Q. The last Capacity Assistance Agreement included a fixed fee of $2,992,500 for six months plus a variable cost of a maximum $0.26 per kW per hour for 105 MW of capacity. The proposed agreement includes an annual fixed fee of $7,200,000 and no variable rate for the first 180 hours for 90 MW of capacity.

a) Using the payment terms of the previous agreement, please provide a calculation of what the total estimated annual cost would be assuming that 90,000 kW for the 180 hours were used during the winter period. Please reconcile this amount to the fixed fee of $7,200,000, with no variable rate for the first 180 hours, in the proposed agreement

b) Based on the Capacity Assistance Agreement reports filed with the Board since the winter of 2014-2015, the total cost for using the agreement has not exceeded $3.1 million (fixed plus variable). Please confirm that $3.1 million is the highest amount paid to Corner Brook Pulp and Paper under previous Capacity Assistance Agreements.

c) The fixed fee in the previous Capacity Assistance Agreement was $4.75 per kW per month for six months. Assuming that the agreement was available for the full year, using the same monthly fee, the annual rate would equate to $57 per kW per year. Please explain the rationale for the increase to the $80 per kW per year in the proposed agreement.

d) Please provide the total fixed cost of the agreement over the 15-year term, including Hydro's estimate of Consumer Price Index estimates and the maximum 2.5% adjustment.

e) Please provide the total variable cost of the agreement over the 15-year term based on the average number of annual hours that have been requested since 2014. Please also provide the total variable cost of the agreement over the 15-year term if 50% and 100% of the available additional hours are used.

A. **a)** The previous capacity assistance agreement ("CAA") had a ceiling of $0.26 per kW per hour or 90% of Gas Turbine Variable Cost ("GTVC") (currently $0.53035)—whichever is lower for energy, as shown in Table 1. If there were no ceiling in place, the calculation would have utilized $0.48 per kW per hour, as shown in Table 2.

Table 1: Previous Agreement – Total Cost (Assuming 180 Hours) with Negotiated Cap

		Capacity Rate ($/kW)	Cost ($)
Capacity (kW)	90,000	28.50	2,565,000
Energy (kWh)[1]	16,200,000	0.26	4,212,000
Total Capacity and Energy			**6,777,000**

Table 2: Previous Agreement – Total Cost (Assuming 180 Hours) without Negotiated Cap

		Capacity Rate ($/kW)	Cost ($)
Capacity (kW)	90,000	28.50	2,565,000
Energy (kWh)[2]	16,200,000	0.48 (0.53035 x 90%)	7,732,503
Total Capacity and Energy			**10,297,503**

Table 3 provides the total cost of the proposed agreement, assuming 180 hours.

Table 3: Proposed Agreement – Total Cost (Assuming 180 Hours)

		Capacity Rate ($/kW)	Cost ($)
Capacity (kW)	90,000	80.00	7,200,000
Total Capacity and Energy			**7,200,000**

b) For the 2013–2014 winter period, Newfoundland and Labrador Hydro ("Hydro") entered into an emergency contract with Corner Brook Pulp and Paper Limited ("CBPP") for capacity assistance and paid approximately $6.1 million. This was prior to Hydro having a standardized contract, which came into place the following winter period. Since the 2013–2014 winter period, Hydro's largest payment for a single season was $3.15 million.

c) The rate for capacity assistance equivalent to $57 per kW per year has been in effect since November 1, 2017. The new rate for capacity assistance of $80 per kW per year reflects a mutually-beneficial negotiated agreement between CBPP and Hydro. The proposed agreement is sufficient for CBPP to continue to provide capacity assistance while being a

[1] Energy = 180 hours × 90,000 kW = 16,200,000 kWh.
[2] Energy = 180 hours × 90,000 kW = 16,200,000 kWh.

prudent cost for Hydro to avail of additional capacity available on the Island Interconnected System. The rate of $80 per kW per year escalated over the 15-year term of the contract remains lower than the projected marginal cost of capacity each year over the same period, as presented in part a) of Hydro's response to PUB-NLH-008[3] of this proceeding.

The proposed terms for the new capacity assistance agreement include, among other items, enhancements over previous agreements, including the availability of capacity during the summer months. The available capacity will be up to 90 MW in the winter and 50 MW in the summer, with up to 30 calls and a maximum of 180 hours included in the fixed price of $80 per kW for the yearly guaranteed maximum. The fixed price included in the previous agreements did not include any calls or hours; all were charged based on the variable rate.

d) Table 4 provides the total fixed costs over the 15-year term based on the forecast Consumer Price Index ("CPI") and the maximum 2.5% adjustment.

[3] The comparable number in Table 1 is the Marginal Cost of Capacity without Attenuation and Reserves.

Table 4: Estimate of Fixed Costs at Forecast CPI and Contractual Maximum Inflation Adjustment

	Forecast				Maximum		
Year[4]	CPI[5] (%)	Contract Escalation[6] (%)	Rate ($ per kW)	Fixed Costs ($)	Escalation[6] (%)	Rate ($ per kW)	Fixed Costs ($)
2023	-	-	80.00	1,200,000.00	-	80.00	1,200,000.00
2024	2.70%	2.50%	80.00	7,200,000.00	2.50%	80.00	7,200,000.00
2025	1.96%	1.96%	82.00	7,380,000.00	2.50%	82.00	7,380,000.00
2026	2.01%	2.01%	83.61	7,524,706.56	2.50%	84.05	7,564,500.00
2027	2.01%	2.01%	85.29	7,676,322.26	2.50%	86.15	7,753,612.50
2028	2.01%	2.01%	87.01	7,830,992.16	2.50%	88.31	7,947,452.81
2029	2.01%	2.01%	88.76	7,988,779.20	2.50%	90.51	8,146,139.13
2030	2.01%	2.01%	90.55	8,149,745.49	2.50%	92.78	8,349,792.61
2031	2.01%	2.01%	92.38	8,313,955.09	2.50%	95.09	8,558,537.43
2032	2.01%	2.01%	94.24	8,481,473.37	2.50%	97.47	8,772,500.86
2033	2.01%	2.01%	96.14	8,652,366.97	2.50%	99.91	8,991,813.38
2034	2.01%	2.01%	98.07	8,826,703.93	2.50%	102.41	9,216,608.72
2035	2.01%	2.01%	100.05	9,004,553.60	2.50%	104.97	9,447,023.94
2036	2.01%	2.01%	102.07	9,185,986.78	2.50%	107.59	9,683,199.53
2037	2.01%	2.01%	104.12	9,371,075.66	2.50%	110.28	9,925,279.52
2038	2.01%	2.01%	106.22	7,966,578.25	2.50%	113.04	8,477,842.93

e) There is no variable cost for the first 180 hours of capacity assistance, as per the proposed agreement. The average number of hours used per year for previous contracts, from 2014 to 2023, is 11.76 hours per year. The total variable cost of the agreement over the 15-year term based on the average number of annual hours that have been requested since 2014 is therefore $0.

[4] Fixed costs based on 2 months in 2023 and 10 months in 2038.
[5] "All-items" CPI for Canada adapted from The Conference Board of Canada, Canadian - 5 Year Forecast, September 18, 2023.
[6] The fixed fee is adjusted annually, starting January 1, 2025, according to the percentage change over 12 months in the "All-items" CPI for Canada. The minimum adjustment will be 0% and the maximum adjustment will be 2.5%.
[7] The fixed fee is adjusted annually, starting January 1, 2025, according to the percentage change over 12 months in the "All-items" CPI for Canada. The minimum adjustment will be 0% and the maximum adjustment will be 2.5%.

If a 50% usage of the additional 90 hours were called at a capacity of 90,000 kW, the variable cost per year would be:

$$0.5 \times 90 \times \$0.25 \times 90{,}000 = \$1{,}012{,}500$$

For 15 years, this equates to:

$$15 \times \$1{,}012{,}500 = \$15{,}187{,}500$$

For 100% usage, the variable costs would be:

$$1 \times 90 \times \$0.25 \times 90{,}000 = \$2{,}025{,}000$$

For 15 years, this equates to:

$$15 \times \$2{,}025{,}000 = \$30{,}375{,}000$$

Hydro does not anticipate using more than 180 hours in a given year; therefore, there are no anticipated variable costs during the 15-year contract term.