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March 21, 2016

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

Attention: Ms. Cheryl Blundon
Director Corporate Services & Board Secretary

Dear Ms. Blundon:

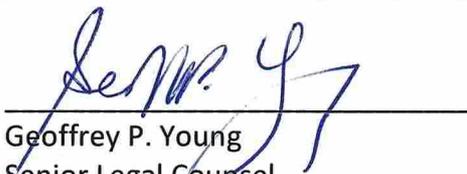
**Re: Newfoundland and Labrador Hydro - 2016 Standby Fuel Deferral Account
Written Submission**

Enclosed please find the original plus 12 copies of Newfoundland and Labrador Hydro's submission with regard to the above-noted application.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Geoffrey P. Young
Senior Legal Counsel

GPY/bs

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
Sheryl Nisenbaum – Praxair Canada Inc.

Thomas Johnson – Consumer Advocate
Thomas O' Reilly – Cox & Palmer

NEWFOUNDLAND AND LABRADOR HYDRO
SUBMISSION REGARDING
2016 STANDBY FUEL DEFERRAL APPLICATION

March 21, 2016



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1 **1.0 Background**

2 On February 5th, 2016 Newfoundland and Labrador Hydro (Hydro) filed an Application for a
3 2016 Standby Fuel Deferral to capture the costs associated with increased standby generation
4 in 2016. These are Hydro's submissions on the Application.

5
6 **2.0 The Energy Supply Cost Variance Deferral Account and the 2016 Standby Fuel Deferral**

7 A number of intervenors have commented, or expressed the need for clarification, on the
8 relationship between the Energy Supply Cost Variance Account (ESCVA) as proposed in Hydro's
9 Amended General Rate Application (GRA) and the 2016 Standby Fuel Deferral proposed in this
10 Application.

11
12 As noted in Hydro's response to CA-NLH-003, the ESCVA and proposed Standby Fuel Deferral
13 overlap for a number of generation sources. Further to Hydro's response to NP-NLH-001,
14 should both the ESCVA and the 2016 Standby Fuel Deferral be approved, Hydro would suspend
15 use of the ESCVA for 2016 only. This would ensure no overlap would occur between the two
16 accounts for costs covered in both account definitions.

17
18 **3.0 Intervenor Submissions**

19 ***Consumer Advocate (CA)***

20 The primary position of the CA is that the requested Standby Fuel deferral is not needed in light
21 of the Energy Supply Cost Variance Account (ESCVA) deferral requested by Hydro in its
22 Amended GRA. The CA, on page 3 of its final submission states:

23
24 *In summary, it is the Consumer Advocate's opinion that this Application for a*
25 *deferral account to provide for the recovery of costs Hydro is incurring to fuel its*
26 *standby combustion turbine and diesel generators is not needed. Hydro already*
27 *has an application before the Board requesting creation of the ESCVA deferral*

1 *account that would recover standby fuel costs plus variations in purchased*
2 *generation costs if approved by the Board.*

3
4 Page 1 of the CA's written submission states:

5
6 *The Consumer Advocate does not take issue with Hydro's claim that hydro*
7 *reservoirs are low, or that it is running its standby generating units at levels much*
8 *higher than in previous years (NP-NLH-5) and at higher cost.*

9
10 Hydro submits that the CA does not appear to take issue with the deferral of standby fuel costs
11 variances relative to the 2015 Test Year but with the choice of mechanism with which to defer
12 those costs. As such, the CA recommends that the Board reject Hydro's application on the basis
13 that Hydro has already requested a similar deferral account, the ESCVA. Hydro notes that in its
14 final submission on Hydro's GRA the CA opposed the approval of the ESCVA.¹

15
16 The ESCVA, as proposed in Hydro's GRA, was not designed strictly to deal with variances in
17 standby generation costs.² The 2016 Standby Fuel Deferral Account provides more
18 transparency on the financial impact of standby fuel cost increases for 2016. As such, Hydro
19 submits that approval of the 2016 Standby Fuel Deferral and suspension of the proposed ESCVA
20 for 2016, as noted in Section 2.0, is appropriate.

21
22 The CA and Vale both commented on the exclusion of a deadband in the proposed 2016
23 Standby Fuel Deferral. The CA, on page 2, states:

24
25 *The Consumer Advocate points out that the ESCVA Hydro applied for in the*
26 *Amended 2013 GRA includes a deadband of +/- \$500,000, thus providing some*

¹ Final Submission of the Consumer Advocate, Page 34, lines 9 and 10, dated December 23, 2015.

² The ESCVA also provides recovery of supply costs variances from test year as a result of load and price variability in power purchases.

1 *incentive for Hydro to manage these costs. Hydro makes no such proposal for the*
2 *deferral account applied for in this Application, thus removing any incentive it*
3 *might have to manage such costs.*

4
5 As noted in Hydro's response to CA-NLH-004:

6
7 *With respect to the 2016 Standby Fuel Deferral, the cause of increased costs in*
8 *the proposed deferral is primarily low storage levels in Hydro's reservoirs. Hydro*
9 *cannot control the level of precipitation and therefore would not be able to*
10 *respond to the incentive created by a deadband.*

11
12 *Hydro notes that deadbands are commonly not included in utility deferral*
13 *accounts over which management does not have control. Specifically, the Rate*
14 *Stabilization Plan which captures variances in No. 6 fuel due to hydrology*
15 *includes no such mechanism.*

16
17 Hydro reaffirms this position. A deadband on the 2016 Standby Fuel Deferral would negatively
18 impact Hydro's financial results and would not serve to create an incentive for Hydro to
19 manage such costs as Hydro cannot control the main drivers of these costs, hydrology and
20 customer load requirements. Hydro submits that the inclusion of a deadband on the 2016
21 Standby Fuel Deferral is not appropriate.

22
23 **Vale**

24 Vale does not oppose Hydro's Application.

25
26 Vale did raise a number of other issues that Hydro wishes to address in this submission.

1 On pages 3 and 4 of its submission, Vale states its concern regarding the prudence of costs
2 associated with Holyrood TGS boiler tubes. Per Hydro's response to PUB-NLH-001, Hydro
3 followed the recommendations of both the original equipment manufacturer and Hydro's
4 boiler maintenance contractor with respect to maintenance of the tubes in question. Further,
5 Hydro proactively acquired replacement tubing and materials to decrease downtime of a
6 potential outage. Hydro submits that these steps were an appropriate balance of least cost and
7 reliable management of the Holyrood TGS.

8

9 On page 4 of its submission, Vale continues:

10

11 *While Vale is concerned that Hydro has overstated its recoverable costs and that*
12 *the current of the deferral account could lead to intergenerational inequity,*
13 *Vale's concerns are alleviated by the fact that the creation of a deferral account*
14 *does not create an entitlement to recovery. Therefore, on the condition that its*
15 *agreement to the remedy sought is not an endorsement of the accuracy of*
16 *Hydro's calculation of its recoverable costs and the Order requested does not give*
17 *rise to a presumption of entitlement by Hydro to any balance in the deferral*
18 *account, Vale does not object to the Order requested.*

19

20 Hydro has not proposed any specific amount for recovery in this application. Hydro has
21 provided deferral balance calculations based on three 2016 hydrology scenarios.³ Actual
22 recovery from customers will be proposed based on the deferral account balance reflecting
23 actual standby fuel costs incurred in 2016.

24

25 As noted in the application, Hydro will file an application for disposition of any deferral balance
26 after the conclusion of the 2016 calendar year. Further, as noted in Hydro's response to CA-

³ See Appendix C through D of the Application.

1 NLH-005, the proposed deferral has been designed to ensure harmonization with the RSP and
2 ensure no over collection of 2016 standby fuel cost variances.

3
4 Vale states that it also has intergenerational equity concerns. Hydro submits that deferral and
5 recovery of Standby Generation costs in a timely fashion would minimize concerns with
6 intergenerational equity.

7
8 Finally, Vale notes that a factor against the creation of the Standby Fuel Deferral is that Hydro's
9 return on equity (ROE) has been fixed by government directive. Hydro does not consider this
10 point relevant for the Board in considering Hydro's application. However, Hydro notes that its
11 ROE has been set at that of NP who, through the Rate Stabilization Account (RSA), can recover
12 all standby fuel costs in excess of base rates. Further, Hydro notes that Section 80 of the *Public*
13 *Utilities Act* states that a public utility is entitled to the opportunity to earn annually a just and
14 reasonable return in addition to recovery of reasonable and prudent expenses, such as the cost
15 of diesel fuel for the provision of reliable service to customers. It is generally accepted practice
16 that electric utilities be provided the opportunity to recover supply costs prudently incurred in
17 the provision of service to customers.

18
19 ***Industrial Customer Group (IC)***

20 The IC does not oppose Hydro's Application.

21
22 The IC also suggests six measures for the Board to consider with respect to the proposed
23 deferral. In its response to NP-NLH-010 Hydro states:

24
25 *To demonstrate that the fuel costs associated with the operation of Standby*
26 *Generation were prudently incurred, at the end of each quarter, Hydro will*
27 *provide a daily account of the generating units start and end times, durations*
28 *and reason(s) for operation. Hydro will also provide a monthly summary of*

1 *energy by unit, fuel consumption and cost. To demonstrate the operation of*
2 *Standby Generation for low hydrology, Hydro also proposes to provide its weekly*
3 *generation guidelines.*

4
5 Hydro submits that this level of reporting would be sufficient for the Board and intervenors to
6 assess the prudence of Standby fuel costs incurred in relation to the proposed deferral. Hydro
7 notes that it is always committed to least cost, reliable service and will, at every opportunity,
8 look to minimize the cost of additional fuel in 2016, and into the future.

9
10 **Newfoundland Power (NP)**

11 NP does not oppose Hydro's Application.

12
13 NP's submission states that:

14
15 *It is Newfoundland Power's view that Hydro should recover all fuel costs that are*
16 *reasonably incurred to provide a reliable power supply to the Island*
17 *Interconnected electrical system. In Newfoundland Power's submission, there*
18 *should be no disincentive to the prudent use of Hydro's combustion turbines and*
19 *diesel generators either for system reliability or to maintain reasonable water*
20 *storage in Hydro's reservoirs.*

21
22 Hydro agrees with NP's assertion that there should be no disincentive to the prudent use of
23 Standby Generation for either hydrology or reliability. Hydro submits that it is prudent to use
24 Standby Generation: (i) in advance of single largest contingencies on the Avalon; (ii) to meet
25 spinning reserves requirements on the Island Interconnected System; and (iii) in response to
26 unit and transmission line outages. Therefore, it is reasonable that Hydro should recover these
27 costs from its customers.

1 Hydro submits that recovery of Standby fuel cost variances is consistent with regulatory
2 practice in this jurisdiction as NP recovers standby fuel costs incurred for reliability purposes
3 through its RSA. Finally, Hydro submits that the opportunity to recover fuel cost variances is
4 consistent with Hydro's Rate Stabilization Plan, as well as Section 80 of the *Public Utilities Act*.
5

6 **4.0 Conclusion**

7 In 2016, Hydro has incurred, and may continue to incur, material additional Standby Generation
8 costs to support system requirements arising from low hydrology and to ensure the provision of
9 reliable service to customers. Hydro submits that there should be no disincentive to operate
10 Standby Generation for either reliability or in support of Hydro's reservoirs. Hydro submits that
11 the material additional standby fuel costs for 2016 are prudently incurred and should be eligible
12 for deferral and recovery from customers.
13

14 Approval by the Board of the proposed deferral account provides a reasonable balance of the
15 interests of the utility and the customers. Approval of the application balances the requirement
16 for Hydro to provide least cost, reliable service to customers, with the requirement for the
17 Board to provide Hydro an opportunity to earn a just and reasonable return.