Q. If the Board ordered Hydro to file a cost of service study based on its best forecast of costs in the 2019 test year incorporating off-island purchases, would Hydro propose to classify Holyrood costs as capacity-related and the off-island purchase costs as energy-related? If not, what would Hydro propose? What other key assumptions would have to be made with respect to allocations in the cost of service study under this scenario?

A. Hydro's current Cost of Service methodology allocates the Holyrood plant fixed costs based on average five year capacity factor. The fuel cost at Holyrood is allocated 100% energy. Power purchase costs are currently allocated based on the system load factor with the exception of wind, which Hydro is proposing to treat as 100% energy. Hydro would continue to classify the Holyrood plant based on the five year average capacity with the fuel classified as energy.

Hydro would have to consider the following issues when incorporating off-island power purchases into its Cost of Service Study:

1. The extent to which functionalization of the Labrador-Island Link and the Labrador Transmission Assets operating and maintenance costs are classed as generation or transmission; and
2. The extent to which the allocation of the cost of off-island energy purchases should be demand-related or energy-related. This decision would be influenced by whether the energy purchases are firm or non-firm.