

1 Q. In the Cost of Service evidence, page 15, lines 26 to 28, states:

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3 “... the energy price signals the need to either use or conserve *natural*
4 resources, while the demand price signals the need to conserve *capital*
5 resources.”

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7 The Production evidence, Table 8 shows that the next generation
8 requirement is currently forecast to be in 2010 as a result of an energy deficit
9 in 2009.

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11 If an energy deficit is driving the need for new generation, isn't it correct that
12 energy price signals also signal the need to either use of (sic) conserve
13 capital resources? If no, please explain.

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15 A. Yes, an energy deficit can also drive the need for new generation capacity
16 and the energy price can act as a signal to use or conserve capital
17 resources. The fact that energy is related to capacity is recognized in
18 Hydro's Cost of Service Study and in Stone & Webster's illustrative demand
19 and energy rate by virtue of the fact that in the cost study, Island
20 Interconnected hydraulic generation was classified on system load factor and
21 Holyrood generation was classified on capacity factor, such that the energy
22 component of the demand-energy rate not only includes natural resources,
23 but also capital resources in the form of generation capacity in relation to the
24 ability of each type of facility to produce energy. Also, while an energy
25 deficit may drive the need for new capacity first, the need for additional
26 capacity to meet peak requirements may follow shortly thereafter and could
27 be met by the same resource.