

Q: (a) Is Dr. Cannon aware that this Board considered the implications of variations in the embedded cost of debt on Newfoundland Power's Automatic Adjustment Mechanism during Newfoundland Power's 2003 General Rate Application and subsequently ordered (page 68 of its Order PU 19 (2003)) that "The Board will establish a mechanism tied to the observed rate of return on regulated common equity which may trigger an early review of the mechanism and cost of capital. Where the actual rate of return on regulated equity in any intervening year exceeds the cost of equity determined by the Formula by more than 50 basis points, then NP will be required to file a report with the Board in its annual return setting out the circumstances and facts contributing to the difference".

(b) Is Dr. Cannon aware that Hydro proposed a similar mechanism as part of its proposed Automatic Adjustment Mechanism (Exhibit MGB-1)?

A: (a) Yes, Dr. Cannon is aware of this, but he has not been retained in this hearing to express any opinion on this provision as it applies to NP's AAM.

(b) Yes, Dr. Cannon is aware of this and he expressed no objection to it. This filing requirement does not, however, in any way reduce the desirability of his proposal, and will provide the same "comfort" to Hydro, the Board, and to Hydro's customers under Dr. Cannon's proposal as it is intended to provide under the Company's proposal.