

1 **QUESTION:**

2
3 Re: Pages 39 - 42
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5 (a) Do Messrs. Bowman and McLaren believe that the correct least cost mix and utilization of
6 energy resources will, more-or-less, prevail in an economy where:

- 7 i. All pricing in the energy economy reflects marginal cost principles,
8 ii. Information barriers are addressed, and
9 iii. Externalities have been addressed, (for example incorporating the cost of
10 atmospheric emissions through the use of economic instruments)?

11 (b) Why, or why not?
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13 **RESPONSE:**

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15 (a) and (b) No, particularly in the context of a small non-interconnected system. In these types
16 of systems, there is a basic need for the primary bulk power supplier to consider long-term plans
17 and implications. Absent such long-term plans and vision, capital intensive least-cost resources
18 such as Bay D'Espoir are very unlikely ever to have been developed.
19

20 In particular, different resource options will have vastly different cost profiles due to many factors
21 including: the mix of fixed versus variable costs; expected service lives; different planning,
22 regulatory and licensing needs; robustness in the face of different load growth scenarios; and
23 lead times necessary for planning and development. The "market rules" types of concepts cited
24 in the questions do not appropriately deal with these factors. Also, such market-focused concepts
25 are inconsistent with the current utility framework in Newfoundland which is not unregulated, but
26 a fully rate-regulated jurisdiction.