Q. At Schedule 1, Attachment 1, page 10, CA Energy indicates that the fact that NP's monthly load factors (the ratio of capacity to energy) are relatively consistent month-to-month, this means "going forward Hydro can depend on Tier 2 prices to accurately capture the marginal cost to serve... " If the Tier 2 prices are solely linked to the marginal cost of opportunity energy, and not to the embedded or marginal cost imposed on Hydro's own asset investment, why does the load factor matter? Is the Tier 2 rate inclusive of the marginal cost of capacity for Hydro's system or not?

A. The following response was provided by Christensen Associates Energy Consulting ("CA Energy"):

If monthly load factors were highly variable across months, it would be possible for the marginal price to be the Tier 1 price, rather than that of Tier 2 in a month of low usage relative to peak demand. Simply put, the Tier 1 price is embedded cost-based while the Tier 2 price is marginal cost-based.

The marginal cost of capacity is not a component of the Tier 2 price. Please refer to Newfoundland and Labrador Hydro's response to IC-NLH-017 of this proceeding for further details.