

1 **Q. Further to the response to NLH-NP-075, please explain why it is appropriate to**
2 **reduce the threshold for the DMI account to \$500,000 given that the threshold has**
3 **been higher than that level since 2008.**
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5 A. It is appropriate to reduce the threshold for the DMI account to \pm \$500,000 for the
6 following reasons:¹
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- 8 • Since 2008, Newfoundland Power's ability to reduce its purchased power demand
9 costs has become more limited.²
- 10
- 11 • The cost threshold has increased by more than 40% and there is risk of further
12 increases. Cost increases are largely due to increases in the demand rate included
13 in the wholesale rate charged by Newfoundland and Labrador Hydro to
14 Newfoundland Power, which is outside the Company's control.³
- 15
- 16 • The use of thresholds associated with supply cost mechanisms is not prevalent
17 practice in Canada; however, the Board has approved cost thresholds of
18 \pm \$500,000 associated with certain Hydro supply costs.⁴
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20 Overall, a \pm \$500,000 threshold would reflect that, while limited, there are some aspects
21 to managing peak day demand that are within the Company's control. The proposed
22 threshold level is consistent with prior orders of the Board. The defined amount would
23 continue to provide an incentive for Newfoundland Power to reduce system demand and
24 appropriately limits risks associated with recovery of demand costs due to factors outside
25 of Newfoundland Power's control, such as increasing cost components of the wholesale
26 rate.
27

28 With respect to the threshold being higher than \$500,000, Newfoundland Power observes
29 that for the first eight years (2008 to 2015), the DMI threshold increased from \$528,907
30 to \$593,990, an increase of approximately 12% over that timeframe. Since 2015, the DMI
31 threshold increased from \$593,990 to \$750,631, an increase of approximately 26% over
32 that timeframe.⁵ As provided above, these larger increases have occurred while
33 Newfoundland Power's ability to reduce its purchased power demand costs has become
34 more limited, and there is risk of further increase.

¹ For a fulsome discussion on the justification to revise the DMI Account definition to replace the calculation of the threshold from \pm 1% of test year wholesale demand charges to \pm \$500,000, see the *2025/2026 General Rate Application Volume 1, 3.4.2 Demand Management Incentive*.

² See the discussion in the *2025/2026 General Rate Application Volume 1: Application, Company Evidence and Exhibits, Section 3 Finance*, pages 3-51 to 3-52.

³ See the discussion in the *2025/2026 General Rate Application Volume 1: Application, Company Evidence and Exhibits, Section 3 Finance*, page 3-53

⁴ See the discussion in the *2025/2026 General Rate Application Volume 1: Application, Company Evidence and Exhibits, Section 3 Finance*, pages 3-53 to 3-54.

⁵ Overall, the threshold has increased by 40% over the 2008 to 2023 timeframe [$\$750,631 / \$528,907 - 1 = 41.92\%$].