Q. **On page 16 of Schedule 1 of the COS Methodology Review Report,** Hydro notes that *"the use of the generation credit provides Newfoundland Power with an estimated coincident peak demand requirement in the cost of service study that is effectively the same as if Newfoundland Power was operating its generation at peak times (with an adjustment for reserves). The provision of the generation credit removes the incentive for Newfoundland Power to operate its thermal generation to minimize its peak demand purchases from Hydro."*

Is the rationale above different from the rationale for the CBPP Pilot Agreement? Please explain.

A. Newfoundland and Labrador Hydro ("Hydro") notes that Corner Brook Pulp and Paper Ltd. ("CBPP") does not have more expensive thermal generation that it could utilize to minimize its peak demand purchases; therefore, Hydro is unclear as to the full context of this question.

The rationale for the CBPP Pilot Agreement was to provide for a generation credit arrangement which allows CBPP to more efficiently utilize its hydraulic generation. The agreement provides a means for CBPP to base load its generation at the most efficient settings and to avoid using its generation for Mill load following which results in inefficient operation. Otherwise there would be a financial disincentive as non-firm power costs would be incurred for any periods when demand exceeded power or order. The agreement also provides for the ability for Hydro to call on CBPP to maximize its hydraulic generation prior to dispatching higher cost sources such as Holyrood thermal generation. Overall the justification was based on a reduction in thermal production which would benefit all customers.

Since the implementation of the Pilot agreement, CBPP's load and demand purchase requirements from the grid have decreased considerably. CBPP's power on order has decreased from 36 MW in 2009 to the current 4 MW in 2019. CBPP's percentage of generation relative to its load has increased accordingly. In recent times, with CBPP generation based loaded (thus avoiding Mill load following) it does not take a large load reduction at the Mill before power is pushed back to the grid. Therefore, to stay base loaded during these times would require the transfer of significant amounts of secondary energy to Hydro. During periods when Hydro's reservoirs are high, Hydro would take receipt of the energy and pay only when it is deemed to not be at a risk of spill. Otherwise it has displaced Hydro's hydraulic generation. Therefore CBPP risks not receiving anything for this energy. Hydro feels this has reduced the effectiveness of the agreement in recent years.

Since the installation of the third 230 kV transmission line from Bay d'Espoir to the Avalon Peninsula in late 2017, the primary driver for Holyrood operation has shifted from the Avalon transmission constraints to Island operating reserve considerations. This has resulted in more calls to CBPP for capacity requests. While this has resulted in a reduction in thermal production since that time, with the interconnection of the island and pending retirement of the Holyrood plant the value of the agreement going forward has yet to be determined.

Hydro proposes to discontinue the generation credit agreement between Hydro and CBPP upon full commissioning of the Muskrat Falls Project. However, Hydro believes CBPP should have the opportunity to manage its generation as efficiently as possible and, to that end, proposes to work with CBPP in the rate design review planned for 2019 to develop a proposal to achieve this objective.