

Q. Please provide an explanation of the decision-making process followed prior to interrupting customers on Curtailable Service.

A. The decision making process of requesting a customer curtailment is influenced by: the wholesale rate design of Newfoundland Hydro (“Hydro”), whether Hydro requires load reductions to maintain system reliability, the terms and conditions of the Curtailable Service Option (“CSO”), and the winter month in which the curtailment request is being considered.

The use of a wholesale billing demand based upon the single highest native peak during the winter season provides Newfoundland Power the incentive to minimize its native peak. The CSO is utilized by Newfoundland Power to minimize its native peak on an annual basis to minimize demand supply costs.¹

Newfoundland Power also utilizes the CSO to reduce system load requirements when requested by Hydro. For example, there was a request from Hydro on December 17, 2008 to curtail load due to voltage concerns on the Newfoundland east coast 230 kV system.

Newfoundland Power recognizes curtailment requests may be disruptive to the operations of CSO participants and therefore tries to limit the number of curtailment requests.² However, if Newfoundland Power does not curtail CSO participants during the period in which its peak demand is established, higher demand costs to Newfoundland Power and its customers will result.

The decision on whether to curtail to reduce the wholesale billing demand is based upon load requirements on the Newfoundland Power system, the projected system load profile for the day and the weather forecast. Newfoundland Power is effectively required to make a decision on whether to curtail participants at least 2 hours prior to the start of the projected peak period.³ Changes in weather conditions from the time of communicating a curtailment request to the time of the projected peak period can result in an avoidance of the peak period and, in hindsight, indicate that a curtailment request was not necessary.

In summary, requesting curtailments to manage billing demand presents a number of challenges. It has been recognized in Hydro’s report on *Review of Demand Billing to Newfoundland Power* that utilizing the CSO to minimize the Company’s peak demand may not result in the most effective use of curtailable load to the system.⁴ The report

¹ Newfoundland Power’s customers may benefit from lower demand supply costs through the operation of the Demand Management Incentive (“DMI”) Account. Newfoundland Power also reduces its native peak load forecast to reflect curtailable load; the native peak load forecast is used by Hydro in its Cost of Service Study during a general rate proceeding to allocate demand costs to be recovered from customers.

² Some CSO participants are required to shut down certain operating functions to comply with curtailment requests.

³ Two hours is required to provide enough time to communicate the curtailment requests to all customers and to allow for the one hour notice period.

⁴ On many peak days, the system has adequate generation available to meet customer demand requirements and curtailments are not required from a system perspective. The report on *Review of Demand Billing to Newfoundland Power* was filed with the Board in April 2008.

1 concluded it may be more efficient to have Hydro determine when curtailments are
2 required and request CSO implementation by Newfoundland Power. The demand
3 savings to Newfoundland Power that would normally result from customer curtailments
4 could be provided through a demand credit applied to reduce billing demand.⁵ Hydro
5 agreed to propose this approach at its next general rate application.

⁵ This approach would be similar to the approach used to provide for the most efficient use of Newfoundland Power's generation during peak periods.