Q. Reference Prefiled Evidence of Larry Brockman, page 11, lines 1-7:

(i) Does Mr. Brockman believe that the equivalent peaker method is the only energy-weighted approach that reflects the cost causality of a generation investment selected primarily based on fuel savings over the long term?

(ii) If the answer to (i) above is no, please list other energy-weighted approaches that reflect the cost causality of a generation investment selected primarily based on fuel savings over the long term.

(iii) For the list of energy-weighted approaches listed in (ii) above, including the equivalent peaker, how would Mr. Brockman decide and rank which energy-weighted approaches are better at reflecting the cost causality of a generation investment selected primarily based on fuel savings over the long term?

A. (i) No. Mr. Brockman acknowledges that there are other energy-weighted approaches to the classification of costs that, to some extent, reflect the cost causality of a generation investment selected primarily based on fuel savings over the long term. However, in Mr. Brockman's opinion, only the equivalent peaker method provides a result that is directly related to the cost causality of the investment.

The principle of cost causality, for the generation function, attempts to determine what influences a utility's production plant investment decisions.[1] In Mr. Brockman's opinion, the equivalent peaker method best reflects the investment decision for the Muskrat Falls Project.

(ii) The following are other energy-weighted approaches for allocating generation costs that, to varying degrees, reflect the cost causality of a generation investment selected primarily based on fuel savings over the long term:

1. Average and Excess Method
2. Base and Peak Method
3. Judgmental Energy Weighting Method
4. System Load Factor Method

(iii) For the energy-weighted approaches listed in (ii) above, Mr. Brockman would decide and rank which energy-weighted approaches are better at reflecting the cost causality of a generation investment selected primarily based on fuel savings over the long term by assessing the extent to which the various approaches reflect the generation planner's perspective at the time of the decision to proceed with the generation investment under consideration.

Based on Mr. Brockman's experience as a generation planner, he considers the equivalent peaker method to provide the best reflection of the generation planner's perspective of the cost causality of the investment.

[1] NARUC Manual, Page 38.

Although the system load factor approach to classification of generation costs is not mentioned in the NARUC Manual, it is common in Canada.[2] It recognizes that higher base load unit investments are made to minimize energy costs, and classifies a portion of the costs as energy-related based on the system load factor. For this reason, Mr. Brockman would rank it ahead of the other methods listed in (ii) above. However, because the system load factor approach is not directly correlated to the investment decision to construct a base load generator to minimize energy costs instead of a peaker to meet the same load, it is Mr. Brockman's opinion that it is inferior to the equivalent peaker method from a cost causality perspective.

The other methods listed, in Mr. Brockman's opinion, reflect the causality of a generation investment selected primarily based on fuel savings over the long term only to the extent that they contain some recognition that energy requirements are an element of the cost causality of the investment.

For the average and excess method, the non-coincident peak demand of the customer classes and the system load factor are used in the derivation of the allocation factors.[3] In Mr. Brockman's experience, neither of these elements is directly correlated to the amount of baseload plant added to an optimal generation plan. In his opinion, the historical popularity of the average and excess demand method is largely due to the fact that the data required to apply it are readily available without extensive load research.

Mr. Brockman agrees with the commentary in the NARUC Manual that suggests the base and peak method is logically flawed from the planner's perspective.[4] In Mr. Brockman's experience, it is not on-peak energy that justifies the extra expenditure required to build a baseload plant.

In Mr. Brockman's opinion, the judgmental energy weighting methods rely too heavily on the judgment of the analyst for accuracy.

[2] System load factor refers to the ratio of the average load over a designated period to the peak demand occurring in that period.
[3] For a detailed description of the average and excess method, see NARUC Manual, pages 49-52 .
[4] NARUC Manual, page 55-6.