

1 Q. **Off Island Purchases**

2 Page 6.4, lines 6-9 and page 6.5, lines 11-17 – How will the costs for obtaining off-
3 island purchases be determined and what opportunity for review of the costs by the
4 Board and intervenors will be available?

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7 A. The costs of off-island purchases fall into essentially three categories: the cost of
8 the energy under the CF(L)Co-Hydro Power Purchase Agreement; the costs of off-
9 island purchases made to supplement the CF(L)Co-Hydro Power Purchase
10 Agreement energy; and transmission costs.

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12 The CF(L)Co-Hydro Power Purchase Agreement energy purchase costs are 0.2
13 cents/kWh.¹ The other off-island energy costs will be derived from market
14 purchases, that may vary from time to time, and may also include potential firm
15 supply contracts. These purchases can be disclosed after they have occurred so the
16 PUB and the parties will be able to review and consider them.

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18 The transmission costs include charges to Hydro incurred to provide transmission
19 services on the Labrador Transmission Assets (LTA) and the Labrador Island Link
20 (LIL). The amounts of these charges are exempt from review under the Muskrat
21 Falls Project Exemption Order (OC2013-342; NLR 120/13) in the sense that they
22 must be included in Hydro's allowable revenue requirement.

¹ Under the terms of the Power Purchase Agreement between Hydro and Churchill Falls (Labrador) Corporation (CF(L)Co) (the NLH-CF(L)Co PPA), Hydro is able to, and does, purchase approximately 300 MW of Recapture Energy from CF(L)Co at a cost of 0.2¢ per kWh for use outside of the Province of Quebec.

1 The cost savings achieved by bringing off-island energy to the island prior to the
2 commissioning of the Muskrat Falls generating station project will be used to
3 reduce Hydro’s energy costs from this period to the extent that they are less than
4 the cost of generating the same amount of energy from the Holyrood Thermal
5 Generating Station. It is proposed that rates be set based upon the Holyrood
6 Thermal Generating Station forecast costs for this amount of energy and the savings
7 that result from the off-island purchases be collected into a deferral account for
8 later disposition by the Board.