Q. Further to the preceding question, what is NP's assessment of the impact on its operating costs of investing $344,000,000 in plant and equipment.

A. Newfoundland Power's ability to meet its obligations to provide reliable electricity service to its customers at least cost is largely dependant upon the quality and condition of its plant and equipment.

The Company is proposing continued stable capital investment over the next 5 years. During the 5-year period from 2009 through 2013, Newfoundland Power plans to invest $344 million in plant and equipment. In 2008 dollars, this equates to approximately $320 million. During the 5-year period from 2004 through 2008 approximately $295 million will have been invested. In 2008 dollars, this also equates to approximately $320 million. The proposed expenditure for the 2009 through 2013 period is therefore reasonably consistent with past expenditure.

Conceptually, the Company's approach to management of existing assets attempts to balance the maximization of asset lives with the proactive replacement of deteriorated plant and equipment. Maximizing asset lives tend to lower overall costs. However, the longer facilities are in the field and exposed to climatic stresses, the greater the likelihood of failure which often results in increased operating cost (associated with failure response) and reduced reliability of service. Capital investment balancing of maximization of asset lives with the proactive replacement of deteriorated plant and equipment has helped to reduce breakdown maintenance costs and maintain relatively constant operating expenditures since 2002.

The impact of capital investment on operating costs is difficult to assess. It is Newfoundland Power's view that continued stable capital investment should tend to keep breakdown maintenance *activity* at current or slightly reduced levels. However, other factors, principally inflation, is creating upward pressure on the *cost* associated with this activity.

Historical costs associated with operating maintenance (both scheduled and breakdown) are shown in Table 1.

Table 1
Operating Maintenance Costs
($000s)

2002	2003	2004	2005	2006	2007
17,647	16,854	17,261	16,228	16,204	15,975

Maintenance costs have decreased since 2002 due to a combination of stable capital investment and improvements achieved in maintenance practices. In 2008, while the Company is experiencing stable maintenance activity, the total costs associated with

operating maintenance is forecast to increase to $16,470,000 principally due to the impact of inflation.

It is the Company's assessment that stable capital investment will tend to maintain both service levels and required maintenance levels. However, operating maintenance costs can be expected to be impacted by the effects of inflation.