Q. Reference: "2022 Capital Budget Application," Newfoundland Power, May 18, 2021, Volume 1, Section 1.2, Sandy Brook Plant Penstock Replacement, Appendix A

The calculation of benefits used marginal cost information. As the *Reliability and Resource Adequacy Study Review* proceeding is ongoing, there remains uncertainty with respect to the timing of the next resource addition. As noted in Newfoundland Power's application, the Board of Commissioners of Public Utilities' ongoing review of Newfoundland and Labrador Hydro's "Reliability and Resource Adequacy Study" may impact the need for capacity additions. Did Newfoundland Power consider or perform any sensitivity analysis considering marginal cost? If so, please provide the results of such analysis. If not, why not?

A. The economic analysis completed in relation to the *Sandy Brook Plant Penstock Replacement* project compares: (i) the cost of continued operation of the hydro plant; and (ii) the value of production from the hydro plant based on forecast marginal costs.[1]

The cost of production from the hydro plant is 3.22 ¢/kWh. The value of production from the hydro plant, which is based on marginal energy costs and avoided generation capacity costs, is between 10.26 ¢/kWh and 13.43 ¢/kWh.[2]

The value of production from the hydro plant is approximately 3 to 4 times the cost of production from the hydro plant.[3] This demonstrates that the decision to proceed with the project is not highly sensitive to reasonable changes in marginal cost estimates.

See response to Request for Information NLH-NP-019 for the results of sensitivity analyses involving marginal costs.

[1] Marginal costs used in the economic analysis of the *Sandy Brook Plant Penstock Replacement* project are based on Newfoundland and Labrador Hydro's ("Hydro") 2020 marginal cost update as provided to Newfoundland Power on April 9, 2020.

[2] See the *2022 Capital Budget Application, Report 1.2 Sandy Brook Plant Penstock Replacement, Appendix A, Section 4.0 Economic Evaluation Results.*

[3] (10.26 ¢/kWh / 3.22 ¢/kWh = 3.18; 13.43 ¢/kWh / 3.22 ¢/kWh = 4.17).