

1 **Q. INFORMATION SYSTEMS**

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3 **SYSTEM UPGRADES (POOLED), p. 71 of 81, \$1,076,000**

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5 **PUB 32.0**

6 **Of the eight items outlined in this category, the purchase of the Microsoft**  
7 **Enterprise Agreement appears to be the only one that will incur a known cost over**  
8 **the upcoming three years. Why has the Company not chosen to set this item out**  
9 **separately and identify it as a multi-year project, given that the understanding of a**  
10 **multi-year project is one that, once commenced, will continue into future fiscal**  
11 **years with associated financial responsibility in those years?**

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14 A. The formal contract document reflecting the Microsoft Enterprise Agreement (“MEA”) between Newfoundland Power and Microsoft Corporation (“Microsoft”) historically included a term that gave the Company the option of canceling the agreement on short notice without penalty. Consequently, the agreement was not considered by Newfoundland Power as obliging the Company to incur capital expenditures beyond a single year.

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21 With the current agreement due to expire, Microsoft recently presented Newfoundland Power with a new formal contract document for the MEA. Under the terms of the proposed MEA contract, Newfoundland Power would not have the option of canceling the 3-year agreement on short notice without penalty. The agreement proposed by Microsoft for 2006 and beyond effectively obliges Newfoundland Power to pay the costs and charges associated with the MEA for a term of 3 years.

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28 In Newfoundland Power’s view, the proposed MEA constitutes a Multi-Year Project as contemplated by the Provisional Capital Budget Application Guidelines dated June 2, 2005 (the “Provisional Guidelines”). Approval is therefore sought for the entire 3-year expenditure, as noted at page 72 of 81, Schedule B.

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33 As noted in the transmittal letter to the Board dated June 29, 2005 and accompanying the Application, Newfoundland Power exercised a considerable degree of judgment in applying the Provisional Guidelines to the filing of the Application. While implementation of the Provisional Guidelines required some change in presentation, the Company also attempted to ensure a level of continuity and comparability with previous budget filings.

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40 In that regard, while approval is sought for the MEA as a Multi-Year Project, the Company elected to pool this capital expenditure item for consideration with other System Upgrades expenditure items, consistent with its presentation in previous capital budget applications. It would not be difficult to present Multi-Year Projects separately in future, if it would be helpful to the Board in its consideration of Newfoundland Power’s capital budget applications.