

October 28, 2014

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL
A1A 5B2

ATTENTION: Ms. Cheryl Blundon
Director of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Application of Newfoundland and Labrador Hydro for Approval of Agreement with Corner Brook Pulp and Paper Limited for Capacity Assistance

Please find enclosed the original and twelve (12) copies of the Application, affidavit, draft order and an executed agreement for 60 MW of winter capacity assistance between Newfoundland and Labrador Hydro (Hydro) and Corner Brook Pulp and Paper (CBPP), filed for the Board's approval under sections 70(1), 71 and 80 of the *Public Utilities Act*. Hydro is also in discussions with Vale to potentially secure additional capacity assistance.

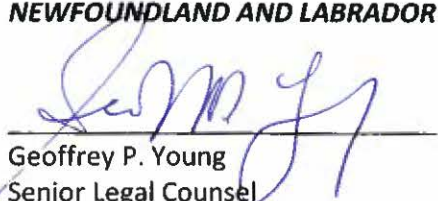
The winter capacity assistance arrangement provides for payments to be made to CBPP for its ability to provide capacity assistance to Hydro during peak periods by both reducing its firm demand supplied by Hydro, and by providing electric capacity to Hydro's system from the CBPP hydraulic generating facilities in the amounts set out in the proposed agreement. This agreement further enhances the supply-related reliability of Hydro's isolated island system.

Briefly, the capacity payment is \$28 per kW per winter for a total annual payment of \$1,680,000 payable in two installments, one halfway through the winter and the remainder at the end of the winter. CBPP will also get paid a variable credit for capacity assistance provided. An explanation of the derivation of the payment and the process Hydro used to procure the capacity assistance is enclosed for the Board's information.

Please contact the undersigned should you have any questions.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO


Geoffrey P. Young
Senior Legal Counsel

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
ecc: Sheryl Nisenbaum – Praxair Canada Inc.

Thomas Johnson – Consumer Advocate
Thomas O'Reilly, QC – Cox & Palmer
Roberta Frampton Benefiel – Grand Riverkeeper Labrador
Danny Dumaresque

IN THE MATTER OF the *Electrical Power Control Act*, RSNL 1994, Chapter E-5.1 (the *EPCA*) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the *Act*) and regulations thereunder;

AND IN THE MATTER OF an Application by Newfoundland and Labrador Hydro for the approval, pursuant to Sections 70 (1), 71 and 80 of the *Act*, of the Capacity Assistance Agreement between Newfoundland and Labrador Hydro and Corner Brook Pulp and Paper.

TO: The Board of Commissioners of Public Utilities (the Board)

THE APPLICATION OF NEWFOUNDLAND AND LABRADOR HYDRO (Hydro) STATES THAT:

1. Hydro is a corporation continued and existing under the *Hydro Corporation Act*, 2007, is a public utility within the meaning of the *Act* and is also subject to the provisions of the *Electrical Power Control Act, 1994*.
2. Hydro and its Island Industrial Customer (IIC), Corner Brook Pulp and Paper (CBPP), are parties to a Service Agreement, whereby Hydro sells electrical power and energy to CBPP which agreement is approved by, and which sales are at rates set by the Board and which were last approved by the Board on an interim basis by Order No. P.U. 15(2011).
3. CBPP has hydroelectric generating capability to provide most but not all of its own electricity generation needs and which, from time to time, enable it to provide electrical capacity to Hydro.

4. Hydro and CBPP were parties to a capacity assistance agreement for 60 MW from December 31, 2013 to March 31, 2014, thereby providing a reduction in the overall island electrical system demand during peak hours and periods of system constraint.
5. The Board is conducting investigations and hearings regarding supply issues and power outages on the Island Interconnected System. The interim reports of Hydro, the Board and Liberty Consulting acknowledged the value of economically available interruptible load from Hydro's IICs to the island system during peak winter periods.
6. Hydro provided communication to its IICs to determine which of them could provide a material quantity of capacity assistance. Only CBPP and Vale Newfoundland and Labrador Limited ("Vale") indicated an ability to do so. CBPP indicated it could provide capacity assistance to the magnitude of 60 MW. Hydro entered into negotiations with both CBPP and Vale; discussions with Vale are ongoing.
7. Hydro determined a capacity rate based upon Hydro's marginal cost of capacity, discounted to reflect limited availability of capacity assistance as per the parameters outlined in the Capacity Assistance Agreement. The Capacity Assistance Agreement provides for capacity assistance to be provided to Hydro in blocks of 20, 40 or 60 MW upon certain terms and conditions set out in the Capacity Assistance Agreement.

8. Hydro determined a variable rate based on a shared savings principle which reflects the facts that, as Hydro experiences incidental fuel savings by deferring the start-up of its most inefficient generator, CBPP assumes a certain degree of business risk in providing capacity assistance.
9. The Capacity Assistance Agreement provides increased flexibility, on a cost effective basis, for Hydro to deal with unanticipated generation or load events that may otherwise require the implementation of a customer outage program to effect peak load management in order to maintain system integrity.
10. Hydro hereby requests that the Board make an Order approving the Capacity Assistance Agreement, as provided in Schedule A and the recovery of purchased power expenses arising there from as reasonable and prudent and properly chargeable to operating account.

DATED AT St. John's in the Province of Newfoundland and Labrador this 28th day of October, 2014.



Geoffrey P. Young
Counsel for the Applicant
Newfoundland and Labrador Hydro
500 Columbus Drive
St. John's, NL A1B 4K7
Telephone: (709) 737-1277
Facsimile: (709) 737-1782

THIS CAPACITY ASSISTANCE AGREEMENT made in the Province of Newfoundland as of the 1st day of December 2014.

BETWEEN:

NEWFOUNDLAND AND LABRADOR HYDRO a corporation and agent of the Crown constituted by statute, renamed and continued by the *Hydro Corporation Act, 2007* Chapter H-17 of the 2007 Statutes of Newfoundland and Labrador and having its head office at St. John's, in the Province of Newfoundland and (hereinafter called "Hydro"), of the first part;

AND

CORNER BROOK PULP AND PAPER LIMITED a company organized under the laws of Newfoundland and Labrador (hereinafter called "the Customer"), of the second part.

WHEREAS Hydro and the Customer are parties to an agreement whereby Hydro sells Electrical Power and Energy to the Customer which agreement was most recently approved by the Board of Commissioners of Public Utilities for the Province of Newfoundland ("the Board") on February 8, 2012 in Order No. P.U. 4(2012) (herein after called "Service Agreement");

AND WHEREAS the parties acknowledge that this Agreement shall not be binding unless and until it is approved by the Board;

AND WHEREAS the Customer has hydroelectric generating capability which enables it to provide electrical capacity to Hydro;

THEREFORE THIS AGREEMENT WITNESSETH that the parties agree as follows:

ARTICLE 1
INTERPRETATION

In this Agreement, unless the context otherwise requires,

- 1.01 (a) "Capacity Assistance" means a reduction of 20, 40 or 60 MW in the Mill Load pursuant to a request of Hydro, following (i) the Customer producing power at its maximum available 60 Hz hydraulic generating capacity upon Hydro's request, and (ii) upon Hydro's request, a cessation of any and all Interruptible Demand by the Customer.

(b) "Capacity Assistance Request" means a request by Hydro from its Energy Control Center to the Deer Lake Power control room to provide Capacity Assistance in any of the amounts set out in Article 2.

(c) "Capacity Assistance Period" is a period of not less than three (3) hours and not more than six (6) hours during which Capacity Assistance is provided in accordance with a Capacity Assistance Request.

(d) "Capacity Fee" means a fee payable by Hydro to Customer as set forth herein of \$1,680,000 per Winter.

(e) "Ice Condition Event" means any event of frazil ice or other ice conditions at or upstream of the Customer's Deer Lake generating station penstocks, resulting in whole or in part in the Customer being unable to meet a Capacity Request from Hydro. The Customer shall not be required to reduce its Mill Load below the Mill Essential Services Load but shall deliver Capacity Assistance for the excess.

(f) "Interruptible Demand" means the same as it does under the Service Agreement.

(g) "Mill Essential Services Load" means that amount of Mill Load required to operate the Customer's main power boiler and essential heating and lighting but in any event shall not exceed 10 MW.

(h) "Mill Load" means the Customer's 60 Hz electrical power requirements as taken at its 66 kV supply buses, or at such other points agreed to in writing by the parties.

(i) "Secondary Energy" means the same as it does under the Service Agreement.


(j) "Winter" means the period from December 1 to March 31 inclusive.

ARTICLE 2

CAPACITY ASSISTANCE

2.01 Hydro may make Capacity Assistance Requests to the Customer in amounts of 20 MW, 40 MW or 60 MW no more than twice in a calendar day, no more than twenty times in a Winter, each of a duration of not less than 3 hours, and such that the total duration of such Capacity Assistance Periods does not exceed 100 hours in a Winter.

2.02 A Capacity Assistance Request shall be made to the Customer upon not less than

Perth 

20 minutes notice prior to the time that the Capacity Assistance Period is scheduled to commence. Any request to cease a Capacity Assistance Period, or to change the amount of Mill Load reduced during a Capacity Assistance Period, shall be made upon 20 minutes notice but a change in the level of Capacity Assistance provided in a Capacity Assistance Period does not i) constitute a new Capacity Assistance Request; or ii) disentitle the Customer to payment under section 3.02 hereof for the period in the initial Capacity Assistance Request.

2.03 Any Capacity Assistance Request made by Hydro may be cancelled by Hydro if notice to cancel that Capacity Assistance is given by Hydro to the Customer not less than 20 minutes before the time that the Capacity Assistance Period was scheduled to commence.

2.04 Hydro shall not request that a Capacity Assistance Period start until all but one of Hydro's gas turbine generators which are operable have been started and loaded. Hydro shall have the sole and absolute discretion to decide the loading of these gas turbine generators and to choose which of these gas turbine generators it holds in reserve for this purpose. In order to ensure the efficient use of its peaking resources, at any time after the commencement of the first Capacity Assistance Period of that day, Hydro may cease generating power from any or all of these gas turbine generators without affecting its rights to continue a Capacity Assistance Period or to change an amount of Capacity Assistance provided under a Capacity Assistance Request.

ARTICLE 3 **PAYMENT**

3.01 Subject to Article 4, Hydro shall pay a Capacity Fee whether or not Hydro makes a Capacity Assistance Request, fifty percent (50%) of which shall be billed at the end of January and the balance at the end of March in each Winter that this agreement is in effect.

3.02 In addition to the fees payable under Clause 3.01, Hydro shall pay the Customer a variable rate of 20 cents per kW per hour for the maximum Capacity Assistance requested and provided during each Capacity Assistance Period.

3.03 The amounts paid for Capacity Assistance shall be the only amounts payable and no amounts shall be payable under the Secondary Energy arrangements that exist under separate agreements with respect to Capacity Assistance provided during a Capacity Assistance Period under this Agreement but otherwise the Secondary Energy arrangements will apply.

3.04 The Customer shall render its accounts two times each Winter, once at the end of January and once at the end of March, and Hydro will, within twenty (20) days after the date of receiving such account, make payment in lawful money of Canada at the



appointed office of the Customer or by means of direct deposit into a Canadian bank account of the Customer. Any amounts in arrears or overdue to the Customer after expiration of such twenty (20) days shall bear interest, before and after judgment, at the prime rate of the Bank of Montreal plus 2% annually until such balance is paid. The prime rate of the Bank of Montreal is the annual rate so established and announced by such bank at its head office in Canada as an annual rate of interest for demand loans payable in Canadian Dollars in Canada.

ARTICLE 4

CAPACITY FEE ADJUSTMENTS AND FORCE MAJEURE

4.01 Subject to Clauses 4.02 and 4.03, in the event that Hydro makes a Capacity Assistance Request and the Customer fails to provide the Capacity Assistance, the Capacity Fee, after adjustments, if any, pursuant to Clause 4.02, will be reduced by 50% as a result of the first failure to provide Capacity Assistance as requested during a Winter. For each additional failure to provide Capacity Assistance, the Capacity Fee will be reduced by a further 25%. If the Customer fails to provide Capacity Assistance three times during a Winter, the Customer forfeits 100% of the Capacity Fee.

Notwithstanding the previous paragraph, no Capacity Fee will be paid if the number of failures to provide Capacity Assistance not contemplated by Clauses 4.02 and 4.03 equals the positive number of requests for Capacity Assistance.

4.02 If Hydro has given a Capacity Assistance Request at a time when the Customer is experiencing an Ice Condition Event, then there will be no reduction made to the Capacity Fee pursuant to clause 4.01, however, at the end of the Winter, an adjustment shall be made to the Capacity Fee paid or payable for that Winter so that, in result, the total amount of the Capacity Fees shall be reduced by \$84,000 (1/20 of \$1,680,000) for each Ice Condition Event. The Customer shall use all reasonable efforts to remedy the Ice Condition Event as quickly as possible and shall resume compliance with its obligations hereunder as soon as reasonably possible upon termination of the Ice Condition Event.

4.03 A party shall not be liable for failure to comply with its obligations hereunder due to an act of God or event of force majeure. "Force Majeure" herein means any event that is unforeseeable, and beyond a party's control, which causes a delay in or interrupts or prevents the total or partial performance by that party of any or all of its obligations under this Agreement including, without limiting the generality of the foregoing, war, riot, acts of vandalism, rebellion, epidemic, lightning, earthquake, flood, fire, explosion, government decrees or prohibitions or restrictions by any authority of competent jurisdiction affecting the obligations of the party suffering Force Majeure.

The party affected by Force Majeure shall promptly give written notice to the other

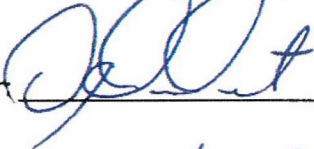
party of the event of Force Majeure, stating therein the nature of the event, the obligations affected, the reasons and expected duration of any suspension of performance and the anticipated date of termination of the event of Force Majeure. The affected party shall use all reasonable efforts to remedy the event of Force Majeure as quickly as possible, including not exceeding Mill Essential Services Load, and shall resume compliance with its obligations hereunder as soon as reasonably possible upon termination of the event of Force Majeure.

ARTICLE 5
TERM OF AGREEMENT

5.01 This agreement commences as of December 1, 2014 and expires on March 31, 2018 provided however that either party may terminate this agreement by providing advance written notice to the other party to that effect no earlier than March 31 and no later than June 30, which termination shall be effective not earlier than for the following Winter Period.

IN WITNESS WHEREOF, each Party has executed this Agreement by its duly authorized representatives.

Corner Brook Pulp and Paper Limited

Per: 

Title: SR VICE PRESIDENT

Newfoundland and Labrador Hydro

Per: 

Title: VP. SYSTEM OPERATION and Planning

IN THE MATTER OF the *Electrical Power Control Act*, RSNL 1994, Chapter E-5.1 (the *EPCA*) and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the *Act*) and regulations thereunder;

AND IN THE MATTER OF an Application by Newfoundland and Labrador Hydro for the approval, pursuant to Sections 70 (1), 71 and 80 of the Act, of the Capacity Assistance Agreement between Newfoundland and Labrador Hydro and Corner Brook Pulp and Paper.

TO: The Board of Commissioners of Public Utilities (the Board)

AFFIDAVIT


I, Paul Humphries, Professional Engineer, of Mt. Pearl in the Province of Newfoundland and Labrador, make oath and say as follows:

1. I am Vice President of System Planning and System Operations of Newfoundland and Labrador Hydro, the Applicant named in the attached Application.
2. I have read and understand the foregoing Application.
3. I have personal knowledge of the facts contained therein, except where otherwise indicated, and they are true to the best of my knowledge, information and belief.

SWORN at St. John's in the)
Province of Newfoundland and)
Labrador, this 27th day of)
October 2014, before me:)



Barrister – Newfoundland and Labrador



Paul Humphries

EVIDENCE

CAPACITY ASSISTANCE PROCUREMENT

PROCESS AND CONSIDERATIONS

NEWFOUNDLAND AND LABRADOR HYDRO

October 2014

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1 **1.0 BACKGROUND**

2 Following a series of outages on the Island Interconnected electrical system in January
3 2014, Hydro launched a thorough internal review of the supply disruptions and rotating
4 outages. The Public Utilities Board of Newfoundland and Labrador (the Board), in support of
5 its own investigation, engaged The Liberty Consulting Group (Liberty) to study and report on
6 the supply issues and power outages that affected customers of the Island Interconnected
7 System.

8 Hydro released its interim report on March 24, 2014. Among other things, Hydro addressed
9 several options which are under consideration for meeting peak winter demand in 2015.

10 One such option is entering into capacity assistance arrangements with large Industrial
11 Customers. This notion was echoed in Liberty's interim report, released April 2014, when
12 they recommended that Hydro continue discussions with Industrial Customers with a goal
13 of securing economically available interruptible loads¹. The Board identified the pursuit of
14 such contracts as a priority action to be completed by December 2014 in its interim report,
15 released May 15, 2014.

16 Hydro submitted a workplan to the Board as part of its June 16, 2014 Generation
17 Availability report and has been providing regular status updates on its progress. The
18 workplan set the framework for the actions necessary for Hydro to engage its Industrial
19 Customers who could potentially make a material contribution to the system through
20 capacity assistance arrangements. In that connection, Hydro provided communication to all
21 its Island Industrial Customers (IC) to determine the potential for capacity assistance
22 arrangements. Hydro has completed its workplan and has negotiated a capacity assistance
23 arrangement with CBPP for 60 MW and is also in discussions with Vale in these regards.

¹ Hydro did not limit its scope to interruptible loads; however, considered all types of capacity assistance, including that which can be provided through a customer transferring load to its own backup generation and/or having customers add their generation capacity to Hydro's system.

2.0 INTERRUPTIBLE RATE PROGRAMS IN OTHER CANADIAN JURISDICTIONS

- 1 Interruptible arrangements with customers are used in many other Canadian jurisdictions as
 2 a way to reduce peak load by having large customers interrupt their operations. Hydro
 3 researched publicly available interruptible load and capacity assistance programs in other
 4 Canadian jurisdictions². The table below summarizes the general terms and conditions.

Minimum Commitment	All jurisdictions that have interruptible rate options have a minimum capacity that customers must make available. This amount varies based on the individual system.
Rate Structure	All jurisdictions that have interruptible rate options have a demand credit, most have variable credits as well ³ .
Notification Period	Generally 2 hours; however, notification periods range from the day before to 5 minutes prior to curtailment.
Interruption Period	Generally 4 hours; however, interruption periods range from 4 hours to 10 days.
Max # curtailments	2 per day 15-25 per year Generally around 100 hours; however, ranges from 50 hours per year to over 800 hours per year.
Penalties	Range from a reduction in demand credit to loss of credit plus additional charges.

- 5
 6 Hydro's proposed capacity assistance agreements are generally consistent with
 7 interruptible and capacity assistance programs in other jurisdictions.

² Companies reflected in the table include Newfoundland Power, Nova Scotia Power, New Brunswick Power, Maritime Electric, Hydro Quebec, Manitoba Hydro and SaskPower

³ Prices per kW have a broad range across the country from \$8.50 to \$52/year; however, it is difficult to compare per kW prices across jurisdictions as prices are generally determined based on the associated terms and conditions. Also, each specific jurisdiction has different circumstances, such as ability to import or availability of Industrial Customers to participate in an interruptible program, which contribute to determining prices offered by such programs.

3.0 HYDRO'S PREVIOUS INTERRUPTIBLE AND CAPACITY ASSISTANCE ARRANGEMENTS

In order to inform discussions with Industrial Customers, Hydro reviewed its previous interruptible arrangement with Abitibi (Interruptible B) which terminated in 2003 and the capacity assistance arrangement it had with CBPP for winter 2013/14. The table below summarizes the key terms and conditions of those arrangements.

Terms	Interruptible B	CBPP Winter 2013/14
Interruptible capacity	43 MW	20 MW / 40 MW / 60 MW
Rate Structure	<u>Fixed</u> \$324,300 for each month of the winter (\$7.54 per kW per month) <u>Variable</u> 90% of the cost of generating the energy interrupted (fuel only – calculated as average price per barrel of No. 2 diesel fuel in Island)	<u>Fixed</u> \$63,000 per month (\$1.05 per kW capacity based on 60 MW) <u>Variable</u> 20 MW = \$40,000 (\$0.50/kWh) 40 MW = \$100,000 (\$0.625/kWh) 60 MW = \$180,000 (\$0.75/kWh)
Notification Period	1 hour	15 minutes
Interruption Period	10 hours	4 hours
Max # curtailments	1 per day 25 curtailments per year	n/a
Penalties	Abitibi had to make a capacity adjustment payment to Hydro for the amount of capacity they failed to provide times \$3/kW on the first failure, increasing by \$1 each subsequent time to a maximum of \$7/kW.	Loss of capacity payment for month

Hydro's proposed capacity assistance agreement is comparable to the Interruptible B arrangement in place for many years with Abitibi Stephenville. The agreement provides for fixed and variable payments to CBPP to reflect the value of capacity availability if required during the winter season. The capacity assistance arrangement with CBPP during the 2013/14 winter season provided a lower fixed payment and a high variable payment.

1 Under the current load forecast, Hydro does not anticipate making capacity assistance
2 requests during winter 2014/15. However, as the arrangement is intended to be used in the
3 event of unlikely contingencies, CBPP is required to be available to provide capacity
4 assistance throughout the entire winter season, as prescribed in the terms and conditions of
5 the agreement. Given those circumstances, a low fixed payment was not acceptable to
6 CBPP as compensation for making capacity assistance available to Hydro as CBPP will need
7 to make operational adjustments to ensure availability as required under the capacity
8 assistance agreement.

4.0 HYDRO'S MARGINAL COST OF CAPACITY

An analysis of Hydro's marginal cost of capacity was undertaken to help inform the value of capacity assistance on Hydro's system. This analysis involved updating the marginal capacity cost based on the methodology outlined in NERA's May 2006 marginal cost study documented in the report entitled *Newfoundland and Labrador Hydro Marginal Costs of Generation and Transmission* and the July 2006 report entitled *Implications of Marginal Cost Results for Class Revenue Allocation and Rate Design*.

Unlike other jurisdictions which are part of the North American grid and can use the cost of imported power as a comparator, the current value of capacity assistance on the Island Interconnected System must be assessed against the probability of customer outages. This is the basis for the use of the target loss of load hours in determining the marginal capacity cost. The higher the probability of loss of load during the period, the higher the marginal value of capacity.

The following tables summarize the marginal costs for the next three years.

Island Interconnected System Marginal Capacity Costs			
	Annualized Cost of Generation	Forecast LOLH:	Marginal Generation Capacity Cost
Current dollars/kW			
	(1)	(2)	(3) (1)*(2)/Target LOLH
2015	\$194	0.73	\$51
2016	\$198	0.99	\$70
2017	\$202	1.31	\$94

- Notes:
1. Modelled as per NERA (2006)
 2. CT costing as per DG3 cost estimates
 3. Target LOLH is 2.8
 4. LOLH's with 120 MW CT available for winter 2014/15

1 The tables above indicate that Hydro's marginal cost of capacity averages \$71.67 over the
2 2015-2017 period. The marginal capacity costs establish the upper limits Hydro would
3 consider in negotiating capacity assistance arrangements. The limited availability of capacity
4 assistance during peak periods (i.e., maximum number of requests per day, winter, total
5 hours, etc.) also influences the value of the capacity assistance; thus, a significant discount
6 was applied to the marginal capacity cost in determining the value of capacity assistance to
7 the system.

5.0 VALUE OF CAPACITY ASSISTANCE TO THE ISLAND SYSTEM

Hydro's forecasts indicate that it does not anticipate calling on capacity assistance during the winter of 2014/15. However, through its discussion with Liberty, Hydro understands that there is a desire to have such arrangements in place to ensure adequate capacity is available in the event of higher than forecast peak demand requirements due to extreme weather and/or unforeseen system issues.

The capacity assistance agreement with CBPP provides Hydro the ability to access up to 60 MW of capacity assistance in 20 MW increments. As CBPP is located on the west coast of the island, Hydro also believes it is beneficial, although not critical, to have capacity assistance available from Vale's thermal generation at its facility on the Avalon Peninsula. In addition to capacity payments, Hydro will pay CBPP a variable payment for each capacity assistance period. This payment reflects the risk assumed by CBPP for each shut down as well as the implications associated with reductions or breaks in operations as a result of providing capacity assistance. These payments provide Hydro with coincidental fuel savings as Hydro will be requesting capacity assistance be implemented prior to starting its last operational combustion turbine. Therefore, Hydro will be avoiding fuel costs which would otherwise be incurred by running its combustion turbine.

1 **6.0 CONCLUSION**

2 Hydro's proposed capacity assistance agreement is generally consistent with interruptible
3 and capacity assistance programs in other jurisdictions. Unlike other jurisdictions which are
4 part of the North American grid, the current value of capacity assistance on the Island
5 Interconnected System must be assessed against the probability of customer outages. The
6 capacity credit of \$28 per kW per winter is materially lower than the average marginal
7 capacity cost on the Island Interconnected System for the next three years and is also
8 consistent with the cost of the Interruptible B arrangement in 1993. The \$28 per kW
9 capacity credit is sufficient for CBPP to financially justify taking the steps necessary to
10 mitigate risks associated with the provision of capacity assistance, while still being a
11 prudent cost for Hydro to incur for additional system reliability for all customers on the
12 island interconnected system.

13 Hydro believes the parameters defined in the terms of the capacity assistance agreement
14 regarding the duration and frequency that Hydro can call on capacity assistance (up to six
15 hour increments, up to twice a day to a maximum of 20 calls or 100 hours per winter) are
16 adequate to provide increased system reliability to respond to unanticipated events that
17 may require the implementation of peak load management programs. Hydro also believes
18 the capacity assistance agreement, in conjunction with the other actions Hydro is taking to
19 ensure winter readiness, will avoid the requirement to implement a customer outage
20 program to maintain system integrity.

(DRAFT ORDER)
NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

AN ORDER OF THE BOARD

NO. P.U. __ (2014)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act*, RSNL 1994, Chapter E-5.1 (the
3 *EPCA*) and the *Public Utilities Act*, RSNL 1990,
4 Chapter P-47 (the *Act*) and regulations thereunder;

5
6 **AND**

7
8 **IN THE MATTER OF** an Application
9 by Newfoundland and Labrador Hydro for the
10 approval, pursuant to Sections 70(1), 71 and 80
11 of the *Act*, of the Corner Brook Pulp and Paper
12 Capacity Assistance Agreement.

13
14 **WHEREAS** Newfoundland and Labrador (“Hydro”) is a corporation continued and
15 existing under the *Hydro Corporation Act, 2007*, is a public utility within the meaning of
16 the *Act* and is subject to the provisions of the *EPCA*; and

17
18 **WHEREAS** Hydro and Corner Brook Pulp and Paper (“CBPP”) are parties to a Service
19 Agreement whereby Hydro sells electrical power and energy to CBPP upon terms and conditions
20 approved by, and which sales are at rates set by, the Board of Commissioners of Public Utilities
21 for the Province of Newfoundland (“Board”); and

22
23 **WHEREAS** CBPP has hydroelectric generating capability which enables it to provide electrical
24 capacity to Hydro; and

25
26 **WHEREAS** Hydro and CBPP were parties to a capacity assistance agreement for 60 MW from
27 December 31, 2013 to March 31, 2014; and

28
29 **WHEREAS** the Board is conducting investigations and hearings regarding supply issues and
30 power outages on the Island Interconnected System; and

31
32 **WHEREAS** the interim reports of Hydro, the Board and Liberty Consulting acknowledged the
33 value of economically available interruptible load from Hydro’s Island Industrial Customers
34 during peak winter periods; and

35
36 **WHEREAS** Hydro has demonstrated that the proposed Capacity Assistance Agreement between
37 Hydro and Corner Brook Pulp and Paper is economical and will provide additional reliability to
38 the Island Interconnected System.

1 **IT IS THEREFORE ORDERED THAT:**
2

- 3 1. Hydro may enter into the proposed Capacity Assistance Agreement with CBPP,
4 effective December 1, 2014 and recover the power purchase expenses as reasonable
5 and prudent and properly chargeable to operating account.
- 6 2. Hydro shall pay all expenses of the Board arising from this Application.
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10
11 **DATED** at St. John's, Newfoundland and Labrador, this ___ day of _____, ____.
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