

1 Q. Re: Production Net Salvage: Please admit that the land at each of the Company's
2 generating sites has appreciated in value. If the response is to deny, then supply all
3 support and justification for such position.

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6 A. In response to this question Hydro is considering value to mean 'market value'
7 defined as follows: *"the value of a business, property, etc., in terms of what it can be*
8 *sold for on the open market"*¹.

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10 Hydro has a total of 37 generating sites as follows:

- 11 • eight hydraulic generating sites;
- 12 • 21 isolated system sites; and
- 13 • eight thermal sites.

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15 Hydro has no data to support the actual value of the land at each of its generating
16 sites. There is however, reason to believe that such land has not appreciated in
17 value for a number of reasons:

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19 1. All Generating Sites (37 sites): All Hydro's generating sites are integral to the
20 Company meeting its mandate to supply Newfoundland and Labrador customers
21 with electricity. In this jurisdiction, utilities are vertically integrated and each has
22 their own service territories. This makes it different from jurisdictions where
23 utilities have been unbundled and where generation has been deregulated - that is,
24 in this jurisdiction there is little opportunity or purpose to sell utility generating
25 assets. A sale of Hydro's generating assets is therefore an unlikely scenario making
26 it difficult to envision what value on an open market would be and whether it has

¹ <http://dictionary.reference.com/browse/market+value?s=t>

changed over a period of time. Hydro's long-term plan is to refurbish its generating facilities into the future, again making a sale unlikely.

2. Hydraulic Generating Sites (eight sites): Hydro's hydraulic generating sites are located at Bay d'Espoir, Cat Arm, Upper Salmon, Hinds Lake, Granite Canal, Paradise River, Snooks Arm and Venams Bight. The vast majority of the land on which the reservoirs, dams, dykes, intake structures, tailraces and hydro plants are located can be considered to be Newfoundland wilderness and, without the assets as outlined and associated water rights, can be argued to have little or no market value even if it was the intention of Hydro to sell this land.

3. Isolated Systems (21 sites): Hydro services 21 isolated systems located along the coast of Labrador and the island of Newfoundland from Nain, the most northern settlement in Labrador, to Ramea, located on an island off the south coast of Newfoundland. The majority of communities in isolated systems do not have road access but are served by ferry or by air. All of the communities have diesel generation sites either as the main source of supply or as a backup supply. Given the remoteness of these communities and the potential environmental liability concerns with the land on which the generation sites are located, it is questionable whether the land itself would have any meaningful value even if it was the intention of Hydro to sell this land.

4. Thermal Plants (eight sites): Hydro has thermal plants at Holyrood, Hardwoods, Stephenville, Hawke's Bay, St Anthony, Mud Lake and Happy Valley-Goose Bay. These thermal generation sites, in general, can be considered to be locations where heavy industrial equipment is operating, or has operated, and there has been a significant amount of fuel use. In such cases, where there has been handling of volumes of potential environmental contaminants, and consideration is given to the

55 sale of the property, Hydro conducts appropriate site assessments to determine the
56 level of on-site contamination in comparison to established guidelines. This enables
57 an understanding of the risk and liability associated with ongoing ownership of the
58 property relative to the requirements of the *Environmental Protection Act, 2004*,
59 *Part VII*, and potential buyers to have an understanding potential liabilities
60 associated with their purchase of the property. It is Hydro's experience that the
61 costs associated with undertaking these assessments often exceed the market value
62 for the property. On this basis, it is thought that the land itself would have no
63 meaningful value even if it was the intention of Hydro to sell this land.