

1 Q. (Rates and Regulation Evidence page 4.7, lines 5 to 12)

2 Did Hydro “know” its marginal costs at the 2006 GRA? Does any utility “know” its
3 marginal costs given that they are based on forecasts?
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6 A. Hydro’s statement referenced above is that the future marginal cost “structure”
7 resulting from the Labrador Island interconnection is not yet known. At Hydro’s
8 2006 GRA, Hydro filed a marginal cost study, which was completed by NERA
9 Economic Consulting, whose findings included:

- 10 • marginal capacity costs were reduced to virtually zero, based on the fuel
11 price forecasts at that time; and
12 • marginal energy costs were based on the cost of fuel at Holyrood (and in this
13 sense, they were known).

14 In that case, both the marginal cost structure, and to some degree, marginal costs
15 were known.