Q. Re: Pre-filed Testimony of Andrew McLaren

It is stated (page 21, lines 29 to 30) *"The CBPP pilot agreement should be continued until a replacement agreement is available."* Hydro states (page 18, lines 4 to 7 of Hydro's report included with the Cost of Service Application) *"The benefits to all customers arising from the fuel cost savings that supported the pilot project implementation are not expected to continue upon commissioning of the Muskrat Falls Project. Therefore, Hydro proposes to discontinue the generation credit agreement between Hydro and CBPP upon full commissioning of the Muskrat Falls Project."*

What incentive does CBPP have to negotiate a replacement agreement when it knows the value of its generation will decrease post Muskrat Falls commissioning? For how long should other customers on the system, including other Industrial Customers, subsidize CBPP while waiting for the conclusion of negotiations on a replacement agreement?

A. It is not clear how the Consumer Advocate arrives at the conclusion that "other customers on the system" in any way "subsidize" CBPP as part of the pilot agreement. This appears to reflect a significant misunderstanding of the agreement.

There is no payment from retail customers to CBPP under the agreement. The terms of the pilot agreement do not affect the Cost of Service study cost allocation in any notable way. They do not alter the peak loads on the system, or the allocation of costs to NP or to Hydro rural. The only effect of the CBPP pilot agreement is on an operating basis. CBPP is not required to maintain an artificially flat load for the purposes of meeting the artificial "Power on Order" standard in the industrial contract (artificial in the sense that this is not CBPP's actual load – it is only their net load to Hydro).

In the past, absent the agreement, CBPP would have used its generation in a somewhat less efficient way, and would have had to purchase non-firm power for maintenance periods. Under the pilot agreement, CBPP can optimize its generation, buy less kW.h, and manage its maintenance periods with firm power under the contract. The loss of non-firm sales by NLH does not affect other customers, as these sales were always a flow through of fuel costs. The added generation and added efficiency on the system is a benefit to efficiency. In the past this would have led to fuel savings, and in the future, this will lead to less net load on the system and added exports. Either way, the justification for the pilot agreement is better energy efficiency for the entire island generation fleet, which is naturally good for the province compared to unnecessary waste.

As to what “incentive” CBPP has – CBPP benefits from a sensible contract that allows it to make the most efficient use of its generation. The value of its generation will not decrease following Muskrat Falls commissioning – the value will increase as the price of power from NLH increases, as CBPP generation is an alternative source to NLH purchases. If CBPP can be efficient, NLH will likely sell slightly less firm power, which is the same outcome as CDM or other efficiency measures, and will permit benefits from slightly higher exports.