

1 **Q. Did Newfoundland Power’s evaluation of the Pierre’s Brook refurbishment give**  
2 **consideration to the contract for purchases from Muskrat Falls? If not, why not?**

4 A. No.

6 The Power Purchase Agreement, dated November 29, 2013, between Newfoundland and  
7 Labrador Hydro (“Hydro”) and Muskrat Falls Corporation, a Nalcor affiliate (the  
8 “Muskrat PPA”), became publicly available on June 26<sup>th</sup>, 2014. Newfoundland Power  
9 filed its 2015 Capital Budget Application with the Board on June 26<sup>th</sup>, 2014.

11 The Muskrat PPA was not publicly available within a timeframe which enabled  
12 Newfoundland Power to give consideration to it in its evaluation of the refurbishment of  
13 the Company’s Pierre’s Brook hydroelectric generating plant (the “Pierre’s Brook  
14 Plant”).

16 Newfoundland Power has considered the Muskrat PPA. In Newfoundland Power’s view,  
17 the Muskrat PPA should not have material influence on decision-making associated with  
18 the proposed refurbishment of the Pierre’s Brook Plant for a number of reasons.

20 The Muskrat PPA itself does not appear to provide a significant additional degree of  
21 certainty to the future cost of service to customers associated with the Muskrat Falls  
22 development. For the reasons described in the response to Request for Information  
23 NLH-NP-007, the forecast cost of the proposed refurbishment of the Pierre’s Brook Plant  
24 of 4.87¢/kWh over 50 years appears to be consistent with least cost supply to the Island  
25 Interconnected System following commissioning of Muskrat Falls.

27 At the May 20<sup>th</sup>, 2014 meeting of the Hydro-Newfoundland Power Inter-Utility Planning  
28 and Reliability Committee (the “Planning Committee”), the proposed refurbishment of  
29 the Pierre’s Brook hydroelectric generating plant was discussed. At that time Hydro’s  
30 representatives would have been aware of the terms of the Muskrat PPA. The Planning  
31 Committee did not indicate that the Muskrat PPA should have any material impact on  
32 proceeding with the proposed refurbishment.<sup>1</sup>

34 In the past, Hydro has chosen to treat non arm’s-length affiliate supply relationships  
35 differently for commercial purposes and cost of service purposes. For example, Hydro  
36 agreed with Nalcor Energy to pay 4¢/kWh for energy produced from the former  
37 AbitibiBowater facilities.<sup>2</sup> For cost of service purposes, however, Hydro reflected  
38 approximately 45% of the cost of energy produced by Nalcor Energy under this  
39 agreement as a demand cost.<sup>3</sup> So, the manner in which Muskrat Falls production will be

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<sup>1</sup> In fact, the cost of refurbishment of the Pierre’s Brook Plant was indicated by the Planning Committee to  
“...compare favourably...” to “...the expected range on the future cost of supply.” See the response to Request  
for Information NLH-NP-007, page 5, lines 4-5.

<sup>2</sup> See the response to Request for Information V-NLH-004 filed in Hydro’s 2013 General Rate Application.

<sup>3</sup> See the response to Request for Information NP-NLH-136 filed in Hydro’s 2013 General Rate Application.

1 reflected in the cost of service to be paid by customers on the Island Interconnected  
2 System may not fully reflect the terms of the Muskrat PPA.  
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4 Finally, Newfoundland Power observes that Hydro has maintained that after commercial  
5 arrangements relating to the Muskrat Falls development are finalized, a marginal cost  
6 study would be required to determine Hydro's future marginal cost of demand and  
7 energy.<sup>4</sup> To Newfoundland Power's knowledge, no such marginal cost study has been  
8 performed.  
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10 Independent engineering assessment has indicated that refurbishment of the Pierre's  
11 Brook Plant is now required to ensure its continued operation. The refurbishment and  
12 continued operation of the Pierre's Brook Plant will cost 4.87¢/kWh over a 50-year  
13 period. Based upon this, the proposed refurbishment appears consistent with the future  
14 least cost provision of electrical service to the customers of Newfoundland Power.

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<sup>4</sup> See the response to Request for Information CA-NLH-033 filed in Hydro's 2013 General Rate Application.