

1 Q: Reference: Embedded and Marginal Cost of Service Review, May 3, 2019, The
2 Brattle Group, Page 19, Lines 3-4.

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4 *“In either case, if the Board decides to accept the LIL and LTA as functionalized
5 to generation, we recommend that they both be classified as demand related...”*

6 Reference: Newfoundland and Labrador Hydro 2018 Cost of Service
7 Methodology Review Report, November 15, 2018, Page 11, Lines 2-5.

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9 *“The Muskrat Falls Project was selected as the least cost alternative to replace
10 Holyrood primarily based on the projected fuel costs savings over the long term;
11 therefore from a cost causality approach, it appears reasonable that most of the
12 Muskrat Falls Project costs would be considered energy-related.”*

13 If the Muskrat Falls Project, of which the LIL and LTA are a part, was
14 selected as the least cost alternative to replace Holyrood primarily based on
15 the projected fuel costs savings, why should some portion of the LIL and LTA
16 not be classified as energy related?

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18 A. The selected passage indicates that the Muskrat Falls Project was selected as the
19 least cost alternative to replace Holyrood *primarily* based on the projected fuels
20 costs savings over the long term. In general, there are many factors and variables at
21 play in the selection of generation resources over time, with fuel cost savings being
22 one of the factors.

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24 We also believe that from a cost-causation perspective, *ex-ante* justifications for
25 investment decisions (*i.e.*, the reasons why the investment was made) should be
26 balanced with the *ex-post* consumption effects on costs going forward (*i.e.* the
27 effect that changes in demand for energy, capacity and customer has on current and
28 future costs). The LIL and LTA are transmission facilities. In general, we believe
29 that the primary driver of a transmission facility’s costs (*i.e.*, the cost-causality) is
30 its size, *i.e.*, its maximum capability to transfer energy at any point in time. With
31 the exception of losses, which are relatively small in comparison with other
32 transmission costs, changes in the demand for energy do not result in increased
33 transmission costs.