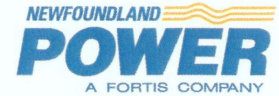


WHENEVER. WHEREVER.
We'll be there.



March 16, 2016

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

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

Ladies and Gentlemen:

Re: Newfoundland and Labrador Hydro (Hydro) Approval of a Standby Fuel Deferral Account for Fuel Consumed in Combustion Turbines and Diesel Generators

Introduction

On February 5, 2016, Hydro filed the above noted application (the "Application"). By letter dated March 9, 2016, the Board set today as the deadline for comments on the Application. These are Newfoundland Power's comments.

In its letter to the Board accompanying the Application, Hydro indicated it was requesting approval of a standby fuel deferral account to provide for recovery of unforeseen costs associated with operating its combustion turbines and diesel generators at much higher levels in 2016 than in previous years. According to Hydro, the increased requirement for standby generation is a result of recent low precipitation and inflows in its hydro reservoirs on the Island, coupled with the effects of load growth and outages and deratings of the Holyrood Thermal Generating Station ("Holyrood").

The Proposed Deferral Account

The standby fuel deferral account proposed in the Application provides for the deferral of all standby generation fuel costs incurred in 2016, offset by savings in power purchases and No. 6 fuel. The proposed account definition provides for the filing of an application with the Board no later than March 1, 2017 regarding the disposition of any balance in the account.¹

Relationship to ESCVA Account

In its 2013 Amended General Rate Application (the "Hydro GRA"), Hydro applied for an Energy Supply Cost Variance Deferral Account (the "ESCVA") for recovery of annual energy supply cost variances on the Island Interconnected System.²

¹ 2016 Standby Fuel Deferral Application, February 5, 2016, Appendix B.

² Hydro's 2013 Amended General Rate Application, Volume 1, page 3.49, line 23.

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In Request for Information NP-NLH-001, Newfoundland Power requested an explanation of how the proposed standby fuel deferral account would operate if the ESCVA is also approved by the Board for 2016. Hydro's response to Newfoundland Power's question and a similar request from the Consumer Advocate provided a basic outline of a number of differences and overlaps between the two cost recovery mechanisms. However, the responses did not clearly indicate how these differences and overlaps should be addressed by the Board.

In Newfoundland Power's submission, this requires further clarification.

Standby Generation Cost Considerations

The report filed in support of the Application identifies a variety of factors underlying the requirement for increased production from Hydro's standby generation. These include low hydrology and reliability requirements. The reliability requirements include (i) meeting the single largest contingency on the Avalon Peninsula, (ii) spinning reserves requirements on the Island Interconnected System and (iii) response to generating unit and transmission line outages.³

Outages at Holyrood are also contributing to the need for increased production from Hydro's standby generation. Hydro has indicated that the proposed deferral account would not be required to address low hydrology if Holyrood was available at full capacity.⁴

The production cost of Hydro's standby combustion turbines and diesel generators is much higher than the production cost of Holyrood.⁵ Further, the marginal production cost differs for each of the standby generating units. Different fuel storage inventories also impact production costs. For example, there is a 6.60 ¢/kWh difference between the marginal production cost of the Hardwoods and Stephenville gas turbines due to a higher starting fuel inventory cost at Stephenville and fewer forecast deliveries of lower priced fuel in 2016.⁶ The circumstances and order of dispatch will have a significant impact on the costs incurred.

On March 2, 2016, Hydro filed a report with the Board which indicated that "...in conjunction with VISTA's recommendations, Hydro suspended the use of standby generation for water management considerations" on February 26, 2016.⁷ Hydro has indicated, however, that even if water storage levels recover in 2016 the proposed deferral account will still be required to recover fuel costs associated with operating its standby generation for reliability purposes.⁸

³ 2016 Standby Fuel Deferral Application, February 5, 2016, page 11, lines 6 to 11.

⁴ Response to Request for Information PUB-NLH-003.

⁵ 2016 Standby Fuel Deferral Application, February 5, 2016, page 10, Table 7.

⁶ Ibid., Table 7.; response to Request for Information NP-NLH-007.

⁷ Bi-Weekly Energy Supply Report for the Island Interconnected System for the Period Ending February 25, 2016, page 3. Vista DSS is a software tool used by Hydro to manage its hydro resources.

⁸ Response to Request for Information NP-NLH-009.

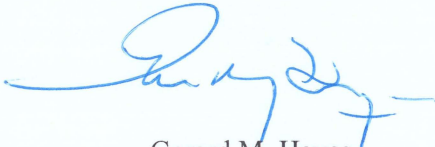
Submission

It is Newfoundland Power's view that Hydro should recover all fuel costs that are reasonably incurred to provide a reliable power supply to the Island Interconnected electrical system. In Newfoundland Power's submission, there should be no disincentive to the prudent use of Hydro's combustion turbines and diesel generators either for system reliability or to maintain reasonable water storage in Hydro's reservoirs. This is consistent with Newfoundland Power's submissions in the Hydro GRA with respect to the ESCVA.⁹

Newfoundland Power submits that the Board should approve the creation of the standby fuel deferral account for 2016 proposed in the Application. Hydro should be permitted to recover the costs represented by any balance in the proposed deferral account only if the costs are shown to be reasonable in the circumstances. The application for disposition of the balance in the account should therefore include comprehensive evidence as to the circumstances of the operation of Hydro's standby generation in 2016.

We trust this is in order.

Yours very truly,



Gerard M. Hayes
Senior Counsel

c. Geoffrey Young
Newfoundland and Labrador Hydro

Paul Coxworthy
Stewart McKelvey

Thomas J. O'Reilly, QC
Cox & Palmer

Thomas Johnson, QC
O'Dea Earle Law Offices

Sheryl Nisenbaum
Praxair Inc.

⁹ See *Written Submissions of Newfoundland Power*, Hydro GRA, pages E-1 to E-3.