

1 Q. Explain why in the 2013 application Hydro proposed a cost-based demand charge
2 while in the amended application for 2015 Hydro is now proposing a rate that
3 reflects marginal cost estimates.

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6 A. While preparing its Amended Application, Hydro updated its marginal capacity cost
7 estimates on the Island Interconnected System for the period prior to the Labrador-
8 Island Interconnection. This update was prepared for use in negotiating capacity
9 assistance agreements with Island Industrial Customers. The updated marginal
10 capacity cost estimate was materially lower than the average embedded demand
11 cost for Newfoundland Power (NP) derived from the 2015 Test Year Cost of Service
12 Study. See Section 4.5.2 in the Evidence to Hydro's Amended Application.

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14 The implementation of a demand and energy wholesale rate to NP was approved in
15 Order No. P.U. 44(2004), which stated:

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17 The Board agrees that marginal costs should be the basis of future decision-
18 making in the area of load management and should be considered in the
19 design of wholesale rates.

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21 As a result of reviewing the marginal capacity cost update and the 2015 Test Year
22 Cost of Service Study, Hydro proposed the demand charge to NP increase from
23 \$4.00 per kW per month to \$5.50 per kW per month. The proposed demand charge
24 gives consideration to both embedded demand costs and marginal capacity costs,
25 both of which have increased since the 2006 GRA.