

1 Q. **Reference: CA-NLH-187**

2 In CA-NLH-187, Hydro states that its marginal cost of capacity is based on the next least-cost
3 build on the Island Interconnected System, including capital costs, operations and maintenance,
4 and other system costs, and that, as of December 2025, the calculation was based on the Avalon
5 Combustion Turbine.

6 a) Why is the Avalon CT an appropriate measure of the marginal cost of capacity on the
7 IIS?

8 b) What is the most recent estimated cost of the Avalon CT, what is its assumed in-service
9 date, and what planning criteria were used to determine the in-service date?

10 c) Provide the latest estimate of the marginal cost of capacity based on the Avalon
11 Combustion Turbine and illustrate how it was calculated and what components were
12 included in that calculation.

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15 A. a) Newfoundland and Labrador Hydro ("Hydro") evaluated the marginal cost of capacity using
16 several resource options and found that a combustion turbine ("CT") was the least-cost
17 alternative for meeting incremental capacity requirements.

18 b) Please refer to Hydro's 2025 Build Application proceeding, and Hydro's Avalon CT Project
19 Early Execution Update, for the most recent information regarding the estimated cost and
20 in-service date of the Avalon CT and the planning considerations supporting its timing. The
21 need for, timing, and cost of the Avalon CT are matters being considered in the 2025 Build
22 Application proceeding. It is Hydro's opinion that the information requested is not necessary
23 for a satisfactory understanding of the matters to be considered in the 2026 General Rate
24 Application as required by the *Board of Commissioners of Public Utilities Regulations, 1996*.

- 1 c) Table 1 provides the latest estimate of the marginal cost of capacity and an illustration of
2 the calculation.

**Table 1: Estimated Marginal Generation Capacity Cost Hydro's
Island Interconnected System
(\$/kW-year)**

Investment Cost (\$/kW)	Parameters	Investment Costs per kW	Charges on Capital (\$/kW-year)
Direct Facility Investment		5,545.90	249.80
General/Common	7.80%	432.83	27.74
Materials and Supplies	1.26%	69.65	3.14
Fuel Inventory		27.76	1.25
Working Capital (%/FOM ¹)	13.94%	2.88	0.13

Charge Rates (%)	Parameters	Cost Elements (\$/kW-year)
Carrying Charges, Direct	4.50%	254.32
Carrying Charges, Gen/Com	6.41%	27.74
Insurance Costs	0.11%	6.46
FOM Rate (\$/kW-year)	13.29	13.29
A&G Cost Rate (% OM)	55.28%	7.35

All-In Cost/kW-year:	309.16
Costs of Reserves (% of Supply)	25.80%
Adjusted All-In Total Cost/kW-year:	388.92

- 3 Stated on a \$/kW-year basis, the capital-related charges total \$282.06² and operating
4 expenditures totalling \$27.10, obtaining a total cost of \$309.16/kW-year. The recognition of a
5 reserve margin of 25.8% adds further to capacity costs in the amount of \$79.76/kW-year.

¹ Fixed Operating and Maintenance Costs ("FOM").

² This includes charges on (i) direct investment, materials and supplies, fuel inventory, and working capital of \$254.32, and (ii) associated investment in general plant balances of \$27.74.

- 1 Altogether, the estimate of marginal generation capacity cost for Hydro during 2025 is
- 2 \$388.92/kW-year.