Q. **Further to IC-NLH-025 and IC-NLH-027**: Under an equivalent peaking methodology, the classification ratio is the cost of the gas turbine cost per kW (fixed) divided by the Muskrat Falls cost per kW (still being assessed). If the Muskrat Falls final in-service cost grows, the equivalent peaker ratio would fall, meaning a larger share of the larger overall cost of Muskrat Falls would be classified to energy. CA Energy Consulting is asked to explain how such cost changes (arising after the investment decision was made) would be justified as a 100% energy cost?

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

Cost increases from initial contracting, if accepted by the Board as recoverable, represent the true cost of the new generation unit. The relationship between baseload and peaker cost per unit needs to be represented accurately for cost classification purposes. It is worth noting that the information used to develop peaker cost estimates is often derived from a range of projects, some of which experienced cost overruns. If the objective is to classify cost shares accurately, then the new generation unit's cost overruns cannot be excluded *a priori* from the calculation. In this case, cost changes which might appear to be 100% energy are simply costs that change the demand/energy balance, with that change representing movement in the direction of realistic after-the-fact shares.