Q: Hydro's states (2017 GRA Volume I, page 3.25, lines 15 to 18) "*The reduced production forecast for Hydro's Island Interconnected System gas turbines and diesels for 2017 through to the 2019 Test Year reflect the reliability benefit of the planned in service of a third transmission line from Bay d'Espoir to Western Avalon (TL267}.*" Further, Hydro states that the new transmission line will reduce transmission system losses (2017 GRA Volume I, page 3.28, line 18), and will enable more efficient use of, and decreased spill from, hydro generation (IC-NLH-090 at the 2017 GRA). These statements suggest that transmission provides energy benefits, which appears to be contrary to Hydro's proposal to classify 100% of transmission costs as capacity-related. Should consideration be given to classifying a portion of transmission as energy-related?

A. It is our position that transmission-related costs are largely determined by the sizing of the transmission elements. Such sizing is determined by the requirements to meet a planned maximum transfer capability per unit of time. Transmission system costs are largely invariant with respect to the volume of energy transferred. We do note that although we have suggested that the costs associated with the future use of Holyrood 3, as a synchronous condenser should be functionalized as transmission, those costs should be classified as energy since they will largely be energy-related.