

- 1 Q. Schedule 1, Evidence, page 4, lines 1-5. Hydro explains that the proposed capacity agreement
2 will allow time for new backup generation to be installed and commissioned.
- 3 a) Previous capacity assistance agreements have been for a one- or two-year term. Please
4 provide the rationale for entering a 15-year capacity assistance agreement.
- 5 b) What consideration was given to a shorter term to maintain flexibility in capacity sources to
6 better address changing circumstances, particularly considering the Reliability and Resource
7 Adequacy Review?
- 8 c) In its October 2022 Reliability and Resource Adequacy Study, page 4, lines 4-5, Hydro has
9 stated that “the time from recommendation to eventual commissioning of a new resource
10 (such as Bay d’Espoir Unit 8) could potentially take eight years.” Please explain why a
11 shorter term that is better aligned with the commissioning of new backup generation (e.g.
12 8-10 years) was not chosen rather than the 15-year term that is being proposed within the
13 agreement.
- 14 d) Did Hydro request a shorter term for the agreement?
- 15 e) Does Corner Brook Pulp and Paper have to expend funds or make capital investments to
16 ensure it can provide the capacity assistance on the proposed terms?
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- 19 A. a) Newfoundland and Labrador Hydro (“Hydro”) is forecasting an increase in electricity
20 demand and is relying on the proposed Corner Brook Pulp and Paper Limited (“CBPP”)
21 capacity assistance agreement (“CAA”) for 90 MW for both near- and long-term system
22 reliability.
- 23 As noted in Hydro’s “Reliability and Resource Adequacy Study – 2022 Update,”¹ it is
24 estimated that Hydro may need to build up to 480 MW of capacity by 2032, for which a
25 phased approach to generation expansion was recommended. In that analysis, it was

¹ “Reliability and Resource Adequacy Study – 2022 Update,” Newfoundland and Labrador Hydro, October 3, 2022.

1 assumed 90 MW of capacity assistance from CBPP would be available. As demonstrated in
2 Table 1, the cost for CBPP capacity assistance is lower than Hydro's 2022 Marginal Cost
3 Projection^{2,3} of the Marginal Cost of Capacity for the 15-year term of the agreement.

² Hydro's 2022 Marginal Cost Projection was filed as Table 1 within Hydro's response to BKL-NLH-077 of the Non-Firm Rates proceeding.

<<http://www.pub.nf.ca/applications/NLH2022NonFirmRate/responses/BKL-NLH-077.PDF>>.

³ Hydro filed the 2021 Marginal Cost Study update as Appendix B to Attachment 1 of Hydro's response to TC-IC-NLH-001 of the Electrification, Conservation and Demand Management Plan (2021-2025) proceeding.

<http://www.pub.nf.ca/applications/NP2021Capital_SUPP_Electrification/rfis/TC-IC-NLH-004.PDF>.

Table 1: Comparison of Hydro’s Marginal Cost of Capacity vs Proposed CBPP Capacity Assistance Rate

Year ⁴	Forecast			Maximum		Marginal Cost of Capacity without Attenuation and Reserves ⁹ (\$/kW)	
	CPI ⁵ (%)	Contract Escalation ⁶ (%)	Rate (\$/kW)	Escalation ⁷ (%)	Rate (\$/kW)		
2023	-	-	80.00	-	80.00	288.97	175.29
2024	2.70%	2.50%	80.00	2.50%	80.00	321.87	179.39
2025	1.96%	1.96%	82.00	2.50%	82.00	209.01	183.58
2026	2.01%	2.01%	83.61	2.50%	84.05	181.36	187.87
2027	2.01%	2.01%	85.29	2.50%	86.15	197.10	192.26
2028	2.01%	2.01%	87.01	2.50%	88.31	214.21	196.75
2029	2.01%	2.01%	88.76	2.50%	90.51	232.80	201.35
2030	2.01%	2.01%	90.55	2.50%	92.78	252.33	206.05
2031	2.01%	2.01%	92.38	2.50%	95.09	280.90	210.87
2032	2.01%	2.01%	94.24	2.50%	97.47	312.70	215.80
2033	2.01%	2.01%	96.14	2.50%	99.91	181.03	220.85
2034	2.01%	2.01%	98.07	2.50%	102.41	192.47	226.01
2035	2.01%	2.01%	100.05	2.50%	104.97	204.63	231.30
2036	2.01%	2.01%	102.07	2.50%	107.59	217.55	236.71
2037	2.01%	2.01%	104.12	2.50%	110.28	231.29	242.25
2038	2.01%	2.01%	106.22	2.50%	113.04	243.65	247.92

1 Considering Hydro’s existing requirement for capacity for system reliability, the value the
 2 proposed CBPP CAA provides, and the increasing construction cost of new assets, Hydro felt
 3 it was prudent to enter into a longer-term capacity assistance contract, as it provides more
 4 certainty for near- and long-term system reliability requirements.

⁴ Fixed costs based on 2 months in 2023 and 10 months in 2038.

⁵ “All-items” Consumer Price Index (“CPI”) for Canada.

⁶ The fixed fee is adjusted annually, starting January 1, 2025, according to the percentage change over 12 months in the “All-items” CPI for Canada. The minimum adjustment will be 0% and the maximum adjustment will be 2.5%.

⁷ The fixed fee is adjusted annually, starting January 1, 2025, according to the percentage change over 12 months in the “All-items” CPI for Canada. The minimum adjustment will be 0% and the maximum adjustment will be 2.5%.

⁸ The values are from the 2022 Marginal Cost Projection. The Marginal Cost of Capacity is the cost to serve an extra kW of load including the cost of reserves.

⁹ The Marginal Cost of Capacity without Attenuation and Reserves is reflective of the forecasted cost of generation. As noted in Hydro’s 2021 Marginal Cost Study Update, the attenuation approach projects marginal generation capacity costs based on an algorithm, as applied to estimates of system reliability (LOLH) for defined analysis years.

1 **b)** In the “2023 Near-Term Reliability Report – November Report,”¹⁰ Hydro determined that the
2 90 MW of CBPP capacity assistance is required in the near term to support system reliability.
3 As noted in part a) of this response, Hydro is anticipating the need to build capacity in the
4 future over and above what is available in this proposed agreement with CBPP. Hydro is
5 proposing to enter into a longer-term CAA to provide long-term certainty for planning
6 system reliability with the flexibility and ability to terminate the agreement if deemed
7 necessary. If there are substantial changes to Hydro’s system and it is determined that the
8 proposed CBPP CAA is no longer required, Hydro has the ability to terminate the agreement
9 with nine months’ notice.

10 **c)** Hydro felt it prudent to request a longer-term agreement for the capacity assistance
11 contract for two main reasons:

- 12 **1.** The cost of the proposed CBPP CAA is lower than Hydro’s 2022 Marginal Cost
13 Projection of the Marginal Cost of Capacity to build new capacity, as noted in
14 part a) of this response; and
- 15 **2.** There remains uncertainty regarding the timing and cost of building new
16 capacity.

17 In the spring of 2024, Hydro will file its Resource Adequacy Plan, as part of the *Reliability*
18 *and Resource Adequacy Review* proceeding. The Resource Adequacy Plan will provide
19 further details on the amount of capacity required for system reliability along with
20 recommended resource options.

21 **d)** Hydro did not request a shorter agreement.

22 **e)** There are no major capital upgrades required for CBPP to supply Hydro with 90 MW of
23 capacity assistance. CBPP will continue with regular planned maintenance and capital
24 programs to ensure its assets continue to perform reliably and are able to provide spinning
25 reserve and respond to capacity assistance requests from Hydro as required.

¹⁰ “Reliability and Resource Adequacy Study Review – 2023 Near-Term Reliability Report – November Report,” Newfoundland and Labrador Hydro, November 15, 2023.