Q. Re: "Newfoundland and Labrador Hydro Cost of Service Methodology Review Application," Pre-Filed Testimony of Andrew McLaren, August 5, 2019. p. 12/18-32

The InterGroup Consultants Ltd. ("InterGroup") report indicates that the relationship of Corner Brook Pulp and Paper generation to the grid will change, but does not address Newfoundland and Labrador Hydro's ("Hydro") assertion that the value of the benefits to the system following start-up of Muskrat Falls will decline.

a) Does InterGroup agree with Hydro's assessment in its "Cost of Service Methodology Review Application," page 18, lines 4-10 (page 29 of 144)?

b) Does InterGroup recommend the continuation of the current agreement between Hydro and Corner Brook Pulp and Paper if the value of the benefit declines or should the agreement be terminated once a new agreement with efficient price incentives is implemented?

a) No. Mr. McLaren does not agree with Hydro's assessment for the following reasons

First, the referenced section of the Hydro application confuses capacity support and the efficient generation of energy. It notes (Application, page 17 line 26 to page 18 line 2):

> Under the pilot agreement, capacity is made available to the grid if CBPP's mill loads are reduced and the customer is able to generate in excess of what it requires for its own use. Since the winter of 2014/2015, Hydro has had capacity assistance agreements with CBPP to support system load requirements.

This discussion confuses two concepts. The capacity assistance agreements referenced are about short term dispatch in support of Hydro's grid at times of peak loads or critical supply times, where the fundamental benefit is capacity (short-term MW output). This is similar to curtailable load or peak-load shedding programs in other jurisdictions. These agreements for NLH are approved, and are in place, and are negotiated from time to time with various industrial customers (not just CBPP)

based on system need. To the best of Mr. McLaren's knowledge, these agreements are not proposed to be altered or cancelled in the current proceeding. This unfortunate confusion in Hydro's application appears to have led to misunderstanding of the CBPP pilot agreement by Christensen, that it is a capacity focused.

The pilot agreement is an entirely different matter. The pilot agreement is an ongoing (year-round) energy provision that alters the form of the industrial service contract for CBPP at all times, to recognize that unlike other industrials, CBPP does not just buy power from NLH but integrates that power into its operation to fit with its own generation. The normal form of NLH's industrial contract sends an economic signal to the customer as to how and when to consume energy. Absent the pilot agreement, the form of industrial contract will send a signal to CBPP that the priority is for CBPP's net load to Hydro (the portion it does not produce itself) to remain as flat as possible at the level of the Power on Order. To achieve this, CBPP would be incented to run its own generation in a manner that follows its own load and leaves a flat net load to NLH. CBPP is also constrained from how it schedules maintenance, from having to exceed Power on Order and purchase interruptible energy. This is a problem, in that operating the CBPP generation in this manner is expected to produce less energy (kWh) from the hydraulic resources on the island than if CBPP could operate its generation in a more sensible manner. Not only is this wasteful of resources, it is contrary to the general intent of the EPCA, 1994 which prioritizes the most efficient (i.e., most kW.h) dispatch of resources.

The pilot agreement, in contrast, relaxes the "Power on Order" concept to allow CBPP to vary its net load to Hydro's system, which frees CBPP to pursue the highest possible kW.h output of the overall hydro generation.

Second, given the above understanding, NLH's conclusion in lines 4-10 should be considered as follows:

> The benefits to all customers arising from the fuel cost savings that supported the pilot project implementation are not expected to continue upon commissioning of the Muskrat Falls Project. Therefore, Hydro proposes to discontinue the generation credit agreement between

Hydro and CBPP upon full commissioning of the Muskrat Falls Project. However, Hydro believes CBPP should have the opportunity to manage its generation as efficiently as possible and, to that end, proposes to work with CBPP in the rate design review planned for 2019 to develop a proposal to achieve this objective.

The issue with this statement is not its correctness, it is the implication that underlies the conclusion. In essence, there are no further "fuel cost savings" because there is no further fuel being consumed at Holyrood. NLH does not dispute that CBPP would be able to produce more hydraulic generation (kW.h) with the pilot provisions in place, but suggests that these kW.h are simply not of the same value to the system. This is irrelevant if one applies the sensible and statutorily-required standard to maximize the efficiency of hydraulic generation. The essence of NLH's argument is that CBPP should be wasteful of energy, which would lead to increased purchases by CBPP and more revenue for NLH. By eliminating the pilot provisions, NLH would be incenting this inefficiency and increasing sales.

NLH conclusion applies the wrong test – whether the pilot project provides "benefits to all customers". This same test would not be the basis of any other rational rate design decision. The question is what rate design recovers NLH's revenue requirement, while also incenting appropriate behavior in terms of efficiency – the basic industrial contract fails this test for CBPP, while the addition of the pilot provisions makes this outcome possible. Further, there is no evidence that the pilot project in any way causes costs or detriments to other customers (not that this should be the test for approving a rate design based on efficiency).

c) The existing agreement should be retained until any new potential agreement is negotiated, which similarly achieves efficient price signals and fulfills the requirements of the EPCA, 1994 to incent efficient dispatch of all generation on the island.

An additional concern with NLH's plan is that there is no certainty as to when any new CBPP agreement will be negotiated and there should be concern among the Board with terminating one agreement on the premise that a new agreement will be forthcoming. In this regard, Mr. McLaren would note that NLH stated, at lines

13-15 of its 2017 GRA (Section 5.3.1), filed July, 2017, that it wanted to ensure that CBPP had "the opportunity to manage its generation as efficiently as possible and, to that end, proposes to work with CBPP on initiating a new pilot project to start in 2019", yet no agreement is in place in excess of two years later.