Q. How do IC customers reconcile the position that despite generation facilities having been available to defer generation additions and as part of a required generation reserve in the event of generation outages etc. that all customers should not share in the costs?

A. All customers should share in a fair allocation of costs that they impose on the system, and for system assets from which they receive benefits (with the costs reflecting a reasonable relationship to the benefits received). In addition, the Board needs to review the allocation of costs in the context of legislative limitations on industrial customers rates from funding the rural subsidy.

The two generation assets that Mr. Osler and Mr. Bowman regard as not appropriately resulting in costs to overall Island Interconnected system customers (including IC) are the GNP generation and the NP thermal generation.

The GNP generation is shown to be serving in practice only to provide reliability to the GNP customers. However, were the GNP generation to be assigned as being of common benefit, the Rural customers in total would only be allocated 6.76% of the costs (per RDG-1 Rev. 1 Schedule 3.1A) with the rest of the costs being assigned to IC and NP for non-GNP consumption.

The NP thermal generation is properly paid for by NP's customers via NP's revenue requirement and GRA. However under Hydro's proposed allocation, 44% of the costs of NP's thermal generation is being allocated to IC (with only 56% being allocation to NP). Even high-quality peaking capacity on Hydro's system, such as Hydro's gas turbines, are only allocated 12.64% of costs to IC. This is despite these NP thermal generation assets being completely not required by Hydro to meet the system reliability standards (and being well down

the list of resources to be dispatched by Hydro in the case of some catastrophic peak constraint).

In other words, the cost allocations proposed by Hydro in no way reflect the usefulness of the specific assets, and do not in any way result in the proposed costs to each group of customers reflecting in any way the value that these assets provide to those customers.