

1 Q. (May 2, 2014 submission by Newfoundland Power entitled Newfoundland and
2 Labrador Hydro — Application for Approval of a Capital Project to Supply and Install
3 100 MW (Nominal) of Combustion Turbine Generation — Request for Comments) It
4 is stated "*Certain of the findings in the Interim Report suggest that the high risk of*
5 *supply-related emergencies identified by Liberty is attributable to acts or omissions*
6 *of Hydro related to the planning, maintenance and operation of its generation and*
7 *transmission assets on the Island Interconnected System. In light of those findings,*
8 *Newfoundland Power submits it is appropriate that a separate process be*
9 *undertaken to consider whether or not the costs associated with the Application*
10 *proposal are prudent and should be recovered from ratepayers".* What is Hydro's
11 position relating to the prudence of the expenditure for the combustion turbine
12 project in the light of the foregoing statement regarding the acts or omissions of
13 Hydro and their relation to the high risk of supply-related emergencies identified by
14 Liberty?

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17 A. The 100 MW (nominal) combustion turbine approved for construction by the Board
18 is meeting a generation capacity requirement in 2015 identified by Hydro and
19 reported to the Board at several junctures in time. It is required to meet a deficit in
20 power system generation capacity identified for 2015 using the generation planning
21 capacity criteria of a loss of load hours (LOLH) of 2.8 hours previously reviewed and
22 accepted by the Board. The previous reports provided to the Board and other
23 interveners including Newfoundland Power, which are clearly outlined in Hydro's
24 application for the approval of this combustion turbine, show the requirement for
25 additional capacity in 2015 was identified well before the January 2014 events.
26 Therefore, the requirement for the combustion turbine is not related to the supply
27 disruptions or the availability of generation on the Island Interconnected System in

1 January 2014 and therefore the prudence test of the project is unrelated to any of
2 the events in January.

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4 In contrast to the statement of Newfoundland Power, the events of January 2014
5 highlight that the requirement for additional generating capacity is near, due to the
6 continuing growth in the peak demand that customers are requiring. The peak
7 demands experienced on the power system in December 2013 and January 2014
8 and in particular, by customers connected to the Newfoundland Power distribution
9 systems, were at record levels. The continuing growth in commercial and residential
10 customer's demand and the forecast growth in Industrial Customer demand driven
11 by the Vale nickel processing facility in Long Harbour place additional demands on
12 the existing generation infrastructure which eventually has to result in additional
13 capacity.

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15 Hydro maintains and operates its generation facilities to safely and reliably meet
16 customer requirements. However, inherent with the operation of generating
17 facilities is the probability of generating units being unavailable. It is for that reason
18 that when planning the requirement for generating unit additions, generation
19 planners use probabilistic analysis to ensure sufficient reserves. Using Hydro's
20 historical reliability performance and the forecast growth in demand by customers,
21 there is a clear need for additional generating capacity in 2015 using existing Board
22 accepted generation capacity planning reliability criteria. The growth in demand by
23 customers is the single biggest driver for additional reliable generation capacity on
24 the power system.

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26 Hydro has reviewed the events of January 2014 and is implementing a number of
27 changes to further improve the reliable performance of its generating facilities.
28 These are outlined in Hydro's reports to the Board and to Liberty in the supply

1 disruptions review. The reliability assumptions used in Hydro's generation capacity
2 planning analysis resulting in the recommendation in this application for the
3 addition of generating capacity in 2015 are that Hydro's hydroelectric facilities will
4 continue to perform at levels better than the CEA, the Holyrood facility will operate
5 at or better than CEA average levels and the existing gas turbines will perform at
6 CEA average levels. Therefore, the performance in January has no bearing on the
7 prudence of the need of additional capacity. The prudence should be tested on the
8 validity of these generation capacity reliability and customer demand growth
9 assumptions.