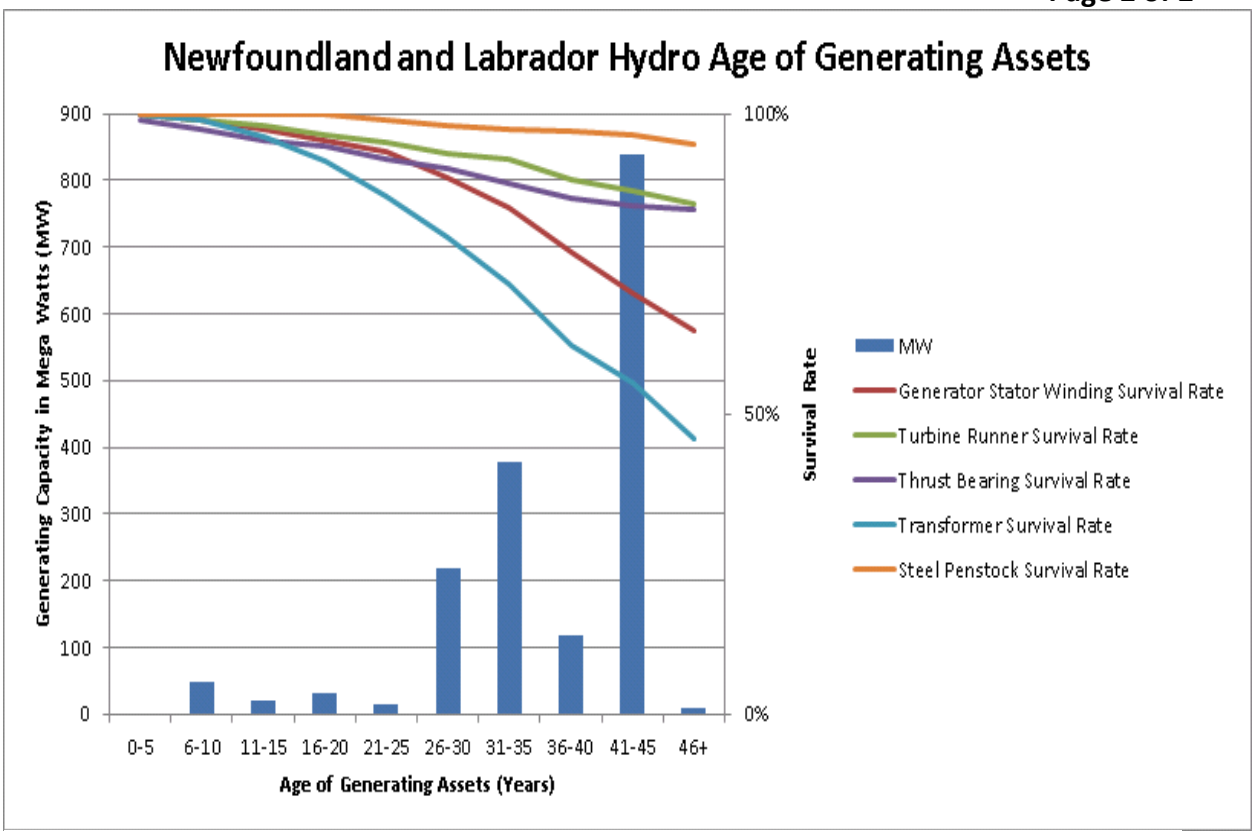
Q. Table H-1 of the Application shows that the actual capex in 2009 was $54 million and that the proposed capex for 2014 is over $151 million. Please explain the dramatic increase in capex over the five year period.

A. The increase in capex is primarily driven from two fronts, namely the need to rehabilitate or replace existing assets that can no longer meet service requirements, and the need to bring new assets on line to meet growing customer demand. For context, over 800 MW of Hydro's generating assets are approaching 45 years of age as shown in the chart below. This puts transformers and generator stator windings on these units at or beyond the 50 percent survival rate point based on Centre for Energy Advancement through Technological Innovation (CEATI) pooled data. Half of Hydro's transmission lines (or 1800 kilometres) are more than 40 years old as shown in the chart below. As assets age they need to be rehabilitated or replaced to maintain safe, reliable service to customers. For 2014[1], 56 percent of capex directly relates to addressing growth in customer demand with the most significant contributing projects being:

- New 60 MW Gas Turbine on the Avalon, $46.4 million;
- New Transformer at Oxen Pond, $15.3 million; and
- New 230 kV Transmission Line from Bay d'Espoir to Western Avalon, $6.4 million.

[1] 2014 expenditures are shown here, rather than total project costs.



Newfoundland and Labrador Hydro Transmission Lines
2012 Age Distribution Snapshot in % of Total Kilometres