Q. **[Grant Thornton Report, page 32, lines 16 to 25]**

Page 76 of Order No.P.U.19 (2003) states:

"In the Board's view the range of rate of return on rate base can act as an incentive device to encourage NP to seek efficiencies between rate hearings, which can then be passed on the customers. This is evidenced in the operational efficiencies and cost savings that have been implemented by NP since the last rate hearing in 1998".

In Grant Thornton's opinion, is evidence of operational efficiencies and cost savings required to justify increasing Hydro's range of return on rate base for incentive purposes?

A. The use of a range of return is accepted conceptually as an incentive mechanism to control and reduce costs in a regulatory environment. While evidence of past operational efficiencies and cost savings would demonstrate the historical effectiveness of the incentive mechanism we do not believe it is a requirement for the consideration of an incentive mechanism (including increasing the allowed range of return) on a go forward basis. The Board would need to take all factors, including past effectiveness, into consideration in its decision.