NP-CA-013 Reference: Comments on Newfoundland Power's 2022 Capital Budget 1 2 Application, Elenchus Research Associates Inc., August 13, 2021, page 3 26, lines 11-14. 4 5 "If the need for generation does not materialize, Sandy Brook would become a stranded asset and the present value of Sandy Brook capital-6 related revenue requirements project cannot be avoided." 7 8 9 **OUESTION:** Why is it reasonable to assume that Sandy Brook would become a 10 stranded asset if the future need for generation does not materialize, 11 considering that there are multiple other hydro plants on the Island Interconnected System, operated by Newfoundland Power and 12 Newfoundland and Labrador Hydro, with varying costs of energy and 13 14 capacity? 15 16 **RESPONSE:** Once the Sandy Brook project has been completed, Elenchus would agree that all generation would be on an equal footing. However, at this time, the 17 costs associated with all existing generation resources are sunk costs; 18 whereas the Sandy Brook project is not yet committed. Since its cost is 19 avoidable at this time, for purposes of the project's economic evaluation, it 20 is the uncommitted incremental investment in energy and capacity that is 21 necessarily viewed as the asset that would become stranded. As a general 22 analytic principle, for purposes of an ex ante analysis it is the uncommitted 23 24 project that must be treated as the asset that will be stranded if the incremental capacity cannot be utilized. 25