Q. Please confirm that many large industrial and wholesale rates in regulated jurisdictions in Canada have an energy rate set on embedded costs that is below the short-run marginal costs (or opportunity cost) of the utility.

A. Newfoundland Power has not conducted a review of the short-run marginal costs for utilities outside Newfoundland and Labrador.

Newfoundland Power is aware that Hydro charges the Industrial Customers on the Island Interconnected System an energy rate that is significantly below the short-run marginal cost of the Island Interconnected System. At the 2001 Hydro General Rate proceeding, Mr. Brickhill stated:

> "No costs are shifted to Hydro's other customers as a consequence of the Industrial Customers not covering marginal costs in their energy rates. Hydro ultimately recovers its marginal costs from the industrials through the RSP, which simply defers for later recovery from the firm industrials what the firm industrials do not pay now."

If Mr. Osler's recommended changes to the RSP are accepted, the cost of any increased usage by Industrial Customers may not be fully recovered through the rates paid by the Industrial Customers.

Newfoundland Power is also aware that Hydro charges CFB Goose Bay (a large industrial customer on the Labrador interconnected System) a secondary rate with Hydro's opportunity cost being the floor. Hydro's opportunity cost is based on revenues it would receive from selling the power elsewhere (i.e., to Hydro Quebec).

Hydro's evidence on non-regulated operations indicates that the rate charged to IOC on the Labrador Interconnected System is based on a negotiated contract. The basis for the rate has not been provided.