

1 Q. (a) Why did Newfoundland Hydro release the water rights on the Rose  
2 Blanche Brook to Newfoundland Power in 1991?

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4 (b) Why did Newfoundland Hydro oppose Newfoundland Power's  
5 Development of the Rose Blanche Brook in a hearing before the  
6 Public Utilities Board?

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8 (c) Did Newfoundland Hydro give consideration to developing the Rose  
9 Blanche Brook itself?

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11 (d) What, in the opinion of Hydro, have been the benefits to consumers in  
12 the Province of the development by Newfoundland Power at Rose  
13 Blanche Brook?

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16 A. (a) In April 1990 the Minister of Mines and Energy announced a process  
17 whereby Hydro was prepared to issue waivers to undeveloped small  
18 hydro sites (less than 10 MW) to prospective developers as a means  
19 of providing opportunity for the private sector to invest in hydroelectric  
20 production. This was in advance of a request for proposals for the  
21 purchase of up to 50 MW firm small scale hydro projects. In 1991,  
22 Hydro waived its franchise right to power development on Rose  
23 Blanche Brook to Newfoundland Power. Subsequently, Newfoundland  
24 Power applied to the Department of Environment and Lands for a  
25 Water Use Authorization which permitted development of the site.

1 (b) Hydro intervened at Newfoundland Power's 1998 capital budget  
2 hearing to ensure that the Board, in advance of its decision, was fully  
3 aware of all the issues surrounding the Rose Blanche Development.  
4 Hydro's position on this matter is outlined in the attached letter.

5

6 (c) Hydro did give consideration to the development of Rose Blanche  
7 Brook in 1991, when Newfoundland Power requested that Hydro  
8 waive its franchise right to the hydroelectric potential of the site.  
9 Hydro, after a review of information available on the site, decided not  
10 to pursue the development.

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12 (d) Hydro's view on the project and its benefits to customers are  
13 expressed in the attachment to 165(b).

**NEWFOUNDLAND AND LABRADOR HYDRO**

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**CA-165(b)**  
**Page 3 of 5**

December 24, 1997

The Board of Commissioners of Public Utilities  
Prince Charles Building  
120 Torbay Road  
St. John's, Newfoundland

**ATTENTION: Ms. Cheryl Blundon**  
Clerk

Dear Ms. Blundon:

**RE: Application for Approval of Newfoundland  
Power's 1998 Capital Expenditure Budget**

At the conclusion of the public hearing on Newfoundland Power's Application for Approval of its 1998 Capital Expenditure Budget it was agreed that the capital expenditures associated with the Rose Blanche Brook Development would be deferred until Newfoundland Power filed additional information as identified during the hearing. Newfoundland Power filed some of the requested information on December 15, 1997 and the balance, including the Feasibility Review Update for the Rose Blanche Brook Development, on December 19, 1997 (the Revised Feasibility Report). Having reviewed the most recently filed information, Newfoundland Hydro is now in a position to comment on the proposed capital expenditures for the Rose Blanche Brook Development.

Section 3 (b) of *The Electrical Power Control Act, 1994*, requires that all sources and facilities for the production of power in the Province should result in power

being delivered to consumers "at the lowest possible cost consistent with reliable service". Hydro submits, that when a new generation source is under consideration, the Public Utilities Board must consider whether the proposed generation will result in the lowest possible cost for consumers in order to be consistent with this power policy. It is Hydro's position that a proponent requesting approval for a new generation source to supply the Interconnected Island system must satisfy the Board that additional capacity and/or energy is required and that the project proposed to meet the need will result in the least cost for consumers of all available technically suitable options.

With respect to the issue of whether additional capacity and energy for the Island interconnected system is required, Hydro has concluded that, based on the current load forecast, such is not required until, at the earliest, the year 2002. Moreover, it is not possible to determine the least cost generation alternative for the year 2002 until all other Island generation alternatives are reviewed to determine the least cost option.

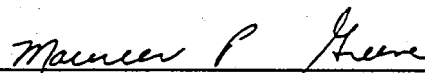
Notwithstanding this, however, a new generation project can also be justified for other than meeting additional capacity and energy requirements if it will result in lower costs than energy which can be produced with existing capability. Other qualitative factors referred to in the Revised Feasibility Report, such as reliability improvement in the Port aux Basques area and deferral of additional transmission capacity, may support a decision to proceed with a project such as the Rose Blanche Brook Development but cannot be used by themselves to justify a decision to proceed with a project.

We acknowledge that approximately \$1.9 million has been spent by Newfoundland Power to date with respect to the Project and the Revised Feasibility Report indicates that delaying the in-service date beyond 1998 adds to the cost of the project. In consideration of this fact and in recognition of the other available factors referred to by Newfoundland Power in the Revised Feasibility Report, the Board may

determine, following its own examination of these issues, that the Rose Blanche Brook Development should proceed in accordance with the original schedule.

Finally, we wish to draw to the Board's attention that this application focuses attention in a significant way on the appropriate process for the approval of new generation sources for the interconnected Island system. It is Hydro's submission that such projects should, as noted above, be justified on the basis of a forecasted capacity requirement and that the proposed project be the lowest cost alternative of the available options. The Rose Blanche Brook Development provides an opportunity for the Board to give direction to both utilities on the appropriate tests and processes to be followed for approval of a generation source.

Yours truly,



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Maureen P. Greene, Q.C.  
Vice-President Human Resources, General  
Counsel & Corporate Secretary

MPG/mgw

c.c. Gerard Hayes  
Newfoundland Power