

1 **Q. Reference: “2022 Capital Budget Application,” Newfoundland Power, May 18,**  
 2 **2021, Volume 1, Section 1.2, Sandy Brook Plant Penstock Replacement, Appendix A**  
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4 **Does Newfoundland Power’s economic analysis consider the costs associated with**  
 5 **transmission tariffs (as published on the Newfoundland and Labrador System**  
 6 **Operator OASIS portal) that would be incurred when selling energy in the export**  
 7 **market? If yes, please provide the assumptions regarding such costs utilized for the**  
 8 **analysis, and the basis of these assumptions. If not, why not?**  
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10 A. The marginal costs used in the *Sandy Brook Plant Penstock Replacement* project are  
 11 Newfoundland and Labrador Hydro’s (“Hydro”) marginal costs.<sup>1</sup> These marginal costs  
 12 reflect the additional costs that would be incurred by Hydro in the absence of  
 13 Newfoundland Power’s Sandy Brook Plant.  
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15 As explained in Hydro’s Marginal Cost Study, marginal costs for Hydro’s Island  
 16 Interconnected System include transmission line charges to deliver electricity to export  
 17 markets as well as Hydro’s transmission line losses.<sup>2</sup> The extent to which the  
 18 Newfoundland and Labrador System Operator’s (“NLSO”) transmission tariffs are  
 19 reflected in Hydro’s marginal cost forecast is unknown to Newfoundland Power.  
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21 The NLSO is responsible for the operation of the bulk electricity system in  
 22 Newfoundland and Labrador. It is a functionally separate division of Hydro that was  
 23 developed to maintain transmission rates and associated operating policies to allow for  
 24 the import and export of electricity in the province.<sup>3</sup> Transmission line tariffs published  
 25 by the NLSO are for transmission service within the provincial transmission system.  
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27 The NLSO does not own transmission assets within the province of Newfoundland and  
 28 Labrador. It is required to distribute transmission tariff revenues it receives to the entities  
 29 whose transmission costs are the basis for the tariffs. As Hydro is effectively incurring  
 30 all the transmission costs within the Island Interconnected System, Hydro can be  
 31 expected to be reimbursed for those costs through the disbursement of revenues from the  
 32 NLSO. Newfoundland Power does not expect that transmission tariffs related to the  
 33 NLSO will have any material effect on Hydro’s marginal cost estimates.  
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35 See responses to Requests for Information NLH-NP-018 and NLH-NP-019 for additional  
 36 information on the effect of changes in Hydro’s marginal costs on the *Sandy Brook Plant*  
 37 *Penstock Replacement* project.

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<sup>1</sup> Hydro’s marginal costs were most recently described in Hydro’s *Marginal Cost Study Update – 2018* (“Hydro’s Marginal Cost Study”), which was filed with the Board on November 15, 2018. Hydro provided its latest marginal cost forecast to Newfoundland Power on April 9, 2020.

<sup>2</sup> See *Marginal Cost Study, Appendix A – Marginal Cost Study Update – 2018 prepared by Christensen Associates Energy Consulting*, page 16.

<sup>3</sup> The operating policies and procedures of the NLSO are designed to be consistent with the reciprocity requirements set out in the United States Federal Energy Regulatory Commission (“FERC”) Order 888.