



NEWFOUNDLAND AND LABRADOR HYDRO

Lower Churchill Project

P. O. Box 12400, St. John's, NL A1B 4K7
Telephone (709) 737-1805; Fax (709) 737-1782

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November 19, 2007

BY MESSENGER

Ms. Chantal Guimont
Marketing Director
Hydro-Québec TransÉnergie
East Tower, 9th Floor
Montréal, PQ H5B 1H7

Re: Complaint regarding HQT's interpretation of "Substantial Change" in relation to System Impact Study #107

Complaint

Based on a clarification letter dated March 20, 2007 provided by Newfoundland and Labrador Hydro ("NLH") to Hydro-Québec TransÉnergie ("HQT") regarding the long-term, point-to-point transmission service request for 724 MW (ref #538898 and 538900, SIS #107), HQT incorrectly deemed the clarifications to be a substantial change from the original transmission service request under Section 12A.3 of HQT's Open Access Transmission Tariff ("OATT").

As a result of HQT's incorrect conclusion that a substantial change had been made, the request was processed as a new request therefore losing its original priority (SIS #107) in the SIS queue to a new position (SIS #109) behind another service request that had been received by HQT in the intervening period between NLH's request and its clarification letter.

Remedies

NLH is seeking the following remedies:

1. Formal recognition by HQT that NLH's March 20, 2007 clarification letter does not constitute a substantial modification to the transmission service request.
2. Reinstatement of the original priority of the SIS resulting from NLH's second transmission service request, from 109 back to 107.
3. Confirmation that Section 12A of the OATT applies only to the connection of generating stations within Quebec, not a transmission customer seeking point-to-point transmission service; and therefore is not applicable to NLH's two point-to-point transmission service requests.

Facts

On February 5th, 2007, NLH made a request for 724 MW of long-term, point-to-point transmission service (assignment reference numbers 538898 and 538900) for capacity and energy from the planned hydroelectric generation facilities at Gull Island and Muskrat Falls on the Churchill River in Labrador – which resulted in System Impact Study (SIS) #107. This request was the second service request made by NLH in relation to the planned Lower Churchill development. Therefore, while SIS #107 was an independent request, it clearly had to be considered in the context of the previous service requested by NLH¹ and currently under study – referred to as SIS #101.

SIS #101 includes the five options below for transmission service. The SIS was commenced following the submission of a transmission service request by NLH to HQT on January 19, 2006. The studies are currently underway, and at the time of submission of the second request (SIS #107), option 5 had been completed and NLH was of the understanding that option 1 should have been substantially complete.

¹ This application consists of five different paths. Three are entered into the HQT OASIS as reference numbers 501231, 501233, and 501235. The remaining two refer to an Ontario path, and an NL-HQT path which have not yet been defined in the OASIS

SIS #101 Options Under Study

Option	Capacity at Receipt Point	Point of Delivery	Status at Feb. 5, 2007
Option 1	1,100 MW	ON: 711 MW QC: 332 MW	Due March 31, 2007, therefore NLH assumed substantively complete
Option 2	1,600 MW	ON: 948 MW NE: 95 MW QC: 474 MW	Due September 30, 2007
Option 3	2,000 MW	ON: 711 MW QC: 474 MW NE: 95 MW NB : 190 MW NY : 190 MW	Due July 31, 2007
Option 4	2,500 MW	ON: 1,422 MW QC: 474 MW NE: 95 MW NB : 284 MW NY : 95 MW	Due May 31, 2007
Option 5	2,824 MW	ON: 895 MW QC: 1001 MW QC: 781 MW	Draft completed

In its clarification letter dated March 20, 2007, NLH responded to confusion expressed by HQT during a conference call that was held on March 19, 2007 to discuss the draft SIS agreement for SIS #107. Specifically, NLH confirmed the sequence it wished to have the SIS #107 conducted in conjunction with the options under SIS #101 in a manner that would meet its requirements, facilitate timely completion, and minimize rework during the simulations. NLH is seeking to narrow the options under consideration as soon as it is prudent to do so, on the basis of complete information to be provided by HQT as the study of options are completed.

The clarification letter therefore addressed the following issues:

1. Clarified the potential combination of options from SIS #101 to be studied in conjunction with SIS #107 as follows:

Option 1 (SIS # 101)	1,100 MW
SIS # 107	724 MW
Total	1,824 MW
Option 2 (SIS # 101)	1,600 MW
SIS # 107	724 MW
Total	2,324 MW
Option 3 (SIS # 101)	2,000 MW
SIS # 107	724 MW
Total	2,724 MW
Option 4 (SIS # 101)	2,500 MW
SIS # 107	724 MW
Total	3,224 MW

NLH noted that, in the case of the option 4 in combination with SIS #107, the total capacity would be slightly higher than the generating capacity of the Lower Churchill projects, and that in this case the 136 MW excess capacity booking could be considered to originate from Churchill Falls.

2. The sequence of study of the remaining options for SIS #101 and the combinations for SIS #107:
 - a. Complete option 1 (SIS #101).
 - b. Complete option 3 (SIS #101).
 - c. NLH to decide whether option 2 and 4 (SIS #101) are still required following the results from option 3.
 - d. Complete #107 (following any other SIS in the queue between 101 and 107) cumulative to option 3 (SIS #101).
 - e. Complete #107 with remaining combinations of options 2 and 4, if directed to do so by NLH.

3. NLH's dissatisfaction with the proposed completion date of June 30, 2008.

In correspondence dated March 22, 2007, NLH requested specific amendments to the SIS #101 Agreement and the draft SIS #107 agreement to be consistent with the details outlined in the March 20, 2007 letter, as follows:

1. SIS #101 – the sequence of studies to be changed to the following: option 3, option 4 and option 2.

2. SIS #107
 - a. Removal of the following sentence that was not relevant in the context of the details explained in the March 20, 2007 letter: ***“As the request identifies a reception of 724 MW on the TransÉnergie’s transmission system from those two generating stations, the remaining capacity of 2,100 MW will be considered as disconnected from TransÉnergie’s system.”***

 - b. Addition of the following statement to add clarity to the desired sequence of the #107 study: ***“This System Impact Study (Request 107) will be studied taking into account remaining studies to be completed for Options 3, 4 and 2 of Request 101 and any subsequent requests filed at HQT and posted on the OASIS website after the filing of Request 101 and before the filing of Request 107.”***

 - c. Request for an English translation of the SIS.

In correspondence dated March 22, 2007, HQT responded to NLH that the clarifications contained in the March 20, 2007 letter constitute a substantial change to SIS #107 under section 12.3A of HQT's OATT for the following reasons:

- “- ***NLH now ties the new request with the previous #101 request thus modifying the maximum capacity to be transmitted.***
- ***NLH adds a new generating source;***
- ***NLH now identifies four options to be studied”***

HQT then concludes ***“Therefore, as per section 12A.3 of the Tariff, these substantial changes result in the project being processed as a new request. This new request is based on the modifications identified in NLH’s March 20, 2007 letter...”***

Basis of Complaint

NLH’s complaint is based on the following:

1. Section 12A of the OATT entitled *“Connection of Generating Stations to the Transmission and Distribution System”* is applicable to the connection of generating stations to the transmission and distribution system in Quebec, and is not applicable to NLH’s point-to-point transmission service requests.
2. HQT incorrectly deemed the clarification points raised in NLH’s March 20, 2007 letter as substantial changes, when in fact they were not. NLH disagrees with HQT’s conclusions as follows:
 - a. ***“NLH now ties the new request with the previous #101 request thus modifying the maximum capacity to be transmitted.”***

In accordance with Attachment D *“Methodology for completing a System Impact Study”* of HQT’s OATT, HQT is required to conduct a system impact study ***“based on reliability requirements to meet obligations for accepted or queued valid applications under the OATT.”***

Therefore, NLH was not tying the new request to the previous request; this was already required in the study process. NLH was merely providing guidance in how they wish to have the SIS undertaken, in an efficient manner.

b. ***“NLH adds a new generating source;”***

The designation of 136 MW of production under NLH control was made in response to a claim by HQT that NLH had not defined sufficient generation to justify the capacity reserved under request 107.

The technical characteristics of the NLH system in Labrador have been completely defined to HQT, and NLH submits that the allocation of production from generation resources under NLH control is only pertinent if it impacts on the evaluation of system conditions and the outcome of a System Impact Study stipulates that a technical or operational constraint with reliability implications has been identified. NLH also notes that the Churchill Falls facility has been in service since the early 1970's, and submits that it cannot credibly be characterized as a new generating source.

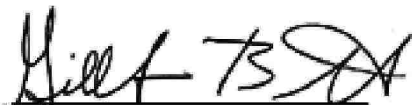
As NLH is not a generator seeking to connect to the HQT system, but rather is a transmission customer seeking point-to-point transmission service. NLH contends that Section 12A is not applicable and therefore not a basis for the conclusion drawn by HQT.

NLH also submits that system modifications within the NLH control area are within the jurisdiction of NLH. There is no technical or procedural basis for HQT determining that a change within the NLH control area should disturb the priority of a request in the HQT system. If such action were permitted, then any action to change the configuration of a neighbouring system could result in the re-queuing of all queued or completed applications for point to point service from a neighbouring system.

For these reasons, NLH objects to HQT's processing of its March 20, 2007 clarification letter as a substantial change to transmission service request (SIS #107) and is seeking the remedies outlined above in this letter.

We look forward to receiving your response as soon as possible following reception of this letter.

Sincerely,



Gilbert Bennett, P. Eng.

Vice President, Lower Churchill Project