Q. Please explain the vast change in marginal cost estimates in CA-NLH-033 (original) versus CA-NLH-033 (Rev 1) and provide all working papers and calculations in support of the values.

A. Hydro has interpreted "the vast change in marginal cost estimates" to be referencing the reduced marginal capacity cost estimates prior to the Labrador-Island interconnection, and the increased marginal capacity cost estimates in the period post interconnection based on Hydro's marginal capacity cost estimates provided in Hydro's response to CA-NLH-033 (Revision 1, Dec 9-14). Hydro views the marginal energy costs in CA-NLH-033 versus CA-NLH-033 (Revision 1, Dec 9-14) to not be materially different.

Prior to interconnection, the change in marginal capacity cost estimates between CA-NLH-033 versus CA-NLH-033 (Revision 1, Dec 9-14) reflects both changes to the forecast loss of load hours (LOLH) and changes in the estimated cost of new capacity since CA-NLH-033 was prepared. The changes in the forecast LOLH used to calculate marginal capacity cost estimates for CA-NLH-033 (Revision 1, Dec 9-14) reflect the additional system capacity associated with the installation of the new combustion turbine (CT) at Holyrood and are lower than the forecast LOLH used in CA-NLH-033. Note that the forecast LOLH for 2016 and 2017 in CA-NLH-033 reflects additional system capacity that is approximately half the capacity of the installed new CT at Holyrood. The change in the cost estimate of adding additional capacity used for CA-NLH-033 (Revision 1, Dec 9-14) reflects a more recent cost estimate and is lower than the cost estimate used in CA-NLH-033. Please see Table A and Table B that provides the calculation of marginal capacity cost estimates for the period prior to interconnection used in CA-NLH-033 and CA-NLH-033 (Revision 1, Dec 9-14).

**TABLE A: CA-NLH-033 (Original)**

| | (1) | (2) | (3) (1) *( 2) / 2.8 |
|---|---|---|---|
| | Annualized Cost of Generation | Forecast LOLH | Marginal Generation Capacity Cost |
| | Current Dollars/kW | | Current Dollars/kW |
| 2014 | $190 | 2.59 | $176 |
| 2015 | $194 | 3.91 | $270 |
| 2016 | $198 | 2.34 | $165 |
| 2017 | $201 | 3.01 | $217 |

Note: 2.8 is target LOLH

**TABLE B: CA-NLH-033 Rev 1**

| | (1) | (2) | (3) (1) *( 2) / 2.8 |
|---|---|---|---|
| | Annualized Cost of Generation | Forecast LOLH | Marginal Generation Capacity Cost |
| | Current Dollars/kW | | Current Dollars/kW |
| 2015 | $162 | 0.73 | $42 |
| 2016 | $165 | 0.99 | $58 |
| 2017 | $168 | 1.02 | $61 |

Note: 2.8 is target LOLH

Following interconnection, the change in marginal capacity cost estimates between CA-NLH-033 versus CA-NLH-033 (Revision 1, Dec 9-14) reflects changes in forecast electricity and capacity market prices in New York, changes in exchange rates and changes in transmission loss rates. The change in the forecast of electricity market prices and the change in the forecast exchange rate both reflect changes in the

forecasts received from the forecast service providers and contributed to higher estimates of marginal capacity costs for CA-NLH-033 (Revision 1, Dec 9-14). There are two major factors contributing to higher capacity prices in the more recent forecast.

1. Lower gas prices have put downward pressure on energy revenue and raises the net cost of new entry (and the net cost of maintaining existing capacity); and

2. There is move toward requiring firm fuel supply for capacity resources and penalizing resources that fail to perform (i.e., are not available during periods of high demand). These measures will have the effect of raising the cost of providing capacity and are reflected in higher prices.

Please see CA-NLH-033 Attachment 1 that provides the working document underlying the marginal cost estimates prepared by Hydro.