

1 Q. **Reference: Newfoundland and Labrador Hydro 2018 Cost of Service Methodology Review**
2 **Report, November 15, 2018, Page 10, Lines 2-5.**

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4 *“Hydro recommends the use of the equivalent peaker methodology for classification*
5 *between demand and energy for the classification of power purchase costs resulting from*
6 *the Muskrat Falls Project. CA Energy Consulting recommended the equivalent peaker*
7 *approach rather than the other traditional cost of service classification approaches.”*

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9 Please explain why Hydro recommends that the equivalent peaker method be used to
10 classify the power purchase costs resulting from the Muskrat Falls Project (which includes
11 both generation and transmission costs), but recommends keeping the load factor method
12 for classifying existing hydraulic generation on the Island.

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15 A. Newfoundland and Labrador Hydro (“Hydro”) accepts the evidence that Christensen
16 Associates Energy Consulting (“CA Energy Consulting”) provided to support its
17 recommendation of the use of the equivalent peaker method for the classification of the
18 power purchases costs associated with the Muskrat Falls Project.

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20 With respect to the use of the equivalent peaker on existing hydraulic assets, the use of this
21 classification approach was proposed by Newfoundland Power and their expert, Mr. Larry
22 Brockman, in the 1992 Cost of Service Methodology proceeding. The Board of
23 Commissioner of Public Utilities’ (the “Board”) review of the reasonableness of using the
24 methodology for classification of existing hydraulic generation was provided in its 1993
25 Report on the Cost of Service Methodology.¹ The Board did not disagree with the

¹ Report of the Board of Commissioners of Public Utilities to the Honourable Minister of Mines and Energy Government of Newfoundland and Labrador on a Referral by Newfoundland and Labrador Hydro for the Proposed Cost of Service Methodology and a Proposed Method for Adjusting its Rate Stabilization Plan to take into Account the Variation in Hydro Rural Revenues Resulting from Variations in the Rates Charged by Newfoundland Light & Power Co. Limited to its customers, February 1993. (“1993 Report”)

1 conceptual basis for consideration of the equivalent peaker method. However, the Board
2 concluded:

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4 *The Board is of the opinion that with adjustments of this type the equivalent*
5 *peaker method gives reasonable results. However, the scope of adjustment*
6 *required would be to a large extent judgmental, so that within a range of values*
7 *the classification obtained by the equivalent peaker method would in effect be*
8 *arbitrary. For this reason, the Board will consider the method as providing a*
9 *useful indication, but rejects it as a method to be used for the sole determination*
10 *of the demand/energy split.²*

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12 The Board also stated:

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14 *Re-examination of cost of service methodology has been an infrequent occurrence*
15 *in Newfoundland and in anticipation that this may hold in the future as in the past,*
16 *the Board is concerned that the methods of classification will reflect changes in load*
17 *patterns and use of generating facilities. Neither the equivalent peaker nor the*
18 *specific facilities method have this ability, since both rely totally on past investment*
19 *decisions.*

20
21 *The Board therefore finds it necessary to consider classification methods based on*
22 *operating parameters; namely, system load factor and plant capacity factors. Such*
23 *classification methods would be more flexible with the dynamic nature of the*
24 *system.*

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26 The Board concluded that with the use of plant capacity factor for the Holyrood Thermal
27 Generating Station thermal and System Load Factor for hydraulic generation (i.e.,
28 calculated based on coincident peak), the classifications would be flexible over time in
29 response to changes in customer use of the system. A decreasing load factor would shift

² Page 50 of the "1993 Report".

1 more cost to being demand-related and an increasing load factor would shift more cost to
2 energy-related.

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4 Hydro accepts the Board's decision that System Load Factor is appropriate for classification
5 of existing hydraulic generation rather than the equivalent peaker classification approach.

6 However, given the uniqueness of the Muskrat Falls Project compared the existing
7 hydraulic generation, Hydro believes the results of the analysis of the equivalent peaker
8 approach provides a strong indication that the System Load Factor approach would classify
9 an excessive amount of Muskrat Falls Project purchase power costs as demand-related (i.e.,
10 relative to the demand-related portion of the cost of the Holyrood Thermal Generating
11 Station that the Muskrat Falls Project is replacing).

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13 Section 3.2 of CA Energy Consulting's report, at pages 13-18, sets out the argument for the
14 treatment of purchase power costs associated with the Muskrat Falls Project. The context
15 of the classification issue is that Muskrat Falls Project is meant to replace the Holyrood
16 generation unit and its associated fuel costs. The fuel substitution feature of Muskrat Falls
17 supports the use of the equivalent peaker methodology which recognizes planners'
18 substitution of capital cost for fuel cost in meeting baseload needs. As the text states,
19 "Muskrat Falls is designed to operate as a baseload unit. The equivalent peaker approach
20 would recognize that fact by treating much of its cost as being energy-related." (Page 16,
21 lines 5-7.). CA Energy Consulting concludes that "... this approach may deserve renewed
22 consideration for its application to the classification approach for Muskrat Falls" (Page 17,
23 lines 12-13). Hydro agrees with the conclusion of CA Energy Consulting.