



NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES
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Shirley Walsh
Senior Legal Counsel, Regulatory
Newfoundland and Labrador Hydro
P.O. Box 12400
Hydro Place, Columbus Drive
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Dear Ms. Walsh:

**Re: Newfoundland and Labrador Hydro - 2021 Capital Budget Supplemental Application
Approval of the Construction of Phase 1 of Hydro's Long-term Supply Plan for Southern
Labrador - To NLH - Further Information Required Before Schedule is Resumed**

On July 16, 2021 Newfoundland and Labrador Hydro filed an application for approval of the construction of Phase 1 of Hydro's long-term supply plan for Southern Labrador (the "Application"). The schedule for this Application was paused on November 16, 2021 at the request of Hydro. This is to advise that the Board has determined that further information is required before the schedule for Application is restarted.¹

The Application requests approval of significant capital expenditures for a major generation and transmission project which will change the way in which four communities in Southern Labrador are supplied. A new interconnected system (referred to as the Southern Labrador Mini-Grid) would be created with a new large diesel generating plant in a central community and associated transmission infrastructure to interconnect the other communities in phases over time as the existing diesel units are decommissioned. The estimated capital expenditures associated with Phase 1 of this project are approximately \$50 million and the total project cost, including Phases 2 and 3, is approximately \$72 million. Given the scope and magnitude of the proposed project and the potential customer impact, it is critical that the Application be fully supported with comprehensive information and analyses which addresses all reasonable alternatives and circumstances.

Having reviewed the record the Board does not believe there has been sufficient analysis of alternatives considering the many issues which should be addressed in relation to such a significant change. The Application does not include a comprehensive planning study for the region and there are no engineering or other reports from outside experts. The information that was provided reflects gaps in the analysis with respect to diesel generating station replacement, backup generation and climate policy and technological change. In addition Hydro's least-cost analysis is not reconciled with the recent conclusions of Hydro's own consultant that, based on a preliminary analysis, the least-cost option for

¹ On January 31, 2022 Hydro requested that the schedule for the Application be resumed.

supply in Labrador is not interconnection but rather the continued operation of the diesel generating stations in each of the communities, whether renewables are introduced or not.² In particular the Application proposes the construction of a new diesel plant with an expected life of 50 years, at a time when there is a clear shift toward clean renewable energy and the reduction of the use of fossil fuel. The Board notes that the provincial government's recently released renewable energy plan specifically identifies pursuing renewable energy development in regulated electricity-isolated diesel-powered systems as an action item, including supporting Indigenous involvement/participation/ownership of renewable projects, and community-led projects.³

In addition Hydro recently filed correspondence which details ongoing activities related to the Application proposals. Correspondence dated January 31, 2022 documents unresolved issues and ongoing work relating to the role of renewable energy resources and demand-side management strategies, and the exploration of Indigenous participation models in electric utility infrastructure and funding opportunities.⁴ Correspondence dated March 17, 2022 provides analysis of two additional alternatives which were assessed by Hydro at the suggestion of Newfoundland Power. In this correspondence Hydro advises that it is advancing initiatives to decrease potential emissions from the proposed generating plant, including the application of biofuels in its remote systems, and that it plans to submit a report to the Board with its findings at the end of 2022.

Considering the shortcomings in the information and analysis provided in support of the Application and the activities underway relating to the proposals, the Board has determined that this proceeding should remain paused until Hydro provides further information to allow the proper consideration and disposition of the Application.⁵ The process will be restarted after Hydro has completed a comprehensive analysis, in the nature of a planning study including an integrated resource plan, assessing all reasonable options for the provision of service in the region, including how the long-term supply for each of the communities should be addressed in the context of issues related to supply in Labrador generally. The information to be provided should include analysis with respect to reliability, including the potential need for back-up generation, and the timing and costs of replacing or removing the existing diesel generating stations. Exploration of Industrial customer expansion plans in Labrador may also be required to identify the potential impacts on the long-term supply for southern Labrador. Further assessment of the impact of the proposals with respect to the rates and rate structures in Labrador, including the rural deficit, may also be appropriate.

It is expected that the additional analysis and information will clearly address the uncertainties around load growth, project phases, technology innovation, and other risks including the cost of carbon and diesel fuel cost. In particular the potential impact of climate change policy and technology change should be addressed, including the timelines for the integration of alternative energy sources and the potential options for alternative energy. Given the significant uncertainties, the additional information should address alternatives which involve incremental approaches to allow flexibility in development of solutions to address changing circumstances. As well comprehensive sensitivity analysis should be provided as to all reasonably foreseeable scenarios.

² *Labrador Interconnection Options Study* report, dated November 10, 2020, LAB-NLH-015, Attachment 3, page 20 of 189, Section 1.3.1. This report reflects different assumptions but the analysis is relevant to the issues in this Application as it addresses alternatives for the provision of power to Southern Labrador and Labrador, generally, including both continued isolated diesel generation and the interconnection of the four communities.

³ *Maximizing Our Renewable Future, A Plan for Development of the Renewable Energy Industry in Newfoundland and Labrador*, released December 16, 2021, pages 3 and 18.

⁴ *Long-Term Supply for Southern Labrador - Phase 1 - Stakeholder Engagement Summary Report*, page 10, lines 13-14.

⁵ Section 3(4) of the Public Utilities Regulations states "Before the disposition of an application or proceedings, the board may issue those directions as it considers necessary for the proper consideration and disposition of an issue."

Considering the nature and scope of the proposed project and the complexity and uncertainty with respect to the circumstances in Labrador and the potential impacts of climate policy and technology change, the Board believes that an independent expert should be engaged by Hydro to assist in its analysis of the options and approach for the provision of service in Southern Labrador. The Board notes the recommendation of Mr. Justice Leblanc in the Muskrat Falls Project inquiry:

The Government of Newfoundland and Labrador should never undertake, on its own or through one of its Crown corporations or agencies, the planning, approval or construction of any large project (meaning a project with a budget of \$50 million or more) without:

- a. Engaging independent external experts to provide robust review, assessment and analysis of the project
- b. Providing well-defined oversight after consideration of oversight processes instituted in other jurisdictions⁶


The Board's capital budget application guidelines would also require that engineering and expert technical reports be provided in support of a major project such as this.⁷

Before filing the required additional information Hydro should complete the work that has been started as a result of its consultations with stakeholders, including Newfoundland Power, and should reflect the results of this work in its analysis and subsequent report(s) to the Board.

Finally, Hydro should confirm that all reasonable steps have been taken to ensure that Charlottetown continues to have access to a safe, reliable power supply while this matter is ongoing. Hydro should advise by May 6, 2022 if there are other measures which may be necessary to ensure reliable adequate service to Charlottetown until the conclusion of this matter.

If you have any questions, please do not hesitate to contact the Board's Legal Counsel, Ms. Jacqui Glynn, by email, jglynn@pub.nl.ca or by telephone 709-726-6781.

Yours truly,



Cheryl Blundon
Board Secretary

CB/cj

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⁶ *Muskrat Falls: A Misguided Project*, March 5, 2020, Vol. 1, page 61.

⁷ Capital Budget Application Guidelines, January 2022, pages 13 and 17 as well as the earlier Capital Budget Application Guidelines, October 2007, page 8.