

November 16, 2017

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 of Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro – Application for Recovery of the 2015 and 2016 Balances in i) the Isolated Systems Supply Cost Variance Deferral Account; ii) the Energy Supply Cost Variance Deferral Account; iii) the Holyrood Conversion Rate Deferral Account

Background

On October 11, 2017, Newfoundland and Labrador Hydro (Hydro) filed with the Board of Commissioners of Public Utilities (the Board) its Application for Recovery of the 2015 and 2016 Balances in: i) the Isolated Systems Supply Cost Variance Deferral Account; ii) the Energy Supply Cost Variance Deferral Account; and iii) the Holyrood Conversion Rate Deferral Account (the Application).

On October 23, 2017, Hydro received nine (9) Requests for Information (RFIs) from the Board. On October 24, 2017, Hydro received thirty-nine (39) RFIs from Newfoundland Power and five (5) RFIs from the Island Industrial Customer Group. Hydro responded to these fifty-three (53) RFIs on November 3, 2017.

On November 10, 2017, Newfoundland Power submitted its comments on Hydro's Application. No other parties submitted comments with respect to Hydro's Application.

Newfoundland Power's Submission

Application

Newfoundland Power claims that Hydro's Application does not provide substantive evidence regarding the reasonableness of the costs reflected in the deferral accounts. Hydro disagrees with this claim and submits that the Application together with Hydro's responses to the RFIs, contains sufficient evidence to warrant the recovery of \$42.2 million in prudently incurred supply costs. Hydro's Application details the factors which lead to the cost variances versus the

approved 2015 Test Year, as well as the corresponding deferral account calculations in accordance with Board Order No. P.U. 49(2016). The Board's Financial Consultants performed a review of these calculations and confirmed that they were in accordance with the Board's direction.¹

Hydro's responses to the RFIs included greater detail as to the operation of Hydro's standby generation units, including a daily account of its thermal generating units start and end times, durations, and reasons for operation. Hydro also provided a monthly summary of energy by unit, fuel consumption, and cost, as well as operational detail regarding its purchases from non-utility hydraulic generators.²

In addition to the operational evidence provided through the RFI process, Hydro also provided detailed information regarding the proposed recovery of the supply costs³ and monthly supply cost deferral calculations.⁴ Hydro submits that the aforementioned written hearing process was consistent with regulatory efficiency and permitted sufficient evidence regarding Hydro's prudently incurred supply costs to be placed on the record for the Board and parties consideration.

Process

Newfoundland Power's submission appears to take issue with the RFI process. In its submission, Newfoundland Power stated that:

*The single round of Requests for Information has provided an opportunity for limited interrogation of Hydro with respect to this matter. However, given the complexity of the subject matter, it is Newfoundland Power's view that further interrogation would be required to allow interested parties to fully assess the matter.*⁵

Hydro notes that Newfoundland Power did not request a second round of RFIs. Given that Newfoundland Power was in possession of Hydro's responses to all RFIs for seven days before its reply was submitted to the Board, Hydro submits that Newfoundland Power had ample opportunity to request an additional round of RFIs but elected not to. Hydro notes that no other party requested further information than what was filed in Hydro's responses to RFIs.

¹ Report from Grant Thornton, *Newfoundland and Labrador Hydro 2015 and 2016 Supply Cost Recovery Application*, dated November 2, 2017.

² See Hydro's responses to IC-NLH-004 and NP-NLH-002.

³ See Section 5.0 of Hydro's Application as well as Hydro's responses to PUB-NLH-006, PUB-NLH-007, IC-NLH-002, and NP-NLH-039.

⁴ See Hydro's responses to NP-NLH-014, NP-NLH-015, NP-NLH-034, and NP-NLH-035.

⁵ Reply submission of Newfoundland Power, dated November 10, 2017, Page 2 of 4.

Responses to Requests for Information

Newfoundland Power's submission also states that, with respect to certain RFIs, "*in a number of instances, Hydro was unable to provide the requested information.*"⁶ Hydro submits that this statement is an inaccurate characterization of Hydro responses as follows:

NP-NLH-032

This RFI requested the dollar impact of the Holyrood Generators operation on November 26, 2016 on the Rate Stabilization Plan, the Holyrood Conversion Deferral, and the Energy Supply Deferral.

Hydro's deferral accounts capture variances between actual and Test Year costs. Hydro's approved Test Year forecasts are not prepared on a daily basis; therefore, there is no November 26 Test Year value on which to prepare the requested variance calculations. By way of context, Hydro referred Newfoundland Power to Hydro's response to NP-NLH-033, which provided the impact on the Energy Supply Cost Variance Deferral accounts of a change in production for the day in question, a change of \$12,310.

Hydro submits that this response provided sufficient detail as to the economic impact of Hydro's generation dispatch on November 26, 2016.

NP-NLH-033

This RFI requested, among other things, the impact on the Holyrood Conversion Deferral of a shift in production on November 26, 2016 of approximately 0.1 GWh. Hydro's reply stated that it is unable to compute the exact impact this change would have on the Holyrood Conversion Deferral Account.

The factors which impact the actual Holyrood fuel conversion rate are complex.⁷ Hydro's response indicated that additional energy production on the day in question would have contributed to a marginally higher average unit loading which would have marginally increased the fuel conversion rate. However, given the number of factors which can impact the Holyrood Conversion Rate, Hydro is not able to accurately compute the impact for a change in production on a single day.

Hydro submits that this response provided sufficient detail as to the economic impact of Hydro's generation dispatch on the Holyrood Conversion Deferral.

NP-NLH-036

This RFI requested a curve of conversion rate versus unit loading for each of the three Holyrood Thermal Generating Units. As noted in Hydro's response, Hydro neither completes a regression analysis for individual units, nor does it generate curves of conversion rate versus unit loading for all operating conditions. Further, there are numerous factors which impact Hydro's dispatch

⁶ Reply submission of Newfoundland Power, dated November 10, 2017, Page 2 of 4, footnote 3.

⁷ See section 4.0 of Hydro's Application as well as Hydro's response to NP-NLH-037, page 2, lines 1 through 5.

of thermal generating units, primarily for customer reliability. Dispatch is not based solely on achieving a particular conversion rate. Even in the context of a technical conference, as suggested by Newfoundland Power, this information is not available and Hydro does not see the value that this theoretical curve would provide.

Generation Dispatch

In its submission, Newfoundland Power appears to question Hydro's dispatch of thermal generation for reliability.⁸ Hydro operates its generation fleet (including thermal generation, emergency and standby generation) to position the power system to withstand the single worst contingency event. Specifically, Hydro dispatches generation such that it is equally prepared for the first contingency event as it is for the next contingency event. As noted in Hydro's response to NP-NLH-022, generation is dispatched in advance of the contingency in order to mitigate the potential of sustained interruption to customers. Hydro submits that this approach is reasonable and provides greater reliability to customers should a system event occur.⁹

Summary of Newfoundland Power's Submission

Hydro submits that the issues raised by Newfoundland Power in its submission of November 10, 2017, are unfounded. As noted by Newfoundland Power in its submission on Hydro's 2016 Standby Fuel Deferral 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.*¹⁰

[Emphasis added]

Hydro submits that the record for this Application contains comprehensive evidence as to the circumstances of the operation of Hydro's standby generation for both 2015 and 2016, as requested by Newfoundland Power in its Standby Fuel submission. Hydro also submits that the evidence shows that these costs were prudently incurred in the provision of reliable service to customers and therefore should be approved for recovery.

Conclusion

Hydro submits that there is sufficient evidence on the record to justify the recovery of \$42.2 million in prudently incurred supply costs. Hydro has provided detailed operating information

⁸ Reply submission of Newfoundland Power, dated November 10, 2017, page 2 of 4.

⁹ Following the events of March 4, 2015, Hydro reviewed its operating procedure and commenced the practice of operating its standby generating units that support the Avalon Peninsula in advance of the single largest Avalon contingency, rather than starting units after the event occurred. This change in approach was determined to be appropriate as noted by Liberty Consulting in their March 4th Voltage Collapse report dated October 22, 2015, page 9.

¹⁰ Final submission of Newfoundland Power dated March 16, 2016, page 3 of 3.

justifying all instances when additional supply costs were incurred to provide reliable service to customers. Hydro submits that all necessary information to enable the Board and the parties to assess the prudence of the expenditures has been provided. In addition, the Board's financial consultants confirmed Hydro's calculations in the Application were accurate.

Hydro also submits that the process followed by the Board for review of the Application has provided comprehensive information on the proposed supply cost balances, and has afforded all interested parties adequate opportunity to request further information and to submit their comments to the Board. While Newfoundland Power challenged the Application process in its final reply, no concerns were raised as the process proceeded. Further, while Newfoundland Power has contested Hydro's recovery of the supply costs; Hydro submits that Newfoundland Power has not provided any evidence to demonstrate why Hydro should not be provided recovery at this time.

Newfoundland Power also raised the issue of balancing cost with reliability. Hydro submits that should Newfoundland Power wish to discuss reduced reliability in exchange for lower costs, that this matter should be discussed on a prospective basis, not in the context of recovery of historical costs already incurred to provide greater reliability to their customers.

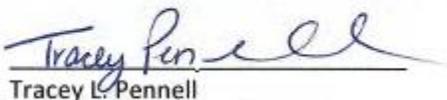
With respect to recovery of the Supply Costs, Hydro submits that the Application proposes a recovery approach that minimizes customer impacts while still providing Hydro recovery in a timely manner. Hydro notes that no intervenor objected to Hydro's proposed recovery approach.

Hydro submits that it should recover all of its supply costs that have been reasonably incurred to provide reliable service to the Island Interconnected system, and that there should be no disincentive to the prudent use of Hydro's generators. Hydro submits that the evidence provided to the Board in Hydro's application and through the RFI process demonstrates prudence and justifies approval of Hydro's Application.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Tracey L. Pennell
Senior Counsel, Regulatory

TLP/skc

cc: Gerard Hayes – Newfoundland Power Inc.
Paul Coxworthy – Stewart McKelvey
ecc: Larry Bartlett – Teck Resources Ltd.

Dennis Browne, Q.C. – Consumer Advocate
Sheryl Nisenbaum – Praxair Canada Inc.
Denis Fleming – Cox & Palmer