

1 Q. **Reference: Hydro’s letter Re: Long-Term Supply for Southern Labrador – Phase 1 – Midgard**  
2 **Consulting Inc. Report, May 31, 2023, Page 2.**

3 *“Midgard notes that proceeding with the full interconnection, rather than*  
4 *phased interconnection, is more cost-effective...”*

5 Please summarize the key factors that led Midgard to conclude that full interconnection was  
6 more appropriate than the phased interconnection recommended by Hydro in its original  
7 Application.

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10 A. *This response has been provided by Midgard Consulting Inc. (“Midgard”).*

11 Midgard concluded that the full interconnection was more appropriate than a phased  
12 interconnection because it produced a lower Net Present Cost. Drivers that impact this  
13 conclusion are the fixed carrying costs of individual diesel generating stations, increased  
14 efficiency of operation, and higher fuel efficiency realized by utilizing a smaller number of more  
15 efficient generators which reduces future fuel use and cost. Additionally, full interconnection  
16 allows for greater penetration of procured renewable resources which, when procured at a  
17 price nominally less than forecast diesel cost, further reduces future diesel use and cost.

18 Newfoundland and Labrador Hydro’s proposal of a phased approach was prudent at the time,  
19 but factors have since changed to favour a full interconnection. The previous analysis, which  
20 recommended a phased approach as being less expensive, was performed from mid-2020 to  
21 mid-2021. At that time there was more service life available on the Mary’s Harbour facility  
22 before replacement. Furthermore, due to the passage of time since the original estimates were  
23 completed, the net present cost of future capital expenditures is comparatively higher due to a  
24 shorter discounting period. There were also lower fuel costs which reduced the impact of fuel  
25 efficiency cost savings.