Q. (Rates and Regulation Evidence page 4.7, lines 5 to 12)
Please provide updated marginal costs based on the methodology outlined in NERA's May 2006 marginal cost study documented in the report entitled *Newfoundland and Labrador Hydro Marginal Costs of Generation and Transmission* and the July 2006 report entitled *Implications of Marginal Cost Results for Class Revenue Allocation and Rate Design*. Please identify marginal costs for the two scenarios with and without the Labrador Interconnection/Muskrat Falls project. Please file copies of the NERA reports for the record.

A. The marginal costs below are based on the 2006 NERA Economic Consulting marginal cost approach for the Island Interconnected System. [ ] The scenario reflecting the Labrador Interconnection/Muskrat Falls project is provided below. Please note that changes in the marginal capacity costs from the original filing for the 2015 to 2017 period reflect the installation of the new combustion turbine at Holyrood and the post Interconnection/Muskrat Falls period primarily reflect changes in the price outlook for capacity in the eastern US grid.

The marginal cost of demand and energy should reflect the commercial arrangements between Nalcor and Hydro for the costs of electricity from Muskrat Falls and for the costs of the new transmission infrastructure. As those arrangements have been finalized, a marginal cost study will be initiated in 2015 to determine Hydro's future marginal costs of demand and energy.

Table 1 Scenario: Labrador Interconnection		
Marginal Cost Estimates at October 2014		
Isolated Island Interconnected System		
	Energy $ /MWh	Capacity $/KW - Yr
2015	$151	$42
2016	$148	$58
2017	$148	$61
2018	$50	$103
2019	$53	$105
2020	$57	$114
2021	$60	$118
2022	$62	$122
2023	$66	$125

Notes:

1. Modelled as per NERA Economic Consulting marginal cost approach (2006).
2. Fuel costs for 2015 through 2017 as per NLH corportate assumptions, October 2014.
3. Excludes transmission marginal costs.
4. Marginal cost projection is at customer meter.
5. Prices beyond 2017 reflect opportunity cost as per NERA approach.