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June 11, 2019

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Via Electronic Mail and Courier

Newfoundland and Labrador Board of Commissioners of Public Utilities
120 Torbay Road
P.O. Box 21040
St. John's, NL A1A 5B2

**Attention: Ms. G. Cheryl Blundon, Director of Corporate Services
and Board Secretary**

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro's- Application for Revisions to Cost of Service
Methodology- Requests for Information IC-PUB-001 to 016 and IC-NLH-001 to 028**

Further to the above, enclosed please find the original and eight (8) copies of the Island Industrial Customers Group Requests for Information dated June 11, 2019 IC-PUB-001 to IC-PUB-016 (directed to the Brattle Group) and IC-NLH-001 to IC-NLH-028 (directed to Hydro and CA Energy Consulting).

We trust this is in order.

Yours truly,

Stewart McKelvey

Paul L. Coxworthy
PLC/tas

Enclosures

c: Shirley Walsh, Senior Legal Counsel- Regulatory, Newfoundland & Labrador Hydro
Dennis M. Browne, Q.C., Consumer Advocate
Gregory Moores, Iron Ore Company of Canada
Gerard Hayes, Newfoundland Power Inc.
Senwung Luk, Labrador Interconnected Group

ecc: Newfoundland & Labrador Hydro
NLH Regulatory, Email: NLHTegulatory@nlh.nl.ca
Newfoundland Power Inc.
NP Regulatory, Email: regulatory@newfoundlandpower.com
Consumer Advocate
Stephen Fitzgerald, Email: sfitzgerald@bfma-law.com

4152-7770-6524 v2

1 **IN THE MATTER OF**
2 the *Electrical Power Control Act*, 1994
3 SNL 1994, Chapter E-5.1 (the "EPCA")
4 and the *Public Utilities Act*, RSNL 1990,
5 Chapter P-47 (the "Act"), as amended, and
6 regulations thereunder; and
7

8
9 **IN THE MATTER OF** an application from
10 Newfoundland and Labrador Hydro for approval
11 of revisions to its Cost of Service Methodology
12 pursuant to section 3 of the EPCA for use in the
13 determination of test year class revenue requirements
14 reflecting the inclusion of the Muskrat falls Project
15 costs upon full commissioning.
16

**REQUESTS FOR INFORMATION OF
THE ISLAND INDUSTRIAL CUSTOMERS GROUP**

IC-PUB-001 to IC-PUB-016

Issued: June 11, 2019

Newfoundland and Labrador Board of Commissioners of Public Utilities

June 11, 2019

Page 2

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1 **REQUESTS FOR INFORMATION OF**
2 **THE ISLAND INDUSTRIAL CUSTOMERS GROUP**

3 **The Brattle Group Report on Hydro's COS Methodology Review Application**

4 **IC-PUB-001**

Please provide the Brattle Group's understanding of the purpose and function of the Corner Brook Pulp and Paper (CBPP) Pilot Agreement and of the distinct purpose and function of the CBPP Capacity Assistance Agreement. As part of the response, please comment on the differing functions of the Capacity Assistance Agreement and the Pilot Agreement in relation to Hydro's dispatchability of capacity.

11 **IC-PUB-002**

Paragraph 3(b)(i) of the *Electrical Power Control Act, 1994* provides

13 3. It is declared to be the policy of the province that

14 (b) all sources and facilities for the production, transmission and distribution of
15 power in the province should be managed and operated in a manner

16 (i) that would result in the most efficient production, transmission and
17 distribution of power,
18

19 Please provide the Brattle Group's understanding of the extent to
20 which a poorly designed rate for CBPP could result in incentives
21 for CBPP to use its hydraulic generation in an inefficient manner,
22 i.e. to avoid monthly peaks when instead a greater quantity of
23 renewable energy could have been generated if CBPP was
24 incented to dispatch their generation differently. Please confirm
25 whether the Brattle Group did or did not review the extent to which
26 the current CBPP supply contract (absent the Pilot Agreement)
27 may in fact incent this precise inefficient behavior. If the Brattle
28 Group did review the CBPP supply contract/rate design, please
29 provide the Brattle Group's comments on this issue.

30 **IC-PUB-003**

31 Page 60 of the Brattle Group report notes that "*Hydro (at 18)*
32 *believes that the benefits to all customers arising from the fuel*
33 *cost savings that supported the pilot project implementation are*
34 *not expected to continue upon commissioning of the Muskrat Falls*
35 *Project. Hydro proposes to discontinue the generation credit*
36 *agreement between Hydro and CBPP upon full commissioning of*
37 *the Muskrat Falls Project. However, Hydro believes CBPP should*
38 *have the opportunity to manage its generation as efficiently as*
39 *possible and, to that end, proposes to work with CBPP in the rate*
40 *design review planned for 2019 to develop a proposal to achieve*
this objective."

1 The Brattle Group is asked to confirm that absent the Pilot
2 Agreement, CBPP is effectively economically incented (by way of
3 its supply contract with Hydro and rate design) to operate its hydro
4 generation in a manner that would be inefficient, and to purchase
5 excess quantities of power from Hydro ("non-firm" power) that
6 would be unnecessary under a properly structured rate such as
7 the one provided by the Pilot Agreement?

8 **IC-PUB-004** With reference to IC-PUB-003 above, the Brattle Group is asked
9 to confirm that, absent a new agreement between Hydro and
10 CBPP, cancellation of the CBPP Pilot Agreement would be
11 premature and could lead to inefficient management and
12 operation of hydraulic generation.

13 **IC-PUB-005** The Brattle Group is asked to confirm that there is no incremental
14 cost to Hydro customers from continuing the CBPP Pilot
15 Agreement.

16 **IC-PUB-006** Page 33 of the Brattle Group report notes that "*our experience*
17 *is that the equivalent peaker method has more commonly*
18 *found use in thermal generation-dominated systems."* Is the
19 Brattle Group aware of any hydro generation dominated system
20 using the equivalent peaker method? If yes, what is the
21 proportion of the cost classified using the equivalent peaker
22 method?

23 **IC-PUB-007** Is the Brattle Group aware of whether any of the utilities that
24 use the equivalent peaker method have power purchase
25 arrangements similar to those which will be applicable to Hydro
26 in relation to Muskrat Falls Project, i.e., Hydro's payments are
27 fixed regardless of the amount of energy used?

28 **IC-PUB-008** Page 38 of the Brattle Group report recommends that "*that the*
29 *capital additions and operations and maintenance costs*
30 *associated with Holyrood 3's use as a synchronous generator*
31 *be classified as energy, since those costs are largely*
32 *dependent on kWh production."*

33 The Brattle Group is asked to confirm that absent requirement
34 for its use as a synchronous condenser, Hydro would not use
35 Holyrood Unit 3 for energy generation purposes.

36 **IC-PUB-009** With reference to page 38 of the Brattle Group report, if it was
37 determined that the O&M costs of Holyrood Unit 3 were driven
38 primarily by maintaining the condition and readiness of the Unit,
39 and not by the incremental kWh that the Unit enabled, would
40 this change the Brattle Group's recommendation that new costs
41 including O&M should be classified as energy?

1 **IC-PUB-010**

Page 9 of the Brattle Group report recommends that *"LIS and IIS diesel and gas turbine units be classified as demand with variable fuel costs as energy"*.

4 Hydro, in its 2017 GRA, at page 3.25, stated that *"there are peaking requirements assumed for the Island Interconnected System gas turbines in order to maintain minimum generation reserve requirements. The requirements for the gas turbines are determined in consideration of thermal and hydraulic forced outage rates, and in consideration of the peak load forecast and Hydro's typical load duration curve."* and that *"The Island Interconnected System gas turbines and diesel production also assumes that each plant is exercised at rated output for one hour per month during the non-winter period for testing and for ensuring availability."*

15 Based on the above, in the cost of service study Hydro classifies fuel costs for diesel and gas turbine units as demand. However, in addition Hydro maintains the Energy Supply Cost Variance Deferral Account which captures variances in the price and volume of Hydro's own diesel and gas turbine generation, and these variances are allocated to customer classes based on energy ratios.

22 Considering all of the above, does Brattle Group agree that the continuation of the existing practice is more appropriate than the reclassification of fuel costs for diesel and gas turbine units as energy?

26 **IC-PUB-011**

The use of diesel units or gas turbines to produce energy is tied to peak loadings during winter periods. Although the fuel produces energy, it is energy tied to use in a specific high load hour. Absent a high load in this hour, the turbines and diesel units would not be used.

31 Please discuss whether these facts would lead the Brattle Group to conclude that, for diesel units and gas turbines fuel costs, a CP allocator is more appropriate, or alternatively a classification to 100% energy, but with allocation based on, for example, relative energy use over only the key winter months.

36 **IC-PUB-012**

If Hydro's load was all high load factor, such that energy usage was the same but peaks were much lower during the winter, what conclusions would the Brattle Group reach on (a) whether the gas turbines and diesel units on the IIS would be required and (b) whether the energy produced by burning fuel in those turbines and units would be required?

42 **IC-PUB-013**

Page 64 of the Brattle Group report notes that *"rates based upon marginal costs provide good economic price signals for consumers and producers and help ensure that scarce*

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1 *resources are being utilized efficiently.” In the view of the*
2 *Brattle Group, how does the fact that most of the Muskrat Fall*
3 *costs for Hydro will be fixed impact upon economic price*
4 *signals and marginal cost?*

5 **IC-PUB-014** CA Energy Consulting report, page 19 states that “*marginal*
6 *costs have not been widely used for cost allocation in the past*
7 *due to their computational challenges and the fact that total*
8 *marginal costs do not necessarily equal the embedded costs*
9 *that are the object of revenue recovery, subject to regulatory*
10 *approval”. Is the Brattle Group aware of any Canadian major*
11 *utility that uses marginal cost of service, or marginal cost for*
12 *cost allocation purposes, in its cost of service study? If so,*
13 *please provide details on the jurisdiction, the approach to using*
14 *marginal costs in the cost of service study, and reference the*
15 *most recent decision by each regulator that approved this*
16 *approach.*

17 **IC-PUB-015** At page 61 of its report, the Brattle Group recommends “*that*
18 *the export credit be classified and allocated in the same*
19 *manner as the Muskrat Falls generation, as discussed above,*
20 *namely classified between demand and energy using the*
21 *system load factor and allocated using the 1-CP for demand*
22 *and the energy allocator for energy.”*

23 Hydro will gain revenue from exports that may arise due to
24 energy sales (tied to payments for each kW.h exported) or
25 capacity sales (tied to each kW made available to the export
26 markets). What is the Brattle Group’s view on whether it would
27 be more appropriate to classify export revenues based on the
28 relative weighting of these two export products, rather than the
29 system load factor? Please explain the Brattle Group’s view on
30 whether or not this approach would be more in line with the
31 classification of export revenue’s value.

32 **IC-PUB-016** On page 23 of its report, the Brattle Group notes “*Setting rates*
33 *based on each classes’ relative peak demand reflects the costs*
34 *that each class imposes on the utility and provides appropriate*
35 *economic signals for customers to make purchases at the peak*
36 *that is commensurate with the value of the service.*

37 *Under the cost causation approach to classification and*
38 *allocation, the general focus is on the utility planner’s*
39 *investment decisions to add capacity to meet reliability criteria*
40 *such as loss of load probability, reserve margin, loss of load*
41 *hours or other measures.”*

42 If the IIS investment in capacity is based not only on the P50
43 expected load of each class, but on a low probability high
44 impact peak loading (such as P90 or greater), what is the view

1 of the Brattle Group on whether the CP allocator should take
2 into account the variability in each customer classes' loads
3 between the expected (P50) peak and the planning peak (e.g.,
4 P90).

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6 DATED at St. John's, Newfoundland and Labrador this 11th day of June, 2019.

Island Industrial Customer Group

Per:

1 

Paul Coxworthy, Stewart McKelvey

h 

Denis Fleming, Cox & Palmer

for 

Dean Porter, Poole Althouse

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