

1     Q.     With regard to Mr. Martin's evidence (Chart 5 on page 13), explain how Chart  
2             5 shows Hydro has been successful minimizing the impact of rising  
3             operational costs and tracking below inflation over the five-year period from  
4             2002 to 2007. From what source is the 2007 forecast of inflation taken?

5

6

7     A.     Please see the revision filed September 18, 2006 correcting Chart 5 of Mr.  
8             Martin's evidence.

9

10            With corrected labeling, Chart 5 shows that from 2002 to 2007 inflation has  
11            increased by approximately 12% while Hydro's normal operating expenses  
12            have increased by approximately 5%. Starting with a 2002 base, if Hydro's  
13            normal operating expense tracked the general inflation rate each and every  
14            year, Hydro's 2007 operating budget would be \$6.8 million higher than its  
15            forecast cost of service.

16

17            Hydro's forecast for inflation is sourced to the Conference Board of Canada.