

1 Q. Please explain why procuring capacity from external markets was considered in the 2016
2 Phase II Marginal Cost study (at 19-22) but not in the 2018 study.

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5 A. The “Marginal Cost Report, Part II Estimation: Marginal Costs of Generation and
6 Transmission Services for 2019” (the “the 2016, Part II”) explored two conceptual methods
7 for securing—and thus valuing—capacity, including internal costs and capacity auctions. At
8 the time of the “Marginal Cost Report, Part II Estimation: Marginal Costs of Generation and
9 Transmission Services for 2019” (the “2016 Report, Part I”) Newfoundland and Labrador
10 Hydro’s (“Hydro”) expected capacity condition could allow for possible participation in
11 generation capacity auctions.

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13 Hydro's “Reliability and Resource Adequacy Study,” filed on November 16, 2018 was
14 conducted in accordance with the North American Electric Reliability Corporation
15 “Probabilistic Assessment Technical Guideline Document,” August 2016. In that approach,
16 import and export transactions are categorized as either firm or non-firm. To be counted as
17 a supply of firm capacity, the import transaction would have to be classified as firm, with
18 associated contracts to ensure the capacity is not otherwise committed to another
19 jurisdiction. As Hydro does not currently have contractual arrangements for such supply,
20 Hydro did not include purchases of capacity from external markets in its “Reliability and
21 Resource Adequacy Study” assessment. Hydro’s “Marginal Cost Study Update – 2018
22 Summary Report” (the “2018 Report”) reflects the results of the “Reliability and Resource
23 Adequacy Study” assessment.

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25 As mentioned above, Hydro’s 2016 Report, Part II also provided marginal generation
26 capacity costs based on internal costs. However, the available capacity to supply load
27 growth in the near-term has been reduced materially from that used in Hydro’s 2016
28 Report, Part II. As explained in the 2018 Report, Hydro anticipates the retirement of 100
29 MW of gas turbine generation in 2021. In Hydro’s 2016 Report, Part II projecting 2019

1 marginal costs, there was a 50 MW retirement assumed in 2025 and another 50 MW
2 retirement assumed in 2028. At the time of completing the 2016 Report, Part II, Hydro was
3 not forecasting capacity additions for a number of years which contributed to a materially
4 lower marginal cost of generation capacity than derived in the 2018 Report.

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6 As explained in Section 2.3.3 of the 2018 Report, Hydro is forecasting limited generation
7 capacity available in 2021. There is substantial uncertainty in the customer load
8 requirements (due to the rate mitigation plan not yet being concluded) and whether the
9 Board of Commissioners of Public Utilities will approve the proposed change from a P90
10 forecast for reliability planning to a P50 forecast (potential 60 MW–70 MW impact). For this
11 reason, Hydro has assumed the marginal cost of generating capacity reflects the cost of a
12 new gas turbine in service in 2021. As a result, there is a material increase in the marginal
13 generation capacity costs in the 2018 Report relative to the 2016 Report, Part II.