

1 Q. **On page 15 of its report**, CA Energy Consulting states that *“Yet another classification*
2 *alternative is the equivalent peaker methodology. This approach postulates that any cost*
3 *per unit of capacity that exceeds that of a peaking unit should be classified as energy-*
4 *related, while the peaking unit cost component is classified as demand related. Baseload*
5 *and intermediate units are typically more expensive to build than peaking units, and that*
6 *extra expense is viewed as being energy-driven. That extra cost is incurred in order to save*
7 *fuel cost relative to peaking unit production, with generation investment occurring to attain*
8 *least cost production.”*

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10 **On page 16 of its report**, CA Energy Consulting states that *“The equivalent peaker method*
11 *is viewed by some as giving formal recognition to the generation planner’s selection of a*
12 *range of plants to serve the system. (The argument is that generation planners must design*
13 *their system to meet not only peak demand, but also the full range of load durations, and*
14 *to do so at least cost. Costs not incurred to meet peak load are deemed to be incurred to*
15 *supply energy)”* and *“To implement this approach, the utility develops an estimate of the*
16 *cost per kW of a peaking unit, and compares that with the cost per kW of the new*
17 *generation unit, being careful to use the same vintage as the plant under study”*

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19 **On page 17 of its report**, CA Energy Consulting states that *“the equivalent peaker method is*
20 *thus tied to the system planner’s perspective on generation. On this basis, the equivalent*
21 *peaker approach may merit review.”*

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23 The equivalent peaker method is about investment in plant made by the utility. In the case
24 of Muskrat Falls, Hydro will receive service under a power purchase agreement. Hydro
25 neither made the investment nor owns the asset. CA Energy Consulting is asked to explain
26 how it is appropriate to compare this arrangement to actual Hydro investment in a peaking
27 turbine.

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30 A. This response has been provided by Christensen Associates Energy Consulting.

1 The Muskrat Falls project represents significant generation costs for the Island
2 Interconnected System’s customers. Those costs must be classified and allocated in some
3 fashion. Conventional power purchase agreements have capacity and energy components
4 and lend themselves to conventional classification and allocation methods. That Muskrat
5 Falls is unconventional does not excuse Hydro from the need to incorporate it in the cost of
6 service process. CA Energy Consulting recommended the equivalent peaker as one
7 potentially useful approach to this challenge, in part because of its methodological kinship
8 with marginal cost-based cost allocation. The reasons for that recommendation are
9 documented in our report in Section 3.2, pages 13 to 18.