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1Q.Is it the position of Mr. C.F. Osler and Mr. P. Bowman that if during the22004 test year the system load slightly exceeded the Hydro's LOLH3capacity criteria, as was the case during the 2001 test year, that you4would support the position that the generation plant on the GNP adds5value to the overall system and should be assigned to common? If not,6why not?

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- 8 Α. No. The issue here relates to cost allocation. Hydro's application for 9 recovery of its costs through rates needs to address not only the 10 specific state of the system in regards to LOLH, etc., but also the most 11 reasonable way to address this system status for cost of service 12 allocation. For example, if the LOLH target were indicating a system 13 reliability below the target level, there are a number of ways the core 14 Island Interconnected system could address that situation. One good 15 example is the Interruptible B type source of peak shaving. It would be 16 far more reasonable for Island Interconnected customers to address 17 the critical winter peak periods via a cost of \$1.3 million for 46 MW of 18 quaranteed peak shaving via an Interruptible B type rate offering than 19 a cost of \$1.4 million (as proposed by Hydro in RDG-3 Appendix B) for 20 14.7 MW of standby diesel generation located at the end of a long 21 transmission link.
- There is no basis to assign to Island Interconnected customers higher costs for less peak capacity (i.e., the GNP generation) than could be acquired at a lower cost by an alternative mechanism, such as Interruptible B, regardless of the LOLH condition of the system.