Q. In Section 3.0 *"Hydro's Rate Proposal for Newfoundland Power"* of Mr. Brockman's report, it was recommended that the Board should limit any increase in the demand charge. Would you agree that if there is a need to choose between efficient energy price signals and efficient capacity price signals for reaching conservation and resource efficiency objectives, prices that reflect marginal energy costs would be the best choice? Please explain your response.

A. Yes. In the current situation if a choice between efficient energy price signals and efficient capacity price signals must be made, Mr. Brockman would favor getting the energy price more correct.

There are several reasons for favoring an efficient energy price. The efficient energy price is the short run marginal cost, which is essentially the marginal fuel cost at Holyrood. There is no uncertainty about that, and the effect of a 1 kWh hour increase or decrease in energy consumption is immediate.

The efficient capacity price is the long run marginal cost of capacity, which is uncertain at the current time, as well as being more complicated to calculate, requiring planning models and assumptions, and therefore almost always more uncertain.[1] In addition, there is no immediate effect on costs from increasing or decreasing demand (within reasonable limits). Demand has to be increased or decreased over long periods of time to change investment in transmission and generation, and therefore cost.

[1] See response to Request for Information CA-NLH-033, lines 18-22.