Q. **Reference: Volume I, page 5.25, lines 18-22**

Hydro states that each month, the demand costs will be allocated among the Island Interconnected System customer groups of: (i) Newfoundland Power; (ii) Island Industrial Firm; and (iii) Rural Island Interconnected. The allocation will be based on percentages derived from year-to-date kW for Utility Firm invoiced monthly billing demand, Industrial Firm maximum invoiced demand multiplied by the year-to-date months, and Rural Island Interconnected maximum peak demand multiplied by the year-to-date months.

a) Given that transmission and generation demand costs are allocated in the Cost of Service study based on single coincident peak and the Island Industrial customers have a lower coincidence of billing demand to system peak than Newfoundland Power, explain why the use of actual billing demands is a preferred demand cost allocator than the use the Test Year coincident peak demand allocations.

b) Explain the main drivers of the operating cost variances beyond the 2027TY for Muskrat Falls Project costs, and comment on the potential materiality of these cost variances.

c) Is the maximum peak demand information for the Rural Island Interconnected system readily available for preparation of monthly reports for cost variance allocations?

A. **a)** Newfoundland and Labrador Hydro (“Hydro”) proposed actual billing demands since it provides a reasonable method to allocate demand costs with an allocator based on readily available information that is easily verifiable, similar to an energy allocator for the current year. It is preferred over the test year coincident peak demand allocations because it captures changes in demand between test years which could drive variances in demand-related costs. Hydro recognizes that the use of a coincident peak allocator for the current year would be consistent with the Cost of Service.

b) Hydro does not expect to see material variances in the normal operations of the Muskrat Falls assets beyond the 2027 Test Year. However, Hydro does expect year-over-year variances in costs relating to the timing of sustaining capital project requirements over the life of the assets. In addition, normal operating costs and certain contractual obligations are expected to increase over time due to inflationary escalation, including costs associated with the Impact and Benefits Agreement and the Water Power Rental with the province.

c) Yes, the maximum peak demand information for the Rural Island Interconnected system is readily available for preparation of monthly reports for cost variance allocations.