

1 Q. **Reference: Application, Chapter 6, page 6.14**

2 Hydro states that, effective January 1, 2025, in the update to the wholesale rate structure
3 charged to Newfoundland Power, Hydro's marginal cost of energy was changed to the
4 opportunity cost of the market value of exports.

5 a) During the winter months (December 2025 to March 2026), other than for established
6 contractual obligations, how much energy and capacity was exported by Hydro that
7 could have been otherwise available to the IIS if needed?

8 b) When Hydro anticipates an increase in demand, why does it not reduce exports to meet
9 the increased demand rather than use unit 3 at Holyrood?

10 c) Is the IIS system sufficiently integrated and connected to North American markets such
11 that Hydro can address fluctuations in IIS energy consumption during winter months
12 entirely by offsetting changes in the amount of exports?

13 d) Is Hydro's marginal cost of energy more accurately determined as weighted average of
14 marginal costs of the sources used to obtain extra energy for the IIS?

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17 A. a) Newfoundland and Labrador Hydro ("Hydro") did not export any incremental capacity, other
18 than established contractual obligations during the time period December 2025 to March
19 2026. While Hydro does not track specifically the volume of energy that could have been
20 used for the Island Interconnected System, it is reasonable to assume that the majority of
21 the 0.7 TWh that was exported during the time period December 2025 to March 2026 could
22 have otherwise served the Island Interconnected System, if needed.

23 b) The Holyrood Thermal Generating Station ("Holyrood TGS") is operated to provide sufficient
24 capacity to support system reliability requirements. Under normal operating conditions,
25 Holyrood TGS is maintained at its minimum generation level. In its daily planning process,
26 Hydro first schedules all available firm capacity from existing resources, including firm

1 imports over the Labrador-Island Link (“LIL”), to meet domestic load, reliability obligations
2 and minimizing thermal generation. Thermal generation is increased above minimum
3 operating levels only when required. Export transactions are considered only after Hydro
4 has secured the resources necessary to satisfy domestic supply and reliability requirements,
5 including the required utilization of available LIL imports.

- 6 **c)** Yes. Hydro’s connection to North American electricity markets provides the operational
7 flexibility to manage near-term fluctuations in Island Interconnected System energy
8 consumption through adjustments to excess energy export volumes

9 Based on current load and energy forecasts, Hydro expects to have sufficient resources to
10 meet domestic demand while remaining a net exporter of energy during the winter months
11 over the near-term planning horizon.

- 12 **d)** Marginal energy costs represent the variable operating cost associated with a change in
13 load. Hydro currently has surplus energy available to meet domestic energy requirements
14 and is a net exporter to regional wholesale markets. Accordingly, Hydro calculates marginal
15 energy costs using an opportunity cost approach, based on the market value of energy that
16 could otherwise be sold into the New England wholesale energy market. As a result, the cost
17 of serving an incremental MW of domestic load reflects the foregone revenue from
18 exporting that energy to external wholesale markets.