Q. (Reference NLH-NP-020 and NLH-NP-021) Regarding the marginal energy and capacity costs for 2022 to 2041:

a) Does Newfoundland Power agree that the figures show a high variability across a one-year period?

b) Does Newfoundland Power believe that the change in marginal cost from non-winter to winter peak within any one year is a result of inflation?

c) If Hydro, or any generator, faced such persistently high winter marginal capacity costs, wouldn't those high costs provide an incentive for it to invest in additional generation? How would a significant addition to generating capacity affect marginal capacity cost assuming no corresponding increase in peak demand?

A. a) Newfoundland Power observes that marginal energy and capacity costs vary throughout a calendar year. Marginal energy and capacity costs tend to be higher in winter periods compared to non-winter periods in a winter peaking region.[1]

b) No. Differences in marginal costs in a year reflect different marginal costs in winter periods versus non-winter periods.

c) Marginal capacity costs reflect the least-cost source of additional generation capacity on the Island Interconnected System.[2] High marginal capacity costs do not provide an incentive for Hydro, or any other entity, to invest in additional generation on the Island Interconnected System.[3]

High marginal capacity costs provide an incentive to avoid or defer capacity additions on the Island Interconnected System, where possible. This includes by continuing to operate low-cost sources of generation such as the Sandy Brook Plant.[4]

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1 See Newfoundland Power's *2022 Capital Budget Application, Report 1.2 Sandy Brook Plant Penstock Replacement, Appendix A – Sandy Brook Plant Economic Evaluation*, page A-11.

2 Hydro indicates on page 45 of its *Reliability and Resource Adequacy Study – 2019 Update, Volume III Long Term Resource Plan*, November 15, 2019, that an additional turbine in Bay d'Espoir (Unit 8), with a capacity of 154 MW, is being selected by its model as the least-cost option for generation capacity on the Island Interconnected System.

3 Section 14.1 of the *Electrical Power Control Act, 1994* provides Hydro with the exclusive right to supply, distribute and sell electrical power or energy to a retailer or an industrial customer on the island portion of the province of Newfoundland and Labrador. Hydro's exclusive right does not apply to generation facilities used by a retailer or industrial customer exclusively in emergency circumstances.

4 Newfoundland Power completed an economic analysis to determine whether continued operation of the Sandy Brook Plant, including penstock replacement, is least-cost for customers. The analysis showed that the value of production from the Sandy Brook Plant is approximately 3 to 4 times the cost of production from the plant. See the *2022 Capital Budget Application, Report 1.2 Sandy Brook Penstock Replacement, Appendix A – Sandy Brook Plant Economic Evaluation*. See also response to Request for Information NLH-NP-018.

A significant addition to generating capacity on the Island Interconnected System would be costly for customers.[5] A significant addition to generation capacity without a demonstrable need for the additional generation capacity would be inconsistent with the *Electrical Power Control Act, 1994* and would not be justified.[6]

[5] For example, the estimated capital cost of Bay d'Espoir Unit 8, with a capacity of 154 MW, is $373 million. See Hydro's *Reliability and Resource Adequacy Study, Volume III: Long-Term Resource Plan,* November 16, 2018, page 43.

[6] Section 3(b) of the *Electrical Power Control Act, 1994* requires, among other provisions, that all sources and facilities for production, transmission and distribution of power in the province should be managed and operated in a manner that would result in: (i) the most efficient production, transmission and distribution of power; and (ii) power being delivered to consumers in the province at the lowest possible cost consistent with reliable service.