

1 **Q. Cost of Service**

2 In Hydro's opinion, what is a reasonable basis for allocating transmission network
3 costs including lines and substations between capacity and energy? Please provide
4 justification for your response and explain how transmission network costs are
5 allocated between capacity and energy in other jurisdictions.

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8 **A.** The current Cost of Service methodology, approved by the Board, classifies the
9 current transmission network costs, including lines and substations, as 100%
10 demand. The transmission lines and substations on the Island Interconnected
11 System used solely or predominantly for the purpose of connecting remotely-
12 located generation to the main transmission system are classified in the same
13 manner as the generating stations they serve. Hydro considers the current
14 allocation basis for transmission costs to be reasonable based upon the principle of
15 cost causation.

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17 At the time of the 1992 Cost of Service Methodology hearing, classification of 100%
18 of transmission network costs as demand-related was consistent with most utilities.
19 Hydro does not have current information on the current classification approaches
20 of transmission network costs of electric utilities in other jurisdictions.

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22 The classification approach to transmission costs, as well as other Cost of Service
23 approaches, will need to be reviewed giving consideration to the Labrador-Island
24 Interconnection. See Section 4.2.2, page 5 of the Evidence to Hydro's Amended
25 Application.