

**Summary of the Board's February April 1993 Report to the Minister of Mines and Energy
on the Proposed Cost of Service Methodology**

The purpose of the hearing was: to examine Hydro's cost of service methodology for Hydro and Newfoundland Power to develop an acceptable rate form for NP, and for Hydro to establish an additional provision in the RSP requiring it to be credited with all alterations (increases and decreases) that could result in a change in Hydro's rural revenues.

The majority of the issues concerned the cost of service methodology. Creation of an acceptable rate form from Hydro to NP was deferred to a later time. The change in the RSP was approved.

There were 26 Board recommendations resulting from the hearing. These are listed on pages 74-77 of the report, and summarized below for convenience. Next to each recommendation is a comment indicating whether Hydro has complied with the recommendation in its current filing.

Recommendations	Does Hydro's 2001 Filing Comply? Comments
1. That Hydro's Cost of Service Study be of the embedded type and that the methodological objective be to allocate costs to rate classes in a fair and equitable manner, based on causal responsibility for cost incurrence.	Yes
2. That the structure adopted by Hydro for cost of service purposes comprising one study for the Island Interconnected System, one for the Labrador Interconnected System and one for all Isolated Rural Systems be approved.	Yes
3. That the Howley-Cat Arm transmission line be treated as common.	Yes
4. That transmission lines dedicated to the service of Hydro Rural rate classes be included in a sub-transmission function, and the costs attributed thereto be allocated exclusively to such classes.	Yes
5. That the methodology indicated in Recommendation 4 be applied in the case of transmission serving both NP and IC but not the Rural classes, provided the costs total at least 2% of total transmission costs.	Yes
6. That with the exception of the plant affected by Recommendations 4 and 5, Hydro's method of functionalization be approved.	Yes
7. That generation demand costs be allocated to the Island Interconnected System using a coincident peak allocator.	Yes

Recommendations	Does Hydro's 2001 Filing Comply? Comments
8. That a 1 CP allocator be approved for interim use in the Island Interconnected System and that Hydro present to the Board at the time of its next rate hearing and analysis of the relationship between load factor and system reserve requirement, together with a recommendation regarding the number of peaks on which the CP allocator for generation demand costs should be based.	Yes - see Brockman testimony for assessment of study's efficacy.
9. That a proportion of hydraulic plant costs in the Island Interconnected System equal to the annual system coincident load factor be classified as energy-related and the balance be classified as demand related.	Yes. (allocation factor is dependent on hydraulic production assumed in test year)
10. That a proportion of Holyrood generating station plant costs equal to the average of the plant capacity factor in the preceding five years be classified as energy-related and the balance be classified as demand-related.	Yes
11. That all plant costs relating to gas turbine and diesel generation in the Island Interconnected System be classified as demand-related.	Yes
12. That costs of gas turbine and diesel fuel in the Island Interconnected System be classified to demand and that variable operating costs and all other fuel costs be classified to energy.	Yes
13. That Hydro's proposed method of allocating energy costs be approved	Yes
14. That Hydro examine the practicality of attributing system energy losses to rate classes on a time-differentiated basis and report its conclusions as to both the practicality and impact on allocated costs at the time of its next rate referral.	Yes
15. That transmission lines and substations in the Island Interconnected System used solely or dominantly for the purpose of connecting remotely-connected generation to the main transmission system be classified in the same manner as the generating stations they serve.	Yes
16. That all other transmission be classified as 100% to demand.	Yes

Recommendations	Does Hydro's 2001 Filing Comply? Comments
17. That sub-transmission be classified in the same manner as recommended in Recommendations 15 and 16.	Yes
18. That transmission and sub-transmission costs in the Island Interconnected System be allocated by means of a 1 CP allocator.	Yes
19. That Hydro's proposed classification of distribution cost be accepted for interim use and that Hydro prepare a revised study of distribution cost for presentation to the Board at the time of its next rate referral.	Yes
20. That Hydro's method of allocating distribution costs be approved.	Yes
21. That subject to the provisions of Recommendation 19, Hydro's proposed methodology be approved for the Labrador Interconnected and Rural Isolated Systems.	Yes but Hydro has changed the methodology from the approved use of AED to a single CP.
22. That for cost of service purposes Hydro include the NP mobile gas turbine as part of NP's gross generation before adjusting for reserve capacity.	Yes
23. That the approach illustrated in Exhibit GCB-5 (Appendix 1 to the report) is recommended for the allocation of the rural deficit for the purpose of the cost of service.	Yes
24. That Hydro's proposed provision be included in the RSP along with a mathematical equation with all variables defined, which explains how automatic adjustments are to be calculated. The provisions should be included in Hydro's Rule and Regulations.	Yes
25. That except where a different approach is specifically recommended in this report, Hydro's cost of service methodology be approved as submitted	N/A
26. That the cost of service methodology recommended herein be adopted by Hydro for the purpose of its next referral.	Yes