HAND DELIVERED

August 26, 2003

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon
Director of Corporate Services
and Board Secretary

Ladies & Gentlemen:

Re: Newfoundland Power's 2004 Capital Budget Application

Enclosed are 12 copies each of:

a) revisions to Volume I, *Information Technology Strategy* report, Appendix B, page 2;

b) revisions to Volume I, *2004 Capital Budget Plan*, page 8;

c) revisions to Volume I, *2004 Capital Budget Plan*, Appendix B, page 3;

d) revisions to Volume II, *Substations,* Appendix 1, page 2;

e) revisions to Volume III, *Transportation,* Appendix 1, Attachment A, page 1; and

f) revisions to Volume IV, *Information Systems,* Appendix 4, page 2.

Changes are indicated by shading as follows: ☐. Changes to the *Information Technology Strategy* report, Appendix B, page 2 and *Transportation*, Appendix 1, Attachment A, page 1 are indicated by 1st Revision Note.

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If you have any questions regarding the enclosed, please contact the undersigned at your convenience.

Yours very truly,

Brock Myles
Legal Counsel

Enclosures

c. Maureen P. Greene, Q.C.
Newfoundland & Labrador Hydro

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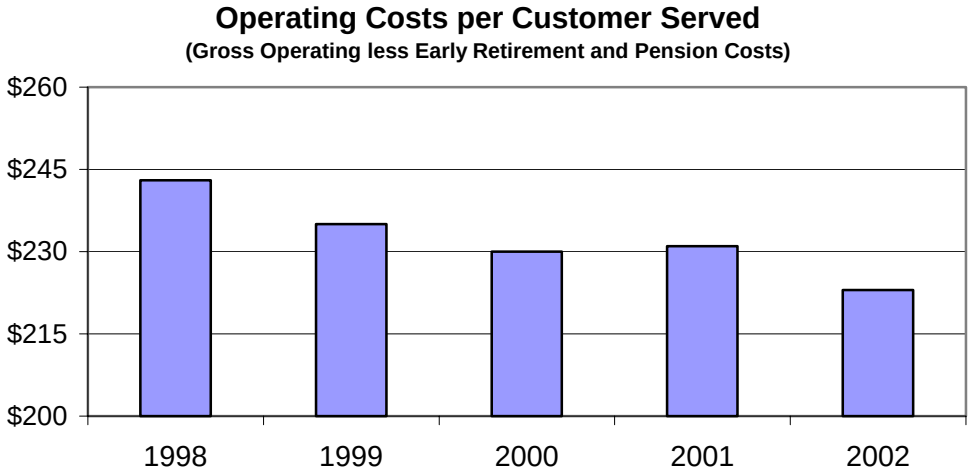
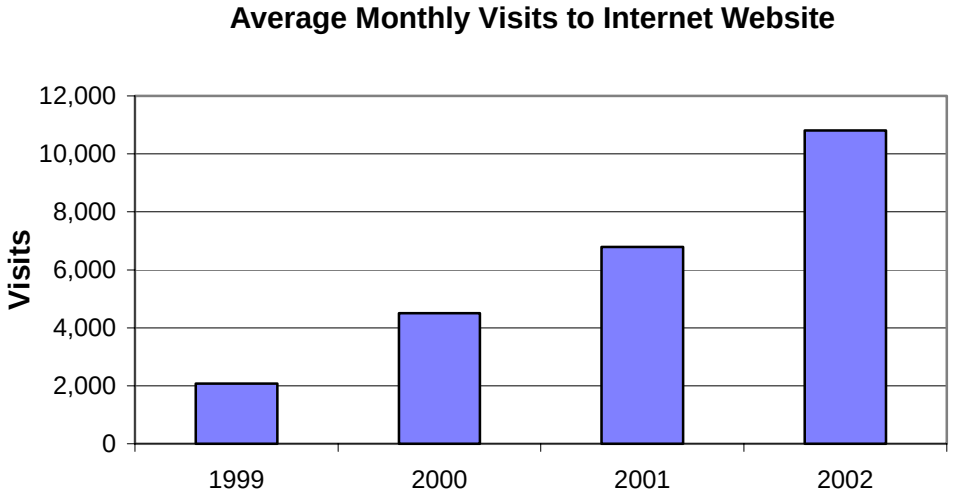
The Company also continues to decrease the operating cost per customer served. Since 1998, the operating costs per customer served have decreased 8.2%.



1st Revision Note: 1999 to 2002 Operating Costs per Customer have been updated to exclude early retirement and pension costs.

- *Enhancing communications* amongst employees and between the Company, its customers and outside suppliers, by providing the parties with a means to send and receive correspondence in much less time than is possible with traditional methods of communication. Employees are also able to collaborate and share documents from remote distances. The key benefit of enhanced communications is reduced operating costs and quicker response to business and customer requirements. The demand for enhanced communications is rising especially through customer's use of the Internet and email. Since 1999, average monthly visits to the Company's Internet website have increased over 400%.



- *Processing large volumes of transactions* efficiently and effectively. Applications such as the CSS and the Back Office Support System ("BOSS") allow the Company to capture, process, and store transactional data for future reference with minimal manual intervention, increased data quality, and reduced operating costs. For example, the CSS allows the company to annually process over 2.4 million bills, 140,000 service orders, and answer over 350,000

IV. CAPITAL BUDGET PLAN

This section of the report outlines a five-year capital budget plan (the "Plan") for maintaining the stability of the capital budget, including an assessment of risks to the Plan which could cause budget growth to exceed that planned. In addition, this section assesses maximum budget growth and contingencies for unusual events during this period.

A. Plan Overview

The Company plans to invest approximately $260 million in plant and equipment during the 2004 through 2008 period. Over the period capital expenditures are forecast to remain relatively stable and consistent with the average for the past six years. Capital expenditures are expected to average approximately $53 million annually and range from a low of $49 million in 2008 to a high of $56 million in 2006.

In recent years, the Company has focused attention on rural distribution lines where reliability has been appreciably worse than the Company average. Over the next 5 years, the Company will continue its efforts to refurbish distribution lines that have performed poorly with respect to reliability. These distribution lines tend to be either very old, or are exposed to abnormally adverse weather conditions.

The Plan also provides for the refurbishment of a number of the Company's aged and deteriorated transmission lines. Many of these lines have been in service for in excess of 40 years, and inspections have revealed deterioration resulting from their long exposure to harsh weather and salt contamination. In other locations, it has been determined that the original line design does not provide adequate vertical clearance.

The Plan will continue to address the issue of radial systems, which rely on a single link between the energy source and customers. On radial systems a failure of any critical component will result in an outage in all of the communities supplied by the system. As a result, customers served by radial systems generally experience more and longer power interruptions than those served by looped systems. Radial lines to Old Perlican and New-Wes Valley are currently addressed in the Plan. Other radial systems like Trepassey and Port-aux-Basques will be analyzed further and may impact capital budgets in the future.

Many of the Company's hydro generating plants, substations and office buildings are in excess of 50 years old. The Plan will address the replacement of major components at many of these facilities in order to remove deteriorated or obsolete plant from service. The Plan addresses replacing penstocks at the New Chelsea, Rattling Brook, Hearts Content and Rocky Pond hydroelectric plants. These expenditures are required to maintain energy production levels and to maintain safe and reliable service to customers.

Newfoundland Power Inc.
Capital Expenditure Variance Summary
as of December 31, 1994
(000s)

	Approved By Board Order [1]	Actual	Variance Over (Under)
Energy Supply	$ 2,967	$ 2,378	$ (589)
Substations	1,492	1,372	(120)
Transmission	2,801	1,907	(894)
Distribution	24,629	22,527	(2,102)
General Property	2,233	2,352	119
Transportation	3,720	2,616	(1,104)
Telecommunications	900	792	(108)
Computing Equipment	982	829	(153)
General Expenses Capital	-	-	-
	$ 39,724	**$ 34,773**	**$ (4,951)**

[1] Order Nos. P.U. 4 (1993-94), P.U. 1 (1994-95) and P.U. 5 (1994-95).

Energy Supply: The decrease resulted from the cancellation of several projects which, through detailed analysis, proved not to be feasible.

Substations: The decrease resulted from deferral of a power transformer installation due to lower than expected peak load.

Transmission: The decrease resulted from deferral of several projects.

Distribution: The decrease resulted from deferral of a street light conversion project which proved not to be feasible due to high contract labor price. As well, one large distribution extension project was cancelled as the particular mine site was not developed.

Operating Experience: Trepassey has a peak load of approximately 3.3 MW and is supplied over a long radial transmission (95L). The new portable diesel generator unit has a capacity of 2.5 MW and can carry approximately 75 % of peak load. With 95L out of service power could be restored to Trepassey with little or no power rationing.

Justification: The overall project is justified based on improvement in the reliability of the electrical system.

(c) Indian Cove - Upgrade Structure / Transformer

Cost: $138,000

Description: This project involves replacing the 35 year old deteriorated 1.8 MVA, 25 kV to 12.5 kV stepdown transformer and structure at Indian Cove substation and to make improvements to the substation.

Indian Cove Substation

(1st Revision)

REVISED - SUMMARY 5 YR CAPITAL VEHICLE BUDGET

Year	Proposed Yrs to be Replaced Heavy Fleet	# Units/Yr Heavy Fleet	Budget $$ Heavy Fleet	Proposed Yrs to be Replaced Passenger Fleet	# Units/Yr Passenger	Budget $$ Passenger	# Units Off Road	Budget $$ Off Road	Overall Totals
2004	1990	4	$2,901,677	1996	2	$432,135	9	$153,188	$3,487,000
	1991	1		1997	5				
	1992	5		1998	3				
	1993	2		1999	5				
2005	1993	1	$1,311,589	1999	48	$1,406,369	6	$113,042	$2,831,000
	1994	2							
	1995	5							
2006	1995	8	$1,474,911	2000	28	$832,899	5	$46,191	$2,354,001
2007	1995	2	$1,267,748	2001	32	$968,232	5	$47,021	$2,283,001
	1996	5							
2008	1997	5	$1,199,863	2002	38	$1,160,678	5	$47,822	$2,408,363
	1998	2							
Overall 5 Yr Totals:		42	$8,155,788		161	$4,800,313	30	$407,264	$13,363,365

1st Revision Note: Updates to budgeted amounts for 2005 through 2008.

ensure the continued stability of the corporate network, thereby avoiding disruptions to customer service and the interruption of critical communications. As well, network components that are no longer adequate due to functional obsolescence will be replaced, allowing for growth in the infrastructure.

The components to be replaced in year two of this project include:

- Seven Motorola 6520 routers that are currently seven years old. These routers are no longer manufactured and vendor support is diminished.

- Two Nortel phone switches and a Redcom radio switch currently thirteen years old which are no longer supported by the manufacturer.

- Twenty-four (24) DECHubs purchased from Digital Equipment Corporation (DEC) prior to 1996. DEC sold off the entire Networking division prior to their acquisition by Compaq. These devices are no longer supported by any vendors.

The Company considered two alternatives when assessing options for moving forward with this initiative:

1) Continue to operate the existing components in the corporate network thus saving the cost of investment at this time. Failure to make the investment at this time would put the normal operation of the Company's Network Infrastructure at an unacceptable level of risk. Should the Network Infrastructure fail the Company's ability to serve customers and to monitor and control the electrical distribution system would be diminished. Vendors no longer manufacture many of these components and technical support for them is decreasing. If one of these components failed due to age, we would not be able to call on the manufacturer for help or get a replacement. Instead we would have to purchase the new equipment at that time causing significant delays that would hinder the Company's ability to function in that area. For example, the DecHUBs have been the cause of several network interruptions in the area offices due to their inability to communicate with newer laptop technology. This problem could not be resolved until the offending laptop was found and disconnected from the network. The vendor has no fix for this problem other than replace the component.

   Many of the components no longer have sufficient capacity to meet the requirements of the Company's applications. Replacing the network components with vendor-supported components will eliminate reliance on obsolete technology and provide capacity to connect shared servers in the future. The new equipment will be supported by the vendor for upgrades, troubleshooting and parts. Also, the new equipment will allow for growth as they can support increased requirements.

   For these reasons, continuing to operate the existing components is not an acceptable risk.