

November 19, 2014

Board of Commissioners
of Public Utilities
P.O. Box 21040
120 Torbay Road
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon, Director of Corporate Services and Board Secretary

Ladies and Gentlemen:

**Re: An Application by Newfoundland and Labrador Hydro (Hydro) for Approval of
Agreement with Corner Brook Pulp and Paper Limited for Capacity Assistance**

On October 28, 2014, Hydro filed an Application with the Board for approval of an executed agreement for 60 MW of winter capacity assistance between Hydro and Corner Brook Pulp and Paper (CBPP). It is understood that Hydro is also in discussions with Vale for a similar capacity assistance arrangement and, if negotiations are successful, will soon file an application to the Board for approval (PUB-NLH-9). None of the other industrial customers have expressed an interest in pursuing capacity assistance arrangements with Hydro (CA-NLH-3).

Hydro states that the pursuit of such capacity assistance arrangements is consistent with the interim reports of Hydro, the Board and Liberty Consulting filed during the investigations and hearings regarding supply issues and power outages on the Island Interconnected System which acknowledge the value of economically available interruptible load from Hydro's Island Industrial Customers during winter peak load periods (Application para. 5). Hydro proposes that the capacity assistance agreement commence on December 1, 2014 coincident with the start of the 2014/15 winter period, and continue through to March 31, 2018 coincident with the end of the 2017/18 winter period (Application Schedule A, Article 5). The capacity payment under the proposed CBPP capacity assistance agreement will cost consumers \$1,680,000 annually (PUB-NLH-7), or \$6,720,000 over the term of the agreement. The energy, or variable, payment could cost consumers up to \$1,200,000 annually (PUB-NLH-7), or \$4,800,000 over the four year term of the agreement. Therefore, the total cost of the agreement could cost consumers as much as

\$11,520,000 over the next four years. Hydro indicates that the additional costs associated with the capacity payment (\$1,680,000) represent 0.3% of customer billings at existing rates (CA-NLH-1).

The Consumer Advocate wishes to avoid the outage events that have occurred on the Island Interconnected System over the past two winters. The outage events caused significant hardship for consumers. The CBPP capacity assistance arrangement would help to avoid a repeat of the outage events, and as Hydro points out, both the Board and its consultant have recommended that by December 1, 2014, Hydro should "Complete negotiations in relation to interruptible load and, to the extent that it can secure economically available interruptible load, have a contract in place"(page 33, lines 1 to 7 of Board's Interim Report dated May 15, 2014 entitled Investigation and Hearing into Supply Issues and Power Outages on the Island Interconnected System).

Further, we are concerned about the schedule for the 120 MW combustion turbine under construction at Holyrood. In its response to DD-NLH-5, Hydro indicates that the majority of the project has been completed, but Hydro will have a firmer sense in early December of when the unit will be online with first power. This response was filed on November 17, only two weeks before the start of the 2014/15 winter peak period. It is disappointing that Hydro is unable to provide a more definitive estimate of the project in-service date at this very late stage, but if there is a chance the combustion turbine will not be available for the upcoming winter period, the CBPP capacity assistance agreement will clearly be needed, at least for the 2014/15 winter period.

In conclusion, the Consumer Advocate recommends that the Board approve the Application, but the need for the capacity assistance beyond the 2014/15 winter should be subject to further review pending recommendations stemming from the Board's Investigation and Hearing into Supply Issues and Power Outages on the Island Interconnected System. The Consumer Advocate further submits that the question of recovery of purchased power expense in connection with the agreement with CBPP should be deferred for consideration as part of the Hydro General Rate Application.

Please contact the undersigned if you have any questions.

Yours very truly,

O'DEA, EARLE

THOMAS JOHNSON

TJ/cel

cc: Newfoundland Power
Attention: Mr. Gerard Hayes

Newfoundland and Labrador Hydro
Attention: Mr. Geoffrey Young

Island Industrial Customers
Attention: Paul Coxworthy

Vale Newfoundland & Labrador Limited
Attention: Tom O'Reilly, Q.C.

Praxair Canada Inc.
Attention: Ms. Sheryl Nisenbaum

Danny Dumaresque