Q. What is the basis for the energy values of $0.071 and $0.093/kWh used in the economic analysis of penstock diameters (page 2, Appendix C, Volume II)?

A. The values of $0.071/kWh and $0.093/kWh used in the economic analysis were estimated by Newfoundland Power early in 2006.

The $0.071/kWh reflects a Holyrood cost of fuel of $45/bbl.

The $0.093/kWh is a combination of the Holyrood cost of fuel at $0.071/kWh and an estimated generation capacity value of $0.022/kWh.

These estimates were made without the benefit of detailed expert review of marginal costs on the island interconnected grid.

On June 21, 2006, Newfoundland and Labrador Hydro filed a marginal cost study that was conducted by NERA Economic Consulting ("NERA"). NERA assessed the marginal cost of Holyrood production at $0.0873/kWh[1]. In addition, NERA estimated a generation capacity value of $0.0012/kWh[2] for the winter season. This indicates a total marginal cost of $0.0885/kWh for the 2007 winter season.

NERA's economic estimates of marginal costs are within the range of values estimated by Newfoundland Power early in 2006 and confirm the economic benefits of the increased penstock diameter.

[1] Marginal cost of energy for 2007 is shown on Table 24 of the NERA marginal cost study.
[2] Marginal cost of generation capacity for 2007 as shown on Table 24 of the NERA marginal cost study.