

1 Q. Re: Page 28, lines 31-33. It is stated that the Off-Island Purchases Deferral
2 Account is a "sensible approach" to managing pending significant rate increases.

3 What other approaches, in Mr. Bowman's opinion, might also be suitable
4 approaches to addressing the expected significant rate increases?

5 A. Mr. P.Bowman's comments should be read in light of the submission provided at
6 PUB-IC-001.

7 The issue of rate designs to address rate pressures arising from the
8 implementation of major new capital assets, particularly hydraulic generation,
9 particularly for Crown utilities, is a rich and extensive topic. At this moment, Mr.
10 P.Bowman is in the middle of a ten week hearing almost exclusively on this specific
11 topic. Issues that are being explored in depth include, but are not limited to:

- 12 - Appropriate long-term financial targets and acceptable timeframes for reaching
13 the targets.
- 14 - Risks inherent in highly debt capitalized assets.
- 15 - The fundamental role of Crown utilities, and the inherent distinctions (including
16 mandate, financing, "patient capital", etc.) between a public service entity and
17 private sector utilities.
- 18 - The immense long-term benefit of inflation-protected assets, and ensuring
19 intergeneration inequity does not arise from failing to recognize the generally
20 increasing benefits over time throughout the life of the asset.
- 21 - The importance of load-building to provide a revenue base to carry new assets,
22 and the "elasticity" (and economy dampening) effects of being too aggressive
23 on rates early on.
- 24 - Issues of acceptable credit ratings, their relevance and their importance.
- 25 - Impacts on vulnerable sectors, such as low income consumers and energy
26 intensive industry
- 27 - Moral hazard that arises if financial targets are achieved too quickly, and
28 ratepayer's investments in the projects are tapped for new government charges
29 or dividends.

30 Also of relevance is that Manitoba Hydro is not regulated on a Rate Base method,
31 so additional options exist that are not as easily implemented in Newfoundland and
32 Labrador.

1 At the present time in Newfoundland and Labrador, the key question appears to
2 relate to what to do with the benefits of short-term cost savings from Off-Island
3 purchases. With respect to this issue, please see PUB-IC-001.