

1 Q. Further to the response to CA/KPL-Nalcor-15, define what is meant by “open  
2 markets” and explain how the Newfoundland electrical system falls within “open  
3 markets” for the purpose of the treatment of costs for investment in power  
4 generation facilities.

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7 A. In its response to CA/KPL-Nalcor-15, Nalcor indicated that while generation facilities  
8 in open markets are typically not regulated on selling price, transmission  
9 investments are generally recovered on a cost of service based model.

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11 In this context, an “open market” is one in which a competitive wholesale energy  
12 and capacity market has been established. In such a market, an independent entity  
13 (commonly referred to as an independent system operator) administers a  
14 competitive bid process to establish wholesale clearing prices for electricity that  
15 provide sufficient supply to meet prevailing demand requirements. Examples of  
16 open markets include New England and New York. Another common feature of  
17 open markets is that transmission services are provided pursuant to an open access  
18 transmission tariff (OATT).

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20 For example, Nalcor currently obtains transmission access from Hydro Quebec  
21 pursuant to its OATT. A consequence of Nalcor’s use of Quebec’s transmission  
22 system is, upon request, Nalcor must provide transmission access on a reciprocal  
23 basis to Hydro Quebec on terms similar to those under which Hydro Quebec  
24 provides them to Nalcor, and also under terms under which Nalcor provides service  
25 to its corporate affiliates.

1       As a result, Nalcor wishes to ensure that its treatment of transmission investment is  
2       consistent with the treatment of transmission investments in other markets.

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4       While CA/KPL-Nalcor-15 did not address the treatment of generation investments,  
5       Nalcor did note in its response that in open markets, generation investments are  
6       typically not regulated on selling price. The presence of an open market, however,  
7       is not a prerequisite to the exclusion of power generation investments from  
8       regulation.

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10       In Newfoundland and Labrador, precedents exist for both regulated and non-  
11       regulated arrangements for investments in power generation investments.