

1 Q. (Reference response to CA-NLH-64) It is stated: *“Hydro will provide Nalcor Energy*  
2 *Marketing with guidelines regarding Hydro’s required dispatch of on-island*  
3 *resources, including Holyrood Thermal Generating Station, based on a number of*  
4 *factors including reliability requirements, forecast customer requirements, and the*  
5 *safe and reliable operation of Hydro’s generating assets. With this information,*  
6 *Nalcor Energy Marketing will then optimize the supply portfolio and identify*  
7 *opportunities where thermal generation can be minimized to provide savings for*  
8 *Hydro’s customers. Hydro will provide oversight regarding processes implemented*  
9 *and the resultant production plans.”* This approach seems to be overly complicated  
10 and inefficient with Hydro determining need, Nalcor procuring energy to meet this  
11 need, and Hydro providing oversight and review to ensure the procurement meets  
12 its defined need. Has Hydro considered an alternative procurement process  
13 whereby it would determine need, issue a request for proposals to meet this need,  
14 and then evaluate submissions to determine which best meets the needs at lowest  
15 cost? Would this not be a more efficient and less costly procurement process with  
16 increased transparency, and as long as the process received widespread  
17 distribution, provide assurance to the Board that the procurement process is  
18 meeting the needs of consumers at least cost? Isn’t one of the primary benefits of  
19 competition and open access that utilities no longer have to enter into laborious  
20 and inefficient one-on-one negotiations for power?

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23 A. To achieve greatest value, decisions regarding domestic production of electricity  
24 and the management of Hydro’s resources in combination with market transactions  
25 must consider changing conditions within the province and electricity markets  
26 outside Newfoundland and Labrador. Procurement of energy from external markets  
27 requires specific capabilities and commercial arrangements usually held by a

1 marketing firm such as Nalcor Energy Marketing (NEM). Many other jurisdictions  
2 also have marketing firms to undertake this role; some examples include Emera in  
3 Nova Scotia and Powerex in British Columbia.

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5 Energy that is sourced from external markets for use in Newfoundland and  
6 Labrador is optimized through a combination of strategies that include short,  
7 medium, and longer-term transactions that may be procured through a request for  
8 proposals, bilateral negotiations, or spot market purchases. Each of these strategies  
9 target different potential solutions to Hydro's needs that balance certainty with the  
10 ability to respond to dynamic conditions in terms of Hydro's needs as well as in  
11 external electricity markets. If Hydro were to limit its strategy to just one method,  
12 such as the Request for Proposal (RFP), it would limit the ability to optimize the  
13 supply from external markets; the RFP process, by its nature, is procedural and time  
14 consuming, and may not always be the most efficient or effective method to  
15 securing energy from external markets. While Hydro, through NEM, is considering  
16 and preparing for the use of RFPs to potentially procure energy to displace thermal  
17 generation, other methods are also being pursued.

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19 The relationship between NEM and Hydro necessarily involves a high level of  
20 engagement and coordination, including close oversight by Hydro so that Hydro can  
21 ensure security of supply in the near and long term. This would be required with  
22 any marketing agency that was given responsibility for optimizing the procurement  
23 of energy from external markets to meet demand in Newfoundland and Labrador.  
24 Furthermore, developing such a relationship with a party from outside the province  
25 would be less efficient, and more costly, given the pre-existing knowledge that NEM  
26 has about the Newfoundland and Labrador electrical system and Hydro's specific  
27 needs.

1           The creation of NEM, and the implementation of the processes, technology, people,  
2           and commercial arrangements necessary for it to participate in external markets is  
3           in place. As a result, Hydro is now able to leverage NEM’s capabilities at a reduced  
4           cost relative to using comparable agencies, or compared to the cost of Hydro  
5           independently developing these capabilities, to secure energy from external  
6           markets to meet its needs.