



March 16, 2016

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

**Attention: G. Cheryl Blundon, Director of Corporate Services and Board Secretary**

Ladies and Gentlemen:

**Re: Application by Newfoundland and Labrador Hydro for a 2016 Standby Fuel Deferral Account for Fuel Consumed in Combustion Turbines and Diesel Generators**

On February 5, 2016, Hydro filed an Application for a deferral account to provide for the recovery of costs it is incurring to fuel its standby combustion turbine and diesel generators. Hydro indicates that precipitation and inflows in the reservoirs on the Island have been low and the snow-pack is well below normal, thus limiting the available output from the hydro generating facilities on the Island. Further, Hydro continues to experience reduced availability from Holyrood TGS. Hydro is running standby generation to avoid drawing down hydro reservoirs to levels that would place at risk its ability to provide sufficient energy generation to its customers in the coming year. The amount of fuel for its standby generators in 2016 will be well-above fuel levels consumed in previous years, and well-above levels forecast in the Amended 2013 GRA. Hydro forecasts that the financial impact will be material. For these reasons, Hydro has applied for *"a deferral account to provide for the deferral and recovery of diesel fuel costs incurred on the Island Interconnected System for standby generation"* (para. 7 of Application). Hydro submits that *"the proposed deferral account is reasonable and will assist Hydro in ensuring that it continue to provide service which is reasonable safe and adequate and just and reasonable as required by Section 37 of the Act"* (para. 8 of Application).

The Consumer Advocate does not take issue with Hydro's claim that hydro reservoirs are low, or that it is running its standby generating units at levels much higher than in previous years (NP-NLH-5) and at higher cost. However, it is disappointing that Holyrood availability continues to lag in spite of the focus on keeping it in top operational form following the outage events of January 2013 and 2014. According to PUB-NLH-3, *"If Holyrood was available at full capacity, Hydro would not need a deferral account with respect to standby fuel costs attributable to low hydrology. Instead,*

*this energy would be produced at the Holyrood TGS and this energy would be recovered through the mechanisms of Hydro's existing Rate Stabilization Plan.*" Be that as it may, the issue at hand is whether the Board should approve Hydro's Application for a deferral account for the deferral and recovery of diesel fuel costs for standby generation on the Island Interconnected System.

In the report attached to the Application, it is stated (page 2, lines 1 to 4) "*There is currently no regulatory mechanism to allow Hydro to recover additional costs associated with operating the additional Standby Generation. In the absence of regulatory relief, Hydro's net income will be reduced by \$33.3 million in 2016 for a net loss of \$0.1 million based on the 2015 Test Year.*" In the Application, para. 5, it is stated "*At present, while Hydro's consumption of No. 6 fuel for its Holyrood TGS is stabilized through the Rate Stabilization Plan such that the actual cost of this fuel consumed is recovered from customers through rate adjustments, no such account or mechanism exists for the consumption of diesel fuel (No. 2 fuel). Hydro did apply for an Energy Supply Cost Variance Account ("ESCVA") in its Amended 2013 General Rate Application (GRA), a component of which addressed diesel costs incurred on the Island Interconnected System, but no order has issued as to that application to date and one is not expected immediately.*" With respect to these statements, the Consumer Advocate asked Hydro (CA-NLH-1) "*Given that: 1) Hydro has already applied for the ESCVA; 2) the Board is expected to file its Order on the Amended 2013 GRA and the proposed ESCVA in the coming months long before the end of 2016; and 3) Island Interconnected Customer rates are interim, please explain why this Application is necessary. Why does Hydro need an "immediate" Order, and what is Hydro's best estimate of when it will receive Orders on this Application and on the Amended 2013 GRA?*"

Hydro responded "*Attaining an order approving the deferral account Hydro has applied for will provide Hydro with the appropriate degree of certainty as to the recovery of these costs as it continues to proactively dispatch its generation resources to prudently deal with the current hydro-electric energy shortfall*". Hydro goes on to say "*Hydro is unable to estimate the amount of time that the Board will require to render a decision in this matter or the Amended 2013 GRA as these matters are outside Hydro's control and can be variable depending upon factors such as the Board's regulatory calendar.*" Hydro does not explain how this Application provides a more "*appropriate degree of certainty*" than the ESCVA; neither does Hydro appear to know if this Application is likely to result in an Order of the Board that is more "*immediate*" than an Order on the Amended 2013 GRA and the ESCVA. Hydro has not made a case that this Application provides value over the ESCVA that it placed before the Board in the Amended 2013 GRA filed back in November 10, 2014. The Consumer Advocate points out that the ESCVA Hydro applied for in the Amended 2013 GRA includes a deadband of +/- \$500,000, thus providing some incentive for Hydro to manage these costs. Hydro makes no such proposal for the deferral account applied for in this Application, thus removing any incentive it might have to manage such costs.

Further, it is not clear how the deferral account applied for in this Application would mesh with the ESCVA should the Board approve it in its Order on the Amended 2013 GRA. This question was posed in NP-NLH-1, and Hydro responded "*Hydro believes that a deferral account to recover*

energy supply cost variances such as the ESCVA, which includes the cost of fuel consumed in standby generation sources, will be needed on an ongoing basis, excluding the period covered by the 2016 Standby Fuel Deferral.” It would appear that this Application for a deferral account is superseding the application for the ESCVA, at least for 2016, but not necessarily for 2017 and beyond. However, in the Parties Agreement dated August 14, 2015 relating to the Amended 2013 General Rate Application, Hydro has agreed to undertake a number of studies in preparation for the implementation of customer rates reflecting the costs of the Labrador-Island interconnection. The studies will include a marginal cost study, a cost of service methodology study, and a report on the Rate Stabilization Plan and supply cost recovery mechanisms. A generic cost of service hearing is to be held following the filing of reports on these studies, and Hydro has agreed to file a General Rate Application no later than March 30, 2017 for rate changes based on a 2018 test year. Therefore, it would appear that there is no longer a need for the Board to consider the application for the ESCVA because Hydro indicates it will not be required for 2016, and a study to be completed later this year will determine its need beyond 2016. Alternatively, one could consider that this Application is not needed as the Board will rule on the ESCVA in its Order on the Amended 2013 GRA, and the ongoing need for the ESCVA will be determined in the study to be conducted under the Parties Agreement.

In summary, it is the Consumer Advocate’s opinion that this Application for a deferral account to provide for the recovery of costs Hydro is incurring to fuel its standby combustion turbine and diesel generators is not needed. Hydro already has an application before the Board requesting creation of the ESCVA deferral account that would recover standby fuel costs plus variations in purchased generation costs if approved by the Board. Further, the need for such a deferral account will be addressed in the study of the need for supply cost recovery mechanisms later this year. The Consumer Advocate sees no need to occupy the time of the Parties and the Board on this Application.

The Consumer Advocate therefore recommends that the Board reject the Application.

Please contact the undersigned if you have any questions.

Yours very truly,

O’DEA, EARLE



THOMAS JOHNSON, Q.C.

TJ/cel

cc: Newfoundland Power  
Attention: Mr. Gerard Hayes



Newfoundland and Labrador Hydro  
Attention: Mr. Geoffrey Young

Stewart McKelvey  
Attention: Mr. Paul Coxworthy

Cox & Palmer  
Attention: Thomas O'Reilly, Q.C.

Praxair Canada Inc.  
Attention: Ms. Sheryl Nisenbaum