Q. **Re: Labrador Expansion Study, p. 35 (pdf)**

Citation:

Marginal Cost of Energy: 3.5 cents per kWh.

Footnote 26: Nalcor exports surplus energy to the North American grid at a historical profit margin of approximately 3.5 cents per kWh.

a) Please confirm that, once the LIL is in operation, the marginal cost of energy for Hydro in Labrador will be equal to the marginal cost of generation at Holyrood, rather than the historical profit margin for sale to the North American grid. If not confirmed, please explain why.

b) Please detail the implications for the analysis of using the marginal cost of generation at Holyrood as the marginal cost of generation.

A.

a) It is not confirmed. With the completion of the Labrador-Island Link and the Maritime Link, opportunity costs from external markets are the best measurement of Newfoundland and Labrador Hydro's marginal energy costs going forward for Labrador.

b) The resulting difference in cumulative present value between the two alternatives using the marginal cost of generation at Holyrood as the marginal cost of generation is estimated to be $34 million. This is approximately $3 million more than the cumulative present value difference calculated in the original analysis, which was based on export prices.