Q. **Reference: Volume II, Exhibit 9: Cost of Service Study / Utility and Industrial Rate Design Report**

Page 15 of Exhibit 9: *Cost of Service Study/Utility and Industrial Rate Design Report* includes the statement on the proposed wholesale rate for Newfoundland Power:

"…this rate structure is seen to be moving towards closer alignment with the possible demand/energy relationship of the next least-cost supply source".

The proposed wholesale rate (i) materially increases demand charges from $4/kW per month to $9.12/kW per month and (ii) materially increases the price differential between the 1st block and the excess energy block. Explain in detail how these proposed rate design changes move towards closer alignment with the possible demand/energy relationship of the next least-cost supply source. In the response, explicitly indicate the quantitative relationship of the proposed rate design with the next least-cost supply source. (Volume II, Exhibit 9, Page 15)

A. The actual terms for supply of electricity, along with any required infrastructure changes related to the Labrador Interconnection will need to be reviewed once they are available. Given the interconnection results in the future elimination of Holyrood fuel costs with the replacement energy coming from Muskrat Falls, a hydroelectric source, energy costs may decrease and demand costs may increase.