

POOLE ALTHOUSE

BARRISTERS AND SOLICITORS

Jamie Merrigan, Q.C.
Dean A. Porter
Cillian D. Sheahan, Q.C.
J. Annette Bennett

Margaret C. Hepditch
Robby D. Ash
Glen G. Seaborn

Melissa May
Adam G. Baker
Jonathan M. Andrews

Edward P. Poole, Q.C., Retired
D. Paul Althouse, Q.C., Retired

Toll Free: 1 877 634-3136
E-Mail: info@poolealthouse.ca
www.poolealthouse.ca

■ CORNER BROOK
Telephone: 709 634-3136
Fax: 709 634 8247/9815
Western Trust Building
49-51 Park Street
Corner Brook, NL
Canada A2H 2X1

□ Happy Valley-Goose Bay
Telephone: 709 896-8777
Fax: 709 896-8779
49A Grenfell Street
PO Box 1450, Station B
Happy Valley-Goose Bay, NL
Canada A0P 1E0

April 27, 2015

Via Electronic Mail and Courier

Newfoundland and Labrador Board
of Commissioners of Public Utilities
120 Torbay Road
P.O. Box 21040
St. John's, NL A1A 5B2

**Attention: Ms. G. Cheryl Blundon, Director of Corporate Services
and Board Secretary**

Dear Ms. Blundon:

**Re: The Board's Investigation and Hearing into Supply Issues and Power Outages on
the Island Interconnected System - Phase One - Final Submissions of the Island
Industrial Customers Group**

These are the submissions of the Island Industrial Customers Group in respect of Phase One of the Board's Investigation and Hearing into supply issues and power outages on the Island Interconnected System in late December 2013 and early January 2014.

As directed by the Board, Phase One of the Investigation and Hearing has been directed towards the adequacy and reliability of supply on the Island Interconnected System up to the interconnection with Muskrat Falls. The preeminent aspect of the Board's Phase One Investigation has been the Board's commissioning of an interim report dated April 24, 2014 and a final report dated December 17, 2014 from The Liberty Consulting Group.

As the Island Industrial Customers Group are customers of Newfoundland and Labrador Hydro, these submissions will focus on The Liberty Group recommendations with respect to Hydro, as expressed in their December 17, 2014 report, and on Hydro's Reply Submission.

Implementation of The Liberty Group Recommendations

The Liberty Group's recommendations were summarized in Appendix A to their December 17, 2014 report.

Hydro, by its Reply Submission dated February 5, 2015, has stated that it agrees with all but three of Liberty Group's Phase One recommendations. In the view of the Island Industrial Customer Group, Hydro has accepted the Liberty Group recommendations which are most essential to achieving a greater assurance that there will not be a reoccurrence of the December 2013 – January 2014 outage events (in terms of numbers of customers affected and length of outages) in the winter (peak load) seasons leading up to the Muskrat Falls interconnection.

However, the Island Industrial Customers Group would express the caution that it is not enough for Hydro to state its agreement with Liberty Group's recommendations and, respectfully, would caution against complacency with respect to effective and continuing implementation of the steps outlined in Hydro's February 5, 2015 Reply Submission. In this regard, the Island Industrial Customers Group would urge the Board to establish a continuing process to monitor Hydro's implementation of key recommendations, so that any shortfalls and deficiencies in that implementation can be identified and rectified in a timely fashion prior to the 2015-2016, 2016-2017, and (if necessary) the 2017-2018¹ winter seasons.

In particular, with reference to page 16 of 73 of Hydro's Reply Submission, the Island Industrial Customer Group submit that it is important that Hydro implement a rigorous and continuing process to assess whether there are changes, arising from load forecast increases, generation performance deterioration, delay in the expected in-service date for the Muskrat Falls interconnection or other causes which could result in the forecast generation reserve for the Island Interconnected System falling below the critical level of 240 MW. Hydro has stated, at page 16 or 73 of its Reply Submission, that it will complete an assessment of the associated risks in such a circumstance, and report to the Board its recommended mitigations. The Island Industrial Customers Group submit that the Board should give all necessary direction to Hydro to ensure that Hydro's assessment of generation performance, generation reserves and associated risks, and reporting to the Board on same, is made in a timely and prudent manner.

Prudence in this regard should be guided by the establishment of a substantial margin of safety in respect of the forecast generation reserve (i.e. developments that could lead to forecast generation reserves falling below, say, 300 MW should trigger an appropriately graduated Hydro assessment and response). The objective should be to take all reasonable measures to identify potential "critical level" situations and to avoid them, rather than to react to a "critical level" once it has occurred.

Load Forecasting

At page 15 of their final report, The Liberty Group, after discussing the deficiencies exhibited by Hydro's Nostradamus forecasting model and the steps taken by Hydro to address those deficiencies, stated the following:

"The improvement program associated with the model has been an extensive effort by Hydro that will enhance forecasting capabilities. The extent to which those enhanced capabilities fully meet Hydro's needs is not yet known, and will not be until added experience is gained. Judging the effectiveness of the changes will take time following their implementation."

The Island Industrial Customers Group acknowledge that Hydro, by its March 2, 2015 filing with respect to Liberty Group's recommendations 2.5 and 2.6, and by its filing of monthly updates,

¹ Page 13 of 73 of the February 5, 2015 Hydro Response to the Phase One Report.

starting with a March 17, 2015 report on the “status of Nostradamus upgrades until the production model is fully in-service and shaken down” (per Liberty Group recommendation 2.1), has sought to address the Liberty Group concerns with Hydro’s load forecasting model. However, the Island Industrial Customers Group submit that continuing, third party assessment (by Liberty Group or other qualified independent assessor) of the effectiveness of Hydro’s enhancement of its forecasting capabilities would be prudent.

Hydro Response Plans

The Island Industrial Customers Group acknowledge that the Board has initiated a separate process, which has not yet been completed, to investigate the March 4, 2015 outages incident.

The Island Industrial Customers Group wish to respect that process, and therefore will refrain from making any detailed comments as to what did occur, or may have occurred, in respect of that outages event. Having said this, however, the Island Industrial Customers Group would submit that the Board should consider, once its investigation into the March 4, 2015 outage incident is completed, whether further measures need to be taken to ensure that Hydro’s corporate emergency response plan, and other internal response measures for matters which may not fall neatly within the definition of “emergency” but which nonetheless give rise to the risk of interrupted power supplies, provide sufficient guidance to Hydro managers.

Such plans and measures should not only address severe weather events but also the reasonably foreseeable potential for significant interruption incidents if there should be an unplanned loss of a major generation unit (for example the loss of one of the three Holyrood units) in peak or near peak periods, when it can be anticipated that such an unplanned loss of generation would trigger the need for energy conservation and, should that not prove effective, rotating outages.

Communications with Hydro’s Customers

The Island Industrial Customers Group acknowledge that Hydro appears to be concerned about the “cry wolf” risk of cautioning the public too often, or too far in advance, of the potential or risk of conditions arising that may call for energy conservation measures.

However, the Island Industrial Customers Group would urge the Board to consider whether the public might be better served by more effective communications by Hydro around this issue. Hydro’s customer communications should clearly acknowledge and reflect the implications of Liberty Group’s assessment that, despite adding nearly 200 MW of supplied capacity through the new Holyrood combustion turbine and despite securing new capacity arrangements with certain industrial customers, Island energy supply will remain tight until the interconnection with Muskrat Falls, and that in the interim generation reserves will remain “very low”. In the view of the Island Industrial Customers Group, this assessment by Liberty Group places a responsibility on Hydro to be forthright with its customers about load forecast uncertainties and the risks inherent in its aging generating infrastructure (particularly at Holyrood) during periods of anticipated peak or near peak demand in the winter months. It is submitted that in these circumstances, Hydro should err on the side of sending clear conservation messages to its customers more, rather than less, frequently, and with a greater lead time to allow for customers to adapt their power usage accordingly.

All of which is respectfully submitted on behalf of the Island Industrial Customers Group.

Yours very truly,

POOLE ALTHOUSE



Dean A. Porter

/DAP

c. Geoffrey P. Young, Senior Legal Counsel, Newfoundland and Labrador Hydro
Thomas J. Johnson, Consumer Advocate
Gerard Hayes, Newfoundland Power
Paul L. Coxworthy, Stewart McKelvey
Danny Dumaresque
Roberta Frampton Benefiel, Grand Riverkeeper Labrador Inc.

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