Q. Re: "Newfoundland and Labrador Hydro Cost of Service Methodology Review Application," Pre-Filed Testimony of Andrew McLaren, August 5, 2019. p. 18/25-26.

The InterGroup Consultants Ltd. ("InterGroup") supports the Brattle Group's recommendation to functionalize the Labrador-Island Link ("LIL") as transmission and, by extension, does not support Hydro's recommendation that the LIL be classified according to the equivalent peaker methodology. On page 18 (lines 25-26), it is stated that the Brattle Group's opinion with respect to the classification of the LIL facility is based on the view that ". . . the underlying cost characteristics of the LIL are such that the main cost driver is demand." The InterGroup recommendation that follows is that "it may be appropriate to classify the LIL using the system load factor, the same method used for Hydro's existing hydraulic generation assets and recommended [by the Brattle Group] for Muskrat Falls Generation."

a) Does InterGroup agree that if Hydro's sole focus was to provide least-cost reliability (i.e., energy provision was not a consideration), equivalent to that of Muskrat Falls (824 MW of capacity), a reasonable expectation would be that such comparative capacity would be installed near the load centres? Does InterGroup agree that, in general, it is more common that large generation projects built to lower energy costs will experience significant cost overruns, as compared to peaker projects that take far less time to construct? If yes, does InterGroup agree that treating a material portion of cost over-runs as energy-related is consistent with cost-causality? If no, why not?

b) Does InterGroup agree that in order for the Muskrat facility to deliver energy (which will translate into long-term fuel cost savings for Hydro and its customers) it requires transport facilities, such as that of the LIL? Therefore, would InterGroup agree that it is reasonable to conclude that the underlying driver of the LIL is energy cost savings and that the LIL is predominantly energy-related?

A. a) Please see NLH-IC-001(b) in regard to cost risks, imprudence, poor planning and the implications for all projects (base load and peakers).

If NLH only had to produce pure capacity (momentary electrical potential) without the need for sustained output, a different resource would likely have been selected. Similarly, if NLH had only had to produce pure energy (kW.h output at some point during the year, without regard for when this was produced or whether the energy was available in any given hour or even month), it is likely a different resource would have been selected. This is the inherent limitation with the irrelevant "pure" product. Muskrat Falls was constructed to produce both energy and capacity, to serve a load with a particular load shape and load factor. This is part of the reason the appropriate classification for the generation is load factor.

In addition, the question of cost causality has to be viewed in light of how the system is planned and operated, not just at a point in time but into the future. The COS methods approved today will apply to periods after Muskrat is in service, and will affect amounts paid by customers. In the concurrent Muskrat Falls Rate Mitigation Review and the ongoing rate design consultations, substantial evidence is being reviewed that the go-forward planning considerations for NLH are based on energy being a low cost resource, while capacity is a key constraint that must be carefully managed and curbed. This is because the ongoing value of energy will be tied to foregone exports, and export energy is not particularly valuable once adjusting for line losses, etc. As a result, one view of costing the system would suggest a material disconnect between the COS study seeking to consider energy an incredibly premium product that must be allocated a large percentage of costs (and capacity a low priority product that need not be allocated many costs) while the CDM and rate design processes are considering capacity the premium product and the energy resource as a low value resource. For this reason, methods such as equivalent peaker that are based on capacity as being low value are inherently inconsistent with all pricing and costing signals that should be a priority for NLH.

b) The LIL is not "predominately" energy related. The LIL supplies both capacity and energy, and both products are important and necessary.

The LIL will translate into long-term power supplies – whether these are "fuel cost savings" or not depends on what one considers the go-forward with-and-without analysis (not before-and-after, a fundamental error in economic thinking). Muskrat Falls will mean other alternatives are not pursued or necessary for future power supplies on the island. What these other

alternatives are is not presently known over the full life of the plant. This is why there are practical limits to the concepts of “what is being avoided” and “what would an equivalent peaker cost”. Appropriate analysis looks at the products provided (energy and capacity) and values both in proportion to how much is produced (well represented via a system load factor).