forecast is largely dependent upon the information that's put into it.

MR. BUDGELL: That's correct.

MS. HENLEY ANDREWS, Q.C.: And from the economic point of view, and the economic factors that go into that, every one of those economic factors is somebody's assumption, isn't that right?

MR. BUDGELL: Oh, yes, of course, yes.

MS. HENLEY ANDREWS, Q.C.: And you can apply a certain amount of subjectivity in one sense, if you look at the accuracy of how those projections have translated in the past versus how they appear to translate in the future, isn't that right?

MR. BUDGELL: Oh, yes, yeah. I think you have ... I'm not saying that you ignore totally the past, but the current methodology within ... we're talking about the total island load forecast here, so this is not the forecast that's put forward for rate-setting purposes. We're talking about the forecast that's been used to schedule and to plan plant and generation on the system. This particular forecast ensures that we have the sufficient capability to meet customer, current customer load under a set condition, and we've outlined what the conditions are, recognizing what the industrial customers' requirements are, and provides a suitable level of reserve to assist them, so ...

MS. HENLEY ANDREWS, Q.C.: And I realize that, but that's really where I'm focusing at the moment is this issue of projected capital expenses, because when you add capacity to the system, you are, there's an expense that ultimately gets passed on to the consumer.

MR. BUDGELL: That's correct.

MS. HENLEY ANDREWS, Q.C.: Whether that consumer is an industrial customer or a utility customer, correct?

MR. BUDGELL: That's right.

MS. HENLEY ANDREWS, Q.C.: So what I'm trying to get a handle on is the system as it is now, first of all, as it was in 1991 at the time that those projections were done, what's been added to it, what's going to be added to it because it's already approved and the projects are already underway over the next number of years, and then your evidence that even with all of that there is a projection that there would be a need for additional capacity by 2007.

MR. BUDGELL: That's the current projection but that may not be the projection six months from now. As I indicated, as we move through the 1991, each and every year there'll be a new economic outlook, you'll have additional history so the forecast will essentially, it lags a little bit. We have to pick up history, we have to pick up the indications in the economy that what's going on at the immediate time, but it lags a little bit but eventually it picks it up, so if you saw our forecast going through the, and I think that's in one of the RFIs, going through the 1990s, I think you'd see that they're progressively decreasing, the projections would have been, and if, by the same token, if the economy heated up, if we're ever blessed with that situation, you'd see the opposite occurring, but it may not occur immediately.

MS. HENLEY ANDREWS, Q.C.: So what we've been dealing with this morning so far and what we were dealing with late yesterday afternoon is the long-term forecast, correct?

MR. BUDGELL: Yes.

MS. HENLEY ANDREWS, Q.C.: And the shortfalls that might be anticipated if you, in generation capacity, based upon that forecast over time.

MR. BUDGELL: Yes, and can I make one more point? There's a cost-effectiveness study that's been filed in evidence for the decision to go ahead with Granite Canal, and I think you should look at the, one of the appendices to that where in making that decision in 1998/99 period, I think it's '99, we did a Monte Carlo analysis on the years, the sensitive years. We looked out and we said 2002, and I think it was 2003, are the years that we're targeting. What is the probability that load will be lower or higher than that? So we recognize that and that's one of the means that we currently use to reflect that when we make this decision it's just not arbitrarily on one point load estimates. We do have a very, very close look at the deficit years to ensure that the decision we're making is prudent in regards to the timing.

MS. HENLEY ANDREWS, Q.C.: Now when you look at **Schedule 10, 11 and 12**, and it's Schedule 10 first, that indicates that forecast, using the LOLH, is for a deficit in 2002.

MR. BUDGELL: Well, it's actually in 2001. It's a little bit over the 2.8.

MS. HENLEY ANDREWS, Q.C.: Yes.

MR. BUDGELL: 2002, it's starting to get a little bit higher.

MS. HENLEY ANDREWS, Q.C.: Based upon ... now, I know that peak, the actual system peak could occur in December, but having taken that as known, based on 2001 to date is there, has there been a shortfall?

MR. BUDGELL: No. Under the ... this shortfall ... are you talking in capacity?

MS. HENLEY ANDREWS, Q.C.: Yes.

MR. BUDGELL: No, there hasn't been a shortfall because

our system always has roughly around ... we plan to have a minimum of about 18 1/2 percent reserve on the system.

MS. HENLEY ANDREWS, Q.C.: Yes.

MR. BUDGELL: So we don't get to a shortfall where it's zero unless something very catastrophic on the system happens, a loss of a major plant like Holyrood or Bay d'Espoir or a number of units, very large units, that add up in excess of 18 1/2 percent. Now I'm not saying we ride a curve and sort of say each and every year we add one or two megawatts in discreet lumps to make sure that we stay exactly at 18 1/2. It goes above and as load grows it decreases down to 18 1/2, so ideally it's a saw tooth function of adding load and, or adding generation to meet load as load grows, but there has not been a deficit or a requirement for additional capacity in this particular year ...

MS. HENLEY ANDREWS, Q.C.: And you ...

MR. BUDGELL: ... but that's not to say it could have occurred if the forced outage rates and if conditions that you model and do the calculations had occurred. It's just the situation hasn't occurred this year.

MS. HENLEY ANDREWS, Q.C.: Now if you look at ... so whether you look at Schedule 10 or whether you look at Schedule 12, and my understanding is that the only difference between them is that Schedule 10 shows the existing generating capability whereas Schedule 12 also incorporates the committed projects.

MR. BUDGELL: Yes.

MS. HENLEY ANDREWS, Q.C.: And the committed projects are the ones that are outlined on Schedule 11, which is Granite Canal, Beaton and Corner Brook Pulp and Paper.

MR. BUDGELL: That's correct.

MS. HENLEY ANDREWS, Q.C.: And, but whether you look at Schedule 10 or whether you look at Schedule 12, whether there is in fact a capacity deficit or a peak deficit depends on whether the forecast is correct, whether the conditions in any one of those years is sufficient to generate either the peak or the energy requirements that are forecast.

MR. BUDGELL: On a projection basis, yes, of course.

(10:15 a.m.)

MS. HENLEY ANDREWS, Q.C.: Now, I'm going to move on to the short-term forecast. I'd like you to go to your supplementary evidence, **your second supplementary evidence at page two**. Now, in ... you indicate that you revised Schedules 5 and 6 with respect to operating load forecasts. Is that right?

MR. BUDGELL: That's correct.

MS. HENLEY ANDREWS, Q.C.: And that's based on customer forecasts available as of the end of the second quarter of 2001?

MR. BUDGELL: That's correct.

MS. HENLEY ANDREWS, Q.C.: And that indicates that on the island interconnected system, the net impact of those revised forecasts from your customers is an increase, is a decrease in demand of 24 megawatts and a decrease in energy requirements of 60 gigawatt hours.

MR. BUDGELL: That's correct. I should add as well, the 2001 also reflect the actuals to the month of August.

MS. HENLEY ANDREWS, Q.C.: And the comment that's made is that the higher energy requirements for Newfoundland Power are more than offset by market-related downtime forecast by Abitibi Consolidated.

MR. BUDGELL: Yes.

MS. HENLEY ANDREWS, Q.C.: And that the reduction in demand in 2001 is largely attributed to Newfoundland Power's revised demand forecast.

MR. BUDGELL: That's correct.

MS. HENLEY ANDREWS, Q.C.: So Newfoundland Power is now projecting a drop in its demand and an increase in its energy?

MR. BUDGELL: According to its latest forecast, yes.

MS. HENLEY ANDREWS, Q.C.: And if you look ...

MR. BUDGELL: I should ... this is a drop relative to what was previously filed.

MS. HENLEY ANDREWS, Q.C.: Exactly.

MR. BUDGELL: Okay.

MS. HENLEY ANDREWS, Q.C.: Now, if you look at the ... and that change is incorporated in both your supplementary testimony and the supplementary testimony, for example, of Mr. Brickhill and Mr. Henderson.

MR. BUDGELL: Hamilton.

MS. HENLEY ANDREWS, Q.C.: Hamilton. Is that right?

MR. BUDGELL: Yes.

MS. HENLEY ANDREWS, Q.C.: Okay. But at lines 16 to 19 of your testimony you indicate that subsequent to the preparation of the forecast, Corner Brook Pulp and Paper has revised its firm requirements to 56 megawatts versus 66 megawatts.

MR. BUDGELL: That's correct.