

1 **Q: [Response to Request for Information NP-NLH-402]**

2 **Hydro has stated that the marginal costs of supply for the Labrador interconnected system**  
3 **will be similar to the marginal costs of supply for the Island interconnected system once the**  
4 **Labrador-Island interconnection is complete. Does Mr. Raphals agree with Hydro's**  
5 **assessment? Please explain your reasoning in detail.**

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7 A: The view of Mr Raphals is as follows:

8 Hydro stated in NP-NLH-402 that, “Under the NERA 2006 marginal cost methodology, the  
9 marginal cost of power for both the Island and Labrador for the post interconnection period is be  
10 based on market prices with differences ... related to losses.” It also stated that it is currently in  
11 the process of “reconfirming” the marginal cost methodology.

12 The 2006 NERA marginal cost study was presented in CA-NLH-033, but was withdrawn in CA-  
13 NLH-033 rev. 1. I have not reviewed this document in detail. However, I note that, the first  
14 paragraph of the introduction reads:

15 NLH retained NERA to prepare estimates of its marginal costs of providing electricity  
16 and transmission service on the Island Interconnected System. This report describes the  
17 methods used and summarizes the results of the analysis. (underlining added)

18 A footnote to the first sentence specifies that “This study covers only the Island Interconnected  
19 System”.

20 As NERA’s mandate did not include estimating marginal costs for the Labrador Interconnected  
21 System, the conclusion quoted above regarding marginal costs for that system should be taken  
22 with a grain of salt.

23 Furthermore, it is important to keep in mind that, while price signals are most accurate when  
24 marginal rates are aligned with marginal costs, rates in most jurisdictions are based on average  
25 costs, not on marginal costs.

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