



NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES

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Dear Ms. Walsh:

**Re: Newfoundland and Labrador Hydro - 2021 Capital Budget Supplemental Application
Approval of the Construction of Hydro's Long-term Supply Plan for Southern Labrador -
Revision 1 - Clarification**

The Board wishes to clarify the record and correct some of Hydro's statements in its August 4, 2023 correspondence respecting its revised application for Long-Term Supply Plan for Southern Labrador.

Throughout this proceeding the Board has highlighted its concern with respect to the provision of reliable service to Charlottetown and Pinsent's Arm and has on several occasions required Hydro to provide updates and assurances on the efforts to maintain safe, reliable service to these communities while this matter is ongoing. The Board remains concerned about the circumstances in Charlottetown and Pinsent's Arm, particularly now that Hydro proposes an alternative which will result in the continuation of existing circumstances at the Charlottetown Diesel Generating Station which may mean that Hydro will continue to serve Charlottetown and Pinsent's Arm by mobile generation until the winter of 2027/2028. This concern is one of the main drivers for the Board's recent request for additional information to clarify available alternatives to provide an earlier solution for service to Charlottetown and Pinsent's Arm.

The Board has acted expeditiously throughout this proceeding and believes that it is Hydro's actions rather than the Board's which are responsible for the timelines and any delays. Hydro did not file its original Application for almost two years after the Charlottetown Diesel Generating Station was destroyed. The application was not complete as it did not include a full analysis of all alternatives presented with a detailed up-to-date analysis and third-party support and did not demonstrate adequate consultation. On November 10, 2021 Hydro requested a cessation of the proceeding to allow for continued stakeholder engagement. Hydro did not ask for the

proceeding's schedule to be resumed until March 17, 2022, resulting in the application being paused for over 4 months. Shortly thereafter, on April 7, 2022 the Board advised that it required significant further information. Hydro responded on April 26, 2022 stating that it believed that it had provided the information and depth of analysis required to enable the Board to render a decision regarding the Application and asked that the Board reconsider its request for more information. On May 16, 2022 the Board confirmed its request for more information and stated:

This is not a case where a technical conference or a hearing would be of assistance to clarify or challenge the application proposals, as the information required for an informed and productive conduct of such processes has not been provided. The gaps identified by the Board in its correspondence, including insufficient analysis of reasonable alternatives, lack of analysis related to diesel generating station replacement and back up generation and the failure to adequately address the potential impacts of climate change policy and technological change, remain outstanding.

Hydro did not file the expert evidence required to address the concerns the Board expressed in May 2022 until March 31, 2023 and did not file a revised Application until May 31, 2023. This resulted in the application being paused for over 12 months. The Board believes that the revised proposals in the amended application are significantly different from those in the original application, in that Hydro proposes full interconnection rather than phased interconnection, resulting in a request for approval of significantly higher proposed capital expenditures and delaying the in-service date for the new Charlottetown Diesel Generating Station from 2024 to the end of 2027. While Hydro states that its revised application proposes "the most robust and cost-effective alternative" the Board notes that Hydro set out a similar view with respect to the original proposal in its April 26, 2022 correspondence which proposal subsequently changed based on the new analysis required by the Board.

On June 5, 2023, immediately upon the filing of the revised application at the end of May, the Board set a schedule for the parties to file requests for information. Based on the responses filed by Hydro on July 13, 2023 the Board has determined that Hydro has not provided sufficient information with respect to a number of issues, particularly those relating to the proposed alternatives which delay the in-service date for a long-term solution for service to Charlottetown and Pinsent's Arm until 2027. On August 1, 2023 the Board requested additional information from Hydro.

The Board notes that Hydro has been studying long-term supply options for Southern Labrador since 2011 and that having a solution for the area was raised as an issue in Hydro's 2012 and 2014 Capital Budget Applications. The Board denied proposed projects in both applications based on the need for a long-term solution for the area. Thereafter the Board requested updates on the progress of Hydro's studies but was not provided with a report. On July 31, 2019 Hydro advised that it continued to review the options for Southern Labrador but that continual change in the energy landscape complicated the analysis necessary for the study. Hydro stated:

Since 2011, Hydro has been working to establish a long-term plan for Southern Labrador by conducting a preliminary assessment on the feasibility of electrically interconnecting four of the communities in the area in conjunction with the construction of either small-scale hydro or a centralized diesel plant as a firm power source. In its preliminary assessment, Hydro ruled out the hydraulic generation solution due to environmental constraints in the vicinity of the rivers that would be utilized for hydraulic generation. This preliminary assessment also indicated that for the interconnection of the communities with a single diesel generation plan, the least-cost alternative depended heavily on the scheduled retirement dates and subsequent replacement of two or more of the existing diesel plants. When the analysis for the preliminary assessment was completed in 2016, Hydro was predicting the retirement and replacement of the diesel plant in Charlottetown in 2023 and the plant in Mary's Harbour in 2025, followed by the plants in Port Hope Simpson in 2035 and St. Lewis in 2046. Since that time, Hydro has determined that the retirement of the diesel plants in Charlottetown and Mary's Harbour are not required in the near-term. No replacements are anticipated within the next 10 years.

The Board believes that it is also necessary to clarify for the record certain of Hydro's statements in its August 4, 2023 correspondence. In particular the Board does not believe that the following comments fairly reflect the record or the circumstances in this matter:

- While Hydro "believes absolutely" that the evidence on the record supports the conclusion that its actions and the proposed interconnection meet the mandate to ensure power is delivered to consumers at the lowest possible cost consistent with reliable, environmentally responsible service, Hydro has yet to provide sufficient evidence which demonstrates to the Board that this is the case. The Board understands that Hydro has completed considerable work on the proposed project and alternative solutions over a number of years. However, this work and its results must be shared and communicated to the Board and the parties and be sufficient for them to potentially reach the same conclusions as Hydro and Midgard.
- The Board notes Hydro's concern that "continued delay" jeopardizes its ability to provide its customers in Charlottetown and Pinsent's Arm with the safe and reliable service they deserve and which Hydro is legislatively required to provide. Hydro has consistently stated that temporary generation supplied by mobile units is not a viable medium to long-term solution for primary electricity supply. Nevertheless, Hydro did not file an application to address this issue until almost two years after the 2019 fire at the Charlottetown Diesel Generating Station and did so with a proposed solution which would not replace the temporary generation until 2024. Now, after another two years have passed, Hydro has revised its proposal such that the temporary generation will remain in place until late in 2027. The Board questions whether the proposed in-service date of late 2027 addresses this concern in a timely fashion. It is for this reason that the Board has asked for Hydro to provide additional information as to alternatives that would provide an earlier solution for Charlottetown and Pinsent's Arm. It is not unusual for the Board to ask for additional information when a utility fails to provide the necessary information to

justify a filing. In the Board's view, asking for more information most often leads to an earlier solution and is a better option than rejecting an application which would require the filing of a new application and starting a new proceeding. If Hydro believes its ability to serve its customers in Charlottetown and Pinsent's Arm is jeopardized, then it should immediately file an application to take the necessary actions to rectify these circumstances in advance of concluding its application for a long-term supply solution for Southern Labrador.

- As noted by Hydro, Midgard's sensitivity analysis determined that even if the construction costs of the regional diesel generating station were to increase by 662% the proposed project remains the least-cost option on a net present value basis. However, the other sensitivities applied by Midgard required smaller changes to change the least-cost option from the proposed project. For example, a 54% increase in the cost of interconnection would make the continued isolated scenario the least-cost option. In addition, Midgard did not analyze any sensitivities for changes in load and did not assess multiple reasonable changes in assumptions to reflect changes in costs and load. The Board has requested Hydro and its experts to apply differing and appropriate sensitivity analyses in prior applications as it has in this application.
- The Board acknowledges that Hydro provided a Class 3 estimate with respect to the proposed project. However, as the Board set out in its August 1, 2023 letter the alternatives have very similar net present costs and the Board is concerned that using input cost estimates that may vary from +100% to -50% will not allow properly informed comparisons of the project alternatives. For clarity, the circumstances in this filing are unique. Hydro is requesting approval of a significant project which would result in a new way of supplying power and providing service and the alternatives provided do not exhibit wide differences in costs considering the potential uncertainties.
- Hydro expressed disappointment at the Board's "new request coming at this late point in the filing". The Board notes that Midgard's report was filed only five months ago and that Hydro's revised application, which the Board believes contains significantly different proposals, was filed at a later date, less than three months ago. There has been only one round of requests for information on these new filings. The Board has requested the information be filed in advance of the next round of requests for information or any other procedural step so that all parties would be able to analyze and ask questions as the review progresses.
- Hydro incorrectly states that the scope of work awarded to Midgard was developed in consultation with Board staff. Board staff is always willing to assist parties in understanding the Board's questions and concerns and the Board acknowledges that staff did so in this proceeding. However, Hydro has the sole responsibility to determine what work it required from Midgard to justify its proposal to the Board.
- The information provided as to fossil fuel sources, other available technologies and the Government of Canada's position may not be fully reflective of the circumstances surrounding these complicated issues. The Board may require further clarification and will address this in the next step of the regulatory process.
- Hydro states that interconnection of the communities in Southern Labrador provides the largest potential to integrate renewable solutions throughout the region. Hydro has indicated it is committed to working with Indigenous communities to support and

advance renewable solutions and will investigate the option for a power purchase agreement. However, Hydro's application does not include any renewable solutions or provide any details on the renewal options that Hydro is exploring and that would be needed to outpace potential increases in fuel costs and other uncertainties.

- The Board agrees that customers in Labrador deserve safe, reliable firm power and should expect urgency in advancing solutions when a permanent supply is not in place. The Board repeats that it has acted expeditiously in this proceeding and that the pauses in the proceeding were the result of a Hydro request and actions and the need for further information to be filed.
- The Board acknowledges the concerns of the residents in Labrador in relation to safe, reliable firm power. However, not all communities support the proposal and the Board has received comments indicating continued questions and issues.
- The Board confirms that it views and assesses electricity supply alternatives consistently across the province and the Board will similarly require adequate information and analysis in support of whatever long-term backup solution is proposed for the Island Interconnected system in the Reliability and Resource Adequacy Study review.

The Board's expectations have always been, and will continue to be, that application proposals are fully justified. It is Hydro's responsibility to provide the information required in the circumstances to support its proposals. As the Board noted in its April 7, 2022 correspondence Hydro requests approval of significant capital expenditures for a major generation project which would change the way in which five communities in Southern Labrador are supplied. The Board stated:

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 analysis which addresses all reasonable alternatives and circumstances.

The Board asks that Hydro work to provide the required information as soon as possible so the provision of reliable service to Charlottetown and Pinsent's Arm can be addressed and the long-term solution for service in Southern Labrador can be finalized expeditiously. Board staff remain available to assist the parties to progress this matter.

If you have any questions, please do not hesitate to contact the Board 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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