

April 30, 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: Investigation and Hearing into Supply Issues and Power Outages on the Island Interconnected System

In the Board's Invitation for Public Participation, the Board stated that it will release its interim report on Thursday, May 15, 2014, which will address the power outage events, utility preparedness for 2014-2016, and the utilities' responses to the power outages and customer issues. The Invitation stated that written input and comments for the consideration of the Board in the preparation of its interim report must be submitted no later than Friday, May 2, 2014. In this correspondence the Consumer Advocate conveys his submission for the Board's consideration in its interim report.

The Consumer Advocate first wishes to commend Liberty Consulting Group (Liberty) on its thorough analysis of the outage events, and Hydro and Newfoundland Power on their own interim reports submitted March 24, 2014, and their cooperation with the consultant. We believe the report prepared by Liberty is well-balanced and provides a thorough analysis of the events and a constructive way forward for reducing the potential for a repeat of the outage events in the coming winter periods.

The Consumer Advocate suggests the following for the Board's consideration in its interim report:

- 1) A number of recommendations are made in the Liberty Interim Report, and the reports filed by Hydro and Newfoundland Power. There is a fair degree of overlap among the recommendations in the reports, and both Hydro and Newfoundland Power have already submitted applications for Board approval of capital projects that relate directly to the outage events of the past winter. We recommend that Hydro and Newfoundland Power cooperate on development of a plan that prioritizes the actions necessary to implement the recommendations stemming from the Liberty Interim Report, as well as their own

reports, in a manner that most efficiently meets the requirements for the secure and reliable operation of the Island Interconnected System in the coming winter periods while taking into consideration resource implications as they relate to utility staffing and the availability of assistance from outside sources. Once this priority list is submitted, we strongly support expedited regulatory approval of those programs with high priority for meeting the needs of electricity consumers in the coming winter periods prior to Muskrat Falls commissioning.

In its Interim Report, Liberty recommended that *“Hydro should treat the securing of new generation as a first priority...and proceed expeditiously towards an in-service date of December 1, 2014, or, if not possible, by December 1, 2015 at the latest.”* Hydro’s recent application for a 100 MW (nominal) combustion turbine project should receive the Board’s highest priority. The Consumer Advocate supports the granting of approval for Hydro to proceed with the project as proposed with the Board subsequently establishing a separate process to allow the parties the full opportunity to review the issues of cost and costs recovery.

- 2) The Consumer Advocate supports a program for procurement of *“economically available”* interruptible load with industrial customers (Liberty Interim Report, recommendation #16, page 83). As stated in the Liberty Interim Report (page 37) *“When a borderline situation exists, every saved MW can be of real value; hence, such efforts should be encouraged.”* In this regard, we also support procurement of additional curtailable service from customers of Newfoundland Power. Problems with the current design of the curtailable service rate option were identified several years ago at Hydro’s 2006 General Rate proceeding. We believe that the ongoing General Rate Application of Hydro provides the ideal setting for reviewing the provisions of interruptible contracts with Industrial Customers and curtailable service contracts with Newfoundland Power customers to ensure fairness among participating and non-participating customers on the Island Interconnected System while accommodating an in-service date of December 1, 2014.
- 3) An element of the power outages that we believe has important consequences relates to the level of control Hydro has over the Island Interconnected System generation resources. Clearly, Hydro has full control over its own resources, but it is not clear that it has the level of control necessary over third parties’ resources during system emergencies. We note that jurisdictions with unbundled¹ electricity markets normally have a set of technical rules (i.e., such as a Grid Code) governing operation of the system to ensure reliable and secure operation. We are not aware of such documentation on the Island Interconnected System.² We believe Hydro’s ability to meet its mandate relating to

¹ Unbundled means that the primary components of the power system are operated by separate entities, for example, separate generators, transmission company, distribution company and system operator.

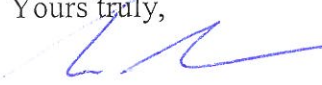
² Hydro has power purchase contracts with third party generators, but it is not clear if these contracts provide Hydro with the level of control needed during system emergencies.

the provision of secure and reliable power to the Island Interconnected System would be enhanced with regulations obligating third party generators to follow through on Hydro's dispatch instructions when a system emergency has been declared subject to the safety of plant personnel and equipment, and plant/fuel availability. Such regulations will also be needed following connection to the North American grid in 2017.

- 4) In customer satisfaction surveys, electricity consumers traditionally rank reliability as the number one priority followed closely by cost. Over the years, the Consumer Advocate has promoted "value" of service, meaning that programs should quantify the expected improvement in reliability and the cost associated with gaining the improvement. For example, there have been discussions as regards to Hydro's generation planning criterion used for decisions relating to the timing of new generating capacity. It appears that Hydro uses a criterion that is relaxed relative to that typically used in mainland North America. There is little doubt that planning the generation system to a more stringent criterion will result in greater reliability, but the key question is how much improvement in reliability and at what cost. As stated in the Liberty Interim Report (page ES-2): "*Liberty believes it is time to reassess the service reliability and cost balances that underlie the decisions on what level of supply resources to make available*". If you ask an electricity consumer if he/she would endorse a program that improves reliability, he/she will most always say yes. However, if asked to endorse a program that is expected to result in one less power interruption per year at a cost that will result in a \$10 increase in his/her monthly bill, the answer may be quite different. The point is that reliability gains and associated costs should be quantified so that consumers have the information necessary to make informed decisions.

Please contact the undersigned if you have any questions.

Yours truly,

for 
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cc: Newfoundland and Labrador Hydro
Attention: Mr. Geoffrey Young

Newfoundland Power Inc.
Attention: Mr. Gerard Hayes



Stewart McKelvey Stirling Scales
Attention: Mr. Paul Coxworthy

Mr. Danny Dumaresque