Q. With regard to Exhibit JRH-1 on Key Performance Indicators, please respond to the following:

a. What is the basis for choosing a target 20% improvement in reliability against the current five-year historical base period?

b. What programs is Hydro implementing in order to meet these target reliability improvements? Please provide a list of each program along with its cost and expected impact on Hydro's reliability indices.

c. Provide all documentation showing customer support for improving reliability and willingness to pay for the improved reliability.

A. a. A target of 20% improvement was chosen based on a review of composite historical 5-year average performance, recent individual year performance, performance relative to available comparable utilities and knowledge of recent initiatives undertaken to improve performance. Through this review it was identified that significant improvement is desirable and should be targeted. The 20% improvement level is reflective of the magnitude of improvement considered desirable in the short-term and which the company should strive to achieve. A 5-year average was chosen to smooth out variability due to severe weather related events.

b. The following two tables outline the programs Hydro has implemented, or plan to implement, in 2006 to aid in achieving the 20% reliability improvement targets for distribution and transmission. The expected reliability improvements for transmission are not individually quantified as it is expected that the group of activities will have an overall impact of improving our reliability performance within the targeted range as outlined in the evidence.

| Reliability Improvements for Distribution - 2006 | | |
|---|---|---|
| Project | Cost | Expected Reliability Improvement |
| Replace Insulators Bottom Waters Lines 4 and 6 | $197,500 | 37% |
| Replace Insulators Bottom Waters Lines 7 and 8 | $121,000 | 28% |
| Replace Insulators Farewell Head Lines 4 and 5 | $261,000 | 29% |
| Replace Poles Bottom Waters Line 1 | $152,000 | 10% |
| Hawkes Bay L1 & L3 Upgrade | $379,600 | 36% |
| Bear Cove L6 Upgrade | $577,700 | 4% |
| St. Anthony L6 Upgrade | $778,300 | 70% |
| Nain Distribution System | $179,400 | 17% |
| Black Tickle Distribution System | $281,800 | 15% |

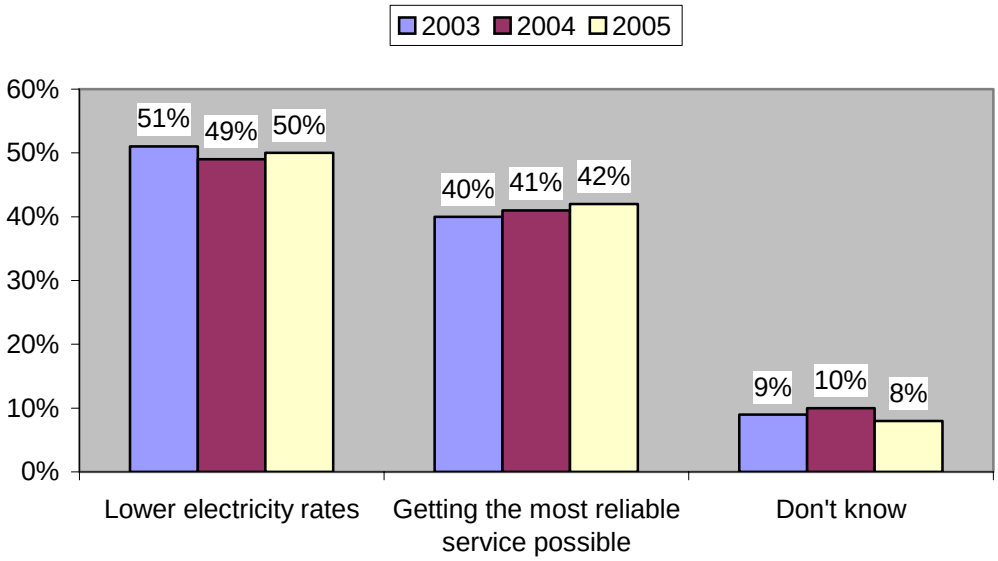
| Reliability Improvements for Transmission - 2006 | |
|---|---|
| Project | Cost |
| Replace Insulators TL231 | $913,000 |
| Wood Pole Line Management | $1,800,000 |
| Surge Arrestor Replacement | $ 70,000 |
| Instrument Transformer Replacement | $78,000 |
| Replaced Breaker B7T2 at Hardwoods | $108,000 |
| Station Post Insulator Replacement | $307,000 |
| 138/69 kV Protection Upgrades at Bottom Brook (TL 214, TL250, & 400L) | $117,000 |
| 230 kV Breaker Controls Upgrade Bay D'Espoir (B3B4) and Buchans (L05L33) | $39,100 |
| Battery Charger Replacements at Grandy Brook, Bay D'Espoir , Corner Brook, Deer Lake, and Western Avalon | $89,700 |
| Battery Bank Replacements at Grandy Brook, Bay D'Espoir , Indian River | $71,600 |
| Replace Compressors at Holyrood | $79,700 |
| Replace Compressor and Dryer at Grand Falls | $79,700 |

c. Hydro addresses the issue of improved reliability and willingness to pay in its Annual Customer Satisfaction Surveys. Please see attachments 1 and 2 from the 2005 Survey results.

## 5.3 Cost Versus Reliability

Again in 2005, customers were asked which is more important to them, (1) lower electricity rates, or (2) getting the most reliable service possible which means less and/or shorter outages even though they may have to pay extra. Consistent with previous years, five in ten customers said lower electricity rates were more important, and approximately four in ten said the most reliable service is more important. The remaining 8% were unsure of which is more important to them. In consideration of both factors, rates and reliable service, there was a slight preference among customers for lower electricity rates.

**Figure 31: Which is more important? Lower electricity costs vs. most reliable service?**

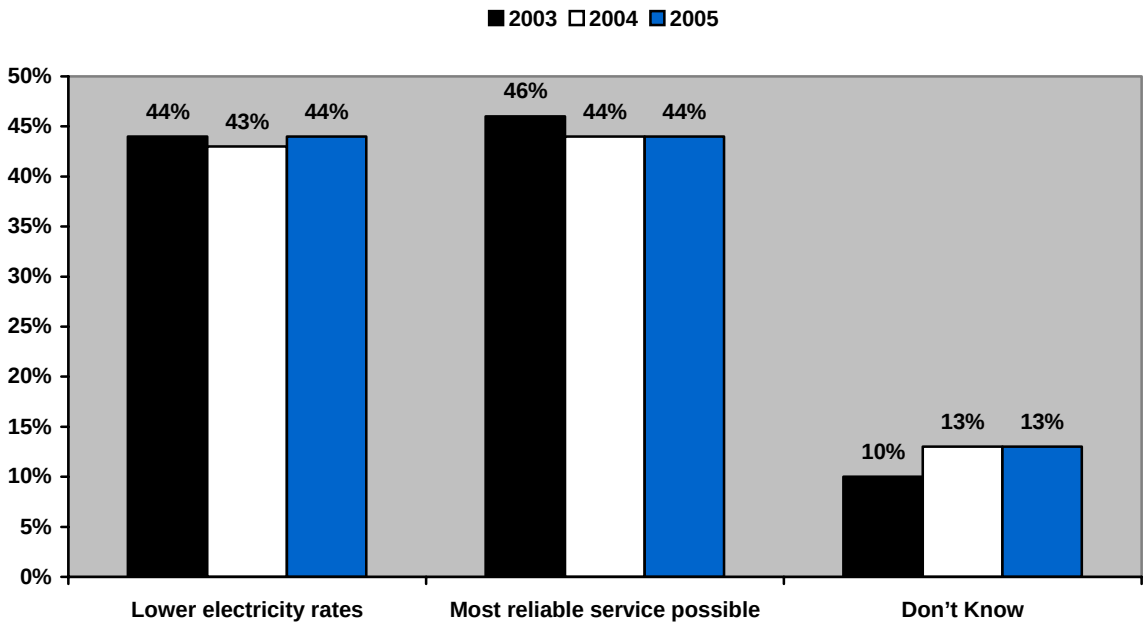



Customers living in Isolated service areas (59%) were more likely to show a preference for lower electricity rates than customers living in Interconnected service areas (49%).

## 5.4 Cost Versus Reliability

Commercial customers were asked which was more important to them: 1) lower electricity rates, or 2) getting the most reliable service possible which means less and/or shorter outages even though they may have to pay extra. Consistent with previous years, commercial customers were divided on this issue, with 44% of customers who said "Lower electricity rates" and 44% who said "Most reliable service".

**Chart 29: Which is More Important? Cost Versus Reliability**




Commercial customers in the Labrador region were more likely to show a preference for the most reliable service possible (52%) compared to those in the Central region (35%). In the Northern region, 45% of commercial customers reported a preference for the most reliable service.