

1 Q. In CA Energy Consulting's view, how does the fact that most of the Muskrat Falls costs for
2 Hydro are fixed affect economic price signals and marginal cost?

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5 A. This response has been provided by Christensen Associates Energy Consulting.

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7 As noted in our marginal cost update study Hydro's marginal cost on the Island

8 Interconnected System will be set in most hours by wholesale market prices in the Eastern

9 Interconnection.¹ At times of transmission constraint, an internal marginal price reflecting

10 the marginal cost of the marginal unit plus marginal reserves cost would prevail. In certain

11 hours of low demand, the marginal unit could be a hydraulic generating station, perhaps

12 Muskrat Falls. In no case would the fact that Hydro pays a lump sum for access to Muskrat

13 Falls power have any influence on marginal cost, or retail price signals derived therefrom.

¹ Christensen Associates Energy Consulting, *Marginal Cost Study Update – 2018, Cost Estimates and Methodology for Generation and Transmission Services, 2021-2029*, November 15, 2018. The report is Appendix A of Hydro's *Marginal Cost Study Update – 2018*, November 15, 2018.