SUMMARY OF EVIDENCE

Newfoundland Power's 2004 proposed capital expenditures total $53,909,000. Approximately 56% of the proposed budget is allocated to replace deteriorated plant and equipment and approximately 22% is proposed to be spent to serve new customers and respond to third party requests.

Newfoundland Power's *2004 Capital Budget Plan* anticipates average annual capital expenditures of approximately $52 million over the period 2004 through 2008. Replacement of deteriorated defective or obsolete electrical equipment is forecast to account for approximately 60% of total expenditures through this period.

Newfoundland Power is currently forecasting that its 2003 capital expenditures will exceed the approved budget by 2.3%.

Variances from budget in the capital expenditures of an electric utility are unavoidable. Because the intervening time between the completion of the budget process and the execution of capital projects can often exceed twelve months, unforeseen circumstances can alter capital requirements substantially. Should an emergency arise which poses a threat to safety or to Company operations, the Company must channel its resources to these areas and make the necessary adjustments to its capital plans. In any given year, the nature of the Newfoundland environment and the weather may also compel the Company to re-examine and refocus its capital plans.

The Distribution category is the largest component of the capital budget, and the number of individual variances is generally greatest in this area. In 2003, the demands placed on the Company for large service extensions to such locations at the Pitcher's Pond Golf Course, < > and the Argentia Management Authority, as well as increased costs associated with certain reliability rebuild projects, resulted in increased expenditures of approximately $1.0 million.

Variances from initial cost estimates can also be caused by changes in the cost of materials and labour, or by unanticipated requirements associated with a project. For example, in Energy Supply, a project to refurbish the protection and controls on the mobile gas turbine was expanded to include refurbishment of the actual gas generator when detailed analysis identified the need for such work.

Capital expenditure variances may also result from changed circumstances revealed in ongoing reviews and reassessments of capital projects. For example, as a result of a review of certain substation projects, the requirements were reduced, and one project was deferred to 2004 due to the additional work associated with 2002 carryover projects.

Capital expenditures on Information Technology are forecasted to be $5,728,000 representing a variance of $221,000 over the initial budget of $5,507,000. The majority of this increase is associated with the cost of hardware and external resources necessary to upgrade the Unix operating system and application software associated with the System Control and Data Acquisition ("SCADA") system.

Overall, the Company is currently forecasting that its 2003 capital expenditures will exceed the approved budget by 2.3%.

The Company is always mindful of the possibility of changes in conditions and circumstances, and it continually reviews its capital program to ensure that only work that is necessary to achieve or maintain customer service objectives is included. If projects can be deferred or cancelled without affecting customer service, reliability or safety, the capital program will be adjusted accordingly. In the case of significant changes, the Company will seek approval of this Board.