Q. In reference to the Lockston Rehabilitation (PUB 3.1, Attachment "A"), the estimated levelized costs over the next twenty-five years is 5.4 cents per kWh. Please compare this with the short run marginal costs at the Holyrood Thermal Generating Station. Further, please provide the complete calculation, on a year by year basis, of the levelized cost estimate from the Lockston Plant over the 25 year period.

A. The Company's response to PUB 3.1, Attachment A (1st Revision) provides a full justification of this project based on the levelized cost of 4.94 cents per kWh and a comparison to a 25 year forecast of the short run marginal costs of energy at the Holyrood Thermal Generating Station as well as other unit cost comparisons. The analysis conducted for this report takes a long term view of the benefits and costs associated with this facility.

The forecast of short run marginal costs at Holyrood provided in the Lockston analysis considers only fuel and variable operating and maintenance costs. These costs only reflect the cost of producing energy and do not include the cost of providing capacity within the power system. Both need to be considered in determining the benefit of continued operation of the Lockston Plant. It is more appropriate to compare the Lockston plant's rehabilitation costs with benchmarks such as the cost of the Rose Blanche project or the pricing structure of non-utility generator contracts that add to both the capacity and energy capability of the system. The fact that the facility's long term costs are lower than the forecast of short run costs at Holyrood (5.53 cents/kWh) clearly demonstrates that the plant's continued operation is beneficial to customers.

The attached table presents the complete calculation of the Lockston levelized cost of energy. Columns A and B contain the escalated capital costs of each of the capital projects considered in the study, entered by the year in which each project is undertaken. Column A contains the projects subject to a 4% CCA rate while Column B contains the projects that are eligible for accelerated CCA treatment (under Class 43.1). The combined annual capital revenue requirement of these projects is provided in Column C, assuming a depreciation rate of 2.03%. Column D contains the annual operating costs of the facility, escalated annually at a rate of 2%. Column E is the sum of Columns C and D, by year. Column F is the present worth of each of these annual totals, using a discount rate of 6.52% (the estimated after tax cost of capital for this analysis). Column G provides the cumulative totals of the annual present worth. The cumulative total in Year 25 (2028) represents the NPV of the costs associated with this facility. The annual series is then levelized, and divided by the levelized normal production to give the 4.94 cents/kWh result.