

Grant Thornton LLP
Chartered Accountants
Management Consultants

October 6, 2004

Board of Commissioners of Public Utilities
120 Torbay Road
Prince Charles Building
St. John's, NL A1A 5B2

Attention: Ms. Doreen Dray

Dear Ms. Dray:

**Re: Newfoundland and Labrador Hydro
2003 Average Rate Base**

We have completed our review of the items indicated in your request dated October 5, 2004 relating to Newfoundland and Labrador Hydro's ("the Company's") 2005 Capital Budget Application (Section H) as it pertains to the calculation of the 2002 average rate base and the 2003 average rate base.

The results of our review are noted below:

2003 Average Rate Base Calculation

The average rate base for 2002 and 2003 as calculated by the Company and provided in Section H, Page H-1 of its 2005 Capital Budget Application is \$1,356,207,000 and \$1,422,412,000 respectively. The 2002 average rate base was previously reviewed and fixed at the above noted amount per P.U. 14 (2004).

Our procedures with respect to verifying the calculation of the 2003 average rate base were directed towards the verification of the data incorporated in the calculations and the methodology used by the Company. Specifically, the procedures which we performed included the following:

- agreed all carry-forward data to supporting documentation including audited financial statements and internal accounting records and reports, where applicable;
- agreed component data (capital expenditures; depreciation; etc.) to supporting documentation;

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187 Kenmount Road
St. John's NL
A1B 3P9
T (709) 722-5960
F (709) 722-7892
E StJohns@GrantThornton.ca
W www.GrantThornton.ca

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- checked the clerical accuracy of the continuity of the rate base for 2003;
- reviewed the methodology used in the calculation of the average rate base with reference to the Public Utilities Act, the Hydro Corporation Act and Board Orders.

Based upon the results of the above procedures we did not note any discrepancies in the calculation of the 2003 average rate base, and therefore conclude that the average rate base of \$1,422,412,000 included in Section H, Page H-1 of the Company's Application is accurate and in accordance with Board Orders and established regulatory practice.

I trust this is the information you requested. If you have any questions please contact me.

Yours truly,

Grant Thornton LLP

Bill Brushett, FCA
Partner