

1 Q. Do Mr. C.F. Osler and Mr. P. Bowman agree that the 2004 cost of
2 service allocation result to NP and IC would be approximately the same
3 under the following two scenarios:
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- 5 1) 2004 proposed cost of service with generation credit for NP (based
6 on NP generation less reserve); and
7 2) 2004 proposed cost of service with no generation credit for NP but
8 with NP's forecast peak demand reflecting NP generating at peak
9 an amount equal to the generation credit in MW.

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11 If not, why not?
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13 A. Yes. The two cases put forward appear to be mathematically
14 equivalent.
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16 However, neither of these two approaches reflects a reasonable
17 allocation of costs. There is no basis to credit NP for its thermal
18 generation in the COS if that generation is not going to be run (case
19 #1 put forward in the question) and no basis to assign costs to NP
20 based on an actual peak that reflects them running their thermal
21 generation despite this being contrary to efficient system operation
22 and the EPCA, 1994 section 3(b)(i) and 3(b)(ii) (case #2 put forward
23 in the question).
24

25 The requirements for rate setting under the regulatory framework in
26 Newfoundland are quite clear – when the system operation for the test
27 year is forecast in accordance with the EPCA, 1994, the NP firm peak
28 load to be imposed on the system (and which Hydro has to serve) is
29 the NP native peak less a reasonable allocation for NP hydraulic
30 generation that is forecast to be operating at the time of system peak.
31 No thermal generation credit should be provided. Even if NP were to
32 decide that it would run its own thermal generation to shave its peak,

NP-224 IC
2003 NLH General Rate Application

Page 2 of 2

1 the PUB should ensure, based on the EPCA 1994, that NP is not
2 allowed to profit from this activity (i.e., lower its purchased power
3 costs) if that generation dispatch is not properly part of the approved
4 test year forecast and consistent with the most efficient, least cost
5 electrical service to customers.