

1 **Q.** (Application Volume 1, page 3-34 and page 3-25) It is stated *Reliability of supply*
2 *from the Muskrat Falls Project affects NP's business risk from 2 perspectives. First,*
3 *an outage to the LIL during the winter season could result in a shortfall of up to*
4 *approximately 400 MW on the Island Interconnected System. This could result in*
5 *large-scale customer outages over a prolonged period of time. Such a scenario would*
6 *impede NP's ability to provide adequate service and pose serious health and safety*
7 *risks to the Company's customers. Under this scenario, Newfoundland Power could be*
8 *expected to incur additional costs to continue serving its customers with available*
9 *electricity supply. Second, inadequate supply reliability could result in the need for*
10 *additional investments to improve reliability, including investments in additional*
11 *sources of supply or investments to improve the reliability of the LIL. Such*
12 *investments could be expected to contribute to higher customer rates.*

13 a) With respect to the first business risk, if NP had to incur additional costs
14 then what recourse, if any, would it have to recover those additional costs, or
15 would it have to absorb them?

16 b) (i) With respect to the second business risk, please clarify whether the
17 additional investment would be undertaken by NP or Hydro.

18 (ii) If any additional investment were undertaken by NP, would it not be
19 entitled to a just and reasonable return on such investment?

20 (iii) To the extent that higher customer rates result then aren't they borne
21 by the customers, not NP?
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23 A. a) The recourse available to Newfoundland Power would depend on the specific
24 event that occurs, including the timing and magnitude of that event.
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26 Newfoundland Power has generally absorbed operating costs related to a loss of
27 supply. For example, during #darkNL in January 2014, the Company's
28 operations and customer service personnel were mobilized on an around-the-clock
29 basis to complete load rotations, repair system issues that arose due to cold load
30 pick-up, and respond to customer enquiries. Operating costs associated with this
31 event were approximately \$1 million. Newfoundland Power absorbed these
32 costs.¹
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34 Typically, following such a scenario, Newfoundland Power will assess the
35 financial impact and its alternatives. It will then take any reasonable steps
36 available to manage its operations in a manner that offers the best opportunity for
37 the Company to earn its return during that year. The options available to
38 management generally depend on the magnitude and timing of an event. This is
39 comparable to the Company's approach to managing operating costs related to
40 severe weather, as described in response to Request for Information PUB-NP-039.

¹ See the 2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 3: Finance, page 3-35, footnote 81.

1 The magnitude of a potential supply shortfall arising due to failure of the LIL, as
2 referenced in this Request for Information, could exceed that experienced during
3 #darkNL or other supply shortfalls previously experienced by Newfoundland
4 Power.² It is therefore not possible to estimate the potential costs of such an
5 unprecedented event or to speculate on what recourse would be appropriate under
6 these circumstances.

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8 b) (i) While the generation of electricity in the province is primarily the
9 responsibility of Newfoundland and Labrador Hydro,³ Newfoundland
10 Power currently owns and operates generation facilities for emergency
11 purposes.⁴

12 The requirement for additional generation or other investments to improve
13 supply reliability is currently under review by the Board as part of the
14 ongoing *Reliability and Resource Adequacy Study Review*. The specific
15 investment required, who would undertake that investment, or how that
16 investment would be recovered from customers has not yet been
17 determined.

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20 (ii) Newfoundland Power would be entitled to an *opportunity* to earn a just
21 and reasonable return. See response to Request for Information
22 CA-NP-025.

- 23
24 (iii) Higher customer rates resulting from the Muskrat Falls Project or
25 additional investments necessary to improve supply reliability would be
26 borne by customers. Customers generally respond to higher customer
27 rates by reducing their energy consumption. This, in turn, could be
28 expected to put pressure on Newfoundland Power's ability to earn a fair
29 return.⁵

² See response to Request for Information PUB-NP-037.

³ Section 14.1 of the *Electrical Power Control Act, 1994* prohibits a utility other than Newfoundland and Labrador Hydro from developing, owning, operating, managing or controlling a facility for the generation of supply of power, but does not apply to generation facilities used for emergency circumstances.

⁴ Newfoundland Power owns and operates emergency generation in Port aux Basques, Burin and Wesleyville to supply customers in these areas in the event of a loss of supply.

⁵ See response to Request for Information PUB-NP-037.