

1 Q. Further to response to Request for Information NP-NLH-059:  
2 What incentive will Hydro have to minimize the cost of power purchases on the  
3 Island Interconnected System if Hydro is permitted to recover all cost  
4 variations through the RSP?

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7 A. In its evidence, pages 4.21 and 4.22, Hydro detailed a number of deferral  
8 mechanisms that the Board has approved for both Hydro and Newfoundland  
9 Power. Hydro does not believe that approval of a deferral mechanism  
10 inevitably removes its incentive to minimize cost. Hydro's mandate is to  
11 provide least cost, reliable and safe electricity to its customers. In its evidence,  
12 pages 1.6 and 1.7, Hydro outlined how, operating under this governing  
13 mandate, power purchases on the Island Interconnected System has been  
14 minimized since its last GRA:

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16 *Securing economic, renewable sources of electricity is the greatest positive*  
17 *impact that can be achieved in helping to mitigate customer rate increases.*  
18 *Since 2007, Hydro has achieved this through:*

- 19 • *New sources of wind energy installed at St. Lawrence and Fermeuse;*  
20 • *A reduction in the cost of energy from the former Star Lake Hydro and*  
21 *Exploits River Hydro Partnerships; and*  
22 • *Access to additional Exploits generation which was previously used to*  
23 *supply the Abitibi Consolidated Inc. paper mill operations at Grand Falls-*  
24 *Windsor.*

25 *Each of these factors has had significant positive impact on Hydro's costs*  
26 *and GHGs. It is estimated that in 2013 the combined benefit will total*  
27 *approximately \$74 million, based on Test Year forecasts for energy*

1            *production utilization, No. 6 fuel prices and the Holyrood conversion rate.*  
2            *This represents 13.0% of Hydro's 2013 proposed revenue requirement of*  
3            *\$568.1 million.*