Q. **With the reference to page 14, lines 21-23 please confirm the estimated resulting impact of change in allocation of specifically assigned operating and maintenance costs at $0.289 million per NP-NLH-096 Rev 1 [both Newfoundland Power and Rural] is about 0.05% of Newfoundland Power's firm revenues at 2019 rates [$0.289 million divided by $556.2 million NP revenues at 2019 rates as provided by Hydro in Table 5-8, page 5.4, Volume I Rev4].**

A. Mr. Doug Bowman confirms that $0.289 million divided by $556.2 million is roughly equal to 0.05%. He also wishes to point out that use of rate impacts as cost allocators is inconsistent with cost of service principles and cannot be considered fair. If rate impacts were the basis for cost allocation, all costs in the cost of service study would be allocated to Newfoundland Power because it is far and away the largest customer on the Island system, so rate impacts would be the smallest in percentage terms. While Island Industrial customers might be quite happy to receive free power (based on past experience), it is unlikely that Newfoundland Power customers would be interested in providing the cross-subsidy. The cost of service study should result in rates reflecting the costs that customer classes impose on the system. This is judged to be fair, so mitigates arguments, for example, by industrial customers that they cannot afford rate increases because they are competing in global markets. Mr. Doug Bowman suggests that if the Island Industrial Customers believe that a 0.05% rate increase is insignificant, they should be willing to take it on themselves rather than arguing that it be imposed on a customer class that includes the elderly on fixed incomes, if this is indeed what the Island Industrial Customers are arguing.