

1 **Q. (Reference NLH-NP-014 and the Sandy Brook Plant) Has the availability of surplus**
2 **energy in 2041 from the Upper Churchill been a consideration in determinations for**
3 **capital budget expenditures on NP plants? Should not all of these expenditures be**
4 **placed on hold until the determination is made based on the resource and reliability**
5 **issues and what will be required on the Island leading into 2041?**
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7 A. The Company routinely assesses the economic viability of each hydro plant when
8 additional expenditures are required to ensure the hydro plant's continued safe and
9 reliable operation. The analyses used to assess the economic viability are based on a
10 comparison of the cost of production from the hydro plant to the marginal cost of
11 electricity on the Island Interconnected System over the expected life of the hydro plant.
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13 The marginal cost of electricity is reflective of: (i) the forecast value of energy that can be
14 exported to external electricity markets; and (ii) the cost of additional capacity on the
15 Island Interconnected System.¹ This approach is appropriate for both the upcoming
16 completion of the Muskrat Falls Project and the potential availability of surplus energy
17 from the Upper Churchill in 2041.
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19 The availability of surplus energy in 2041 from the Upper Churchill was addressed in the
20 *Commission of Inquiry Respecting the Muskrat Falls Project*.
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22 In his final report Justice LeBlanc stated:
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24 *“The Churchill Falls facility is owned by CF(L)Co and that corporation is*
25 *owned 65.8% by Newfoundland and Labrador Hydro and 34.2% by*
26 *Hydro-Québec. There is no doubt that the CF(L)Co board of directors has*
27 *a fiduciary duty to maximize profits, and this may complicate negotiations*
28 *with Hydro-Québec for the post-2041 period. As Mr. Colaiacovo*
29 *suggested, and I agree, there are two main alternatives for Churchill Falls*
30 *power post-2041: 1. Negotiate a new agreement with Hydro-Québec. This*
31 *would likely involve some combination of the sale of power to both*
32 *Newfoundland and Labrador and to Québec, as well as transmission of*
33 *electricity through Québec to North American markets. 2. Build new*
34 *transmission facilities from Churchill Falls to Nova Scotia and on to New*
35 *England, following the Maritime route.”²*
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37 See response to Request for Information PUB-NP-003 for additional information related
38 to the resource and reliability issues, generation requirements and the role of
39 Newfoundland Power's hydro plants following completion of the Muskrat Falls Project.

¹ Marginal costs used in the economic analysis of Newfoundland Power's hydro production facilities are based on Hydro's April 9, 2020 forecast of marginal costs.

² See *Commission of Inquiry Respecting the Muskrat Falls Project, Muskrat Falls: A Misguided Project, Volume 4*, page 2.