Q. **Reference: 2018 Cost of Service Methodology Review Report dated November 15, 2018**

On page 29 (lines 22 – 24) of the CA Energy Consulting Report it is stated with respect to a marginal cost-based allocation *"It appears that Hydro can undertake this approach, as the utility already possesses the costing capabilities to generate the requisite marginal cost scenarios."* Is it true that Hydro has this capability and if so, did Hydro consider it, and what impact did it have on cost allocations?

A. Newfoundland and Labrador Hydro ("Hydro") has recently completed a marginal cost update for the Island Interconnected System.[1] However, Hydro has concerns with the potential volatility in its marginal generation capacity cost estimates as the estimates are subject to change depending on the outcome of the Board of Commissioners of Public Utilities' review of Hydro's Reliability and Resource Adequacy Study.

Hydro has not yet completed a marginal cost study for the Labrador Interconnected System. Also, as stated in the "2018 Cost of Service Methodology Review Report" provided with the "Cost of Service Methodology Review Application", Hydro does not forecast the load requirements for each customer class on an hourly basis. For all these reasons, Hydro did not perform the exercise on allocating the illustrative 2021 revenue requirements using marginal costs as Hydro did not consider it reasonable to propose implementation of the use of marginal costs for classification and allocation of embedded costs at this time.

[1] The "Marginal Cost Study Update", filed with the Board of Commissioners of Public Utilities on November 15, 2018.