

1 Q. (Re: October 2014 Evidence submitted as part of Application) On page 3 lines 11 to  
2 20, it appears that the cost/kW of CBPP interruptible power for the past winter was  
3 about \$102/kW. If this calculation is incorrect, please provide the correct  
4 calculation, and in either case, provide a comparison of the cost/kW of CBPP  
5 interruptible power over the past winter to 1) the annualized cost in \$/kW of a  
6 combustion turbine, and 2) the cost in \$/kW of Newfoundland Power's Curtailable  
7 Service.

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10 A. The capacity assistance arrangement with CBPP during the 2013/14 winter season  
11 provided a lower fixed payment and a higher variable payment. The variable  
12 payment increased with the amount of capacity required based upon the increased  
13 impact upon CBPP ability to operate its facility.<sup>1</sup>

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15 Hydro understands that the calculation of the \$102/kW was derived by taking the  
16 total costs of \$6,126,000 and dividing this by 60,000 kW. CBPP was requested to  
17 provide up to 60 MW of capacity through load curtailment at the CBPP mill to  
18 support the Island Interconnected System for 148 hours during the period January  
19 to March, 2014.<sup>2</sup> The ability to obtain capacity from CBPP was critical to system  
20 integrity and materially reduced the requirement for customer outages to deal with  
21 capacity constraints.

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23 To permit the Board to assess the reasonableness of the price paid to CBPP, Hydro  
24 believes it is appropriate to compare the cost incurred to minimize customer

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<sup>1</sup> Variable Payment of each four-hour block: 20 MW = \$40,000 (\$0.50/kWh); 40 MW = \$100,000 (\$0.625/kWh); and 60 MW = \$180,000 (\$0.75/kWh).

<sup>2</sup> Hydro also called upon CBPP for capacity assistance for eight hours in December 2013.

1 outages to the estimated marginal cost forecast for 2014. In response to request  
2 CA-NLH-033 filed in Hydro's 2013 GRA, Hydro was requested to provide updated  
3 marginal costs based on the methodology outlined in NERA's May 2006 marginal  
4 cost study documented in the report entitled *Newfoundland and Labrador Hydro*  
5 *Marginal Costs of Generation and Transmission* and the July 2006 report entitled  
6 *Implications of Marginal Cost Results for Class Revenue Allocation and Rate Design*.

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8 Based upon the NERA methodology, the marginal capacity cost on the Island  
9 Interconnected System for 2014 was \$176 per kW.<sup>3</sup> The \$102 average cost per kW  
10 incurred by Hydro to minimize customer outages is materially lower than the  
11 estimated system marginal capacity cost for 2014.<sup>4</sup>

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13 With respect to the cost of a combustion turbine, the marginal cost estimate for  
14 2014 of \$176 per kW is based upon the cost of a combustion turbine giving  
15 consideration to forecast system LOLEs for 2014. The cost of \$102 per kW incurred  
16 by Hydro compares favorably from a least cost perspective to the marginal cost of a  
17 combustion turbine.

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19 NP's curtailable load requires customers be provided one hour notice, with limited  
20 hours of availability per day and the number of requested hours per winter cannot  
21 exceed 100 hours. The CBPP capacity assistance agreement provided for notice of  
22 15 minutes and no limitations on the hours of availability per day or a cap on the  
23 hours requested. As a result the cost of the NP curtailable service option is not a  
24 valid comparison to the cost of the CBPP capacity assistance agreement.

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<sup>3</sup> See Table 2 of response to CA-NLH-033, 2013 Hydro General Rate Application.

<sup>4</sup> The high marginal capacity cost from 2014 to 2017 is directly linked to high LOLEs for the period which was used to demonstrate the requirement for the new combustion turbine at Holyrood.

- 1 The cost incurred to obtain 60 MW of capacity from CBPP compared to the system
- 2 marginal costs combined with the customer benefits obtained through reduced
- 3 customer outages demonstrates that the negotiation of the agreement with CBPP
- 4 was consistent with the provision of least cost reliable service.