

November 10, 2017

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

Introduction

On October 11, 2017, Hydro filed the above noted application (the “Application”). By letter dated October 16, 2017, the Board set today as the deadline for comments on the Application. These are Newfoundland Power’s comments.

The above-noted deferral accounts (hereinafter referred to, collectively, as the “Deferral Accounts”) were approved in Order No. P.U. 49 (2016) and further defined in Order No. P.U. 22 (2017). The Application seeks recovery of a total of approximately \$42.2 million. Hydro is proposing that recovery of this balance be administered through the Hydraulic Production Variation account in the Rate Stabilization Plan.

Balancing Cost and Reliability

In Newfoundland Power’s submission, Hydro is entitled to recover all of its costs in the Deferral Accounts that have been reasonably incurred to provide reliable service to the Island Interconnected system. There should be no disincentive to the prudent use of Hydro’s generators, either for system reliability or to maintain reasonable water storage in Hydro’s reservoirs. However, all costs incurred in the provision of electrical service in the province are to be assessed in accordance with the power policy declared in Section 3 of the *Electrical Power Control Act, 1994* (the “EPCA”).

Effectively, Section 3 (b) of the EPCA requires that Hydro operate its electrical system efficiently, so that consumers are provided with power at the lowest cost consistent with reliable service. In Newfoundland Power’s submission, determining whether the costs reflected in the Deferral Accounts have been reasonably incurred requires the Board to consider whether Hydro’s operation of its

Newfoundland Power Inc.

55 Kenmount Road • P.O. Box 8910 • St. John's, NL A1B 3P6

PHONE (709) 737-5609 • FAX (709) 737-2974 • ghayes@newfoundlandpower.com

electrical system reflects an appropriate balance between the *reliability* of service and the *cost* of providing that service.

The Evidence

The *2015 & 2016 Supply Cost Recovery Application Evidence*, Schedule 1 to the Application, does not provide substantive evidence regarding the reasonableness of the costs reflected in the Deferral Accounts. 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.

The costs proposed for recovery in the Application reflect a revised approach to the dispatch of Hydro's generation sources. Hydro has indicated that it has carefully considered the input from the Board, its consultants, and the intervenors in recent proceedings and "has evolved its practises to account and adjust for the input received during those proceedings. This includes the current approach to dispatch of all generation sources."¹ However, to date, a full assessment of this revised approach, in particular the balance between cost and reliability, has not been undertaken by the Board.

The costs are substantial. For example, the costs of operating the Holyrood Gas Turbine for spinning reserve in 2015 included approximately \$2.9 million for fuel and \$1.2 million in capital expenses associated with future overhauls driven by the number of equivalent starts. In 2016, the fuel cost was approximately \$4.4 million and the associated capital expenses were approximately \$2.3 million. In total, the cost of operating the Holyrood Gas Turbine for spinning reserve over this 2-year period was approximately \$10.8 million.² In addition to using the new Holyrood unit, the Hardwoods and Stephenville gas turbines were operated for spinning reserve 76 times in 2015 and 59 times in 2016.

In an effort to ascertain whether Hydro's revised approach is least cost, Newfoundland Power issued a number of Requests for Information in this proceeding. In a number of instances, Hydro was unable to provide the requested information. In Newfoundland Power's submission, it is unclear how economic dispatch of Hydro's thermal, standby and emergency generation can be assured without such information.³

From an efficiency perspective, there are many days when the Holyrood thermal generating units and the Holyrood Gas Turbine have both operated at minimum load. When operated at minimum load, these units are producing less energy for the amount of fuel burned.⁴ The evidence before the Board does not establish that operating these units in this manner is reasonable.

¹ Response to Request for Information NP-NLH-022.

² This does not include any costs that may have been incurred for overtime labour.

³ See, for example, responses to Requests for Information NP-NLH-032, NP-NLH-033 and NP-NLH-036.

⁴ Information on the relationship between load and efficiency is provided in the responses to Request for Information NP-NLH-016 to this Application, and Request for Information NP-NLH-007 of Hydro's 2018 Capital Budget Application.

Hydro's revised approach to generation dispatch includes maintenance of a level of spinning reserve to support load on the Avalon Peninsula. A substantial portion of this spinning reserve is provided by expensive thermal generation, including the new Holyrood Gas Turbine and the Hardwoods Gas Turbine. Hydro indicates that "generation is dispatched in advance of the contingency in order to mitigate the potential of sustained interruption to customers."⁵ Hydro indicates it has not evaluated the costs and benefits of utilizing the Holyrood Gas Turbine as non-spinning reserve versus spinning reserve.⁶ It is not clear to Newfoundland Power that operating this expensive generation in advance of certain contingencies is consistent with least-cost service.

Concluding

It is Newfoundland Power's view that Hydro should recover all costs that are reasonably incurred to provide a reliable power supply to the Island Interconnected electrical system. However, the current proceeding has not provided a sufficient opportunity for full assessment of the reasonableness of the approximately \$42.2 million proposed for recovery in the Application.

Newfoundland Power submits that the Board should not approve the Application at this time. In Newfoundland Power's submission, the fact that Hydro's revised approach to generation dispatch has not been fully considered by the Board, together with the magnitude of the costs proposed for recovery in the Application, suggests that further interrogation is appropriate. A technical conference would provide an opportunity for interested parties to better understand Hydro's revised approach. In the alternative, the Board may wish to consider a process that provides for a more thorough interrogation of the matter. This could be accomplished by addressing the matter during the hearing of Hydro's 2017 General Rate Application.

We trust this is in order.

Yours very truly,



Gerard M. Hayes
Senior Counsel

⁵ Response to Request for Information NP-NLH-022.

⁶ Response to Request for Information NP-NLH-028.

c. Tracey Pennell
Newfoundland and Labrador Hydro

Paul Coxworthy
Stewart McKelvey Stirling Scales

Denis J. Fleming
Cox & Palmer

Dennis Browne, QC
Browne, Fitzgerald, Morgan & Avis

Sheryl Nisenbaum
Praxair Inc.

Larry Bartlett
Teck Resources Limited