

1 **Volume 1, Section 3 – Finance**

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3 **Q. (page 97, footnote 159) Reference is made to NP’s 2004 estimate of the cost of a**  
4 **stand alone insurance program as compared to NP’s cost as a result of participation**  
5 **in the Fortis group insurance program. Please update the forecast cost comparisons**  
6 **for the test year and provide detail as to how the estimates were reached.**

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8 A. <>

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10 Newfoundland Power asked insurance broker Aon Reed Stenhouse Inc. (“Aon”) to  
11 conduct a comparison of the costs of a stand-alone insurance program for Newfoundland  
12 Power with the costs of the Company’s participation in the Fortis group insurance  
13 program.

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15 Attachment A is a letter dated September 4, 2007 providing details of Aon’s comparison  
16 of insurance costs for Newfoundland Power under the two scenarios.

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18 Aon’s cost comparison indicates that Newfoundland Power would incur additional  
19 insurance premium costs of \$632,675<sup>1</sup> if it were to insure on a stand-alone basis.

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21 Further, Aon’s review of insurance markets revealed that coverage available to  
22 Newfoundland Power on a stand alone basis would not be as broad as coverage available  
23 under the Fortis group program, and that some insurers would not be interested in  
24 insuring Newfoundland Power on a stand alone basis.

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<sup>1</sup> This is an estimate of insurance premiums only, and does not include service fees, commissions or applicable provincial taxes.

**Aon's comparison of Insurance Costs for  
Newfoundland Power under the two scenarios**



*Insurance Brokers  
Risk Consultants*

September 4, 2007  
Mr. Alex Knight  
Risk Manager  
Fortis Inc.  
P. O. Box 8910  
St. John's, NL  
AIB 3P6

**Re: Insurance Quotation - Newfoundland Power Inc.**

Further to your request, Aon undertook a study to determine whether it was more cost effective for Newfoundland Power to remain under the Fortis Program or to obtain insurance as a separate entity.

In addition to discussing premiums with incumbent insurers, Aon benchmarked your program against other similar accounts based on terms, conditions, limits and deductibles recently negotiated for the Fortis Inc. insurance program.

Based on our analysis, as outlined in Appendices A and B attached, it is evident that Newfoundland Power Inc. benefits from participation in the Fortis Inc. Insurance Program. An overview of our findings for each policy is provided Appendix A. You will note in Appendix B that additional costs of \$632,675 would be incurred by Newfoundland Power Inc. to purchase coverage on a stand alone basis for the current term. This is before Aon's Service Fee/Commissions or applicable provincial insurance taxes are taken into account.

In addition to premium variances, there are coverage considerations that one must take into account. Insurance markets have cautioned that coverage for Newfoundland Power Inc., would not be as broad as those provided under the Fortis Inc. Insurance Program. Also, we were advised, irrespective of the exposures and loss statistics, that some insurers would not be interested in insuring Newfoundland Power Inc. on a stand alone basis.

Based on the analysis performed, we continue to be of the opinion that Newfoundland Power Inc. will achieve the greatest cost efficiency and the broadest coverage by remaining insured under the Fortis Inc. Insurance Program.

Trusting all information has been presented to your satisfaction, however, should you require further information or wish to discuss any of the information contained in this correspondence, please do not hesitate to contact the undersigned.

Yours truly,

Kristy Kent  
Account Manager, Risk Management Practice  
Aon Reed Stenhouse Inc.

## **APPENDIX A**

### **Utility Property Insurance**

Based on a stand alone program, with comparable terms and conditions as the master program, insurers would require an approximate 57% rate increase. The lower rate currently applicable to the Fortis Inc. Insurance Program is a reflection of the Insurer's ability to underwrite larger risks at lower rates and still maintain profitability and spread of risk.

### **Boiler & Machinery Insurance**

BI&I, current Boiler & Machinery Insurers of the Fortis Inc. Insurance Program, would require a rate increase of approximately 30% to insure Newfoundland Power Inc. on a stand alone basis. Insurers have made this rate determination based on the exposures at risk and the historical loss experience of Newfoundland Power Inc.

### **Casualty Placement (Commercial General Liability Insurance and Umbrella/Excess)**

On a stand alone basis, Newfoundland Power would incur additional costs of 6.8%.

### **Automobile Insurance**

Newfoundland Power benefits from substantial fleet credits given the size of the Fortis fleet. To write on a stand alone basis the unit rates would increase by 30%.

### **Directors & Officers Insurance**

On a stand alone basis, Newfoundland Power would incur substantially higher costs of 709% for coverages and limits comparable to that for which it is currently being allocated premiums under the Group program. D&O insurers charge minimum premiums, and in the case of Newfoundland Power, would be charged \$4,000 per million of limit for the first \$25 million. For limits excess of the primary limit, premiums are usually 70% of the primary premiums subject to an absolute minimum of \$1,500 per million in limits.

Because participation in the Group program enables the minimum premiums to be allocated to all the participants, Newfoundland Power, benefits substantially.

### **Crime Insurance**

We would anticipate that Newfoundland Power would have to incur additional costs were they to insure this line of coverage on a stand alone basis. In the rating of a Crime Policy the pricing per additional employee reduces as the total employee count increases and the reverse occurs when the total number of employees decreases. Consequently, by insuring Newfoundland Power Inc. separately, based on a reduced employee count, the per employee rate will increase.

This is a nominal premium relative to other lines, and would have no impact on Newfoundland Power's decision to insure on a stand alone basis, therefore we are simply showing the allocated amount.

### **Non-Owned Aircraft Insurance**

The Non-Owned Aviation Policy is currently rated at a minimum premium for this type of coverage, as a result, there would be no premium saving to insure Newfoundland Power Inc. on separate basis.

### **Travel Accident Insurance**

The current Travel Accident Policy is rated on a per company basis taking into account the number of employees and travel days per company. Therefore, the rate assessed to Newfoundland Power Inc. would not change on a stand alone basis.

**APPENDIX B**

**Comparative Analysis of Stand-alone versus Group Insurance Program for Newfoundland Power**

<b>Insurance Type</b>	<b>Group Premium</b>	<b>NF Power (Group-share)</b>	<b>NF Power (Stand alone)</b>	<b>Difference</b>	<b>Per Cent</b>
Utility Property	\$1,600,000	\$ 465,064	\$ 731,017	\$265,953	57%
Boiler & Machinery	877,745	208,552	273,203	64,651	30%
Casualty Placement	1,351,250	385,590	411,750	26,160	6.8%
Automobile	513,065	182,888	234,000	51,112	30%
Director's & Officers	640,904	31,701	256,500	224,799	709%
Comprehensive Crime	37,750	3,588	3,588	nil	nil
Non-owned Aircraft	52,000	1,496	1,496	nil	nil
Travel Accident	7,985	1,592	1,592	nil	nil
<b>Total</b>	<b>\$5,080,699</b>	<b>\$ 1,280,471</b>	<b>\$ 1,913,146</b>	<b>\$ 632,675</b>	<b>49.4%</b>