Q. Page 35, lines 14 to 17 states: "Unfortunately, Hydro sought the wrong solution – rather than seeking to prevent NP's practice of dispatching the system inappropriately, Hydro sought to compensate NP as if they were dispatching the system inappropriately so that they in fact did not have to actually carry through with the inappropriate interruptions."Does the curtailment credit approach proposed by Hydro and implemented on an interim basis by the Board for the 2014-15 winter season remove the incentive for NP to use it curtailable load to reduce its billing demand except at times when the system is constrained? If yes, why is Hydro's proposed solution "the wrong solution"?

A. Yes. The proposed solution does achieve that one objective (reducing the likelihood of NP using its Curtailable Load in an inappropriate manner where no system supply benefits arise).

Hydro's proposal however is the wrong solution as there are multiple ways to achieve that one objective which are consistent with the power policy of the province and which are not distorting to cost allocation in the same manner. Messrs. Bowman and Najmidinov detail this at pages 36-37 of the pre-filed testimony, and provide an excerpt from the IIC argument in the proceeding leading to Order P.U. 47 (2014) in Appendix D to the pre-filed testimony.

As provided in Appendix D of the Pre-filed Testimony, in its submission regarding the Hydro's application for approval revisions to NP Utility Rates IIC Group proposed two measures to avoid inefficient and inappropriately using the program, namely:

1. The rate schedule for wholesale service to NP should be adjusted to ensure that any curtailment under the Curtailable Service Option does not lead to a reduction in the amounts NP would pay in demand charges.

2. The Curtailable Service Option of Newfoundland Power ("NP") should be revised to prohibit curtailments where there is no bona fide system constraint on either the generation and transmission system (as directed by Hydro) or the distribution system (as directed by NP) that threatens delivery of power to firm service customers.

First, it must be understood that prior to the Board's Order in P.U. 47 (2014), Newfoundland Power elected to use its curtailable load "for two objectives: 1) to minimize the cost of serving its customers; and 2) to manage system load requirements when requested by Hydro." It is the former use (to minimize costs to NP) that is the focus of concern. This arises for 2 reasons:

1) The use of curtailable load to cause interruptions when there was no underlying system constraint, but simply to reduce NP's peak loads, does not alter the underlying system costs in any way. This only serves to push the total costs of serving the system, and NP's share of these costs, onto other customers. Also, given that NP's retail rates are fixed in advance, the primary financial beneficiary in a given year from NP using this technique would appear to be NP's shareholder, not other NP customers.

2) The use of these interruptions at peak times, when there remains more than sufficient generating capacity to serve the load, represents an unnecessary inconvenience for the participating customers, and takes away from the number of curtailments available to meet system needs in true system constraints which yields a reduced reliability for all grid customers.

Messrs. Bowman and Najmidinov in particular are cognizant of the specific Power Policy of the Province set out in EPCA, 1994 section 3(b) which gives substantial guidance. In particular, subsection (iii) notes that the provincial power systems should be operated so as to "result in power being delivered to consumers in the province at the lowest possible cost consistent with reliable service". The NP use of unneeded curtailments at peak times is inconsistent with this Power Policy. It results in no reduction in overall costs (and in fact results in a slight increase in overall costs due to the need to compensate the customers for participation in the program) and results in a decrease in reliability (from using up curtailments that could otherwise be available for true system support events).

Ultimately, it is not apparent why Hydro selected a solution that had the net effect of compensating NP for behaving in a manner that is already required by legislation. A more practical and fair solution would simply involve having Hydro and the PUB enforce the power policy already in place, by preventing these interruptions (or ensuring NP cannot profit from causing these interruptions) without compensation to NP.