

Q. In reference to the Financial Consultant's 2003 Report and Schedule 3, please provide particulars as to what comprises the category "systems operations" and please account for the increasing spending trend.

- A. The "systems operations" expense category consists of a number of items including hydro generation tax, site remediation activities, clean-up costs, public safety initiatives, building repairs, and emissions testing. According to the revised application filed by the Company on February 10, 2003, the trend in this category from 1998 to forecast 2004 is as follows:

1998		\$1,655,000
1999		\$1,772,000
2000		\$2,291,000
2001		\$2,156,000
2002		\$2,055,000
2003	forecast	\$2,115,000
2004	forecast	\$2,151,000

Based on information obtained from the Company during the completion of our reviews, we have noted the following reasons the changes in this expense category:

- The increase in 1999 over 1998 was the result of higher environmental maintenance and clean up costs at hydro plants.
- The increase in 2000 over 1999 was the result of preventive maintenance and site remediation activities in substations, increase in public safety initiatives, building repairs in the Gander area and the re-decking of the bridge at Lookout Brook.
- The expense in 2001 was similar to 2000 because of the increase in costs that resulted from extensive snow clearing activities, cleanup of spills and the flood clean up costs that were incurred as a result of tropical storm Gabrielle.
- In 2002, the Company reassigned the hydro generation tax to this expense category. In 2001, this tax was expensed in the "taxes and assessments" expense category. The amount of hydro generation tax in 2001 was approximately \$200,000. The 2002 costs also includes charges for site remediation and clean up of spills.
- According to the Company, the costs forecast for 2003 include additional costs for emissions testing.