

1 Q. **Reference: Schedule 1: Evidence**

2 (a) During the period that the Labrador Island Link (“LIL”) is not commissioned, how much
3 energy will the LIL be able to deliver to the Island Interconnected system once the Muskrat
4 Falls Generating Station and the Labrador Transmission Assets (“LTA”) are commissioned?

5 (b) Depending on the energy available during this period, will Hydro still be reliant on the
6 Holyrood Thermal Generating Station (“Holyrood TGS”) to meet the load requirements of
7 the Island Interconnected system? If so, will it be appropriate to use the market value of
8 exports as the marginal energy supply cost, and would it be premature to discontinue the
9 Rate Stabilization Plan (“RSP”) and the No. 6 fuel component of the Revised Energy Supply
10 Cost Deferral Account before the LIL is fully commissioned? Please explain.

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13 A. (a) During the period in question, flows on the Labrador-Island Link (“LIL”) will be driven by
14 commissioning activities and the level of permissible flow will be subject to Newfoundland
15 and Labrador System Operator approval and the completion of outstanding functionalities,
16 including the implementation of required automatic run-back schemes. Due to the variable
17 and somewhat unpredictable nature of commissioning activities, it is not possible to
18 produce a reliable forecast of what the LIL is likely to be able to deliver at that time.

19 (b) Operation of the Holyrood Thermal Generating Station (“Holyrood TGS”) is planned during
20 this period to support system reliability and not for meeting customer energy requirements.
21 As a result, the Holyrood TGS fuel costs are not expected to vary as customer’s load varies or
22 hydraulic production varies. The Holyrood TGS will no longer reflect the marginal energy
23 cost on the Island Interconnected System.

24 During the transition to full Muskrat Falls Project (“Project”) commissioning, Newfoundland
25 and Labrador Hydro (“Hydro”) believes it would be reasonable to assume the marginal cost
26 of energy on the Island Interconnected System as the market value of imports (i.e., the

1 market value of energy plus the cost of transmission to deliver the energy to the Island).
2 This would provide a marginal cost slightly higher than the value of export sales.

3 Hydro is proposing to incorporate the fuel cost variance effects of the Rate Stabilization
4 Plan, the Revised Energy Supply Cost Variance Deferral Account, and the Holyrood
5 Conversion Rate Deferral Account into the proposed Supply Cost Variance Deferral Account.
6 The new deferral account includes a component to defer the difference between the 2019
7 Test Year cost of No. 6 fuel and the actual cost of No. 6 fuel. Therefore, even if the reliability
8 of the LIL during the period requires Hydro to operate the Holyrood TGS to provide energy
9 to the Island Interconnected System, the new deferral account would appropriately track
10 the cost differences relative to the cost reflected in customer rates. In this circumstance, the
11 additional No. 6 fuel costs incurred relative to Hydro's current forecast would reduce the
12 projected No. 6 test year fuel cost savings that would serve to partially offset the additional
13 charges under the Project agreements.