Q: Reference: Pages 18-19, Lines 24-13

At pages 18 and 19, Dr. Cannon discusses the proposed Demand Management Incentive Account and the Energy Supply Cost Variance component of the RSA. Dr. Cannon concludes that the proposed treatment would lower the risk as compared to the status quo. Neither of these mechanisms existed at the time of Newfoundland Power's 2003 GRA. Does Dr. Cannon therefore agree that these mechanisms do not affect Newfoundland Power's business risk as determined in the 2003 GRA?

A: In the referenced statement, Dr. Cannon has made no attempt to compare NP's current situation with respect to the Purchased Power Unit Cost Variance Reserve (PPUCVR) with its situation or circumstances at the time of the 2003 GRA. Nor has Dr. Cannon offered any view in his evidence about how NP's risk exposure with the acceptance of the Company's proposed Demand Management Incentive Account and the addition of an Energy Supply Cost Variance component to its Rate Stabilization Account will position its risk as compared with that extant at the time of its 2003 GRA.

Rather, Dr. Cannon made an assessment of NP's business risk today, relative to other Canadian utilities, with NP in its present or status quo condition, and gave his opinion with respect to the risk impact of accepting NP's proposal *relative to the status quo* and not relative to the 2003 GRA circumstances.

Dr. Cannon was not at the 2003 proceedings and does not intend to re-argue the 2003 case in the current hearing, as the RFI question seems to invite. It was the Board that "determined" NP's business risk in 2003 on the basis of the evidence that it had before it at that time. To try to re-evaluate that determination in an ex post facto manner, using circumstances that did not exist at the time the determination was made, is not helpful to the current task before the Board.

Nor does Dr. Cannon accept that NP's relative risk profile in 2003 is the best or most logical base from which to make risk assessments today. Rather, it is the Board's duty to determine NP's cost of capital for the test year, and to do this the Board must focus on NP's circumstances as we find them today.