

1 **Q. [Response to Request for Information NP-NLH-402] Hydro has stated that the**
2 **marginal costs of supply for the Labrador interconnected system will be similar to**
3 **the marginal costs of supply for the Island interconnected system once the**
4 **Labrador-Island interconnection is complete. Does Mr. Bowman agree with**
5 **Hydro's assessment? Please explain your reasoning in detail.**
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7 **A.** Mr. Doug Bowman is unable to predict what might come out of the NERA marginal
8 cost study, but understands why Hydro and NERA might conclude that the marginal cost
9 of power for both Labrador and the Island post interconnection would be based on market
10 prices with differences in marginal costs between the two systems related to losses (NP-
11 NLH-402). Labrador and the Island will be interconnected with each other, and with the
12 greater electricity market encompassing the Eastern Canadian Provinces and the
13 Northeastern United States. Therefore, excess generation located in Labrador or on the
14 Island could be sold into the greater market at market prices, and if the need to operate
15 higher cost generation such as a combustion turbine arises to supply native load, lower
16 cost generation might be available for purchase in the market at market prices. Therefore,
17 basing marginal costs for both the Island and Labrador systems on market prices might
18 make sense. However, system characteristics, regulatory structure and government policy
19 must be taken into consideration. Mr. Doug Bowman understands that the Government
20 intends for the Provincial electricity market to remain fully regulated. If it remains fully
21 regulated, will the NL electricity market be fully-integrated with the greater market, with
22 active buying and selling in the market, or will NL only be a participant in the greater
23 market as a seller of power that is in excess of the needs of the native load, with the
24 occasional purchase during system emergencies? Neither is it clear if the Government
25 intends for the Labrador and Island electricity systems to be treated as a single regulated
26 electricity jurisdiction, or as separate regulated electricity jurisdictions as they are today.
27 For example, Ontario and Manitoba are interconnected, but are separate electricity
28 jurisdictions with rates based on their own costs. The situation is similar for Alberta and
29 British Columbia. Mr. Doug Bowman recognizes that Labrador and the Island are
30 covered by the same Provincial electricity policy, but regulatory treatment of the two
31 systems in the post Muskrat era will be a key issue impacting marginal costs, cost of
32 service and rates.