

1 **Q. In Section 5.4: Holyrood Capacity Versus Energy Classification, the IIC's**
2 **Consultants state that 100% classification to energy of Holyrood's fuel costs does**
3 **not properly reflect the cost driver as sometimes the plant operates at inefficient**
4 **levels to provide transmission support/capacity in contrast to when it operates at**
5 **efficient levels to provide energy. Do you agree that classifying Holyrood's rate**
6 **base, O&M and depreciation on the basis of capacity factor (72.24% demand and**
7 **27.76% energy) recognizes the cost causality of the generating resource? Please**
8 **explain your answer.**

9 **A. No.**

10 First, Hydro's proposal does not use "capacity factor" as a concept consistent with past
11 GRAs. That approach would yield a capacity classification of 76.11%, not 72.24%.
12 Hydro's proposal to reduce the capacity classification at this time is inconsistent with
13 Holyrood's pending role as a 100% capacity resource.

14 Second, as the function of Holyrood becomes increasingly a capacity resources (both
15 due to shoulder operation to support the transmission system, and due to the pending
16 role to be a capacity resources following Labrador infeed) the methods for Cost of
17 Service at this time should move towards increased classification to demand, not
18 decreased.

19 As shown in PUB-IC-007, the total Holyrood cost allocation (inclusive of fuel) under
20 Hydro's proposal is 87.5% to energy. Two alternative approaches are also shown in that
21 response based on 84.7% and 83.4% being classified to energy. These latter
22 approaches better reflect the increasingly capacity focused role of Holyrood.

23 Please see PUB-IC-007.