Q. With regard to the reports entitled *Newfoundland and Labrador Hydro Marginal Costs of Generation and Transmission* dated May 2006 and *Implications of Marginal Costs Results for Class Revenue Allocation and Rate Design* dated July 2006:

a. Does Hydro agree with the marginal cost calculations? If not, what aspects does Hydro specifically object to, and how will they be corrected?

b. What probability weighting does Hydro apply to each scenario considered in the marginal cost calculation; i.e., Scenario One, Scenario Two, Test 1 with 50% reduction in fuel price forecast, etc?

c. Which, if any, of these scenarios corresponds to Hydro's current base case integrated resource plan?

A. a. Hydro takes no issue with the marginal cost calculations undertaken by NERA Economic Consulting due to their recognized expertise in the field of utility marginal cost analysis. Hydro's concern with the marginal cost results rest with the sensitivity of the marginal capacity costs to forecasts for the cost of fuel oil at the Holyrood generating plant and thus the sensitivity of local rate design implications to changing world oil markets.

b. Hydro does not explicitly apply probability weightings to the alternative fuel oil pricing scenarios. They are taken to be representative of plausible alternative future market conditions for the purposes of sensitivity analysis to the base case results.

c. Hydro's recent system generation expansion analyses utilize fuel oil price forecasts consistent with the Base Case.