

1 **Q: Reference: “Review of Existing and Proposed Network Additions Policies for**
2 **Newfoundland and Labrador Hydro,” The Brattle Group, November 19, 2019,**
3 **p. 32.**

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If the Board finds it appropriate to measure customer benefits due to increased reliability, a standard measure is the value of lost load (“VOLL”). VOLLs estimate the monetary value that customers would pay to avoid an outage in the face of an impending outage event.

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Does Brattle agree that the electricity outage cost literature includes studies that measure the implied outage costs, as incurred by consumers, as the costs of on-site generation? If yes, why is it unreasonable for Hydro to use capacity-related fuel costs as a proxy for the customer value of reliability pending further study and analyses?

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A. The VOLL literature is voluminous and context-specific. Hydro has neither provided nor cited a specific study to review. Within Hydro’s NAP proposal, there is insufficient information to determine whether fuel costs are a reasonable proxy, and, as stated in the Brattle Report on pages 31-32:

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“It is unclear why Hydro selected a proxy that would produce benefits that indicate that the value of a transmission investment is higher than its costs. This use of fuel costs as a proxy appears to be inconsistent with Hydro’s earlier acknowledgement that the transmission expansion plan already reflects a balance between customer rates and reliability. While Hydro states that the fuel costs serve as a “proxy” for reliability to customers, it does not provide a discussion of why fuel costs are an appropriate proxy or how fuel costs compare to other potential measures of customer reliability, such as VOLL, that may reflect the balance of customer costs and benefits included in the transmission expansion plan.” [footnote omitted.]