

1 Q. Re: “Newfoundland and Labrador Hydro Cost of Service Methodology Review  
2 Application,” Pre-Filed Testimony of Andrew McLaren, August 5, 2019. p.  
3 19/17-19.

4 It is stated with respect to classification methodology of the Muskrat Falls  
5 facility “. . . in InterGroup’s view, these vintage issues will also affect  
6 calculations in the future. It seems likely the Board of Commissioners of Public  
7 Utilities previously expressed concerns will be an issue in subsequent COS  
8 studies [i]f the equivalent peaker method is adopted.”

9 Please explain how the vintage issues will affect calculations in the future if the  
10 proposed equivalent peaker cost allocation methodology is linked to costs that  
11 are more-or-less contemporary and thus observed?

12 A. The equivalent peaker method has an unavoidable calculation issue that ties to  
13 vintaging. Even if only applying the method to one plant and not an entire system  
14 (which has its own issues – please see NP-IC-5), the underlying accounting costs  
15 of the plant are locked in at the date of construction, but the value of peak demand  
16 (as represented, albeit poorly, by the costs of a peaking unit) will be in future dollars  
17 as the economic pressures of demand resources and energy resources change  
18 over time. This may not be the same precise vintaging issue that the Board was  
19 highlighting in the 1992 PUB report, but it is tied to the same factor – that is, costs  
20 being locked in at a particular vintage (or multiple vintages), but the classification  
21 step trying to divide those costs based on the dollar value of resources whose  
22 value changes over time. This issue is avoided by using the system load factor  
23 approach which relies on the updated ratio of the importance of demand versus  
24 energy resources, and not a specific dollar value of just one of those resources  
25 that has vintaging and real-versus-nominal valuation issues (i.e., relative inflation).