Q. **Reference: 2018 Cost of Service Methodology Review Report dated November 15, 2018**

On page 73, lines 28 – 29 and page 74, line 1 of the CA Energy Consulting Report, it is stated with respect to NP generation "*Second, consider a situation in which the Hydro demand discount is terminated and Hydro and NP enter into a power purchase agreement in which Hydro purchases all the usage of the plants.*" Did Hydro consider such an arrangement with NP? If not, why not? Is Hydro considering such an arrangement with CBPP? If not, why not?

A. As described in Newfoundland and Labrador Hydro's ("Hydro") Summary Report to the Application,[1] the generation credit approach for providing system capacity in both the Cost of Service study and the wholesale rate design is structured to be consistent with the least cost operation of generation resources for both Hydro and Newfoundland Power. Entering into a purchase power arrangement as described in the question above would be complex and may not achieve the least-cost objective that is currently being achieved under the generation credit approach.

The benefits to all customers arising from the fuel cost savings that supported the Corner Brook Pulp Paper Ltd. ("CBPP") pilot project implementation are not expected to continue upon commissioning of the Muskrat Falls Project. Therefore, Hydro proposes to discontinue the generation credit agreement between Hydro and CBPP upon full commissioning of the Muskrat Falls Project. However, Hydro believes CBPP should have the opportunity to manage its generation as efficiently as possible and, to that end, proposes to work with CBPP in the rate design review planned for 2019 to develop a proposal to achieve this objective.

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[1] "2018 Cost of Service Methodology Review Report," submitted to the Board of Commissioners of Public Utilities on November 15, 2018.