

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 ±\$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 • The cost threshold has increased by more than 40% and there is risk of further
11 increases. Cost increases are largely due to increases in the demand rate included
12 in the wholesale rate charged by Newfoundland and Labrador Hydro to
13 Newfoundland Power, which is outside the Company's control.³
- 14 • The use of thresholds associated with supply cost mechanisms is not prevalent
15 practice in Canada; however, the Board has approved cost thresholds of
16 ± \$500,000 associated with certain Hydro supply costs.⁴

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18 Overall, a ± \$500,000 threshold would reflect that, while limited, there are some aspects
19 to managing peak day demand that are within the Company's control. The proposed
20 threshold level is consistent with prior orders of the Board. The defined amount would
21 continue to provide an incentive for Newfoundland Power to reduce system demand and
22 appropriately limits risks associated with recovery of demand costs due to factors outside
23 of Newfoundland Power's control, such as increasing cost components of the wholesale
24 rate.

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26 With respect to the threshold being higher than \$500,000, Newfoundland Power observes
27 that for the first eight years (2008 to 2015), the DMI threshold increased from \$528,907
28 to \$593,990, an increase of approximately 12% over that timeframe. Since 2015, the DMI
29 threshold increased from \$593,990 to \$750,631, an increase of approximately 26% over
30 that timeframe.⁵ As provided above, these larger increases have occurred while
31 Newfoundland Power's ability to reduce its purchased power demand costs has become
32 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 ± 1% of test year wholesale demand charges to ± \$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 [$\$750,631 / \$528,907 - 1 = 41.92\%$].