

Q. Reference: Schedule I to evidence of M. G. Bradbury. What evidence does Hydro have at its disposal from third party sources that indicates that its insurance costs are to increase from \$1.675 million in 2005 to \$1.850 million in 2006 and to \$2.123 million in 2007? Please provide the same.

A. The table shown below provides a break down of actual and forecasted Insurance costs for the years 2005, 2006 and 2007.

	2005 Actual	2006 Forecast	2007 Budget
Boiler & Machinery	\$945,098	\$1,105,642	\$1,347,122*
Primary Liability	\$111,723	\$102,840	\$107,982
Umbrella Liabilities	\$139,747	\$132,654	\$139,284
Aircraft Non Owned	\$9,607	\$8,610	\$9,042
Automobile	\$228,188	\$273,468	\$287,142
Travel Accident	\$5,327	\$5,514	\$5,790
Safe Berth	\$19,718	\$28,236	\$28,938
Directors & Officers	\$106,572	\$100,110	\$105,114
Brokerage Fees	\$69,950	\$62,500	\$62,500
Deductible Losses	\$38,670	\$30,000	\$30,000
Total	\$1,674,600	\$1,849,574	\$2,122,914

* The 2007 Budget for Boiler & Machinery was finalized prior to completion of negotiations with insurers. As a result the 2007 Budget for Boiler & Machinery is higher than the premiums negotiated in the three-year agreement.

Please see the attached letter received September 27, 2006, upon Hydro's request, in support of the increased insurance costs.



Insurance Brokers
Risk Consultants

Marilyn Leonard
Manager, Risk and Insurance
Newfoundland & Labrador Hydro
P.O. Box 12400
St. John's, NL A1B 4K7

RE: INSURANCE COSTS

Dear Ms. Leonard;

Property Insurance

From 2003 to 2006, Hydro benefited from a 3-year fixed rate agreement at a premium of \$855,767. Upon expiry of this agreement, in 2006, the policy was fully remarketed to all potential insurers both in Canada, US, London and Europe. The best available terms were from FM Global, and after final negotiations, a 3-year option was offered at premiums of \$979,869, \$1,078,490 and \$1,176,991, for Policy years July 1/06-07, 07-08, and 08-09 respectively, in each case plus 15% premium tax.

Liability Insurances

The liability policies (CGL and the various Umbrella liability layers as well as Directors & Officers Liability) are renewed and negotiated annually. Premiums change based on Hydro's revenues, its claims history, and on overall insurance market conditions.

Automobile Insurance

This Policy also renews and is negotiated annually. Premium changes are based on vehicle count, Hydro's claim history, and on overall automobile insurance market conditions.

Sincerely,

A handwritten signature in cursive script, appearing to read "John S. Bate".

for: John S. Bate
Vice President, Risk Management Practice
Aon Reed Stenhouse Inc.
20 Bay St.
Toronto, ON M5J 2N9
Tel: +1 416 868 5828 Fax: +1 416 868 5580
john.bate@aon.ca

Aon Reed Stenhouse Inc.

Suite 201 • 136 Crosbie Road • St. John's, NL A1B 3K3
tel: (709) 739-1000 • fax: (709) 739-1001 • www.aon.com