

MR. HAYNES:
A. Understood.

Page 28

GREENE, Q.C.:
Q. And I assume that if it ends up being regulated, of course, then Hydro would fully cooperate with the Board and Nalcor?

MR. HAYNES:
A. Absolutely.

GREENE, Q.C.:
Q. Okay. Turning to Mr. Jones. I started with you. I gave you a break last because you seemed to be bearing the brunt of it yesterday.

MR. JONES:
A. Yeah, appreciate it.

GREENE, Q.C.:
Q. As I understand Power Advisory's evidence, they said that traders are highly skilled and specialized people that's required for energy trading and that there's a lot of competition for them, particularly from the larger centres. That's my paraphrasing of part of what they said. Would you agree with that?

MR. JONES:
A. I think that's a fair statement.

GREENE, Q.C.:

Page 29

Q. Okay. Now, Mr. Marshall in his evidence indicated that the compensation paid at Hydro/Nalcor is a challenge for him and he has found it difficult in recruiting appropriate people, given the compensation levels.
MR. JONES:
A. Yes, that's – that was his evidence, yes.
GREENE, Q.C.:
Q. And I guess my question to you, I wanted to ask you what difficulties you have had in recruiting the people for energy trading.
MR. JONES:
A. Most of the – so, we have – most of the recruiting that we have done and the development and the training has been done in-house. The skills that a trader brings to bear, they are definitely transferrable across various jurisdictions, but for the folks that actually do the trading on a day-to-day basis, it's a – what's happening here in our unique circumstance is basically the Newfoundland and Labrador electrical system and the knowledge of that is just as important as the knowledge of how to

Page 30

interact. So, we have a very robust internal training program. We've managed to recruit I believe two individuals from other jurisdictions, but most of the folks have been brought in – are folks from Newfoundland and Labrador that have been brought in and trained by ourselves.
GREENE, Q.C.:
Q. And when you said you had recruited two, my recollection is you said you had eight traders?
MR. JONES:
A. Eight real-time traders.
GREENE, Q.C.:
Q. And are the two part of that eight?
MR. JONES:
A. One was part of that original eight – actually, no, two of them were part of that original eight. They've since moved on to various other roles.
GREENE, Q.C.:
Q. But still at Nalcor?
MR. JONES:
A. One has moved on outside of Nalcor. The other one is our manager of energy trading

Page 31

and reports to me.
GREENE, Q.C.:
Q. So, you have not gone to the external marketplace to recruit? You've trained internally? Is that what I take from your answer?
MR. JONES:
A. We have gone to the external marketplace to recruit, but we've not been successful in bringing in folks. Most recently though, we did bring in an individual from Nova Scotia with relevant experience, but we will still have to put that individual through our full training program internally.
GREENE, Q.C.:
Q. I also understood from your evidence yesterday that the analysis you did with respect to the appropriate structure for Nalcor Energy Marketing was done around 2008 originally?
MR. JONES:
A. The first exercise to move to basically from a fixed price contract to a trading model was done first in 2008, yes.
GREENE, Q.C.:

Page 32

Q. And at that time, you selected Emera?
MR. JONES:
A. Correct.
GREENE, Q.C.:
Q. Okay. And then you did a re-evaluation when the project was sanctioned, roughly around 2012, in anticipation of the expansion of potential export sales?
MR. JONES:
A. Well, we started that analysis in late 2009, basically in anticipation of potential future developments that the company were pursuing at the time. We thought it prudent to basically do that analysis early and then once the project was sanctioned, we re-evaluated that analysis and that happened in late 2012 and there was actually a further retest in late 2014 before the final move to conclude the Emera contract was completed.
GREENE, Q.C.:
Q. So, at the time of the decision to select Emera, what was the driving factor for you to go to an external marketplace?
MR. JONES:
A. We determined that we would get greater

value for the surplus recapture from that trading model.

GREENE, Q.C.:

Q. And was that because the portfolio was too small at that time?

MR. JONES:

A. No, it was because – well, really we were looking at either another fixed price contract at the border with an off-taker such as Hydro Quebec, or the ability to access the market, and quite frankly, we just didn't have the experience to manage that market activity ourselves. So, that's why we initially elected Emera as our service provider.

GREENE, Q.C.:

Q. And in that period of time that was chosen for your own internal people to gain experience? You yourself transferred from another role in Hydro/Nalcor?

MR. JONES:

A. Correct.

GREENE, Q.C.:

Q. And you just said your staff were trained. Was that chosen as one of the reasons to

develop internal expertise? You said you went to Emera. You didn't have the experience.

MR. JONES:

A. Correct.

GREENE, Q.C.:

Q. Now you have the experience. You're doing it yourself and you've done it through internal people.

MR. JONES:

A. Correct.

GREENE, Q.C.:

Q. Okay.

MR. JONES:

A. I'm not sure what the question -

GREENE, Q.C.:

Q. The question was I was trying to understand your rationale. Was part of going to external third party provider in order to allow time for Nalcor to grow its own?

MR. JONES:

A. No, initially it was because it provided – it offered the greatest value versus the other alternative that was in our purview. We did not have the alternative to initially

move wholeheartedly to an internal trading company.

(9:30 a.m.)

GREENE, Q.C.:

Q. But you must have made some decision at a point in time to start training people and to it yourself?

MR. JONES:

A. Absolutely. So after we concluded in early 2011 that the internal growth model would be the one that we would pursue, knowing – understanding that sanction had not been achieved at that point, any actions that were taken in that period from that initial conclusion to move to the internal growth model and to the – between that and the sanction decision in late 2012, any activities that we were taken would be – would apply to both. So, the initial folks that we brought on were analysts and folks that would offer value in supporting the Emera contract as well as the internal growth model, if that was the path that we took into the future.

GREENE, Q.C.:

Q. So, the last time you looked at the alternatives to providing the service was 2014? I think you indicated you reviewed it again.

MR. JONES:

A. Correct.

GREENE, Q.C.:

Q. Okay. My understanding, limited as it is with respect to this, is that this market – we've heard evidence from you and Power Advisory and Liberty that the market has changed a lot, in terms of the developments of natural gas and the impact that's having in the marketplace. So, there's been a lot of shale gas development. The energy markets in Atlantic Canada that you outlined are future growing markets.

MR. JONES:

A. Um-hm.

GREENE, Q.C.:

Q. And I guess the question I have is: is there a point in time where this should be periodically reviewed in terms of changing and evolving markets to determine whether it's still appropriate to go the way that

Hydro has? Liberty has just suggested looking at whether it's still the most appropriate way. You haven't looked at it in at least five years. Is it an appropriate time to do so now?

MR. JONES:

A. I honestly don't see the value in that kind of an exercise, and it's not just a dollars and cents exercise. With the experience that we have and understanding the markets in which we are operating, if we were to go to a third party provider that had experience, that third party provider, by default, would be our direct competitors. Because if they have the experience – in order to have experience and contacts in the market, they would have to be participants in the marketplace. If they are participants in the marketplace, they are our direct competitors. So, with the portfolio of resources that we have going forward, I just see there's too much risk in going to a third party provider for that and a host of other reasons.

GREENE, Q.C.:

Q. Okay. So, you wouldn't even solicit bids from the marketplace or interest from the marketplace?

MR. JONES:

A. To be honest, I don't – I honestly don't see what would be gained by that exercise, given the experience that we've had. We operated under the Emera contract for – well, from 2009 up to 2014. We've been operating – so, we understand how that model works and we've been operating as a full service company since 2014 or excuse me, 2015. I honestly don't see what a test of the market would actually bring to bear.

GREENE, Q.C.:

Q. Okay. So, you don't accept Liberty's recommendation is Nalcor's position?

MR. JONES:

A. It's not that I don't accept it. I would say we've already done it.

GREENE, Q.C.:

Q. Five years ago at the latest.

MR. JONES:

A. Correct.

GREENE, Q.C.:

Q. Right. And again, we haven't really explored the level of the review in 2014. How extensive was it? You initially did your initial work in 2008 where you got external advisors.

MR. JONES:

A. Um-hm.

GREENE, Q.C.:

Q. How did you go about doing it when you looked at it again in 2012 and '14?

MR. JONES:

A. We basically went back and re-evaluated the information that we had discovered or we had used at that time, at the 2011 marker. So, using that as our benchmark, as the considerations that we would bring to bear on the decision. We looked at each one of our decision criteria and said "has anything materially changed that would change our decision?"

GREENE, Q.C.:

Q. So, it was based on the analysis that was done in 2011? A dust-off of your 2011?

MR. JONES:

A. It was a refresh of that analysis, yes.

GREENE, Q.C.:

Q. Okay. And did you – I understood in 2008 you went and got external third party advice with respect to the appropriate way to structure Nalcor Energy Marketing. Was that correct?

MR. JONES:

A. In?

GREENE, Q.C.:

Q. 2008, I understood you had gone and got advice as to how to do it from a tax perspective, from a risk management perspective. Was that 2008?

MR. JONES:

A. No, that was the exercise to start in late 2009.

GREENE, Q.C.:

Q. In 2009, okay. So, and did it complete in 2009-2010?

MR. JONES:

A. We completed that in early 2011.

GREENE, Q.C.:

Q. Okay. So, when you looked at it again in 2014, was that an internal review only or did you also solicit some external advice in

doing the re-evaluation?
MR. JONES:
A. That was an internal review.
GREENE, Q.C.:
Q. I'd like now to turn to Slides 17 and 19, or those 17, 18, 19, and talk about your other responsibilities at Nalcor Energy Marketing. And this was reviewed in detail with some of the questioners yesterday.
MR. JONES:
A. Yes.
GREENE, Q.C.:
Q. So, they have covered a lot of my questions, but I still do have some. When did Nalcor Energy Marketing start to do the reservoir management for Hydro's facilities?
MR. JONES:
A. That was two years ago.
GREENE, Q.C.:
Q. So, 2017?
MR. JONES:
A. 2017, in January of 2017.
GREENE, Q.C.:
Q. And what occasioned -
MR. JONES:

A. Or excuse me, no, January 2018.
GREENE, Q.C.:
Q. January 2018, okay. And why did you start doing it at that point in time?
MR. JONES:
A. Because we were preparing for the integration of the Muskrat Falls Project.
GREENE, Q.C.:
Q. So, what reservoirs were you starting to manage in 2018, January 2018?
MR. JONES:
A. Well, actually, we've been managing the recapture contract, which is essentially the reservoir management, since 2009. So, the 300 megawatt block or recapture, we've been managing that on behalf of Hydro since 2009.
GREENE, Q.C.:
Q. Yes, but what did that involve? That was taking power from the Upper Churchill plant?
MR. JONES:
A. Correct.
GREENE, Q.C.:
Q. That would not have involved management of the reservoirs on the Island?
MR. JONES:

A. It would not, no.
GREENE, Q.C.:
Q. No. So, I'm talking about when you started to do the water management. You would not have had to do that for recapture, sale of recapture.
MR. JONES:
A. Not to the same extent. We're not actually managing water. We were managing the contract -
GREENE, Q.C.:
Q. Right, so -
MR. JONES:
A. - between Hydro and CF. When we started managing water here on the Island -
GREENE, Q.C.:
Q. Can I just stop you there?
MR. JONES:
A. Yeah.
GREENE, Q.C.:
Q. When you said you were starting to manage the contract between Hydro and CF, what contract? Not the hydro -
MR. JONES:
A. Recapture contract.

GREENE, Q.C.:
Q. Okay. That's where they get it from -
MR. JONES:
A. Correct, yes.
GREENE, Q.C.:
Q. Okay. So, it's just taking the amount of power and selling it, right?
MR. JONES:
A. Well, there's a little bit more to it than that, but -
GREENE, Q.C.:
Q. I'm not -
MR. JONES:
A. - but, yes.
GREENE, Q.C.:
Q. But I don't understand how it would involve management of water.
MR. JONES:
A. No, it doesn't involve management of water.
GREENE, Q.C.:
Q. And that's what -
MR. JONES:
A. Okay.
GREENE, Q.C.:
Q. I'm trying to understand your different

roles. You were taken a lot yesterday through energy trading and what you do there.

MR. JONES:
A. Yes.

GREENE, Q.C.:
Q. A little bit about water management and what your new role is in that and production scheduling. That's what I want to talk about.

MR. JONES:
A. Correct. So, that's – that started in 2018 and that was the Island reservoirs.

GREENE, Q.C.:
Q. The Island reservoirs, because yes, we didn't have the link then.

MR. JONES:
A. Correct.

GREENE, Q.C.:
Q. Okay. Who was doing that prior to Nalcor Energy Marketing starting to do it?

MR. JONES:
A. That was done within Hydro.

GREENE, Q.C.:
Q. Okay. And how did you acquire the skills

and the expertise to be able to take on that responsibility for Hydro?

MR. JONES:
A. We hired the individuals from Hydro and individuals from the project that had experience on the Churchill River.

GREENE, Q.C.:
Q. Okay. So, you took -- the skills that were in Hydro were transferred over to Nalcor Energy Marketing?

MR. JONES:
A. Correct.

GREENE, Q.C.:
Q. Okay. The other activity that you talked about – and before I move to the next activity. Tell us what water management involves. What is it your people do?

MR. JONES:
A. We look at the expected inflow. So, see how to – how do I do this in a few moments?

GREENE, Q.C.:
Q. At a high level.

MR. JONES:
A. Yes, at a very high level.

GREENE, Q.C.:

Q. I've gone through – we've all gone through the curves for the water and I don't mean you'll go to that level of detail.

MR. JONES:
A. Thank you. So, basically what we do is we look out a three-year window. We look out at the range of inflows that we might expect and we compare that. We look at – compare that to the load demands that will be on the system and then we basically dispatch the water in various reservoirs to maintain reservoir stability and to ensure that we don't run out of water.

So, up until the interconnection, we're still operating in a hydrothermal world today. And so, the water management exercise is largely around minimizing production at Holyrood. Also minimizing production at Holyrood from a water management perspective, but also from an import perspective, as I described yesterday.

GREENE, Q.C.:
Q. So, it would be your group who would decide if, for example, if we're in a dry sequence

that you needed to run Holyrood more and you needed to build up your water?

MR. JONES:
A. The way that it's operating right now, we would make that recommendation to Newfoundland and Labrador Hydro to say that it's time to start looking at alternative sources to boost water reserves.

GREENE, Q.C.:
Q. Okay. The other activity that you do, as I understood your evidence, is that you actually schedule the dispatch of the units. Production scheduling, you do the week plan I should say?

MR. JONES:
A. We do the weekly plan, which identifies the targeted outputs from the various reservoirs and then the start-up and shutdown sequences for the various units as load grows and falls off throughout the day.

GREENE, Q.C.:
Q. So again, you would decide if you need to put – in your plan, you would plan to put on Holyrood if you needed it for peak and you would plan if you needed to start a CT if

Page 49

you needed – you had some assets out of service. In doing your plan, you're the ones who would decide how to accommodate?

MR. JONES:
A. So, the reliable – hour-to-hour reliability is driven by Newfoundland and Labrador Hydro and the system operator. So that would be largely around the CT type activities. Our focus is on managing water within the constraints that the system operator puts on us from a capacity perspective.

GREENE, Q.C.:
Q. But when you do your production schedule, as I understood it -

MR. JONES:
A. Yes.

GREENE, Q.C.:
Q. - when you come up with your weekly schedule, you would decide what units would be run generally?

MR. JONES:
A. Absolutely, yes.

GREENE, Q.C.:
Q. And do that?

MR. JONES:

Page 50

A. In consultation with Newfoundland and Labrador Hydro.

GREENE, Q.C.:
Q. And again, who did that – when did you start doing that activity?

MR. JONES:
A. In 2018.

GREENE, Q.C.:
Q. Same as the water management?

MR. JONES:
A. Yes.

GREENE, Q.C.:
Q. And again, who would have done that activity prior to Nalcor Energy Marketing?

MR. JONES:
A. Newfoundland and Labrador Hydro.

GREENE, Q.C.:
Q. Okay.

MR. JONES:
A. The system operator.

GREENE, Q.C.:
Q. So, in -

MR. JONES:
A. Or the ECC I believe it was called at the time, Energy Control Centre.

Page 51

GREENE, Q.C.:
Q. Okay. And how did you acquire the skills to undertake that responsibility?

MR. JONES:
A. It's the same individuals.

GREENE, Q.C.:
Q. Okay. So again, they came from Hydro to Nalcor Energy Marketing?

MR. JONES:
A. Correct.

GREENE, Q.C.:
Q. You explained a little bit yesterday in terms of regulatory oversight how that would work in this new environment. As I understood your evidence, you work in coordination with Newfoundland Hydro?

MR. JONES:
A. Yes.

GREENE, Q.C.:
Q. So, the Board, with its regulatory oversight, would be holding Hydro accountable for these activities?

MR. JONES:
A. Absolutely. 100 percent, yeah.

GREENE, Q.C.:

Page 52

Q. Right. And Hydro would hold you accountable for ensuring that you did them properly because you're not regulated?

MR. JONES:
A. Absolutely.

GREENE, Q.C.:
Q. Okay.

MR. JONES:
A. It's a contract management like any other contract.

GREENE, Q.C.:
Q. So, the regulatory oversight which had been there before is now certainly different. We go to Hydro to ask them to hold an external third party supplier accountable for these critical activities for our system?

MR. JONES:
A. That's one way of looking at it, yeah.

GREENE, Q.C.:
Q. We also talked yesterday about the fee. There is no fee now?

MR. JONES:
A. There is no fee, yeah.

GREENE, Q.C.:
Q. But you gave us a heads up, as we had heard

before, there is going to be a fee for Nalcor Energy Marketing in the future when they come back to the Board and you're very careful to say you're going to come back to the Board with the plan for optimization of the resources.

MR. JONES:
A. Um-hm.
GREENE, Q.C.:
Q. But is your plan that Hydro pay a fee for the services Nalcor Energy Marketing provides?
MR. JONES:
A. At the very least Nalcor Energy Marketing needs to recover its costs.
GREENE, Q.C.:
Q. Okay. And have you considered whether there would be an additional fee -- in your long-term planning and your forecasts, what are you – for example, you paid Emera and you outlined the components of the fee, part of which include an incentive payment?
MR. JONES:
A. Correct.
GREENE, Q.C.:

Q. Is that the current plan for the future? I'm not asking you what the fee is, but have you had any discussions around the nature of the fee?
MR. JONES:
A. There has been no discussions and no contemplation of a fee for service. It's – the models that we have used going forward so far have been based upon the sharing of costs and the sharing of revenues between Nalcor, the regulated and unregulated supplies. So, to the extent that Newfoundland and Labrador Hydro has its contractual rights to surplus energy it would bring to the external market, it would achieve appropriate value for that and as would Nalcor Energy – as would Nalcor for the Muskrat surpluses, and the models have basically been a cost recovery. So, there is no additional cost or any additional fee placed upon the services that NEM provides to Hydro, as opposed to the services that NEM would provide to Muskrat, for example.
GREENE, Q.C.:
Q. Okay. And again, that's an issue that is to

be decided for the future, the actual fee and its components?
MR. JONES:
A. Correct. The overall revenue cost model and value sharing proposition is a topic of future discussion.
GREENE, Q.C.:
Q. Okay. Thank you, Panel. That's all the questions that I have, Madame Chair.
CHAIR:
Q. Thank you, Ms. Greene.
EATON, Q.C.:
Q. Nothing.
CHAIR:
Q. Mr. Eaton, nothing on follow-up?
EATON, Q.C.:
Q. No.
CHAIR:
Q. Any questions? And I have no questions as well. Thank you very much, Panel; very helpful.
EATON, Q.C.:
Q. One more.
CHAIR:
Q. One more panel?

EATON, Q.C.:
Q. One more panel.
CHAIR:
Q. Yes. Not one more question. I'm going to suggest we take a five-minute break and let you guys get situated. Let us know when you're ready.

(BREAK – 9:46 a.m.)

(RESUME – 10:03 a.m.)

CHAIR:
Q. To you, Mr. Eaton.
EATON, Q.C.:
Q. Thank you, Madame Chair. The last panel is what we have called the Nalcor/Hydro Finance Panel. On the, I guess my far left, Mr. Jim Meaney. I'll get each of the panellists to just go through a bit of their background before we proceed. Mr. Meaney, you're currently the Vice-President of Finance of Power Supply, Nalcor Energy?
MR. MEANEY:
A. That's correct.
EATON, Q.C.:
Q. And how long have you been in that position?
MR. MEANEY:

A. I've been in that role since the spring of 2017.
EATON, Q.C.:
Q. And before that, what did -
MR. MEANEY:
A. Sure. I joined Nalcor in the summer of 2010 as the Assistant Treasurer. Then in 2011, I moved into the role of Corporate Treasurer and Chief Risk Officer. In 2013, I moved into the role of General Manager of Finance for the Lower Churchill Project. Then in 2016, my role expanded to take on Churchill Falls and Nalcor Energy Marketing. So, I was the General Manager of Finance for Lower Churchill and those two lines of business as well, and in that role became the Vice President of Finance in 2017.
EATON, Q.C.:
Q. Okay. And before joining Nalcor, could you just give us an overview of your previous experience?
MR. MEANEY:
A. Sure. So, I graduated from Memorial University with a Bachelor of Commerce in Finance in 1998. I then moved to Toronto

and worked in the corporate finance and investment banking field there. At that time, I also received my chartered financial analyst designation. So, during that period, I would have been working in the areas of mergers and acquisitions, debt and equity financing, restructuring, those type of initiatives.
Then in 2004, I moved to the United States and was the head of corporate development for a consumer products company down there and was responsible for mergers and acquisitions and new business expansion. And then, as I mentioned, I joined Nalcor in 2010.
EATON, Q.C.:
Q. Okay. In the middle, Lisa Hutchens, currently the Vice President Financial Services for Hydro. How long have you held that position?
MS. HUTCHENS:
A. I've held my current position since January of 2017 when I first joined the Nalcor Group of Companies and Newfoundland and Labrador Hydro.

EATON, Q.C.:
Q. And can you give us a little background of what you did before moving into Hydro?
MS. HUTCHENS:
A. So, my career before I came to Hydro was largely spent in three different places. I ran an organization called Petroleum Research Newfoundland and Labrador, which funded, facilitated and project managed offshore R&D on behalf of the offshore operators. I spent a number of years at Newfoundland Power in senior financial and administrative services leadership positions there. And then spent a good chunk of time before that with a public accounting firm in the auditing, accounting and management consulting areas.
EATON, Q.C.:
Q. And you have a designation of chartered accountant or now CPA?
MS. HUTCHENS:
A. That I do. So, I completed by Bachelor of Commerce at Memorial University and then went on to do my chartered accountancy designation, which is one of the legacy

designations for the CPA.
EATON, Q.C.:
Q. And on my far right I guess of the panel, Auburn Warren, currently the General Manager of Commercial Treasury and Risk with Nalcor Energy. Mr. Warren, how long have you held that position?
MR. WARREN:
A. Since 2014.
EATON, Q.C.:
Q. And prior to 2014, were you with Nalcor?
MR. WARREN:
A. Yes. I joined Nalcor in 2010 as Manager of Financial Planning, Investment Analysis, and then moved into the role of Manager of Investment Evaluation in 2011. Prior to coming to Nalcor, I worked – graduated from MUN as well, and similar to Lisa, received the chartered accountant designation, not chartered professional accountant. Worked with a great local firm named Grant Thornton. I'm sure the PUB's aware of – the Commissioners would be aware of Grant Thornton. And from there, once I got my designation, moved out to private practice

where I worked as Vice President of Finance, did a lot of divestitures, mergers and acquisition, financing work with that, and then moved to Stratos Global, which was a publicly traded company, that was purchased by Inmarsat and was responsible for Inmarsat global budgeting and special projects. So, a lot of long-term financial planning, budgeting, mergers and acquisitions work and also, the financing treasury aspects.

EATON, Q.C.:

Q. Okay, thank you. Mr. Meaney, you're going to lead us through the presentation, which everybody will be pleased to know will be short.

MR. MEANEY:

A. That's right. So, thank you for having us here today to provide input on the important matter of rate mitigation. As was already noted in numerous of Nalcor's and Hydro's submissions and then reiterated this past week by our CEO and our senior management, it is one of the highest priorities within our organization.

With respect to the Finance Panel, we

are here today for two primary reasons. I guess first through our – as Mr. Eaton said, our brief presentation to provide some additional context and focus on some financial related matters that have already been touched upon during the hearings, primarily by Liberty and then by our CEO, Mr. Marshall.

And then secondly, we obviously want to be available for questions on financial related matters that have arising through the hearings over the past week or so. I know certainly yesterday there was quite a few that got pointed to us, so we'll do our best to try to address those questions. You know, we certainly want to be helpful to the Commission in helping address the requirements of the reference question that has been put to you by Government. So, we'll certainly do our best to answer the questions that are put forth to us.

So, in terms of the first slide, the financial mitigation opportunities. As was stated in our September 20th submission and then reiterated this past week by our CEO,

Mr. Marshall, Nalcor generally agrees with Liberty's analysis that the combined financial mitigation opportunities have the greatest potential to materially reduce the revenue requirement for Hydro that will be passed on to Newfoundland customers starting in 2020 and into 2021.

This represents the largest source of funds available, about 8.2 billion dollars or 93 percent of the total funds that have been identified over the 2020 to 2039 period.

Liberty had estimated that would start at around 165 million dollars in 2021; go to around 500 million in 2030 and then around 700 million by 2039. That aligns with the analysis that has been done internally by Nalcor and that's also information that we had shared with the Province through the Joint Rate Mitigation Committee, that I think got some discussion during the RFI period during this process.

What that includes, that includes the dividends from various parts of the business. So, that would be the Lower

Churchill Project dividends, so those coming out of the Muskrat Falls project. It would include the preferred dividends that come out of Churchill Falls and dividends coming out of Hydro. It would also include excess Muskrat Falls' energy sales, which have got a fair bit of discussion this week already in the context of the work that Nalcor Energy Marketing will do. It would also include the water power rental fees that will be paid by Muskrat Falls and Churchill Falls to the Province through the ongoing operation of those facilities.

The next slide, total mitigation by source. This is actually a chart that came out of Liberty's Phase 2 report that was submitted in early September and I thought this was a really good chart to bring home what we wanted to put some focus on. If you look there at the green part of the pie, that is the 8.2 billion dollars. That is the single largest piece of the puzzle here and obviously offers the greatest opportunities in terms of rate mitigation. The two smaller portions of the pie, the blue and the red, they've identified the opportunity for labour and non-labour savings. That also includes the potential savings for the Muskrat Falls' O&M costs, which as we said in our submission, and I think as Mr. Haynes spoke to yesterday, we generally agree with Liberty on those as well, and that there are opportunities to find some initial savings with the project coming online in 2021 and then a couple of years later, once we get into full operations, some additional opportunities for savings. So, if you take the combination of the green part and those, we're about 95 percent of the total pot of funds available where there is agreement.

One other point I would want to add on this is from a Nalcor and Hydro perspective, we see these being funds that are available that can go from Nalcor and Hydro up to Newfoundland in the form of dividends and water power rentals through the structure that exists today. So, it doesn't require any changes to the commercial or financial arrangements as they exist today. So, I

think that's an important point to bring home.

In terms of implementation considerations, I think this is probably the area where we want to spend a little bit more time and it's probably the part that we feel really garners – needs to garner focused attention.

I think, as Mr. Marshall said in his presentation earlier in the week, how much rate subsidization and how it gets implemented, so there's two important components there, are both very important policy decisions for the province. I think another point that's been made here as well is once that decision is made, in that the taxpayer and the province is going to be subsidizing electricity rates, it effectively does become a taxpayer issue as opposed to an electricity-customer issue. In terms of implementation, I think there's a number of important considerations that we want to bring to folks' attention as part of this discussion. And I obviously expect there's going to be further discussion and

input from all folks involved and obviously discussions with the province on it. So, the first one, the impact of the province's financial position is what we're talking about here. A dollar that the province provides for rates subsidization is a dollar, that the province needs to come up with irrespective of the source. So, it needs to look at its consolidated revenues, all the sources of income that it has coming into the province and determine what can it afford. We need to find the balance between rate stabilization in terms of contributions for that and other requirements in terms of the ongoing operation and expenditures of government. So, that's an important point. I guess, the second point in this area is we need to try and do all this in a manner that doesn't have a negative impact on the province's credit rating. Obviously, the province, as a part of ongoing operation have to borrow money in order to support their requirements, would not want a situation where there's a negative

consequence on the rate, on the credit rating and the cost of borrowing every dollar going forward is more expensive. Another point, important point, to bring out is the involvement of external stakeholders in the financing and the commercial agreements. Obviously, the Government of Canada is involved as the guarantor through the financing and the Federal Loan Agreement. Emera, there's a set of agreements we have in place with Emera, and also, we have a partnership with the Innu Nation through the Impacts and Benefit Agreement. I think the important point here is we need to assure that Nalcor obligations under these agreements are not compromised through rate mitigation. So, this is something that needs to be considered when all the pieces of the pie are put together and folks try to figure out what's the best way to move forward. Another important consideration is one I think that's gotten some attention so far, is the Muskrat Falls Project legislative framework that was put in place. So, this was a framework that was put in place in 2012 and then finalized in 2013 by the province in order to support its commitments to the Government of Canada as part of the Federal Loan Guarantee and the financing. As we did note in our submission on the 20th of September, if there are changes being contemplated, that legislation is part of this, you need to consider the commitments that the province has made to Canada under the Intergovernmental Agreement because one of the commitments in that agreement do relate to any changes to the legislative framework that was put in place. It's obviously an important consideration.

(10:15 a.m.)

And the last point there, but certainly not the least one, are the technical and accounting considerations that must--need to be factored in. So, I guess at the Nalcor and Hydro level, there is the potential for asset impairment at the Lower Churchill Project and Hydro subsidiary level of Nalcor if subsidization is done within Nalcor. So,

if that was to occur, you would take a significant one-time accounting loss. Those results would roll up into Nalcor's and then roll up into the province's. So, that's an important consideration part of this. The other thing, I guess, that comes into the play is ensuring that the implementation from the province's perspective doesn't cause Nalcor to be deemed not self-supporting under government's accounting standards. And just an important distinction here, the accounting standards of Nalcor IFRS are different than those that are the standards that government operates under. So, that's—there's some nuances there that people need to be aware of. What you wouldn't want is a situation where the full debt of Nalcor ends up rolling up onto the province's balance sheet as well. Right now, they recognize their investment in Nalcor as a net equity investment. So, there could be the potential, depending how it's done, that this could cause a consolidation of debt onto the province's

books. So, I guess the key message here, this does require a fulsome evaluation of all these factors that we just spoke about. There's a lot of different stakeholders involved. There's a lot of different considerations to ensure that there are not any unintended consequences, and I think, you know, we fully agree with Liberty because they pointed this out in their report that these are very important considerations that need to be factored into the overall end product and obviously a process that the province and Nalcor need to be very much involved in. So, on that one, we agree with Liberty's findings as well because it is complicated. And that concludes our presentation.

EATON, Q.C.:

Q. So, I'm not going to take you through the questions that got bumped over to your Panel. I'll leave that others, see if they wish to pursue it, but I just have one question for you. And to clarify and hopefully it's understood now that, but just

to make sure, the—everybody who is employed by Nalcor Power Supply gets charged to the O&M costs that are paid for by the rate payers?

MR. MEANEY:

A. No, that's not the case.

EATON, Q.C.:

Q. Okay. And with that, I will turn it over to, I guess, Mr. O'Brien.

CHAIR:

Q. Mr. O'Brien, you can –

MR. O'BRIEN:

Q. Thank you, Madam Chair. Thank you, Panel, for your presentation. We don't have any questions for this Panel.

CHAIR:

Q. Oh, thank you, sir. Mr. Browne?

BROWNE, Q.C.:

Q. We do.

MR. O'BRIEN:

Q. We figured.

BROWNE, Q.C.:

Q. Just on that last point Mr. Easton asked you in reference to who was paying whom. We see a movement of employees from Hydro into Nalcor Energy and you're telling us that Nalcor Energy then picks up the costs for these employees and they're now no longer paid for through Hydro? Is that correct?

MS. HUTCHENS:

A. Yes, so as employees do work for one entity versus another, and Nalcor is separate entity from Hydro, they either are what we call home-based in the entity that they would primarily work for, but in addition to that, they would also time-sheet any time that they would work on any activity for another line of business. So, we parse it out through either, you know, based how-- salaries are charged from a base basis and on timesheets as well. So, and we have an intercorporate policy that defines how that's done.

BROWNE, Q.C.:

Q. But we heard this morning that employees were being moved wholesale from Hydro to Nalcor Energy Marketing, particularly those employees with experience in reservoirs and

the control of reservoirs and they seem to be permanent moves. How does that work then?

MS. HUTCHENS:

A. So, those employees, from an accounting perspective, would charge into Nalcor Energy Marketing and become Nalcor Energy Marketing based. And if they did perform any services directly for Hydro, they would charge it back to Hydro, but the work that they are doing within Nalcor Energy Marketing as far as I'm aware is—those costs are kept with Nalcor Energy Marketing.

BROWNE, Q.C.:

Q. All right. And these employees, they are in fact residing with Nalcor Energy Marketing now?

MS. HUTCHENS:

A. Yes, they are.

BROWNE, Q.C.:

Q. So, you took experienced employees who had experience in reference to the reservoirs and the management of the reservoirs out of Hydro which was regulated and regulated by

this Board and moved them to Nalcor Energy Marketing. Is that what effectively you've done? And Nalcor Energy Marketing, of course, is not regulated by this Board.

MS. HUTCHENS:

A. I'm not sure I'd describe it quite that way. You know, I don't think all skills have moved over. I think those skills are still available to us are utilized to the benefit of ensuring that we maximize the value of the energy. As to the specifics of the employee moves, and their skillsets and how that interrelates, I'm not close enough to that, unfortunately, Mr. Browne, to comment on it.

BROWNE, Q.C.:

Q. So, these employees who have been moved from Hydro, they haven't been replaced there, have they, but others?

MS. HUTCHENS:

A. No, I don't believe so.

BROWNE, Q.C.:

Q. Their positions.

MS. HUTCHENS:

A. No, no, the positions –

BROWNE, Q.C.:

Q. The positions have been moved. So, is control of the reservoirs now with Nalcor Energy Marketing or Hydro? Who controls the reservoirs?

MS. HUTCHENS:

A. My understanding is that Hydro controls the reservoirs.

BROWNE, Q.C.:

Q. Okay. That was just a digression. We'll have to look further into that because there's an issue, of course, because the rate payers have paid for the experience of these employees, and they've all probably grown from the Hydro system, and all of a sudden, they're taken from the Hydro system from—which is rate-payer based into another system, and all that experience is gone and lost. And is there any value given back to the rate payers for that?

MS. HUTCHENS:

A. You know, I think in any organization that has multiple divisions, employees—you know, the skillset and experience is not lost. And I think it goes in both directions. You know, you develop people and that's the right thing to do from an employee-development perspective.

BROWNE, Q.C.:
Q. In terms of bargaining, the bargaining units and the labour agreements, Nalcor Energy Marketing, is that subject to—is that part of the union, the employees that are into Nalcor Energy Marketing?

MR. MEANEY:
A. I don't believe there are any folks that work in the Nalcor Energy Marketing group that are under the collective agreement.

BROWNE, Q.C.:
Q. So, there's no one unionized at Nalcor Energy Marketing, is that correct?

MR. MEANEY:
A. That's correct.

BROWNE, Q.C.:
Q. I'd like to ask you about, okay, in terms of your presentation and focusing on that, and we go to page 2. And we have "Financial

Mitigation Opportunities" on page 2 and down below, you say that, "The rate mitigation opportunities," down below, "includes dividends for LCPs, CF(Preferred) and Hydro." Greenhouse gas emission credits, are they included anywhere here or is that a separate category?

MR. WARREN:
A. My understanding is that there hasn't been any realization of any greenhouse gas credits anywhere throughout the system.

BROWNE, Q.C.:
Q. Will eventually there be credits for greenhouse gas that will help to mitigate rates?

MR. WARREN:
A. I guess that is a potential. It's not included in any of the financial plan as it stands today.

BROWNE, Q.C.:
Q. Has it been forecasted; how much you might receive from—through greenhouse gas credits?

MR. WARREN:
A. Not that I'm aware of as I indicated in our

long-term financial plan which is what this is based on. Greenhouse gas credits haven't been –

BROWNE, Q.C.:
Q. There seems to have been value in greenhouse gas credits in the various agreements which make up the Muskrat Falls Agreement and the Power Purchase Agreement. Greenhouse gas emissions are recognized there as a value. And, Mr. Meaney, I see you nodding your head. Are you familiar with that part of the agreement?

MR. MEANEY:
A. Yes, well I do recall there being references in the PPA, for example, to—in terms of the energy capacity, but also the greenhouse gas credits if—I think, if I recall correctly, they were included in the agreement at a point in time, not knowing what, you know, the financial benefit of that was going to be. But given that we had 50-year agreements, to make sure it was properly captured, that if there was benefits for those credits down the road, the right

parties got the benefit of them.

BROWNE, Q.C.:
Q. Who has the benefit of them?

MR. MEANEY:
A. Well, in the case of PPA, I guess Hydro would have the benefit of the greenhouse gas credits for the power that it's using.

BROWNE, Q.C.:
Q. Because there's some information in the various agreements in reference to Nalcor and Newfoundland and Labrador Hydro who is to be the beneficiary of the agreements. You have the other agreement, the Amended and Restated Energy and Capacity Agreement, and that references it's between Nalcor and Emera. Are you familiar with that, the greenhouse gas credits that are dealt with there?

MR. MEANEY:
A. At a high level, I think my understanding is, and Mr. Warren, I'll ask you to correct me if I haven't quite got it right, that Emera would be entitled to the greenhouse gas credits for the Nova Scotia Block for

the part of the power that it's taking.
BROWNE, Q.C.:
Q. Yes, and that's correctly stated. So, Emera saw value in the greenhouse gas credits of retaining those when they purchased the Nova Scotia Block?
MR. WARREN:
A. I'm not sure if they saw value. They could have seen a potential value, and thus, I guess, a value in and of itself, but yes.
BROWNE, Q.C.:
Q. So, you have no discussions on what the value of these greenhouse gas emissions could be, although we heard evidence yesterday that they could be substantial according to what Mr. Jones testified?
MR. WARREN:
A. Yeah, and I noted in our long-term financial plan, we don't have anything incorporated because based on the information that we have right now, and in the interest of being as conservative as we normally are in our long-term financial plans, there is no perceived market in the long term that we've

seen at this point. And as Mr. Meaney indicated, down the road, it may actually be realized, however, if there has been any green component factored into our long-term plan, I don't think that has—we don't have a perceived market as per se right now for the greenhouse credits.
MS. HUTCHENS:
A. Yeah, I think, you know, it's difficult to put a number on it. And as a result, we haven't included it in the long-term financial plan.
BROWNE, Q.C.:
Q. And including the ownership of who gets these greenhouse gas emissions--because under the agreement between Emera and Nalcor, the Amended and Restated Energy Capacity Agreement, any other, other than that the Nova Scotia Block, that's dealt with in that? It says, "All of the credits associated with greenhouse gas emissions will be owned by Nalcor or an affiliate of Nalcor." Has Nalcor designated any affiliate as to who will receive these?

MR. WARREN:
A. So, my understanding, and again, I would defer to getting a legal review of it because I'm not a lawyer by training, is under the PPA I believe it, as Mr. Meaney indicated, that the power that is provided to Hydro has the GHG credits attached thereto. And basically, the overarching spirit of the agreement is it's attached to the power. So, if Hydro is eligible to receive two terawatt hours, it will have two terawatt hours of greenhouse credits under the PPA.
BROWNE, Q.C.:
Q. And there's no issue or is there an issue as to whether that becomes an inclusion to assist with rate mitigation? Nalcor is not claiming that as its own or they're not recreated an affiliate for that? This is an area from what you really have not come to a consensus on yet? Is that what your evidence is?
MR. WARREN:
A. No, I think my understanding of the PPA is

that the energy that's required to be delivered to Hydro has the greenhouse credits attached and it's transferred to Hydro.
MS. HUTCHENS:
A. And those, any revenue that we make on those greenhouse gas credits would be utilized to reduce the revenue requirement and passed through to rate payers on that basis.
BROWNE, Q.C.:
Q. Because it seems that greenhouse gas emissions could be a large potential source for mitigation. Is there a point person at Nalcor or one of its affiliates who is in charge of that particular portfolio?
MR. WARREN:
A. The only person I would think of is Mr. Jones from Energy Marketing.
MR. MEANEY:
A. Yeah.
MS. HUTCHENS:
A. Yeah.
MR. MEANEY:
A. Knowing the work that Greg does, he would

Page 85

seem to be one that's probably involved in that, yes.
BROWNE, Q.C.:
Q. And of course, the other source of greenhouse gas credits would come from the recall from CF(L)Co, from that direction, coming down through Hydro-Quebec and there's evidence that NEM has been selling power through that transmission system into markets, as we note, greenhouse gas attributes in reference to that, that sale, what's going on there now?
MR. WARREN:
A. Not to my understanding. I would—like my understanding would be it would be if there would have been one, but again, my understanding is that there wasn't. If there would be, it would be attached into the realized price of that energy. So, it would be factored into the revenue, the total revenue.
BROWNE, Q.C.:
Q. So, it probably hasn't been separated? It's there. It's part of the revenue?

Page 86

MR. WARREN:
A. That would be my understanding, yeah.
BROWNE, Q.C.:
Q. Okay. That's probably an area that rate payers would be interested in and being updated on from time to time.
MS. HUTCHENS:
A. Absolutely, yeah. There's an up-side there.
BROWNE, Q.C.:
Q. In reference to the dividends, and we're into rate mitigation and the dividends have been calculated based on a certain sale of electricity and certain prices for electricity. Is that true?
MR. WARREN:
A. Yes.
BROWNE, Q.C.:
Q. So, in your modelling, it was anticipated that electricity would reach certain rates, and then we were told it would increase at a rate of two percent a year. And was that in your modelling for the rates?
MR. WARREN:
A. So, when you say "electricity," what energy

Page 87

are you speaking of?
BROWNE, Q.C.:
Q. Well, okay. I'm speaking of kilowatt hours, okay?
MR. WARREN:
A. So, are we talking about –
BROWNE, Q.C.:
Q. I'm speaking about what rate payers understand.
MR. WARREN:
A. Okay, so, are we talking about what is charged to rate payers or are you talking about the excess Muskrat Falls exports or excess –
BROWNE, Q.C.:
Q. I'm talking about the dividends you refer here in your presentation from the LCP.
MR. WARREN:
A. Okay.
BROWNE, Q.C.:
Q. When you did the financial documents, you also did a calculation of perspective dividends based on rates. Is that not true?
MR. WARREN:

Page 88

A. Yeah, so -
BROWNE, Q.C.:
Q. Okay, well, let's just stick –
MR. WARREN:
A. Okay.
BROWNE, Q.C.:
Q. Let's not go down any sideroads. Let's just stick with -
MR. WARREN:
A. All right. So, if you look at dividends from LCP, so that is from Muskrat Falls, LTA, and that is based on the PPA that Muskrat Falls has with Hydro. And that is based on a schedule 2, strip of energy that Hydro is taking and that's based on a supply price which is calculated based on final, and right now it's based on forecasted capital costs as we've discussed previously or whatever. And that will yield for Muskrat an IRR over the life of the project at 8.4. So, that is the return that the province is returning. So, that is the dividend profiles under the MFLTA. On the LIL side, what you'll see is the province's

portion. When I—in this here, there LCP dividends for the Labrador Island Link refers only to the NL portion, not the Emera portion, and that is based on the amount of equity that the province will have invested, based upon commissioning once—based on the commercial agreements, the way that they're structured. And that will reflect—right now, it's forecasted to be the 8.5, similar to what--the 8.5 ROE that you have now. And that is the dividend profile that's structured for the Labrador Island Link which follows more of a traditional regulated-cost-of-service framework.

BROWNE, Q.C.:

Q. So, the province is setting the costs for a kilowatt at 13.5 cents and suggesting stability from that point forward to make sure electricity is affordable for rate payers. Whereas in your financial modelling, you are anticipating rates to increase for 18, 20 cents, 23 cents and two percent a year after that. How does that affect the dividends? Can you just—it must

have some.

MR. WARREN:

A. Yeah.

BROWNE, Q.C.:

Q. If we're selling cheaper power that what the modelling anticipated, is there any overall effect?

MR. WARREN:

A. And sorry, I don't mean to not answer your question –

BROWNE, Q.C.:

Q. No, and that's okay.

MR. WARREN:

A. But just to get the details so I can build on some –

BROWNE, Q.C.:

Q. It's just that I'm puzzling.

MR. WARREN:

A. Yeah.

BROWNE, Q.C.:

Q. If you're getting the dividend based on ultimately the sale of electricity, which is built on rates, but -

MR. WARREN:

A. That's right. So, the dividends. So, the tendon (phonetic) here is that the dividends from MFLTA and LIL, they're based on the PPA and the TFA with Hydro. There's also Muskrat Falls export sales--or that's a separate line, sorry. So, if you're just talking about the dividends from LCP, it is just through arrangements with Hydro. And that is—that has an effective unmitigated rate of about 20 cents in 2021. That doesn't—it does go up and over, but where you get the two percent escalation, that is just in the MFLTA side and that's just the way that the dividend profile--and Liberty has it in their report. It shows the revenue requirement for Muskrat and that's an escalating. And what you'll see is on the LIL side, that's a cost-of-service, follows more of a cost-of-service, but when you put them all together along with all of the Hydro fleet, it generally is fairly flat once it's up high.

BROWNE, Q.C.:

Q. So, it won't affect the dividends if the

province sets the rate at 13.5 cents and keeps it at 13.5 cents for the next five years, even after Muskrat Falls comes on stream?

MR. WARREN:

A. So when you say set the rate, you're talking about the consumer rate?

BROWNE, Q.C.:

Q. Consumer rate, what they see on their bill, 13.5 cents a kilowatt.

MR. WARREN:

A. So how you get there is the Province is providing sources of or subsidization at that point, and again, I would harken to Mr. Meaney and the considerations on the implementation effects to the Province and that is ultimately why it's up to the Province to determine what the mitigation plan should be. The mitigation plan that the load forecast is based on is an escalating supply. So what we, and I think that's where the Province has gone in their public disclosure is that they have it at 13.5, but it's escalating 2 ¼ percent thereafter.

MR. MEANEY:
A. Mr. Browne, I think maybe to help, the plan that the Province put forth in terms of the 13.5 cents, to get to that assumes you're taking the dividends and putting them back into subsidized rates, just to –
BROWNE, Q.C.:
Q. So it's circular.
MR. MEANEY:
A. Yes, you're taking the funds that are coming out and then putting it back in, in order to reduce the end customer rate to what they've put forth.
BROWNE, Q.C.:
Q. So you don't need any remodelling of the dividend from the original modelling you had when you're doing your financial instruments? You don't need any remodelling of –
MR. WARREN:
A. So once it gets finalized it will be, the dividends may up, but again, it can go up or down, but that amount will be, in this instance where dividends go to rate mitigation, then it just has an ancillary

impact.
MR. MEANEY:
A. And maybe one other point I'd add to that, I think it was the first point on our last slide, the ability to remodel and have a refresh is going to be dependent on two very important pieces: what level of subsidization and how it gets implemented because both of those will impact in terms of how this all looks in terms of what is or what isn't available from a dividend perspective.
BROWNE, Q.C.:
Q. Sure.
MR. MEANEY:
A. The devil is in the detail in terms of how that gets structured.
BROWNE, Q.C.:
Q. In terms of restructuring, Mr. Meaney, you're familiar with the federal loan guarantee?
MR. MEANEY:
A. Yes, both myself and Mr. Warren would be.
BROWNE, Q.C.:
Q. Yourself and Mr. Warren are familiar with

that. You were there when it was negotiated?
MR. MEANEY:
A. When the initial federal loan guarantee and then the second one in 2017, yes.
BROWNE, Q.C.:
Q. And there seems to be some focus on the federal loan guarantee in reference to rate mitigation, people make reference to sinking funds and possibilities there for rate mitigation and other than sinking funds, is there anything as obvious as that, or how do you envision the remodelling of the federal loan guarantee would have to work to get more value? Like, what would they be looking at, just generally?
MR. MEANEY:
A. Sure, well I guess I will wade into this discussion very, very carefully.
BROWNE, Q.C.:
Q. And I understand. Are you involved in the discussions?
MR. MEANEY:
A. I am not directly involved in the current discussions. I think what I do want to

point out, I think in Liberty's Phase 1 Report, which would have been submitted back in December, it outlined some options where things can be restructured. In terms of going much further than that, given that, I think as Mr. Marshall had noted, our shareholder is in discussions with the federal government on what that might look like. It would probably be a career limiting move on my part to compromise those discussions, so I think other than maybe saying possibilities have been outlined in the Liberty Report, it's probably better, either myself or Mr. Auburn (sic.) or others from Nalcor don't go much further than that.
BROWNE, Q.C.:
Q. Okay, so there are possibilities pertaining to the federal loan guarantee.
MR. MEANEY:
A. Anything is possible, I guess.
BROWNE, Q.C.:
Q. Okay, we'll leave it at that. We're talking about delay in the LIL and electricity coming down to the Island and I guess there would be a subsequent delay that's going to

Page 97

be incurred by Emera and the electricity available through Nova Scotia, through the energy block there. What are the implications in that delay for the financial agreements and interest or how is that dealt with?

MR. MEANEY:
A. So if there is a delay in availability of the Labrador Island Link, there's a delay in when Nalcor's commitment to start delivering the Nova Scotia block occurs.

BROWNE, Q.C.:
Q. So it's just a delay at the other end and that is into the agreements, it's a delay mechanism in the agreements.

MR. MEANEY:
A. Yes, it's all captured, basically the 35 year period shifts out.

BROWNE, Q.C.:
Q. To 36 or 37 –

MR. MEANEY:
A. No, it's a 35 year –

BROWNE, Q.C.:
Q. In year 36, 37, but still 35 years.

MR. MEANEY:

Page 98

A. Yes, that's right.

BROWNE, Q.C.:
Q. Once electricity starts coming down though and we heard Mr. Marshall's evidence on this, he said through the Labrador Island Link and the software gets up and operational, he said there could be two or three years before there's certainty in reference to that, to perfect the system. What happens then in terms of the agreements? We have electricity coming down and then it stops, they have to do some kind of revisit and then it's good then for another couple of months or whatever. How does that affect the Nova Scotia block? At what point does the Nova Scotia block kick in?

MR. MEANEY:
A. Sure, I think how he put it was it may take a couple of years to work out some of the bugs.

BROWNE, Q.C.:
Q. Sure.

MR. MEANEY:
A. I think was how he –

Page 99

BROWNE, Q.C.:
Q. Sure, and that fair.

MR. MEANEY:
A. So I don't necessarily think he said, you know, it may delay in terms of when the delivery of power would occur, just you'll get it on line, you start delivering power and there could be some bugs in the software that have to be worked out. I guess in terms of how that's addressed in the agreements, there's certain parameters within the agreements in terms of being able to demonstrate that the LIL can be operated on a reliable and sustainable basis and if those thresholds can be met, and the power can be delivered on that basis, then the obligation to start delivering that power to both Hydro, under the PPA, and Emera under the Energy Capacity Agreement, would start.

BROWNE, Q.C.:
Q. And if there are interruptions and the power is interrupted for, other than God, is there—are there ramifications in the agreements for the delivery of power to Nova Scotia for their suffering that

Page 100

interruption? What is the remedy?

(10:45 a.m.)

MR. MEANEY:
A. There's provisions in the agreement to address those types of situations. In terms of what they are, I probably, I wouldn't do them justice, I think someone else could probably explain that.

BROWNE, Q.C.:
Q. Yes, just generally.

MR. MEANEY:
A. I just know that there are provisions in the agreements to address those situations.

BROWNE, Q.C.:
Q. Are there penalties?

MR. MEANEY:
A. Off the top of my head, I'm not sure, so I don't want to—I don't want to misstate that. There's probably others that can better speak to it.

BROWNE, Q.C.:
Q. In terms of the delay and if electricity was supposed to come down, I think the original was to come down when, 2016 or 2017 in the original plan.

Page 101

MR. MEANEY:
A. I think the original plan was first power in late '17 and then full power by the middle of '18. I think was the original plan.
BROWNE, Q.C.:
Q. What are the financial consequences of that, of these delays, there are financial instruments in place, there's money out there, there's money owing, what is that in real terms?
MR. MEANEY:
A. So I guess in terms of—or maybe you're speaking to the debt, the federal loan guaranteed debt?
BROWNE, Q.C.:
Q. Yes.
MR. MEANEY:
A. So yes, there are repayment provisions that start. We obviously, from the day that the debt was borrowed, we have been paying interest on these bonds and then repayment of principle starts in December of 2020.
BROWNE, Q.C.:
Q. So the interest payments which came in play at what point?

Page 102

MR. MEANEY:
A. Interest started accruing on the day we borrowed the money, so the initial tranche would have been in 2013, and then the second tranche in 2017.
BROWNE, Q.C.:
Q. So there's just regular payments right now, but overall are we in more debt because it's not ready because –
MR. MEANEY:
A. No, no, the amount of debt that was borrowed is a fixed amount, so that's the 7.9 billion dollars.
BROWNE, Q.C.:
Q. And you're paying interest on that?
MR. MEANEY:
A. Yes.
BROWNE, Q.C.:
Q. But the principal payments will start?
MR. MEANEY:
A. December of 2020, the first principal payments start.
BROWNE, Q.C.:
Q. When you say "we are paying", who is "we"?
MR. MEANEY:

Page 103

A. Well I guess it is built into the cost of the project that will eventually be paid by the people of the Province.
BROWNE, Q.C.:
Q. So the interest payments are coming from where? From the Provincial Treasury?
MR. MEANEY:
A. So the interest payments are being paid through a combination of debt, so we sized the debt to pay the construction costs, as well as the interest that would be incurred during the construction period and also part of it is funded by equity as well from the Province, based on the debt to equity ratios on a proportion of basis that have been set up for the financing agreements.
BROWNE, Q.C.:
Q. Moving on to another topic, we heard yesterday if Nalcor Energy Marketing is into the market, they have to give some kind of financial guarantee for their efforts in the market and it might be way of a letter of credit or other financial instruments. Is Treasury involved in that? Who does that? Nalcor Market Energy, did they have their

Page 104

own account or does that come from the Treasury of Nalcor itself?
MR. WARREN:
A. So as Mr. Jones indicated, there are lines of credit that are in the name of Nalcor Energy Marketing and there are also lines of credit in the name of Nalcor Energy.
BROWNE, Q.C.:
Q. And in this particular instance with Nalcor Marketing Energy, who approves their line of credit? Are you guys the financial people involved in that or do they have their own financial people doing that?
MR. WARREN:
A. The treasury function from Nalcor would work with our banking institutions in order to get the appropriate instruments in place and the appropriate lines of credit.
BROWNE, Q.C.:
Q. And there's a fee charged to Nalcor Energy Marketing from Nalcor for doing that work for Nalcor Energy Marketing?
MR. WARREN:
A. It's a part of the corporate service, that if –

Page 105

BROWNE, Q.C.:
Q. That Nalcor is giving to –
MR. WARREN:
A. Nalcor is providing to Nalcor Energy Marketing.
BROWNE, Q.C.:
Q. And I guess let's cut to the chase, who eventually pays that fee? Would it be the rate payers directly or indirectly?
MR. WARREN:
A. So the fee for the treasury work, we're not talking significant work effect, but the standby costs for the actual lines of credit go to the line of business, so Nalcor Energy Marketing would carry that cost, but it's not a significant amount of cost.
BROWNE, Q.C.:
Q. Significant, I guess, is in the eye of the beholder, what is not significant, give me a ballpark.
MR. WARREN:
A. I would be surprised if it's greater than thousands.
MR. MEANEY:
A. But Mr. Browne, I think to your question,

Page 106

like if those charges are charged into Nalcor Energy Marketing, I think you asked the question are –
BROWNE, Q.C.:
Q. Ultimately do they go to the rate payer if the rate payer is responsible –
MR. MEANEY:
A. No, so I guess in those instances those wouldn't be charges that find their way into the regulated customer base.
MS. HUTCHENS:
A. I think there was some testimony yesterday surrounding the Nalcor Energy Marketing costs over the long term, Mr. Browne and you had some discussion with Mr. Jones surrounding that and I believe that how Nalcor Energy Marketing's costs are dealt with in the long terms is the subject of an agreement yet to be finalized, the long-term marketing agreement, I may have the title wrong, but it's the long-term marketing agreement which will come in front of this Board.
BROWNE, Q.C.:
Q. I'm just going to do a quick check here. I

Page 107

think I'll leave it at that, thank you very much.
MS. HUTCHENS:
A. Thank you, Mr. Browne.
CHAIR:
Q. Thank you Mr. Browne. Mr. Coxworthy.
MR. COXWORTHY:
Q. Yes, I have some questions, thank you Madam Chair, Commissioners. Good morning.
MS. HUTCHENS:
A. Good morning.
MR. COXWORTHY:
Q. Paul Coxworthy, counsel for the Island Industrial Customer Group. I wanted to start with some questions for Mr. Meaney and refer to his bio at slide 5 of today's presentation, and I guess focussing on the responsibilities Mr. Meaney that you have in relation to Power Supply. I think it's summarized in that first paragraph. Is there anything you would add to that first paragraph in terms of your responsibilities, vis-à-vis Power Supply or does that cover the field?
MR. MEANEY:

Page 108

A. I think that generally covers all the areas where I have accountability.
MR. COXWORTHY:
Q. If we could turn to page 7 of Nalcor and Hydro's evidence, the September 20 filing. And if we could scroll up, yes, to the Power Supply there. I've gone to this slide, others perhaps have gone to this slide several times, but this is what I see, certainly from the evidence, the more detail outlining of all of the functions that are either already nested or intended to be nested within Power Supply and, you know, I'm going to use the term and I'm not going to ask you, Mr. Meaney, to agree, that it seems somewhat sprawling to me in terms of the number of functions that are going to be folded into this one division, and I wanted to ask some questions about how this was organized before it was folded into Power Supply, from the point of view of the type of responsibilities you have as vice-president of finance and things like financial accounting, strategic planning, risk management, internal financial control,

you know, how did all that work before these functions were folded into Power Supply? So I want to use the example, at least initially, of the Churchill Falls Hydro Electric Generation Facility, and are all these functions, the functions that you're responsible for, vis-à-vis Churchill Falls Generation Facility, are they actually already folded into Power Supply?

MR. MEANEY:
A. I guess maybe to provide a bit of clarity, so I think there's been a couple of discussions about this through the briefings, that Power Supply is not a company.

MR. COXWORTHY:
Q. It's a division.

MR. MEANEY:
A. Power Supply is a division of Nalcor, that is a conglomeration of a number of different legal entities, so the various Lower Churchill Project related entities, Nalcor Energy Marketing, Churchill Falls and in some of the other operations, like Menihek which actually reside in Nalcor Energy as a

legal entity. In terms of my roles and responsibilities and actually I guess one other point I would add from a finance perspective, my title is Vice-President of Finance Power Supply. I also provide finance support to the Power Development side of the business because from a Lower Churchill Project perspective, all finance activities are managed through a single team, so I'd be one of those functions where I'm not just silent on the Power Supply Side, I'm on both Power Development and Power Supply. Obviously, as we've talked about, Power Development with the completion of construction of the Muskrat Falls Project, that part of the business, the construction part of it will phase out and the operations would roll in. I guess in terms of how my responsibilities and accountabilities and those of my team, I don't think—it hasn't really changed in that we were providing that for the various legal entities. Now Power Supply is just a kind of a way to look at them on an aggregate basis.

MR. COXWORTHY:
Q. And what's the advantage to looking at them in an aggregate basis, how does Nalcor see that as advantageous?

MR. MEANEY:
A. Well I guess from a finance perspective, you know, as Mr. Marshall had talked about and I guess as Mr. Roberts talked about, in terms of segregating the businesses into two kind of major groups. You've got the regulated side of the business, so the Hydro side of the business, and Lisa is the senior finance person in terms of leading that side of the business, accountability for that and her team is very much focused on that side of the business. And then from my perspective, my team is set up in a manner that we're very much focused on what we call the non-regulated parts of the business and making sure that financial requirements associated with that part of the business is met.

MR. COXWORTHY:
Q. You know, I'll just make the observation that from the perspective of my clients, I think maybe from the perspective of

customers generally of Hydro, but you know, the important division in between what aspects, what components of Nalcor drive costs towards Hydro's customers and what portions don't and of course, what you have within Power Supply, you will agree with me, is a mixture of components, some of which Hydro's customers are totally protected from any risk and other portions where they are not, due to the PPA and government policy and everything that flows from that, would you agree that Power Supply is a mixture of those two sets of components?

MR. MEANEY:
A. So yes, within Power Supply there would be components of the cost of those businesses that would find their way into the regulated customer base, and there would be components that wouldn't, that's fair.

MR. COXWORTHY:
Q. So in terms of, for instance to go back to our sample of Churchill Falls, certainly under the previous structure, before this conglomeration that's now called Power Supply was assembled, Hydro's customers

could be assured that there was no costs being incurred in respect of the Churchill Falls generation that were going to flow back to them. It was clearly a separate silo from a financial point of view.

MR. MEANEY:
A. Yes, and it still is today in that Churchill Falls is a separate legal entity.
MR. COXWORTHY:
Q. And that's the point I want, so within Power Supply, those silos are going to be maintained.
MR. MEANEY:
A. Correct.
MR. COXWORTHY:
Q. As strictly as before?
MR. MEANEY:
A. Yes, I would say very much and I think it's been—it was talked about yesterday there is a very clear segregation of business units, in terms of where costs reside. There's a process by which people charge their time, depending on what they're working on. Obviously for parts of the business, say within Hydro where all of their time is

dedicated to Hydro activities, that's pretty straightforward; whereas if you had folks in the Power Supply group, engineering would be a good example, there's some folks that would be doing a portion of their time charging to the Muskrat Falls Project a portion of time, charging to Churchill Falls for Menihek, that is very clearly segregated and there are a lot of controls and processes that go around that.
MR. COXWORTHY:
Q. And I asked some questions yesterday in terms of, you know, Power Supply developing or will it be developing an annual budget, an annual budget for the various operations functions under the Power Supply umbrella, will there by such an animal, will there be an annual budget for Power Supply?
(11:00 a.m.)
MR. MEANEY:
A. So I guess the annual budget of Power Supply and I think Mr. Haynes spoke to this, would effectively by a conglomeration of the various components that are outlined there, so we would—we just actually just recently

gone through that process where we look at the budgets for each of Churchill Falls, the Lower Churchill Project components, Menihek and all those budgets are individually approved, so a Power Supply budget would be a consolidations of all of those results.
MR. COXWORTHY:
Q. But there will be separate budgets for each of those, separate silos, to use that term.
MR. MEANEY:
A. Yes, they will continue.
MR. COXWORTHY:
Q. And Muskrat Falls Project assets is one of those silos?
MR. MEANEY:
A. That's right and they will continue to be because they are set up as separate legal entities and separate components of the business they are segregated.
MR. COXSWORTHY:
Q. And within the Muskrat Falls Project silo, is there a mixture of costs, some of which will have to be charged to Hydro's customers due to the PPA and others that will have to be segregated?

MR. MEANEY:
A. There shouldn't be. The costs that are in the Muskrat Falls Project should be the costs that are Muskrat Falls Project related.
MR. COXWORTHY:
Q. Okay.
CHAIR:
Q. Mr. Coxworthy, we're coming up around our breaktime. I'm open to the wish of the room, I guess.
MR. COXWORTHY:
Q. Madam Chair, certainly this would be a good time. I was about to move on to another area.
CHAIR:
Q. You have some—you need an amount of time –
MR. COXWORTHY:
Q. I do have some more questions, I think it will be more than five minutes.
GREENE, Q.C.:
Q. And I have some questions as well, Chair.
CHAIR:
Q. Okay, so we'll take our normal half-hour break and we will see you 11:30.

(RECESS – 11:02 A.M.)
(RECONVENED – 11:32 A.M.)
CHAIR:
Q. Back to you, Mr. Coxworthy.
MR. COXWORTHY:
Q. Thank you, Madam Chair. Mr. Meaney, if I could go back to you, we were talking about annual budgets, that there would be one prepared for the Muskrat Falls component without Power Supply and I think you said those costs, or you would expect that all of those costs in those budgets would end up in Hydro customer rates.
MR. MEANEY:
A. The amounts that would be in those O&M budgets, for example, would be costs associated with the operating and maintenance of the plant and the transmission lines and those are costs that would be charged through the PPA and the TFA to Hydro and then on to Island customers.
MR. COXWORTHY:
Q. And if there's any sustaining capital investments, going to use the word "sustaining" advisedly because it's a

defined term and the PPA and other investments, so those would be reflected that are for the purposes of the Muskrat Falls?
MR. MEANEY:
A. Yes, the agreements are very prescriptive in that in terms of the sustaining capital for the assets that are contemplated under the agreements, those do flow through the contracts as well.
MR. COXWORTHY:
Q. So those numbers would find their way into this annual budget for Muskrat Falls within the Power Supply?
MR. MEANEY:
A. Yes, I guess there would be two components, there's be the operating and maintenance component and then there would be if any capital is required in a given year, that would be part of an annual capital budget.
MR. COXWORTHY:
Q. And in answer to one of the questions from the Consumer Advocate, I think maybe the last question, you said "anything is possible" and so I'm going to ask you to

consider my next question in that vein. And when I say that, look, we all understand the constraints of what the bondholder requirements are, what the requirements are with respect to the federal guarantee and there's government policy, of course, as well in the mix in terms of what the Provincial government thinks is appropriate and doesn't, but if those constraints either are not as constraining as are thought to be or can be changed, whether it's by government policy or otherwise, if you were charged with developing an annual budget for, as you will be, I presume, for the Muskrat Falls Project, you're the person at the top that sort of gathers together the information or ensures that it gets gathered together into an annual budget, for the Muskrat Falls Project you're that person. If you're told you're going to send that to the Public Utilities Board, would that change in any way how you would prepare your budget?
MR. MEANEY:
A. I don't think it would change the way the

budget is prepared, but I think I understand the question you're asking in the context of one of the points that are under discussion at the reference hearing, so maybe I'll jump one set ahead.
MR. COXWORTHY:
Q. Absolutely, run with it, Mr. Meaney.
MR. MEANEY:
A. Yeah, sure, because I think I know where you're going. So I guess you're leading to the question as to whether or not these costs should be under regulation, in terms of the O&M costs and the sustaining costs.
MR. COXWORTHY:
Q. That's one question, sure.
MR. MEANEY:
A. So I'll help you with that one. I guess I don't see it as black and white as that. And I think there's a broader consideration here and it was I think the point that we had laid out on the first sub bullet on the last slide of our presentation, that if this is part of a discussion of rate subsidization and if the decision is made to subsidize rates, then these costs that

you're referring to, I guess in terms of who is bearing risk on these costs or who may need to deal with these, it really becomes a Provincial Treasury or a taxpayer issue, as opposed to solely a rate payer issue. So, you know, to use the logic that I guess has been talked about here and say, well if all this stuff as gone away, all these constraints were gone away, doesn't it make sense for this to go under regulation. I don't think it's as black and white as that. I think it's a broader issue in terms of if the taxpayer is subsidizing these costs, then I firmly believe, not being someone with a regulatory background but with someone with a finance and treasury background, the Provincial Treasury probably needs to have some say in that, so I think that probably may have been where one of your questions will go and if my colleague, Mr. Warren, would want to add anything on that, by all means.

MR. WARREN:
A. So that is one thing and it is on the slide that's before us.

MR. COXWORTHY:
Q. I'm sorry, which slide is this, perhaps we should turn to the slide.

MR. WARREN:
A. Slide 4, The Implementation Considerations, I definitely give kudos to Liberty for bringing out this issue in their report because throughout all of these discussions that we have had, it is imperative for everyone to understand and appreciate that in the instance where, as Mr. Meaney indicated, that should the Province decide to enter into subsidization of rates, then it really does become the issue for the Treasury and not as a regulated or regulation expert, but more as a business or a treasury perspective it really is beholden upon the Province once they decide to put in dollars into subsidization, especially at the levels that we see on the earlier slide, in hundreds of millions of dollars, then it really is beholden upon the Province as the policymaker to ensure that they have good comfort on what best way to mitigate their mitigation. So once they start putting in

funds, then they really need to ensure that they have the flexibility in order to try to ensure that that is maximized and a part of which is again, not as an expert in regulation, but based on how we are structured today, based on Mr. Marshall's background and view, obviously if you're looking at where significant sources of mitigation is available, similar to what Mr. Marshall said, that for a small amount of cost, there's definitely a great opportunity for tens of millions, hundreds of millions of dollars in future opportunities, depending on what happens out in the marketplace, so it's beholden upon the Province to ensure that they have that flexibility, that they can respond and try to obviously mitigate the mitigation.

MR. COXWORTHY:
Q. And thank you for those answers and, you know, it sounds to me that what you're doing is you're putting forward what the Province's position might be about this at the end of the day, you know, subsidization through the Province verses doing something

within Nalcor and Hydro through regulation or otherwise, to mitigate rates. And I guess it leads to a question to me, when Nalcor, at the Nalcor level, at the level Mr. Auburn (sic.) and Mr. Meaney that you're making decisions, are you agnostic about whether the taxpayer is bearing this or the rate payer is, or are you advocating that it's the taxpayer that should be protected here, that your mandate requires—Nalcor's mandate, requires you to lean in the way of protecting the taxpayer? And I recognize a lot of people will say, oh, taxpayer rate payer, same people. You know, I'll say that the consequences of how it's visited, whether it's visited on, those consequences on them as taxpayers or as rate payers are different and can be different. So, you know, I don't accept this equating that it doesn't matter what side of the ledger it falls on, I think it does. But I guess from Nalcor's point of view, does Nalcor feel that its mandate requires it to advocate for the taxpayers' side?

MR. WARREN:

A. So as a gentleman who has been working on rate implementation plans since 2011, and you can see in my bio that I've been a Nalcor employee since 2010, day one, of my employment, I view my role as a duel role. I am very cognizant of the impacts that rates have on rate payers. I am a rate payer myself; I am also a taxpayer. I view my role as more—I'm not speaking for the Province, I am more ensuring that the Province and all stakeholders have all perspectives, so it's ensuring that the rate payer perspective is discussed and reviewed and seen, it's also to ensure that the taxpayer view is seen and discussed and reviewed.

MR. COXWORTHY:

Q. And so do you have a neutral stance as between one and the other?

MR. WARREN:

A. I'm not a one side or the other side. I'm more focussed on what is best for all groups.

MR. MEANEY:

A. Part of our mandate is to serve the people

of the Province.

MR. COXWORTHY:

Q. No, I understand that and certainly I accept that that is Nalcor's, the stated mandate, benefit to the Province.

MR. MEANEY:

A. The only other thing I would add to what Mr. Warren said, and I think he covered it off well, like the comment I made to Mr. Browne about a career limiting move, I don't want it to be in any way interpreted what we're saying here is giving the perspective of our shareholder. You know, we very much, as Auburn said, we want to put all the facts out there in terms of what are the different things you have to consider and I think ultimately, you know, Nalcor has been very clear in its submission these are decisions that the Province has to make.

MR. COXWORTHY:

Q. Mr. Meaney and Mr. Auburn (sic.), you said I think, and correct me if I'm wrong, that your background or the preponderance of your experience is not so much on the regulatory side of things, is that fair –

MR. WARREN:

A. That would be fair on my –

MR. MEANEY:

A. Mine as well.

MR. COXWORTHY:

Q. So would it be fair that you don't have the experience to be able to comment on the value that regulation of these types of costs might bring to the rate payer? For that matter, maybe even to the taxpayer.

MR. WARREN:

A. I think I've prefaced that in all my comments, however, I would reiterate that once you go into a subsidization realm, to the extent that we're looking at, I think it's beholden upon the Province to ensure that they review all opportunities and all options.

MR. COXWORTHY:

Q. How would—because this discussion started from my question to Mr. Meaney about one day he's told you're going to be submitting your annual budgets from here on out for Muskrat Falls, the Muskrat Falls component of power supply to the Public Utilities Board.

MR. MEANEY:

A. Sure. I kind of jumped ahead a little bit.

MR. COXWORTHY:

Q. No, no, absolutely, I just want to go back to that question.

MR. MEANEY:

A. I think that we might be going to this discussion. Sure, yes.

MR. COXWORTHY:

Q. And how, if you were asked to do that, how would that impair any of what you just said in terms of government balancing competing interest or competing interests, but perhaps not purely competing, but different interests as between taxpayer and rate payer, how would that, sending your annual budget to the Public Utilities Board, how would that impair that Nalcor mandate? Would it impair?

(11:45 a.m.)

MR. MEANEY:

A. I don't think the preparation of the budget or the provision of information, in itself, whether I guess directly to the Public Utilities Board or indirectly by us providing that information to Hydro and then it being passed on, I don't think that would, in any way, impact the points that myself and Mr. Warren make and it's just we were coming at it more from the bigger picture in terms of, you know, what's done with that information, what is the nature of who is making the decisions relating to costs in terms of it's a regulated or an unrelated realm, that's all.

MR. COXWORTHY:

Q. Thank you. If we could turn in your slide presentation to slide 2. And the 8.2 billion or largest sources of funds available for mitigation, I think there's at least two of you, maybe three of you, I haven't gone back, that have the term risk management or control of risk within your responsibilities, that 8.2 billion dollar figure, are there any risks that that might not be the number, apart from, of course, government deciding, no, we're not going to allow any of that. Let's say government says yes, let's use that money for rate mitigation. Okay, so let's take away that

risk, the risk of government saying no. If government says yes, are there any other risks of that 8.2 million dollars not materializing at that level significantly departing from that that you can point to, or is that a number that is a rock that we can build upon in terms of mitigation efforts?

MR. WARREN:

A. So the 8.2 billion that's referred there is part of our long-term financial plan. In our long-term financial plan there is obviously a very detailed risk discussion that takes place, so there's a large number of risks that would be behind that. So if you look at the risk for, just the items that are down below, which are key drivers of it, so the dividends of LCP, so that obviously has the risks associated that we've discussed during the construction phase. Largely the dividends, as I mentioned to Mr. Browne this morning, they're generally well known now. They're based on the capital cost estimates that we have in hand today, and in the instance

where, if those costs were to go up or down, the dividends will go up or down, but they will also have a fairly commensurate impact on the revenue requirement. So for rate mitigation purposes, it's fairly well in hand. For the CF, that's generally a smaller amount, but again, it's dependent upon actual performance during—of that subsidiary. For Hydro, there's obviously, that shows that Hydro starts paying a dividend out in 2024, 2025 and that is based on assumptions with getting rates through GRA processes and all that kind of mechanisms. And there obviously would be regulatory risks associated there. With the excess Muskrat energy sales, there is obviously, we have a forecast for pricing which includes a forecast for US foreign currency, so you have a whole number of commodity and foreign price risk associated there too, and what is actually going to be the price that you can monetize your energy, and the waterpower rental fees, that's prescribed by legislation so that's fairly well in hand as a set revenue that the

Province will be receiving and it's a cost that we would be incurring.

MR. COXWORTHY:

Q. Mr. Meaning, anything you want to add to that?

MR. MEANEY:

A. The only thing I would add, as Mr. Warren explained it quite well, in any forecast over a 20 year period, there's going to be variations to the inputs, but as we stand here today, that was kind of our best view, as we stand here today, knowing what we know.

MR. COXWORTHY:

Q. Sure.

MR. WARREN:

A. Most important point, sorry, as I noted, like a big portion of the 8.2 itself is the LCP dividends, so it is kind of, like that's fairly well regimented on what that is and it is tied to the rate mitigation.

MR. COXWORTHY:

Q. If I could summarize or paraphrase what you just said, you know, obviously there is some components that have a larger degree of uncertainty, Muskrat Falls energy sales, others that you feel quite confident because the parameters are fairly fixed that the numbers are going to get churned out the way that they're being forecasted here. But it is a 20-year, as was pointed out by Mr. Meaney, forecast. Is it common for Nalcor to sit down, has it in the past done that sort of analysis, said look 20 years ahead to estimate, you know, what its revenues are going to be or its dividend levels, et cetera, et cetera, over that time period? Is there a history of doing that sort of thing?

MR. WARREN:
A. Absolutely, that's kind of our go-to kind of timeframe, between 10 and 20 years, depending on the purpose.

MR. COXWORTHY:
Q. And the same sort of rigor has been applied to this 8.2 million dollar figure by Nalcor or has it?

MR. WARREN:
A. Yeah, it flows out of Nalcor's processes of performing the long-term financial plans.

MR. COXWORTHY:
Q. If we could move on to slide 4 of this morning's presentation? And this, I think, goes to initially you were speaking to before in terms of the decisions the Province has to make about rate subsidization. You list a number of factors that presumably the Province will consider. The last one there, "Technical and Accounting Issues", what are the technical issues that are being referred to there?

MR. MEANEY:
A. Yeah, I think we were taking more about the technical accounting issues, maybe, and some of the implications in terms of -

MS. HUTCHENS:
A. We had a debate on the "and".

MR. MEANEY:
A. Yes, yeah.

MR. COXWORTHY:
Q. Okay. So, they're all accounting – at least from the perspective of someone like me, who definitely does not have an accounting background, they're all accounting?

MR. MEANEY:

A. They would be of an accounting and a financial nature and I'll be honest, as someone with a finance background, even some of them I find technical myself. But yes, that's – we debated whether or not "and" was appropriate or not.

MR. COXWORTHY:
Q. Are these issues that are wholly within the control and judgment of the Province or for instance, to the bond holders or Federal Government? That last bullet there, I mean, I'm just wondering what scope there is. If that is a consideration, you know, who needs to be brought into the tent?

MR. MEANEY:
A. Sure. So, I can give a bit of background on that one. I guess there's – the point that we raise there are there's technical and accounting considerations there. There's technical accounting considerations, however you want to say it, within Nalcor and Hydro and then there's those that reside within the Province. And those are really – on that bullet, Canada and the other stakeholders we talked about, they're more

relevant for the other bullets up above.

From a technical and accounting perspective, I guess, there's two pieces, and that's why we've tried to lay out here. We've looked at it, the accounting issues, from a Nalcor and a Hydro perspective quite extensively. We put together some analysis last year with consultation from our auditors, Deloitte, and I believe actually that information is available to the Board as a confidential RFI, No. 25 -

MS. HUTCHENS:
A. 257.

MR. MEANEY:
A. - 257. So there has been a lot of analysis done from a Nalcor and Hydro perspective on that. We've also shared that information with the folks from the Department of Finance for the Province, and you know, as we get further updates or if we do get any further updates on that from a Nalcor and a Hydro perspective, we would certainly share that with the folks in the Province.

I guess where we can't provide too much additional context is the situation from the

Province's perspective, and I guess there's two main components of that. One would be that from an accounting perspective, Nalcor and Hydro operate under IFRS in terms of our accounting standards, whereas the Province operates under Public Service – no, Public Accounts.

MS. HUTCHENS:
A. Public Accounting Standards.

MR. MEANEY:
A. There we go, thank you. Very, very different set of standards and something that has different nuances that obviously we wouldn't be familiar with. So, in terms of the accounting assessment, we provided the information to the Province, in terms of the Nalcor and Hydro perspective, and they need to work on their side of the house in terms of the Public Accounts Accounting.

The other piece which ties into the overall, I guess, financial – and this is probably where technical might be a bit appropriate – is the credit rating agencies. So, you know, the Province obviously engages regularly with the credit rating agencies.

The rating agencies, DBRS, Moody's, S&P issue on a regular basis their rating for the Province. So, they look at the Province from a holistic perspective and it kind of ties back to the first bullet there. The Province needs to look at its full set of revenues and what the implications are and find the balance. So that would be another piece where we're obviously not involved in that process and couldn't be able to provide comment on that.

So, I think that's a longwinded way of saying in terms of the Nalcor and Hydro considerations, we've done work on that. We made that available to the Province. We've made that available to the Board as a confidential RFI. In terms of the Province's perspective on it, in terms of their nuances, that would be something they'd be better to speak on in terms of Department of Finance.

MR. COXWORTHY:
Q. Yes. And I'm not asking you to disclose their – or deal with any of the confidential information. But thank you for that answer.

But I guess, looking at again at your Slide 4, if the – as the issues that have to be considered by the Province in terms of whether to implement rate subsidization, how much, how to be implemented, if the first three bullets there, the impact on the Province's financial position, the involvement of the external stakeholders, the legislative framework, to the extent those are impediments to a particular rate subsidization scheme, if those could be managed, if those impediments could be removed, would that last bullet, the technical and accounting issues you've just spoken about, would that be the – still be a show stopping in terms of being able to proceed with a rate subsidization scheme?

MR. MEANEY:
A. I think from the Nalcor and Hydro perspective, we see a path by which the pool of funds that we've been talking here today can flow up out of Nalcor through dividends, up to the Province and then, you know, as I just mentioned, I think that would really be the piece that the Province would have to

understand in terms of how they put the money back into the hands of rate payers. And I think that's why in the first bullet we stress there's – the setting of how much and then how you do it are equally important, and that last point would certainly be a very important consideration from the Province's perspective. And as I said, that's best with them to determine.

MR. COXWORTHY:
Q. Still on Slide 4, the last bullet, "requires a fulsome evaluation to ensure no unintended consequences". Who are you intending to include within the stakeholders or persons who should be involved in that fulsome evaluation?

MR. MEANEY:
A. I guess I'll start in and ask my colleagues to give input as well.

MR. COXWORTHY:
Q. Yes, I'm sorry. I wasn't necessarily directing that to just you, Mr. Meaney.

MR. MEANEY:
A. Sure.

MR. COXWORTHY:

Page 141

Q. Whoever on the Panel feels they can answer that.
MR. MEANEY:
A. I think, you know, we've obviously outlined here who a number of the key stakeholders are. Obviously the Provincial Government, Nalcor, Hydro, Government of Canada, the Innu to the extent that it would have any impact on their agents (phonetic), Emera, and then certainly, you know, the folks that are here today. I think, you know, as we've said from the start, having the groups that are here as part of this process providing input to what the final solution needs to be is valuable.
MR. COXWORTHY:
Q. Sure. And the existing venue or forum for the groups that are here today, or at least most of them, to provide that type of input is through the Public Utilities Board. So, is there a role for the Public Utilities Board in this fulsome evaluation? Would it impair a fulsome evaluation to have the Public Utilities Board involved?
MS. HUTCHENS:

Page 142

A. It might be a little bit of a question for the Province in terms of – you know, I think it's important to have all stakeholders involved, to the extent that it is appropriate. To the extent that you get into commercially sensitive issues for the Province surrounding credit ratings and whatnot, I can see that there may need to be some fine consideration given to that. So, I'd – you know, I'm not shutting it down, but I'm just saying we'd have to consider whether there's some – you know, the confidential nature of some of these things and we'd have to figure out how that might be done.
You know, at the end of the day, the impacts on the Province of this are – you know, it's a fairly significant issue for the Province and you know, how that gets resolved I think – you know, I don't know to what extent that they may view some of the issues as being more versus less sensitive and whatnot. So, that would be the – I guess, the consideration that I'd want to put forward.

Page 143

You know, a lot of the stuff we're talking about in terms of, you know, credit ratings and impairment and debt consolidation and those kinds of things are fairly commercially sensitive and I don't know to what extent the Province might want to be discussing those in a public forum. But that's a question for them.
MR. COXWORTHY:
Q. Sure.
(12:00 noon)
MR. WARREN:
A. But again, I just echo what I said earlier. That I commend Liberty for having actually indicated this because -
MS. HUTCHENS:
A. Yeah.
MR. WARREN:
A. - it is one of the chief concerns that I have doing throughout the rate mitigation process is ensuring that you take the time and have deliberate evaluation, which is a part of this process that we're going through and have gone through. And more so, the Province is afforded that perspective.

Page 144

MR. COXWORTHY:
Q. Thank you. Just on the point of confidentiality, I assume you're all familiar with the measures that have been taken to preserve confidentiality of commercial sensitive information in this reference?
MS. HUTCHENS:
A. Yes.
MR. COXWORTHY:
Q. Are you comfortable that that's achieved the requisition degree of confidentiality?
MS. HUTCHENS:
A. For this hearing, yes, yeah.
MR. COXWORTHY:
Q. And any reason to think that that couldn't continue on a go-forward basis if Government in its wisdom decide that the Public Utilities Board should be part of a fulsome evaluation going forward?
MS. HUTCHENS:
A. I think, you know, that's a question you'd have to ask Government.
MR. COXWORTHY:
Q. Does Nalcor have an opinion on that? And I

realize you're not speaking for Nalcor, Ms. Hutchens.

MS. HUTCHENS:
A. Yeah.

MR. COXWORTHY:
Q. But does Hydro and Nalcor have an opinion on that?

MS. HUTCHENS:
A. You know, from Hydro and – from Hydro's perspective at least, and my Nalcor colleagues chime in on this, you know. From our perspective, it's – there's the – we're happy to share what we have. There's no question there. You know, so from our perspective, no, it's not an issue.

MR. COXWORTHY:
Q. So, that's Hydro's perspective?

MS. HUTCHENS:
A. Yeah, that's Hydro's perspective.

MR. COXWORTHY:
Q. How about – can someone speak to Nalcor?

MR. MEANEY:
A. I was just going to say, I think in terms of I see this process and the fact that the Province has put the reference question to

the Public Utilities Board as being part of, you know, the input to the evaluation. So, I kind of see that we're in that process as we sit here today.

MR. COXWORTHY:
Q. And is there any confidentiality concern about the Board, if again Government decides in its wisdom to do so, of the Board continuing being part of that fulsome evaluation? That its input doesn't end with this reference.

MR. MEANEY:
A. I don't – you know, I don't see an issue with that, but it's ultimately the call of the Province, in terms of how that will play out.

MR. COXWORTHY:
Q. Mr. Warren?

MR. WARREN:
A. That's exactly what I was going to say. I don't think it's for me to opine upon what my shareholder should or shouldn't do.

MR. MEANEY:
A. Trying to steer away from those career ending -

MR. COXWORTHY:
Q. These are more career limiting questions I'm asking you is what you're saying. Okay. I'll stop there on that line of questioning. Ms. Hutchens, if we could turn to the slide – and I'm sorry here. This is the slide from yesterday's – yeah, not organizational effectiveness. The presentation by Mr. Haynes and Ms. Williams. Slide 6, thank you. Sustainable Cost Management, Slide 6. And I think, Ms. Hutchens, that Ms. Williams yesterday indicated that you would be one of the Hydro nominees on this committee.

MS. HUTCHENS:
A. That's correct.

MR. COXWORTHY:
Q. And has this committee – I recognize it was said yesterday that this is still a work in progress, but have there been meetings of this committee? Or is that how the committee works? So, they get together and have face-to-face or virtual meetings or is it not quite that type of -

MS. HUTCHENS:
A. There are meetings, yes, but they're

virtual, they're not – you know.

MR. COXWORTHY:
Q. I'm sure someone might call in on the phone.

MS. HUTCHENS:
A. We don't need to travel to necessarily talk. But yes, there are regular meetings. I believe they are minimum twice a year meetings of that committee. Obviously I think there'll be a little bit more frequency as we get the committee up and running. The committee has not met yet. The first meeting was scheduled a couple of weeks ago and it's, I think, first week of November is when the first meeting will actually take place. And the intention of that meeting is to, I think, lay the groundwork for how we move forward in terms of expectations around the information that the committee is going to review, how we're going to do it, you know, the rigour, the processes and the supports that will require to do that.

MR. COXWORTHY:
Q. Sure.

MR. MEANEY:

A. Sorry, and if I can add one more point on that?
MR. COXWORTHY:
Q. Go ahead.
MR. MEANEY:
A. The PPA actually contemplated the timeframe under which that committee would be established. So, right around – and it's tied to -
MS. HUTCHENS:
A. First power.
MR. MEANEY:
A. - first power comes out of Muskrat. So, given the schedule, in terms of when the unit's going to come online, this committee is being set up in the timeframe that was contemplated under the contract.
MS. HUTCHENS:
A. Yeah.
MR. MEANEY:
A. So, I just want to make -
MS. HUTCHENS:
A. Thank you very much, yeah.
MR. MEANEY:
A. - make sure folks don't think it's behind

the eight ball.
MR. COXWORTHY:
Q. Sure.
MR. MEANEY:
A. It's very much in the timeframe that it was contemplated.
MR. COXWORTHY:
Q. No, I don't mean to suggest that the committee should have been meeting lots and lots of times before this. I just want to get a sense of where things stand now and where you see this committee's work going in the future. And Ms. Hutchens, I was asking Mr. Meaney earlier about this idea of an annual budget coming out of the Muskrat Falls component of Power Supply. Do you know or envision that that budget would then come up to your committee, you know, whether it's the final version or preliminary version? How do you see – do you see the committee, that type of information coming forward to that committee?
MS. HUTCHENS:
A. Absolutely. That is one of the mandates that's given to the committee is the review

and approval of the four items there that you see, and I'll call it the sub-bullets, the operating and capital budgets, the annual maintenance plan, the long-term asset plan and other items as required. So, they're actually written into the mandate of the committee within the agreement.
MR. COXWORTHY:
Q. Thank you. I have no further questions.
CHAIR:
Q. Thank you, Mr. Coxworthy. Ms. Greene.
GREENE, Q.C.:
Q. Thank you, Chair. Good afternoon. I do have a few questions. I had intended to ask you, if you go to Slide 4, the technical and accounting issues that Mr. Coxworthy just went through. So, that has shortened those, that line of questions, but I just wanted to see if I paraphrase it, is it correct that once the decision is made by the Province that they – the amount of money that will be available to help rate payers, it's up to the lawyers and the accountants to figure out how best to do it, in terms of implementing it without having a significant

impact either on Hydro, because you don't want to have an impairment of your assets for a write down. You do not want to be reviewed – viewed as not self-supporting because that has impacts for your credit rating and for Nalcor's and for the Province's. So, it's those types of considerations that need to be taken into account to ensure it's done properly, but there's nothing to prevent it from an accounting perspective?
MS. HUTCHENS:
A. Yes. You know, I think those – the lawyers and accountants definitely need to be brought to bear. There may be others as well and I wouldn't, you know, look at it exclusively, but certainly there is – this is fairly technical stuff that needs to be worked through at a detail level and unfortunately -
GREENE, Q.C.:
Q. And I won't ask you to explain those technical details.
MS. HUTCHENS:
A. The devil's in the details. I'm not sure I

Page 153

could.
MR. MEANEY:
A. Ms. Greene, just for clarification -
MS. HUTCHENS:
A. The devil is in the details on that.
GREENE, Q.C.:
Q. Having read your confidential memo, I definitely don't want you to explain that on the Friday of a Thanksgiving weekend.
MR. MEANEY:
A. Ms. Greene, just for clarification, you were asking that question in the context of the last bullet?
GREENE, Q.C.:
Q. Yes, that's -
MR. MEANEY:
A. Okay. Just wanted to make sure.
GREENE, Q.C.:
Q. Yeah. No, I just wanted to make – as Mr. Coxworthy said, it's not a show stopper. It's just how best to figure out how to do it. So, it might mean that rate payers – technically the rate is still the same rate, but somehow the money flows back, either as a rebate at the bottom of the bill or

Page 154

somehow it gets done.
MR. MEANEY:
A. There's different options.
MS. HUTCHENS:
A. Yes.
GREENE, Q.C.:
Q. Right.
MS. HUTCHENS:
A. I mean, so from our perspective, we certainly see that. We can't speak for the Province.
GREENE, Q.C.:
Q. Right. And that's up to the Province and you'd figure out and eventually, as long as rate payers see the benefit, you guys can figure out how best to do it.
MR. WARREN:
A. And Ms. Greene, you note Nalcor or Hydro, but I also would remind that it goes even higher than that.
GREENE, Q.C.:
Q. Oh, the Province, yeah.
MR. WARREN:
A. It's the Province as well, and how they account for it as well.

Page 155

GREENE, Q.C.:
Q. Right, and that's very important that it not be considered as – that you not be considered not self-supporting and that they're subsidizing rates.
MS. HUTCHENS:
A. Correct.
GREENE, Q.C.:
Q. As I said, we're not going to go through that technical paper or the issues in it. So, thank you, Mr. Coxworthy, for doing that. The next one is to follow up again on one of Mr. Coxworthy's lines of questions about the LCP future O&M and capital and how the taxpayer subsidization gets into a consideration of how that should be dealt with. So, we're talking about moving forward. We're talking about costs that rate payers have to pay. Is that correct? The future O&M associated with the Muskrat Falls Project, as well as the sustaining capital get passed on to rate payers through their rates? Is that correct?
MS. HUTCHENS:
A. Yeah, I believe that's where the legislation

Page 156

is today, yes.
MR. MEANEY:
A. As we stand here today, yes.
MR. WARREN:
A. In the unmitigated rates.
GREENE, Q.C.:
Q. Yes, and right now the current requirement is that rate payers pay those future costs. So, we're not talking about the past.
MR. WARREN:
A. That's right.
GREENE, Q.C.:
Q. We're talking about moving forward. So, I under – and I'm not going to repeat the discussion you had about the role of the taxpayer and subsidizing rate payers, but I don't see how that affects this one issue of future O&M and what's appropriate and reasonable for rate payers to pay. So, can you help me explain, if we're talking only about that, how does the view of the Province and how much is available, what risk is there? Are you concerned – you said the nature of the person making the decision. That was one of the things you

said was a concern as to if the Board were to become involved, leaving aside if there are restrictions and they are addressed, what difficulty would you have in the Board being involved in future review of the operating and maintenance costs and the capital that rate payers have to pay for?

MR. WARREN:
A. If the Provincial treasury is taking the unmitigated – which is where that, the O&M and sustaining capital will fluctuate in and out of – if the Province is bringing it down to a fixed rate, then it is the taxpayer that is subject to that fluctuation that the unmitigated rate – the rate payer is – if as they've presented it, it's going to be 13 and a half cents, escalating at two and a quarter per cent, then it's subsidization that is bringing it down to that rate.

GREENE, Q.C.:
Q. But I would assume that the Province and the taxpayer would want to ensure that they're only subsidizing the most reasonable costs on a go-forward basis.

MR. WARREN:

A. Absolutely.

GREENE, Q.C.:
Q. Right. So again, I don't see how the taxpayer and the Province provincial issue would be at risk if those future capital and operating and maintenance costs were to be reviewed in advance to ensure that from the perspective of the rate payer who's going to pay for those costs, they are reasonable costs.

MR. MEANEY:
A. I think if I could just add a bit of commentary, like cost is cost and I guess, the inputs to the cost and the inputs to the rate would include both the capital costs, the operating costs and the sustaining capital costs. So, in the event that the Province is subsidizing that overall cost to a set rate and therefore, I guess, taxpayers are paying for those costs, whether it be a portion of the capital costs, the O&M costs or the sustaining capital costs, I think that's where our perspective was. You know, it's not as black and white as saying, well then, those costs are under – shouldn't be

under regulation because they all – all of those cost components feed into what will be the rate to end customers. And if the taxpayer is subsidizing a portion of that cost or I guess all of that cost, depending on what rate it lands on, they have a role in that.

So, I think in our analogy, I wasn't really distinguishing between capital versus O&M versus sustaining capital. I'm just saying on an overall basis, if the taxpayer is subsidizing the cost to end consumers, then they play a role in that.

GREENE, Q.C.:
Q. Certainly, and in fact, I guess, we're here today because the taxpayer is stuck with what's passed and what I wanted to focus on is moving forward and I guess we'll have to agree to disagree because I would have thought the taxpayer would be interested in ensuring only reasonable costs for future operating and maintenance and future capital ended up in the electricity rates that they pay.

So, if we could move to another topic.

One was I guess, deferred to you this morning, which was in doing the forecasting and the long-term financial plan that's used in the modelling, whether the costs, the future reductions in costs associated with the Nalcor/Hydro plan for savings for in 2022 are reflected in the modelling results or did you consider they were so minor at 20 million – it's what 66 million to be one cent a kilowatt hour. So, the question of whether the 15 to 20 million dollars is really new or is it already built into your model?

(12:15 p.m.)

MS. HUTCHENS:
A. Maybe I'll start with just – because I think one of the questions you got into this morning was surrounding the Holyrood facility and that was a piece there. And I'll let Auburn talk in terms of the other components and how that 20 million dollars may or may not be reflected in that full 20 million.

The Holyrood facility has been scheduled for some time to change into what

Page 161

we call a post steam mode. So, there's be a synchronous condenser there, as opposed to the three thermal units. So, we have recognized in the plan a reduction in operating costs on the Hydro portion of that plan associated with that.

We didn't tie it back to the details that Mr. Roberts presented this morning. It was an assessment done a couple of years ago that looked at the overall cost of service associated with Holyrood and so took out the Holyrood piece, but put back the synchronous condenser piece as well. So, there's the net of the two.

So, there was about ten million dollars that's reflected in that plan. That would be a combination of labour and non-labour, but it's not tied directly to the actual, you know, details of Mr. Roberts' plan.

There has been, you know, a fair bit of discussion around the future of Holyrood for the past year or more and I think as that works its way through the reliability and resource adequacy review and whatnot, we'll have a little bit better clarity surrounding

Page 162

what Holyrood may look like in the future and timing and whatnot. So, we have not updated the plan versus what we have been historically carrying because we didn't feel that we necessarily had any better information.

GREENE, Q.C.:
Q. So, on that point, as I understood your answer, correct me if I'm wrong, there would be some duplication that you would have already built in, the closure--Hydro in giving its long-term plan to Mr. Warren to build into the models, would have already reduced its future cost, recognizing Holyrood was coming out of service?
MS. HUTCHENS:
A. Yes, yeah, yeah.
GREENE, Q.C.:
Q. So, it was already built into –
MS. HUTCHENS:
A. Yes.
GREENE, Q.C.:
Q. - the forecast that we have looked at?
MS. HUTCHENS:
A. Yeah, at a high level, yes.

Page 163

GREENE, Q.C.:
Q. At a high level, okay.
MS. HUTCHENS:
A. At a high level.
GREENE, Q.C.:
Q. And for Nalcor, for the other costs, the—so, that's about—that's more than half of the –
MR. MEANEY:
A. Sure, I think in terms of the group who are associated with the project, I think that was another one of the buckets that Mr. Roberts –
GREENE, Q.C.:
Q. Yes, that was another, very significant part of the future savings.
MR. MEANEY:
A. Right, so I guess the wind-down of those folks as the project in or near completion, moving their operation, those reductions would have reflected in the cashflows that are fed into Mr. Warren's model.
GREENE, Q.C.:
Q. We can go through it again, Mr. Roberts, but certainly the main--in fact, if not all of

Page 164

it, I'd have to back to check, the 15 to 20-million dollars that was associated with Holyrood and the wind-down of the project are already reflected in all of the forecasts. So, it wouldn't--those savings would not actually further reduce rates at a high level, there might be some minor adjustments? But that's my understanding of what you said. It's already been taken into account. So, there's no further help for rate mitigation from what we've already looked at?
MR. MEANEY:
A. I don't know what it's fully –
GREENE, Q.C.:
Q. There might be some minor ones?
MS. HUTCHENS:
A. Yeah.
GREENE, Q.C.:
Q. But essentially based on your answer, it seems like it's already in the models we've already looked at. It doesn't reduce the 2289? And as I say, I recognize it's not significant. It's only 20 million. It's

only like one-third of a cent of a kilowatt hour, right?

MS. HUTCHENS:
A. I think, you know, the Hydro piece is built in there.

GREENE, Q.C.:
Q. Right.

MS. HUTCHENS:
A. Whether that changes or not, whether there's an up-side or a down-side, I think will depend on what is envisioned in the supply adequacy discussions.

GREENE, Q.C.:
Q. Right.

MS. HUTCHENS:
A. The long-term financial plan that Auburn is referring to or that forms the basis for this, I should say, reflects our test year for 2019.

GREENE, Q.C.:
Q. Yes.

MS. HUTCHENS:
A. So, there is some up-side there as well. You know, there was some disallowances that

are coming out of that. So, there's definitely an up-side from that perspective as well. So -

GREENE, Q.C.:
Q. Well, anyway, we won't go through what that means for rates.

MS. HUTCHENS:
A. Yeah, yeah.

GREENE, Q.C.:
Q. Okay. So, I understand the answer to be it's already essentially reflected. The last issue, what I very briefly wanted to mention or talk to you about, was the debt-equity structure, Hydro's capital structure -

MS. HUTCHENS:
A. Yes.

GREENE, Q.C.:
Q. - and your view from the financial perspective of the amount of flexibility there is there, whether that is a valid consideration for the Commissioners to put forward.

MS. HUTCHENS:

A. Yeah. You know, I think it's absolutely a valid consideration. Hydro has a 25 percent equity target and we were there a number of years ago, but had some erosion associated with some large capital expenditures as well as some events on the system back in 2013-14 I believe. So, there's been some erosion for that and the shareholder has been, I would describe it as forgoing dividends since that time or since 2009, and our dividend policy doesn't require us or allow us to pay out any dividends until we get back to that 25. So, the shareholder has fundamentally been forgoing dividends in order to build equity in the organization. You know, an alternative would be going to the shareholder and look for an equity injection. We have not done that. The concept, I believe, proposed by Liberty was to take the capital structure and shift it back to 20 percent from a—you know, I believe Mr. Antonuk described it "not on a sustained basis." I think that that, you know, deserves consideration. You know,

there's significant issues here and that needs some consideration for sure. There's no one right answer in terms of what equity level is required for an organization. It really does depend on, you know, the markets that we borrow from and that the province borrows from. It depends on our financial circumstances. It depends on, you know, the province. So, there's a lot of factors that go into that. And then there's also, what I'm going to call financial flexibility factors. There's the--you know, the requirement, our obligation to serve, from time to time can cause us to, you know, have capital—we have to spend capital in order to, you know, maintain reliability and to ensure that new customer growth is allowed to occur with system changes. And we also have to be able to withstand what I would describe as normal operational variations and, you know, we do vary. The modelling that we provided to Liberty that formed the basis for 255, RFI 255, does assume that we achieve our allowed return on equity,

Page 169

whatever that is in the modelling structure, in every year. And you know, I think that that would not be the norm. You know, we would fluctuate around that. So, there's— you know, you need some flexibility I think to withstand the normal operational variations and any large CapEx expenditures that we may have to look at. And there are a couple that are, you know, under consideration right now. There's the—not consideration, but under discussion is probably a better word, in terms of anything that may come out of the Reliability and Resource Adequacy Review, whether we have to do some work in Labrador and those kinds of things. So, there is, you know, a financial flexibility that is required and that financial flexibility is--and our capital structure, very much I view as, you know, the government is one of the main benefactors of that financial review because they guaranty our debt. So, to the extent that we don't—that we are unable to be self-sustaining because of a lack of financial

Page 170

flexibility, that does have an implication on them. So, you know, I think the, you know, the 20--the shift to the 20 percent in a short-term perspective, I think, absolutely needs to be considered. Would I be comfortable there in the long-term? I'm not convinced I would be. You know, the 25 percent was established back in 2009 after— by the Province of Newfoundland. I wasn't there at the time, but I would think that that, you know, had given some—you know, was based on considerations at the time. Whether those considerations have changed or not, I think would have to be, you know, an issue for discussion with the province as well. If you ask me where I—would I be comfortable going below a 20-percent level, I would say, no, I'm not. I just don't think we have the requisite financial flexibility to be able to withstand what I would see normal variations in, you know, 20 percent from a target perspective, in normal variations in our operations from a financial perspective.

Page 171

GREENE, Q.C.:
Q. You are aware that in other jurisdictions such as Manitoba Hydro, as a means to help with smoothing rate impacts, they have looked at the capital structure, given the extraordinary circumstances they found themselves in?
MS. HUTCHENS:
A. Absolutely.
GREENE, Q.C.:
Q. And have you had any consideration other than an analysis done with the province yet as a means of this for rate mitigation? It wasn't put forward by Hydro. Have you had any analysis and discussion with the province of this potential opportunity?
MS. HUTCHENS:
A. No, I have not had any detailed discussion with them. You know, it was—they obviously are aware of it because they would have received this information, but I have not picked up the phone and called them about it because, you know, I felt that this process needed to be, you know, gone through first.

Page 172

GREENE, Q.C.:
Q. And Nalcor/Hydro didn't consider it as an option to put forward to assist with rate mitigation?
MS. HUTCHENS:
A. I don't know if we actually—yeah, I think I've got to give credit to Liberty on that one, that they had thought about it. I can't recall whether we had done it or not to be honest with you, Ms. Greene.
GREENE, Q.C.:
Q. Okay.
MS. HUTCHENS:
A. But you know, certainly, everything has to be on the table.
GREENE, Q.C.:
Q. Okay. Thank you, Panel. That's all of my questions, chair.
MS. HUTCHENS:
A. Thank you.
CHAIR:
Q. Thank you, Ms. Greene. Mr. Eaton, anything on follow up? Nothing?
EATON, Q.C.:

Q. Nothing arising from that, thank you.
CHAIR:
Q. Any questions?
MR. O'BRIEN:
Q. No.
CHAIR:
Q. I have no questions. So, I guess we're adjourning for the weekend. We're back on Tuesday morning with Newfoundland Power's Panel. And we have your presentation, so that's good. So, Happy Thanksgiving Weekend, everybody. We'll see you on Tuesday.
Upon conclusion at 12:26 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 11th 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 11th day of October, 2019

Judy Moss

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