

1 **Q. Reference: Response to PUB-NLH-084**

2 Explain why combustion turbine fuel and diesel fuel are classified as demand-related at PUB-
3 NLH-084, Attachment 1, while Holyrood No. 6 fuel is classified as 100 percent energy-related.

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6 **A.** Under the Board-approved Cost of Service Methodology, Holyrood Thermal Generating Station
7 ("Holyrood TGS") generation costs excluding fuel are classified based on forecast capacity factor,
8 while Holyrood fuel remains 100% energy-related. In contrast, combustion turbine ("CT") and
9 diesel generation assets and associated fuel costs continue to be classified as 100% demand-
10 related. The distinction reflects the differing operational roles of these resources. CTs and diesel
11 units are dedicated capacity resources that are brought into service when required to meet peak
12 demand or contingency conditions. As such, their costs, including fuel costs, are appropriately
13 classified as demand-related. While Holyrood TGS is retained during the Bridging Period to
14 support system reliability, fuel costs are incurred only when energy is produced. Unlike a CT,
15 which can remain available without consuming significant fuel, Holyrood TGS consumes fuel as a
16 direct consequence of generating energy. As such, fuel remains a variable production cost and is
17 appropriately classified as energy-related. This treatment is consistent with Newfoundland and
18 Labrador Hydro's ("Hydro") existing Board of Commissioners of Public Utilities ("Board")
19 approved Cost of Service Methodology and industry practice for thermal generating resources
20 operating as base-load generation.

21 Hydro forecasts approximately 455 GWh of generation from Holyrood TGS in the 2027 Test Year,
22 demonstrating that the facility continues to produce significant quantities of energy,
23 notwithstanding its reliability role during the Bridging Period.

24 The independent review completed by Christensen Associates Energy Consulting ("CA Energy"),
25 included as Exhibit 14 in Hydro's Application, concluded that industry practice and the continued
26 operation of Holyrood TGS units in a base-load role supporting Holyrood fuel as energy-related.

1 The review further concluded that fuel costs can remain energy-related notwithstanding the
2 changing role of the station.

3 Hydro also considered whether fuel associated with operating one of the units as a potential
4 peaking unit should be treated differently. While the CA Energy review noted that a unit used
5 primarily for peak conditions could potentially support a greater demand-related classification,
6 the review also recognized that Holyrood TGS units may rotate operational roles. In practice,
7 Hydro does not operate a permanently designated peaking unit. The Holyrood TGS units are
8 approaching the end of their service life and operational requirements vary depending on unit
9 condition, maintenance requirements, overhaul schedules, forced outages, and unit availability.
10 As a result, the units must be operated flexibly and the unit providing support during a particular
11 winter period may vary from year to year or be required to assume a different operating role
12 due to maintenance requirements, equipment condition, or unexpected outages. Hydro
13 therefore does not believe a meaningful or stable distinction can be made between individual
14 Holyrood TGS units for purposes of classifying fuel costs. Further, any attempt to assign a
15 portion of Holyrood TGS fuel to a demand-related classification would require assumptions
16 regarding the role of individual units and the attribution of fuel consumption between reliability
17 and energy production functions. Given the interchangeable operation of the units and their
18 changing operating roles, Hydro does not believe such an approach would provide a more
19 accurate allocation of costs.

20 The independent review by CA Energy concluded that continuation of the existing treatment of
21 Holyrood fuel is supported by industry practice and by the continued operation of Holyrood TGS
22 as a thermal generating resource. Consistent with the Board-approved Cost of Service
23 Methodology, industry practice, and the operational characteristics of Holyrood TGS, Hydro
24 continues to believe classification of Holyrood fuel as 100% energy-related remains appropriate.