Q. **Reference: Application**

Explain which generation costs are avoided by Newfoundland Power’s generation and whether the credit reflects the demand-related value, energy-related value, or both.

A. Newfoundland Power Inc’s (“Newfoundland Power”) generation does not directly avoid Newfoundland and Labrador Hydro (“Hydro”) generation costs. Rather, the credit is designed to recognize the capacity (demand-related) value provided when Newfoundland Power's generation is available and operating during periods when the system requires support. By generating during these periods, Newfoundland Power reduces its demand on Hydro's system, thereby lowering the capacity requirements that Hydro must otherwise serve.

In addition, any energy produced by Newfoundland Power's own generating facilities reduces the amount of energy it must purchase from Hydro. The energy-related benefit is therefore realized automatically through reduced energy purchases rather than through the generation credit itself.

Accordingly, the generation credit is primarily intended to reflect the demand-related value of Newfoundland Power's generation. The energy-related value is captured separately through the reduction in energy supplied by Hydro.