Q. Re: Patrick Bowman and Patricia Lee Evidence, Section 4.0 Cost of Service, Page 32 et. seq.

Newfoundland and Labrador Hydro ("Hydro") has proposed a comprehensive Cost of Service and Rate Design Methodology Review to proceed after the conclusion of the 2017 GRA. In addition, Hydro's expert Mr. John Browne has indicated that "The actual amount of Off- Island Purchases, the cost of those purchases, the impact of those purchases on the power produced at Holyrood, and the cost of fuel that would have been necessary to produce that power could vary significantly from the estimates required in establishing Hydro's revenue requirement."

Please explain in detail Mr. Bowman's and Ms. Lee's view on whether this is an appropriate time for the Board to reconsider energy allocations in respect of Holyrood and wind generation. This response should specifically address the appropriateness of changing these allocations without due consideration of all relevant impacts arising from interconnection of the Island Interconnected System to the North American grid.

A. This response was provided by Mr. P.Bowman.

Mr. P.Bowman's evidence focuses on assessing the Cost of Service data (inputs) in light of the test year values, with no changes to the Cost of Service methodology per se.

Consider, for example, the issue of Holyrood:

- **Methodology:** The methodology for classifying Holyrood costs is to divide the costs between demand and energy based on expected plant use in the test year (the methodology). Mr. P.Bowman does not recommend changing this methodology. Other methodologies that could be considered include system load factor, baseload and peaker methodologies, and all capital costs as capacity. These are not being reassessed.
- **Input data:** The issue in this hearing is the input data used to estimate Holyrood's generation for the test year. Recent cost of service studies are based on a 5-year average of historical operation. In this case,

estimated input data in this manner would be inappropriate since the test years will not be appropriately characterized by how the plant ran in the past 5 years. Much like any update to fuel prices or line item costs, Mr. P.Bowman recommends using data inputs that are at least generally appropriate for the test year.

The issue of wind is the same:

- **Methodology:** The methodology for wind is to look at the generation source in isolation and determine, from values reasonably representative of test year input data, what the contribution is to demand and to annual energy. This methodology is not recommended to be changed. Other alternatives that may be considered is to look at contribution to time-weighted energy values, or to consolidated wind and hydro plants and look at them in combination – such new methodologies are not being recommended.
- **Input Data:** The question at hand for wind is what the appropriate input data are for the test years, regarding the operating contribution of wind. Given wind in the test years contributes mostly energy, but also some generation in higher load hours, it is appropriate to classify wind mostly to energy and a small portion to demand, as recommended by Mr. P.Bowman.