

1 **Section 3 Finance/Demand Management Incentive Account**
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3 **Q. (Section 3, page 3-54) It is stated “Newfoundland Power proposes to revise the DMI**
4 **Account definition to replace the calculation of the threshold from $\pm 1\%$ of test year**
5 **wholesale demand charges to $\pm \$500,000$ with effect from January 1, 2025.” Why is**
6 **Newfoundland Power proposing this change now before knowing how the wholesale**
7 **rate might be re-designed?**
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9 A. Newfoundland Power is proposing to revise the definition of the DMI Account, in part,
10 due to impacts the wholesale rate can have on the Company’s demand costs which are
11 outside of its control.¹
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13 Since 2008, increases in the demand rate have increased the DMI Account threshold by
14 over 40%,² and there is risk that the demand rate could increase further as part of Hydro’s
15 next general rate application.³ At the same time, Newfoundland Power’s ability to reduce
16 its purchased power demand costs has become more limited.⁴

¹ Newfoundland Power is subject to the wholesale rate charged by Hydro. While the Company consults with Hydro on the design of the wholesale rate, it is not within Newfoundland Power’s control.

² In 2008, the demand rate was \$4.00 per kW, which resulted in a DMI threshold of just over \$500,000. In 2023, the demand rate is \$5.00 per kW, which provides for a DMI threshold of approximately \$750,000. Over the 15-year period, the DMI threshold has increased $\$750,631 \div \$528,907 - 1 = 42\%$.

³ For example, Hydro’s *Marginal Cost Projections 2023-2040 for the Island Interconnected System* dated December 2022 provides a Generation and Transmission capacity cost for 2023 of \$307.14 per kW per year.

⁴ See the *2025/2026 General Rate Application, Volume 1, 3.4.2 Demand Management Incentive* for further information on changes in managing demand costs since 2008.