

July 12, 2018

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

Attention: Ms. Cheryl Blundon
Director Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro – Application for Approval to Defer the 2015, 2016, and 2017 Balances in i) the Isolated Systems Supply Cost Variance Deferral Account; ii) the Energy Supply Cost Variance Deferral Account; iii) the Holyrood Conversion Rate Deferral Account – Hydro's Reply to Liberty's Report

Newfoundland and Labrador Hydro (Hydro) accepts and acknowledges the Liberty Consulting Group's (Liberty) report dated June 22, 2018 (the Report). Hydro will specifically address each of Liberty's recommendations later in this reply, and offers a few comments generally.

Hydro agrees that during the years 2015, 2016 and 2017, there was a high degree of pressure on Hydro to improve reliability. Hydro has been working toward improved reliability on many fronts over the last several years, and will continue to do so.

Hydro also agrees with Liberty's statement: *"we would anticipate that the cost versus reliability balance, which has tilted towards reliability since 2014, may now tilt back in favor of cost."* Hydro has plans in place to gather customer and stakeholder input to assist in determining a suitable cost-reliability balance. In particular, Hydro has commenced a material review of the future system reliability standards, to be completed within this year (the Review). The content and purpose of the Review has been communicated to the parties in previous filings as part of the Phase 2 Inquiry. Hydro recognizes that customer and stakeholder viewpoints are important to this process and will be incorporated in its recommendations that will ultimately be presented to the Board.

In the Report, Liberty stated that Hydro's practice with regards to N-1 protection and spinning reserve is near universal in the industry. Hydro is aware of and continuously monitors the costs associated with dispatching its assets to provide this level of reliability. While the reliance on gas turbines in meeting Hydro's reliability criteria has increased in recent years due to customer

load growth, timing of interconnection, issues at the Holyrood Thermal Generating Station, and Penstock issues at the Bay d'Espoir Hydroelectric Facility. Hydro continues to minimize costs to customers by employing economic dispatch of its generation assets. In addition, in the interim period, Hydro has begun purchasing lower cost off-island supply to offset gas turbine operation where possible. Information regarding this new practice was provided to the Board by Hydro in its responses to requests for information following submission of its May 22, 2018 Near-Term Generation Adequacy Report.

Hydro is accepting Liberty's eight recommendations and makes the following comments in relation to each specific recommendation:

The Energy Supply Cost Variance Deferral Account Process

1. Hydro will include periodic estimates of account balance, reporting of drivers of account balance, analysis of major deviations and prompt reporting of any decisions affecting or likely to affect the balance in its quarterly reports to the Board going forward.

Management Practices

2. As part of the Review currently underway, Hydro will be seeking customer and stakeholder input regarding decisions that impact customer costs balanced with system reliability. To date, Hydro has met with Board staff and Newfoundland Power Inc. and plans to meet with Industrial Customers. Further, Hydro has engaged National Public Relations to develop and deploy an end-consumer engagement strategy. In addition Hydro will, going forward, inform stakeholders of any changes to operating procedures that result in material cost impacts.
3. Hydro acknowledges the inconsistencies in the Island Generations Reserves operating procedure (T-001) as compared to actual operating practice. Hydro is currently reviewing T-001 to correct any inconsistencies as well as to incorporate Reserve Assistance and Emergency Energy provisions which are now available with the Maritime Link in-service. Hydro will file this revised procedure with the Board when complete.

Reliability Planning and Analysis

4. The balance of cost and reliability forms part of the Review currently underway as indicated above.
5. Hydro's requirements for spinning reserve are being examined as part of the Review currently underway. Hydro believes that it is appropriate that stakeholders be actively engaged in decisions regarding system reliability and that their comments in this regard should be formally placed on the record before the Board.
6. Hydro will consider the feedback provided by parties in response to recommendation five above, in the Review currently underway.

Cost Analysis and Estimation

7. Hydro will develop and provide cost estimates for all significant future changes in operating practices.

8. Hydro will evaluate Liberty's recommended methodology for estimating and attributing the standby generation costs and, if appropriate, implement the process, either through monitoring of costs or simulation. An update on this will be provided with Hydro's Winter Readiness Planning Report to be filed with the Board on November 30, 2018.

Should you have any questions, please do not hesitate to contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Michael Ladha
Legal Counsel & Assistant Corporate Secretary
ML/bs

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