

1 Q. **Reference: Schedule 1, Attachment 1**

2 It is stated (page 1) *“The overarching objective of the proposed change in Hydro’s Utility tariff for*
3 *NP is resource efficiency: set marginal prices which better adhere to the underlying worth of*
4 *resources employed in the provision of G&T services, on the margin.”*

5 a) Isn’t the overarching objective of the proposed change in the Utility tariff for NP to reduce
6 volatility of July 1 rate adjustments?

7 b) To achieve economic efficiency, is it not essential that the price faced by electricity end-
8 users be equal to marginal cost?

9 c) What changes in NP’s volume and timing of electricity purchases from Hydro are expected
10 as a result of the proposed change in the wholesale rate?

11 d) Does Hydro anticipate that the proposed change in the wholesale rate would affect how NP
12 manages its hydro plants?

13 e) Does Hydro anticipate that the proposed change in the wholesale rate would affect NP’s
14 behaviour in any way?

15 f) Would efficiency be improved if Hydro adjusted rates to island industrial customers to
16 better reflect marginal costs?

17 g) Would efficiency be improved if NP were to update its retail rates to better reflect the
18 proposed wholesale rate?

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21 A. a) Both statements are true in this case. Proposing a change in marginal cost from the cost of
22 fuel at the Holyrood Thermal Generating Station of 18.165¢ per kWh to the opportunity cost
23 of the market value of exports, proposed to be 9.698¢ per kWh for the winter period and
24 3.354¢ per kWh for the non-winter period, more accurately corresponds to the underlying
25 worth of resources employed, resulting in reduced volatility of July 1 rate adjustments.

1 **b)** The following response was provided by Christensen Associates Energy Consulting (“CA
2 Energy”):

3 Strictly speaking, a price equal to marginal cost is an efficient price. However, the text
4 referenced states that the objective is to “... set marginal prices which *better* adhere to the
5 underlying worth of resources.” (Emphasis added). That is, a marginal price (the price of the
6 next unit consumed/produced), and thus a departure from embedded cost-based prices and
7 favoring a marginal cost-based prices, provides customers with an improved indication of
8 the cost to provide the resource, on the margin.

9 **c)** Newfoundland and Labrador Hydro (“Hydro”) does not anticipate any changes in
10 Newfoundland Power Inc.’s (“Newfoundland Power”) volume and timing of electricity
11 purchases as a direct result of the proposed change in the wholesale rate.

12 **d)** Hydro does not anticipate the proposed change in the wholesale rate will have a material
13 impact on how Newfoundland Power manages its hydraulic plants.

14 **e)** The change in the wholesale rate with a seasonal pricing structure could provide
15 Newfoundland Power additional incentive to promote conservation during the winter
16 period when the prices are higher.

17 **f)** The current rate structure for Island Industrial Customers includes a demand charge and a
18 single average embedded cost energy rate of 4.428¢ per kWh applied to all firm energy sold
19 within their respective Power Service Agreements. This rate is currently lower than 5.471¢
20 per kWh, the 2025 forecast average cost of the second block for Newfoundland Power. For
21 industrial loads in excess of firm load, non-firm rates apply which is based on market-based
22 export prices effective March 1, 2024.

23 The rate structure for Industrial customers will be reviewed and any changes proposed in
24 Hydro’s next general rate application.

25 **g)** Newfoundland Power currently has a consultant engaged to perform a review of its retail
26 rates. Hydro expects the final report will recommend the most efficient rate designs
27 considering the proposed changes to the wholesale rate.