

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. P.U. 16(2014)

1 **IN THE MATTER OF** the *Electrical Power*
2 *Control Act, 1994*, SNL 1994, Chapter E-5.1 (the
3 "*EPCA*") and the *Public Utilities Act*, RSNL 1990,
4 Chapter P-47 (the "*Act*"), as amended, and regulations
5 thereunder; and
6

7 **IN THE MATTER OF** an application by
8 Newfoundland and Labrador Hydro for approval
9 of a capital project to supply and install 100 MW
10 of combustion turbine generation, pursuant
11 to section 41 of the *Act*.
12
13

14 **The Application**
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16 Newfoundland and Labrador Hydro ("Hydro") filed an application (the "Application") on April
17 10, 2014 seeking approval of a capital expenditure in the amount of \$119,000,000 for the
18 purchase and installation of a 100 MW (nominal) combustion turbine to be installed at the
19 Holyrood Thermal Generating Station.
20

21 Notice of the Application was published commencing on April 15, 2014. Intervenor submissions
22 were received from Newfoundland Power Inc. ("Newfoundland Power"), the Consumer
23 Advocate, a group of three Island Industrial customers: Corner Brook Pulp and Paper Limited,
24 North Atlantic Refining Limited and Teck Resources Limited (the "Industrial Customer Group"),
25 Vale Newfoundland and Labrador Limited ("Vale"), Mr. Danny Dumaresque, and Sierra Group
26 Atlantic.
27

28 On April 29, 2014 the Board wrote the parties seeking comments and stating that, given the
29 circumstances, the only option which would meet the timeframe set out by Hydro in the
30 Application may be to grant approval for Hydro to proceed with the project and establish a
31 separate process to review the issues of costs and cost recovery.
32

33 **Evidence and Submissions**
34

35 Hydro states that the Island Interconnected system has a requirement for additional generation
36 capacity in 2015 to meet its established generation reliability criteria. Hydro's analysis of least
37 cost, long-term options to meet the additional capacity requirements initially concluded that the
38 preferred option was a 50 MW (nominal) combustion turbine to be installed by December 2015.

1 Recently, Hydro changed its preferred option to a 60 MW (nominal) combustion turbine. Hydro
2 states at page 2 of the Application:

3
4 *Due to its experiences in January 2014, Hydro has revisited its LOLH guidelines and has*
5 *run sensitivity analyses with additional customer electrical loads and higher than expected*
6 *forced outage rates at its generating stations. Those analyses indicate that it would be*
7 *prudent, if practicable, to advance the installation of the combustion turbine and to*
8 *increase the generating capacity of the combustion turbine it installs.*
9

10 Hydro further states that, during its investigation of options for procuring a 60 MW combustion
11 turbine, it identified several combustion turbine options that, with expedited regulatory approval,
12 could provide capacity up to 100 MW and be in-service late in 2014. Hydro submits that the least
13 cost reliable option could be a pre-owned but unused 100 MW combustion turbine plant installed
14 at Holyrood in late 2014. Hydro advises that early approval of this proposal is essential to ensure
15 the expedited schedule of installation by late 2014. Hydro states in the Application that approval
16 is required by April 30, 2014 but subsequently advised the Board that the approval date could be
17 delayed until early the week of May 5, 2014. Without early approval of the Board, an in-service
18 date of late 2014 would not be possible. Hydro advised that it had no comments in relation to the
19 Board's correspondence of April 29, 2014.
20

21 On April 24, 2014 Liberty Consulting Group ("Liberty), the Board advisors in the ongoing
22 investigation and hearing into supply issues and power outages on the Island Interconnected
23 system, filed its interim report. Liberty recommended that:

24
25 *Hydro should treat the securing of new generation as a first priority; reach a prompt*
26 *decision on a preferred option and proceed expeditiously towards an in-service date of*
27 *December 1, 2014 or, if not possible, by December 1, 2015 at the latest.*
28

29 Newfoundland Power agrees that, in the circumstances, an expedited approval appears necessary
30 to allow Hydro to proceed as quickly as possible with installation of the proposed new generator.
31 Newfoundland Power notes that Liberty's report specifically recommends that Hydro should
32 treat the securing of new generation as a first priority. Newfoundland Power also submits that the
33 Liberty report suggests that the high risk of supply-related emergencies is attributable to acts or
34 omissions of Hydro related to the planning, maintenance and operation of its generation and
35 transmission assets. Newfoundland Power submits that a separate process to consider whether or
36 not the costs associated with the Application are prudent and should be recovered from
37 ratepayers is appropriate.
38

39 The Consumer Advocate states that the need for additional capacity on the Island Interconnected
40 system has been established and that a combustion turbine has been the preferred option to
41 satisfy that need since Hydro's 2010 Generation Planning Issues report was issued. The
42 Consumer Advocate also submits that the issue remaining to be resolved is to determine if the
43 tender process has been conducted in a manner that optimizes value to consumers. The
44 Consumer Advocate supports the approach to grant Hydro approval to proceed with the project
45 as proposed and subsequently establish a separate process to allow the parties the full
46 opportunity to review the issues of costs and cost recovery.

1 The Industrial Customer Group submits that they may have no choice but to accept that, in these
2 circumstances, Hydro's proposed solution cannot reasonably be subjected to the full prior
3 scrutiny that it otherwise merits without placing service reliability for Hydro's customers at
4 potential risk. The Industrial Customer Group is concerned with the limited opportunity the
5 parties have had to review the Application. The Industrial Customer Group states that issues
6 which will require further consideration may be identified once the parties have had opportunity
7 for closer scrutiny of the Application, including the availability of other sources of supply which
8 may be more appropriate, least cost and reliable as well as the manner in which Hydro is
9 approaching the reliability issue. The Industrial Customer Group submits that these issues, and
10 any others that may be identified, should be addressed in a separate process, which should
11 include the opportunity to file requests for information and should not be abbreviated in respect
12 to other proceedings, to determine to what extent the capital costs should be recovered from
13 Hydro's customers.
14

15 Vale states that, given the timing of the Application, it has little option but to accept that
16 permission to proceed with the project is the only option which allows Hydro to meet the
17 proposed timing for installation. Vale further states that it is concerned about the decisions and
18 positions which have led to the need for an expedited. Vale submits that Board approval of the
19 Application should be subject to a subsequent separate process which allows the parties the full
20 opportunity to review the issues of prudence, assessment of alternatives, cost and the potential
21 for cost recovery from Hydro customers. Vale further submits that the separate process should
22 not be abbreviated due solely to the fact that the process occurs subsequent to Board approval to
23 proceed with the project.
24

25 Mr. Dumaresque filed comments with the Board opposing the granting of approval to proceed
26 with the project. Mr. Dumaresque believes that Hydro has the necessary generation to meet peak
27 demand for the coming winter with its own assets, power purchase arrangements and
28 Newfoundland Power assets. He states that he has concerns relating to the integrity of the
29 proposed unit as well as concerns that the unit may not be in place for December 1, 2014. He
30 notes that Liberty indicates that the requirement for new generation could be extended to
31 December 1, 2015. He submits that it is a significant expenditure to approve because Hydro
32 failed to file in a timely fashion and that approval will undermine the mandate of the Board.
33

34 Sierra Club Atlantic did not submit comments to the Board.
35

36 The Board received letters of comment from two interested persons in relation to this matter
37 opposing the granting of approval of the Application. These letters note concerns with the unit
38 and submit alternative sources of generation and efficiency measures which could be explored.
39

40 **Board Findings** 41

42 The Board notes Liberty's findings that there is a high risk of supply-related emergencies in the
43 near term and that Hydro should make securing generation a priority for December 1, 2014. Mr.
44 Dumaresque argues that Hydro has the necessary generation to meet demand this winter.

1 The timing of the Application and the need for expedited approval are concerns for all the
2 intervenors. With the exception of Mr. Dumaresque, the intervenors agree that the Application
3 must be addressed in an expedited and timely manner. The Board acknowledges that expedited
4 approval is required for Hydro to meet the project's targeted in-service date.
5

6 The intervenors, with the exception of Mr. Dumaresque, accept that the best approach in the
7 circumstances is to grant approval to proceed and establish a separate process for a full and
8 proper review in relation to costs and cost recovery. Mr. Dumaresque does not comment
9 specifically on this option. The Board notes that, in meeting its statutory responsibilities of
10 ensuring that rates charged are just and reasonable and service provided is safe and reliable, an
11 application of this nature would normally be subjected to full regulatory review prior to an Order
12 being issued. The expedited approval required by Hydro does not allow for a full review prior to
13 approval. The Board accepts that a separate process should be established to address issues such
14 as generation alternatives, reliability, prudence, costs and cost recovery from ratepayers. This
15 process will allow requests for information, filing of evidence and submissions, and a public
16 hearing if required.
17

18 The Board acknowledges the short time frames for project completion proposed in the
19 Application. The Board will therefore closely monitor Hydro's progress and will provide further
20 direction, by way of correspondence to Hydro, on its requirements for project updates.
21

22 The Board is satisfied that Hydro should be granted approval to proceed with the proposed
23 purchase and installation of an additional 100 MW of combustion turbine generation at the
24 Holyrood Thermal Generating Station leaving certain issues to be addressed in a full review with
25 an opportunity for the parties to issue requests for information, file evidence and make
26 submissions.
27

28
29 **IT IS THEREFORE ORDERED THAT:**
30

- 31 1. Hydro's proposal to proceed with the purchase and installation of 100 MW of
32 combustion turbine generation at the Holyrood Thermal Generating Station is approved,
33 with the issues of costs and cost recovery to be determined by the Board in a future
34 Order.
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- 36 2. Hydro shall pay all expenses of the Board arising from this Application.

DATED at St. John's, Newfoundland and Labrador this 7th day of May, 2014.



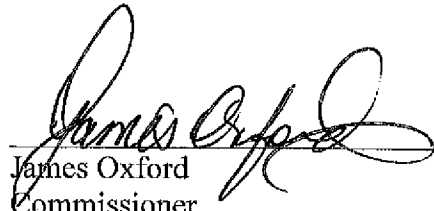
Andy Wells
Chair & Chief Executive Officer



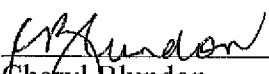
Darlene Whalen, P.Eng.
Vice-Chair



Dwanda Newman, LL.B.
Commissioner



James Oxford
Commissioner



Cheryl Blundon
Board Secretary