Q. (October 28, 2014 Cover Letter submitted with Application) It is stated that the capacity payment proposed for CBPP is $28/kW per winter for a total annual payment of $1,680,000. How does this payment compare (both in $ and $/kW) to the payment Newfoundland Power will receive (or avoid paying) for its Curtailable Service Load under the mechanism proposed in Hydro's recent application?

A. The comparability of the approach to the proposed payment for capacity assistance to CBPP and the proposed curtailable credit to be reflected in Newfoundland Power's (NP) billing demand (for load it does not require from Hydro at the time of peak) is provided in response to CA-NLH-4 in Hydro's application for modifying the Utility Rate to NP, provided as CA-NLH-002 Attachment 1.

Q. (Re: Application, Schedule A) Why are customer-owned generation and, if the Application is approved by the Board, Curtailable Load, treated as demand reductions in the cost of service study; i.e., reductions in customer class demand? What are the pros and cons of using the proposed methodology versus a methodology where both customer-owned generation and interruptible/curtailable load are removed from the cost of service study and replaced with direct payments to the customers involved with cost recovery of the direct payments in the cost of service study from all customers since all customers benefit?

A. The following sections provide a discussion of the current treatment of customer-owned generation and interruptible/curtailable portions of customers demand requirements in the cost of service study. Information is also provided on the Board's past ruling on whether customer-owned generation and the cost of interruptible contracts should be treated the same.

Cost of Service Treatment of Newfoundland Power Generation

The peak demands for Newfoundland Power in the test year cost of service study are reduced by the amount of generation that Newfoundland Power makes available to Hydro to meet system load requirements (net of a reserve adjustment). The amount of the demand reduction is referred to as the generation credit. The generation availability is tested annually to ensure the test year generation credit remains consistent with generation availability. The test year cost of service generation credit for Newfoundland Power reflects the fact that Newfoundland Power could utilize its available generation to minimize its peak requirements from Hydro. Hydro having the dispatch option on Newfoundland Power's generation facilities results in optimal utilization of both companies' generation facilities.

Newfoundland Power only runs its thermal generation to meet overall system requirements when requested to do so by Hydro. For example, during the winter of 2012-2013, Newfoundland Power was requested to provide Hydraulic generation on 37 occasions and thermal generation on ten occasions. Also, during the 2013 non-winter period, Newfoundland Power was requested to provide Hydraulic generation on 14 occasions and thermal generation on one occasion.

The treatment of the generation credit for Newfoundland Power is consistent with the peak demands in the cost of service study for Corner Brook Pulp and Paper since their total demand requirements are net of their generation.

Current Cost of Service Treatment of Interruptible/Curtailable Loads

The Industrial Customer contracts all currently include a provision for interruptible demand.[1] The standard definition is as follows[2]:

***"Interruptible Demand**" means, that part of a Customer's Demand which exceeds its Power on Order, which may be interrupted, in whole or in part, at the discretion of Hydro and which is supplied to the Customer in accordance with Clause …*

The test year cost of service study does not include interruptible demand in determining the peak demand for the Industrial Customer Class in cost allocation.

[1] Provided the Amount of Power on Order is equal to or greater than 20,000 kW, the amount of Interruptible Demand and Energy available shall be the greater of 10% of the Amount of Power on Order and 5,000 kW. If the Amount of Power on Order is less than 20,000 kW, the Amount of Interruptible Demand and Energy available shall be 25% of the Amount of Power on Order.

[2] The definition is slightly different for Corner Brook Pulp and Paper since there is "Generation Outage Demand". The provision states: **"Interruptible Demand**" means, that part of a Customer's Demand, other than its Generation Outage Demand, which exceeds its Power on Order, which may be interrupted, in whole or in part, at the discretion of Hydro, and which is supplied to the Customer in accordance with Clause 4.01.

Newfoundland Power currently makes a Curtailable Service Option available to its customers. Newfoundland Power curtailable load represents less than 1% of their forecast maximum native load. The forecast maximum native load reflected in Hydro's test year cost of service study assumes Newfoundland Power is curtailing load during peak. Therefore, from a test year cost of service allocation perspective both the Industrial Customers interruptible demand and the Newfoundland Power curtailable load are treated on a comparable basis for demand allocation purposes.

Interruptible Contracts Negotiated for System Reliability

An Interruptible "B" credit was negotiated between Abitibi Stephenville and Hydro and became effective December 1, 1993. The basis for the level of the Interruptible credit was related to the benefit of deferring a gas turbine. This Interruptible "B" credit was treated in the cost of service study as a production demand cost with the costs allocated to each class of service.

At Hydro's 2001 GRA, the Industrial Customers took issue with the differences in the manner the generation credit and the Interruptible B were treated in the cost of service study. The following excerpts are from Order No. P.U. 7(2002-2003).

> *The IC's position is that the compensation that NP receives for generation credit is out of proportion to what it should be. (Transcript, Jan. 28, 2002, pg. 34/71-78)*
>
> *Both Mr. Brockman and Mr. Brickhill agree that NLH's approach of treating the IC and NP differently through the generation credit and the Interruptible 'B' credit is fair to each party.*

Mr. Brockman testified that treatment of the generation credit in the same way as the Interruptible 'B' credit in the cost of service study would result in the vast majority of the cost being charged to NP. Mr. Brockman argued that this approach would be unfair as it amounts to NP paying NLH for its own generation.

NLH also stated that, if NP's generation capacity was not recognized, NP could opt to run its own generation in order to reduce its purchased power costs. This option may result in higher costs on the system.

The Board is not convinced that there is any inherent unfairness in the methods in which NLH treats the non-firm load and demand credit for the IC and NP. While the end result of the Interruptible 'B' credit and the generation credit is the same i.e. additional energy is available to the system when needed, the mechanisms are different and hence it would be expected that the method for compensation would be different.

The Board accepts NLH's treatment of the generation credit for NP and the Interruptible 'B' credit for the IC.

Hydro agrees that the compensation provided for a contract negotiated specifically to provide interruptible load to the system for limited periods of time should differ from the compensation provided for generation made available for Hydro to request at any time to meet system requirements.