

**NEWFOUNDLAND AND LABRADOR  
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

**AN ORDER OF THE BOARD**

**NO. P.U. 21(2019)**

1 **IN THE MATTER OF** the *Electrical Power*  
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1 (the  
3 “*EPCA*”) and the *Public Utilities Act*, RSNL 1990,  
4 Chapter P-47 (the “*Act*”), as amended, and regulations  
5 thereunder; and  
6

7 **IN THE MATTER OF** an application by  
8 Newfoundland and Labrador Hydro for  
9 recovery of the 2018 balances in (i) the  
10 Isolated Systems Supply Cost Variance  
11 Deferral Account, (ii) the Energy Supply  
12 Cost Variance Deferral Account, and  
13 (iii) the Holyrood Conversion Rate Deferral  
14 Account, pursuant to sections 70(1) and 80  
15 of the *Act*.  
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17

18 **1.0 Background**  
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20 In Order Nos. P.U. 49(2016) and P.U. 22(2017) the Board approved the Isolated Systems Supply  
21 Cost Variance Deferral Account, the Energy Supply Cost Variance Deferral Account and the  
22 Holyrood Conversion Rate Deferral Account, effective January 1, 2015, with recovery of account  
23 balances to be addressed in an annual application. In Order No. P.U. 16(2019) the Board approved  
24 the balances in the 2015, 2016 and 2017 Isolated Systems Supply Cost Variance Deferral, Energy  
25 Supply Cost Variance Deferral and Holyrood Conversion Rate Deferral accounts, as well as the  
26 settlement proposals in relation to the allocation and recovery of the balances.  
27

28 **2.0 The Application**  
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30 On April 1, 2019 Newfoundland and Labrador Hydro (“Hydro”) filed an application (the  
31 “Application”) with the Board requesting approval of the account balances for the 2018 deferred  
32 supply costs and proposals for recovery of these deferred costs through the Rate Stabilization Plan  
33 (“RSP”). The Application requested approval of:

- 34 i. The 2018 Isolated System Supply Cost Variance Deferral Account debit balance of  
35 \$1,089,319 and the transfer, effective October 1, 2019, of \$1,041,371 to the  
36 Newfoundland Power RSP Current Plan balance, with the \$47,949 allocated to Hydro

- 1 Rural customers on the Labrador Interconnected System to be written off to Hydro's  
2 net income;
- 3 ii. The 2018 Energy Supply Cost Variance Deferral Account debit balance of \$16,546,319  
4 and the transfer, effective October 1, 2019, of \$15,012,526 to the Newfoundland Power  
5 RSP Current Plan balance and \$1,483,570 to the Industrial Customers RSP Current  
6 Plan balance, with the \$50,223 allocated to Hydro Rural customers on the Labrador  
7 Interconnected system to be written off to Hydro's net income; and
- 8 iii. The 2018 Holyrood Conversion Rate Deferral Account debit balance of \$4,430,908  
9 and the transfer, effective October 1, 2019, of \$4,020,176 to the Newfoundland Power  
10 RSP Current Plan balance and \$397,283 to the Industrial Customers RSP Current Plan  
11 balance, with the \$13,449 allocated to Hydro Rural customers on the Labrador  
12 Interconnected system to be written off to Hydro's net income.  
13

14 The total 2018 deferred supply costs proposed is \$22,066,546. The proposed transfer of the  
15 deferred 2018 supply cost account balances to the RSP Current Plan balances effective October 1,  
16 2019 would result in the recovery of the deferred supply costs through the RSP starting January 1,  
17 2020 for the Island Industrial customers and July 1, 2020 for Newfoundland Power.  
18

19 The Application was circulated to: Newfoundland Power Inc. ("Newfoundland Power"); the  
20 Consumer Advocate, Dennis Browne, Q.C.; a group of Island Industrial customers: Corner Brook  
21 Pulp and Paper Limited, NARL Refining Limited Partnership, Vale Newfoundland and Labrador  
22 Limited (the "Industrial Customer Group"); Iron Ore Company of Canada; Praxair Canada Inc.;  
23 and the communities of Sheshatshiu, Happy Valley-Goose Bay, Wabush and Labrador City.  
24

25 On April 23, 2019 requests for information ("RFIs") were submitted by the Industrial Customer  
26 Group and Newfoundland Power. Hydro replied to the RFIs on May 3, 2019. Newfoundland Power  
27 filed a submission on May 10, 2019 and Hydro filed a reply submission on May 15, 2019. No  
28 other submissions were received.  
29

30 To assist in the review of the proposed balance in each deferral account Grant Thornton was asked  
31 to review and verify the data incorporated in the calculation reflected in the deferral account  
32 formulas. In its report dated May 3, 2019 Grant Thornton confirmed that the amounts requested  
33 by Hydro are in accordance with account definitions as approved in Order No. P.U. 22(2017).  
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### 35 **3.0 Submissions**

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37 In its submission Newfoundland Power stated that Hydro adopted its new spinning reserve  
38 standard without completing a cost-benefit analysis and that it was not obvious to Newfoundland  
39 Power how Hydro's practice can be shown to be a good utility practice for the operation of the  
40 Island Interconnected system. Newfoundland Power submitted that the risk of Hydro continuing  
41 with its current practice without analyzing the balance between costs and reliability is that  
42 customers will bear higher costs than what is required to reliably operate the Island Interconnected  
43 system. According to Newfoundland Power Hydro has not shown that the increased cost of  
44 maintaining the new spinning reserve standard strikes the appropriate balance of cost and  
45 reliability and did not provide evidence that its use of gas turbines specifically to maintain spinning  
46 reserve was consistent with practices in other jurisdictions. Newfoundland Power stated that the

1 balance between the costs and benefits of the new spinning reserve standard continues to be a  
2 concern and submitted that, prior to recovering the 2018 supply costs, Hydro should provide a  
3 report analyzing these costs and benefits to demonstrate that the costs were appropriate in  
4 comparison to the benefits that were achieved.

5  
6 In its reply submission Hydro stated that its approach to spinning reserve is consistent with the  
7 approach of other utilities, as noted by The Liberty Consulting Group (“Liberty”) in its June 22,  
8 2018 report *Analysis of Hydro’s Energy Supply Cost Variance Deferral Account*. Hydro also  
9 submitted that Newfoundland Power’s position is inconsistent with the Board’s findings in Order  
10 No. P.U. 16(2019), where the Board noted Liberty’s findings relating to Hydro’s operation of  
11 standby generation and, while acknowledging Newfoundland Power’s concerns regarding the  
12 appropriate balance of cost and reliability, found that the supply costs for 2015, 2016 and 2017  
13 were prudently incurred and that the balances in the supply cost accounts should be approved for  
14 recovery from customers. Hydro noted that the 2018 balances were incurred under the same  
15 operational philosophy as the approved 2015, 2016, and 2017 deferred supply costs.

16  
17 Hydro advised that it sought feedback from stakeholders, including Newfoundland Power, as to  
18 whether a deviation from Hydro’s planned dispatch approach was warranted and that no  
19 alternatives or deviations from the practice were suggested nor was there any suggestion that the  
20 standard to which Hydro is operating is unacceptable. Hydro stated that it operates its generation  
21 fleet in line with best practice reliability standards to position the power system to withstand the  
22 single worst contingency event. According to Hydro this practice has lowered both the risk of  
23 customer impact and the magnitude of customer impacts should a contingency occur. While  
24 acknowledging the importance of cost management for customers Hydro strongly maintains that  
25 its current approach results in all generating assets in its fleet being dispatched to reliably meet its  
26 customer demand requirements, in such a manner to meet an appropriate balance between cost and  
27 reliability.

#### 28 29 **4.0 Board Findings**

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31 The Board notes that no issues or objections were raised with respect to the balances in the Isolated  
32 Systems Supply Cost Variance Deferral Account and the Holyrood Conversion Rate Deferral  
33 Account. Newfoundland Power expressed concern with respect to the balance in the Energy  
34 Supply Cost Variance Deferral Account, specifically that a significant portion of these costs  
35 proposed to be recovered from customers are associated with Hydro’s use of gas turbines to meet  
36 its new spinning reserve standard implemented in 2015. According to Newfoundland Power the  
37 evidence does not show that this practice is consistent with good utility practice and the balance  
38 between cost and reliability has not been demonstrated.

39  
40 The Board agrees that the onus rests with Hydro to prove that the costs proposed to be recovered  
41 from customers have been prudently incurred and are consistent with least-cost reliable service.  
42 The evidence shows that \$15,981,000 of the \$16,546,000 in the Energy Supply Cost Variance  
43 Deferral Account, or 97%, is associated with support of its spinning reserve standard in 2018.<sup>1</sup>  
44 Hydro acknowledged the magnitude of the costs associated with providing this level of reliability  
45 but noted that the addition of the third 230 kV transmission line (TL267) from Bay d’Espoir to the

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<sup>1</sup> Application, Schedule 1, page 7.

1 Avalon and the restored capacity of the Holyrood units have reduced gas turbine operation through  
2 the fourth quarter of 2018.<sup>2</sup> Hydro also expects the costs associated with providing the level of  
3 reliability achieved in recent years will continue to decrease as other lower cost options are  
4 available and further opportunities are pursued.

5  
6 The Board notes that Hydro's practices with respect to generating unit dispatch and spinning  
7 reserve on the Island Interconnected system were reviewed by Liberty as part of the Board's review  
8 of the appropriateness of the 2015, 2016 and 2017 deferred supply costs and found to be consistent  
9 with good utility practice and not imprudent. These costs were approved for recovery from  
10 customers in Order No. P.U. 16(2019). The 2018 deferred supply costs were incurred under the  
11 same operational guidelines and dispatch approach that was in place for 2015, 2016 and 2017.  
12 While the Board agrees that the costs are significant there is no evidence to support a finding that  
13 the costs were not prudently incurred in the provision of reliable service. Looking forward the  
14 Board expects that the question of the appropriate balance between costs and reliability will be  
15 explored in the review of Hydro's *Reliability and Resource Adequacy Study* currently before the  
16 Board.

17  
18 The Board has reviewed the evidence and is satisfied that the 2018 balances in the Energy Supply  
19 Cost Variance Deferral Account, the Holyrood Conversion Rate Deferral Account and the Isolated  
20 Systems Supply Cost Variance Deferral Account are in accordance with the approved account  
21 definitions. The Board is also satisfied that the balances have been prudently incurred in the  
22 provision of least-cost reliable service and should be approved for recovery from customers.

23  
24 With respect to the proposed allocation and recovery of the 2018 deferred supply costs account  
25 balances the Board notes that Hydro's proposals are consistent with the approach detailed in the  
26 settlement agreements related to the 2015, 2016 and 2017 deferred supply costs balances filed in  
27 the 2017 general rate application and accepted by the Board in Order No. P.U. 16(2019). Of the  
28 total 2018 deferred supply costs of approximately \$22.1 million Newfoundland Power will be  
29 allocated approximately \$20.1 million or 91%. No issues or objections were raised with respect to  
30 the proposals for allocation and recovery of the 2018 deferred supply costs. The Board is satisfied  
31 that Hydro's proposals for the allocation and recovery of the 2018 deferred supply costs should be  
32 approved.

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<sup>2</sup> Application, Schedule 1 - Attachment 5, page 5.

**IT IS THEREFORE ORDERED THAT:**

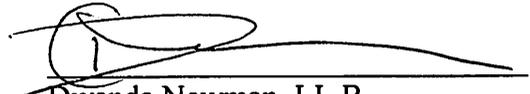
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1. The balances in the Energy Supply Cost Variance Deferral Account, the Holyrood Conversion Rate Deferral Account and the Isolated Systems Supply Cost Variance Deferral Account for 2018 are approved.
2. Hydro's proposals for the allocation by customer class of the balances in the Energy Supply Cost Variance Deferral Account, the Holyrood Conversion Rate Deferral Account and the Isolated Systems Supply Cost Variance Deferral Account for 2018 are approved.
3. Hydro's proposal to recover the amounts allocated to Newfoundland Power and the Island Industrial customers through a transfer of balances to the respective RSP Current Plans effective October 1, 2019 is approved.

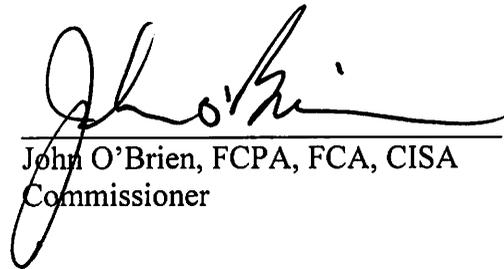
**DATED** at St. John's, Newfoundland and Labrador, this 6<sup>th</sup> day of June, 2019.



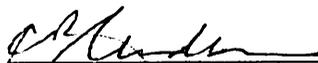
Darlene Whalen, P. Eng., FEC  
Chair and Chief Executive Officer



Dwanda Newman, LL.B.  
Vice-Chair



John O'Brien, FCPA, FCA, CISA  
Commissioner



Cheryl Blundon  
Board Secretary