

1 Q. **Reference: Application, Chapter 6, pages 6.14 to 6.15**

2 Regarding Hydro's demand charge applicable to Newfoundland Power:

3 a) It is indicated (page 6.14) that the current demand charge of \$5 per KW per month, was
4 approved in the 2017 GRA due to consideration of "marginal capacity cost and the
5 increase in embedded demand costs." (i) Why is marginal capacity cost a relevant
6 consideration in setting a demand charge and is it more or less important for 2027 than
7 2017? (ii) Why is embedded demand cost a relevant consideration in setting a demand
8 charge and is it more or less relevant for 2027 than 2017?

9 b) Hydro (page 6.15) proposes to increase the demand charge for Newfoundland Power
10 from \$5.00 per KW per month, which was set in 2017, to \$5.50 but indicated that the
11 average embedded demand cost has increased from \$12.21 per KW in the 2019 Test
12 Year Cost of Service Study to \$20.40 per KW. Why is the increase in the demand charge
13 not commensurate with the increase in the average embedded demand cost?

14 c) What was the marginal cost of capacity in 2017 and what is its forecast value for 2027?

15 d) It is stated (page 6.15) in regard to the 50 cent per KW increase in the demand charge
16 that "Hydro believes that such an increase will continue to provide the appropriate
17 demand management signal to Newfoundland Power?" Explain what is meant by
18 "appropriate demand management signal to Newfoundland Power" and how a new
19 charge that is much less in inflation-adjusted terms than its 2017 value is an appropriate
20 signal.

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23 A. a) Marginal cost, at the time, was used as an indicator of where the current demand rate was
24 compared to the marginal cost of capacity. The marginal cost of capacity is an indicator of
25 the potential for increased capacity costs in the future. If the objective of the rate design is
26 to collect all demand charges through the demand rate, then the embedded demand cost is
27 important, along with the rate impacts associated with proposing the full-cost demand rate.

1 It is equally important now as it was in 2017, though the impact of certain rate designs could
2 be limited by rate mitigation.

3 **b)** Newfoundland and Labrador Hydro's ("Hydro") proposal is to limit the demand rate increase
4 to 10%, given it was last updated in the 2019 Test Year and reflected in rates effective
5 October 1, 2019. Hydro intends to review the demand rate increase in the next General Rate
6 Application and the appropriateness of proposing a methodology for increasing the rate,
7 such as linking to inflation or changes in embedded cost.

8 **c)** Table 1 includes the marginal capacity costs filed in the 2017 General Rate Application for
9 2018 and 2019, along with Hydro's 2025 marginal capacity costs for 2027.

Table 1: Marginal Capacity Costs¹

Forecast Year	2017 Marginal Capacity Costs		2025 Marginal Capacity Costs
	2018	2019	2027
CAD/MWh	5.32	5.64	32.20

10 **d)** Please refer to part b) of this response.

¹ The 2017 marginal capacity costs were provided in response to CA-NLH-081 of Hydro's 2017 General Rate Application. The 2027 marginal cost forecast represents the most recent marginal cost estimate prepared by Hydro, based on calculations completed in December 2025. Hydro's marginal capacity costs include both generation and transmission costs.
<http://www.pub.nl.ca/applications/2017/NLH2017GRA/rfi/CA-NLH-081.PDF>