

Requests for Information

1 NP-CA-007 **Reference: *Comments on Newfoundland Power’s 2022 Capital Budget***
2 ***Application, Elenchus Research Associates Inc., August 13, 2021, page***
3 ***22, lines 14-18.***

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5 ***“The long-term value of the energy and capacity that will be provided by***
6 ***the Sandy Brook Plant Penstock Replacement project is further***
7 ***undermined by the potential availability of Churchill Falls power after***
8 ***2041. This power may become available to serve Newfoundland at***
9 ***extremely low cost causing the value of Sandy Brook to decline to close***
10 ***to zero.”***

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12 **QUESTION:** **If Churchill Falls power were to become available to Newfoundland**
13 **Power’s customers after 2041, why would it be reasonable to expect**
14 **that the wholesale price of this power would decline to close to zero?**

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16 **RESPONSE:** The quoted text does not suggest that the wholesale price of either Churchill
17 Falls or Sandy Brook power would necessarily “decline to close to zero”.
18 The wholesale price of power in Newfoundland and Labrador after 2041
19 may be set at a regulated price that reflects the cost of the supply. The value
20 of the marginal supply may nevertheless be negligible if there is significant
21 excess supply. Under excess supply conditions, the value of the power that
22 cannot be sold will be zero, or it may be a very low price if that is required
23 to attract export demand. Given the nature of the supply of power, the value
24 of any incremental supply can only be determined on the basis of the value
25 of the last increment to the total supply portfolio.

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27 The point being made is simply that it is possible that once Churchill Falls
28 power is available to Newfoundland after 2041 there may be a substantial
29 excess of hydro power available in the province that cannot be sold in
30 export markets. Instances of excess power in other jurisdictions have
31 resulted in periods of very low or even negative prices. This is the case with
32 excess baseload generation (nuclear) in Ontario, for example. Hydro
33 generating stations experience periods during which water is spilled when
34 there is no market for the power and reservoirs are at capacity. In the event
35 of significant excess capacity, incremental power supplies such as the
36 additional capacity that will be provided by the Sandy Brook Plant Penstock
37 Replacement, may generate little or nil additional revenue “causing the
38 value of Sandy Brook [production] to decline to close to zero.”

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40 The scenario outlined here is not a prediction or forecast, but merely a
41 statement of a possible scenario that should be factored into the economic
42 analysis of the project. If it can be convincingly demonstrated that this
43 scenario is highly unlikely, then, and only then, would the economic
44 analysis give a small weighting to that possibility.