Q. At Exhibit 2 to NP's GRA of May 10, 2007, the Insurances forecast for test year 2008 was $1,775,000. In Exhibit 2 (revised) filed on October 11, 2007, the revised forecast for Insurance was $1,585,000. According to CA-NP-102 (p. 2 of 3), the actual Insurance cost was $1,344,000 or $241,000 less than the revised forecast of October 11, 2007 and $431,000 less than the original forecast. (a) Please provide the detailed basis for the $1,100,000 Insurance forecast in Exhibit 2, line 16. (b) With respect to CA-NP-102 (p. 2 of 3), please show how the allocation of insurance costs were made in 2008 and how they are forecast to be made in 2010 (f).

A. (a) Newfoundland Power renews its insurance program on July 1st each year. Consequently, insurance costs for any calendar year will reflect six months costs from the prior year's insurance renewal process and six months costs from the current year's renewal process.

Actual insurance costs for the July 1, 2008 to July 1, 2009 period were $1.04 million. One half of this amount is attributed to the January to June 2009 period (approximately $522,000).

Based on the best information available at budget time, Newfoundland Power estimated that insurance costs for the pending July 1, 2009 insurance renewals would be approximately 10% higher than the previous period. Therefore, insurance costs for the July 1, 2009 to July 1, 2010 period were forecast to be $1.14 million. One half of this amount is attributed to the July to December 2009 period (approximately $570,000). The sum total of forecast insurance costs for calendar year 2009 is $1,092,000 or $1.1 million rounded.

Because there was no reliable information available to indicate what market conditions would be upon renewal in July 2010, Newfoundland Power assumed no change in its 2010 insurance costs in comparison to 2009.

(b) Newfoundland Power participates in the Fortis group insurance program. This program provides insurance coverage for property loss, commercial general liability, automobile liability, directors and officers liability, fiduciary liability (for pension plans), aircraft leasing liability and loss due to employee theft/dishonesty.

The premium for each of the policies is allocated to each subsidiary company on a proportional basis utilizing factors pertinent to the particular form of insurance coverage. For example, the premium allocation for property insurance reflects the value of Newfoundland Power's property assets in proportion to the total property assets of Fortis' North American utilities. The premium allocation for automobile liability is based on the number of vehicles in Newfoundland Power's fleet. The premium allocation for fiduciary liability reflects the value of the assets of Newfoundland Power's pension plan in proportion to the total value of all Fortis group pension plans, and so on in a similar manner for each of the other forms of insurance coverage.

Table 1 shows the overall allocation of insurance costs stemming from the July 1, 2008 renewal of the Fortis group insurance policies.

Table 1
Allocation of Insurance Costs

Company	**2008 Renewal**
Fortis Inc.	2.36 %
Newfoundland Power	7.40 %
Maritime Electric	4.06 %
Fortis Properties Generation	0.38 %
FortisUS Corporation	0.70 %
FortisOntario	1.92 %
FortisAlberta	5.05 %
FortisBC	7.38 %
Terasen Gas	32.07 %
Belize Electricity	2.20 %
Belize Electric Company Ltd.	0.89 %
Caribbean Utilities	20.63 %
Fortis Turks and Caicos	9.08 %
Fortis Properties Corporation	5.86 %
Total	**100.00 %**

Newfoundland Power does not anticipate any material change in the methodology used to allocate insurance costs for the 2010 test year.