Re: Page 37, lines 16-23

Q. Given the premise that NP thermal generation is used and useful to the system in the same manner as Hydro's standby gas turbines, how should NP be compensated for having their generation available to customers other than NP?

A. NP should be compensated in relation to the benefits received by customers other than NP and the reasons the costs were incurred, reflecting an appropriate division between NP's customers and Hydro's customers.

The question sets out a premise that NP's Gas Turbines are "used and useful to the system in the same manner as Hydro's standby gas turbines". The question also sets out a premise that NP's generation is "available to customers other than NP".

The available evidence indicates that the NP thermal generation, occurring essentially on radial systems and of a small size that is essentially limited to supplying local loads, is in many respects comparable to the GNP generation. This type of generation is basically only of value to enhance local reliability during transmission outages. GNP generation and NP thermal generation is of very limited use to the larger Island Interconnected system beyond this local operation, and this has been further amplified by the addition of new baseload hydraulic and PPA capacity to the system. Similar to the GNP generation, Mr. Osler and Mr. Bowman propose that the costs be assigned to the customers that benefit from the generation – that is, NP's customers (via NP's rates).

In other words a used and useful asset such as NP's generation should be charged to the customers that benefit in proportion to the benefits

they receive or the costs they create. NP's thermal generation was established to service NP's customers and in practice benefits NP's customers. To the very small extent that Hydro argues this generation benefits the remainder of the grid, the massive cost proposed to be charged for this 45.5 MW of generation (in excess of $738,000 to IC alone – more than 2.5 times the costs for Hydro's 128 MW of gas turbines) is in no way in line with the benefits that the customers on the rest of the grid receive.