

Direct Evidence of Robert Greneman
October 31, 2003

1 Q. Mr. Greneman, could you please advise the Board what firm you are with
2 and your role in this proceeding?

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4 A. I am an associate director with Stone & Webster Management
5 Consultants, Inc., in New York City. Hydro has engaged us with respect
6 to its cost of service study methodologies.

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9 Q. Mr. Greneman, could you advise the Board as to what, in your view, is the
10 principal issue before us today?

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12 A. Based on my review of the evidence of Mark Drazen, it is my
13 understanding that the principal issue is whether the Labrador East and
14 Labrador West systems should be costed and priced as a single
15 interconnected system or as separate and discrete systems.

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18 Q. How is the Labrador interconnected system represented in Hydro's cost of
19 service study in Exhibit RDG-1?

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21 A. The Labrador interconnected system is presented in the cost of service
22 study as a single system. This was done in accordance with this Board's
23 Order No. P.U. 7, in which this Board reaffirmed its 1993 ruling. At that
24 time it was not persuaded and felt that it was not provided with sufficient
25 evidence to reconsider the matter.

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28 Q. Is it appropriate to treat the Labrador interconnected system as a single
29 system in the cost of service study?

1 A. It is my view that costing and pricing the Labrador Interconnected system
2 as a single combined system is consistent with existing practices and
3 policies and strikes a fair and reasonable balance among a number of
4 relevant factors.

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6 Q. What are your views on Mr. Drazen's evidence?

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8 A. Mr. Drazen's position is principally based on the differences in costs
9 between Labrador East and Labrador West. Although cost is certainly a
10 factor, there are other, and perhaps equally relevant factors that should be
11 considered. These include price signals, value of service, opportunity cost
12 and public policy.

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14 First, with respect to cost, the configuration of the Labrador East and
15 Labrador West systems are rather symmetrical. That is they have a
16 common purchased power source, but separate transmission and
17 distribution facilities. In fact, at first blush, the costs associated with the
18 facilities used to serve each do not appear to be much different in terms of
19 physical and electrical configuration than that of any system that was
20 divided in two. Cost differences, however, arise due to two situations.
21 One is that Hydro receives wheeling at essentially no cost, other than
22 some terminal station costs, over the 230 kV Twinco lines from Churchill
23 Falls to Labrador West. The other is that there is 38 MW of generation on
24 the Labrador East system.

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26 Mr. Drazen, in Table 4 of his revised evidence, estimates the cost of
27 service to Happy Valley/Goose Bay to be approximately \$8.9 million and
28 the cost of service to Labrador West to be \$3.6 million, however that cost
29 difference is not, in itself, sufficient to justify two separate systems. To my

1 knowledge, there is no absolute test to determine whether systems should
2 be treated as separate or combined for rate setting purposes. Mr. Drazen,
3 in response to an information request by Hydro, has also indicated that he
4 did not have a preset threshold to determine when systems should be
5 separated.

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7 Mr. Drazen's position is premised solely on a comparison of those costs
8 that are east versus west of Churchill Falls. That, however, should not
9 lead one to conclude that there are intrinsic differences between systems.
10 For example, in terms of configuration, the 138 kV transmission line
11 serving Labrador East is a single-circuit line, such that in the event
12 maintenance is required, the standby generation in Labrador East can be
13 utilized. Labrador West does not have standby generation, but the double
14 circuit 230 kV lines allows for maintenance to be performed on one circuit
15 without interruption of service. Thus, the Twinco lines can, in this regard,
16 be viewed as being functionally equivalent to the single-circuit line with
17 standby generation that serves Labrador East.

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19 The benefit of the 230 kV Twinco lines arose due to circumstance. Any
20 claim to reaping the benefits of those lines because it lies on one side of
21 the fence or another is no more defensible than if the lines were owned by
22 Hydro and were fully depreciated. Cost of service is, in large part, an
23 averaging process.

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25 In considering one costing philosophy over another, it is important not to
26 lose sight of the basic goal of cost of service, which is to determine the
27 relative cost differences between customer classes. It is also important to
28 maintain a degree of consistency between the same customer classes
29 within regions. This has been practiced by Hydro and this Board as

1 evidenced in the combining of isolated diesel areas for costing and rate
2 purposes with pricing, in part reflective of Newfoundland Power's rates,
3 and, as well, by the fact that Hydro's island interconnected customers are
4 charged Newfoundland Power's rates. It has also been the policy in
5 provinces such as Manitoba, to have province-wide rates for similar
6 classes of service. To have separate domestic and general service rates
7 for Labrador East and Labrador West would potentially result in significant
8 price differences between otherwise similar customers.

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11 Q. Can you describe to this Board some of the other factors that you believe
12 to be relevant?

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14 A. Yes. There is also the consideration of value of service. The Twinco
15 transmission lines are a necessary and essential element in providing
16 reliable service to Labrador West. If those lines were owned by Hydro, the
17 total Labrador Interconnected system costs would be greater than under
18 the current cost of service, resulting in higher costs to Labrador West
19 customers. Pricing Labrador West under a single Labrador
20 Interconnected cost of service can, in that respect, be appropriately
21 viewed as bearing a value of service component.

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23 Moreover, there are related considerations of price signals and opportunity
24 costs. While Hydro has an obligation to first serve its own customers, a
25 particularly low price signal will act to encourage wasteful consumption
26 and to deprive Hydro of additional export sales.

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28 In summary, I see wheeling over the Twinco lines as being a unique
29 arrangement. I also believe that, in any event, with respect to identifying

1 cost differences between lines, the Labrador Interconnected System is
2 essentially a radial system with two lines and should not be subject to
3 separate cost of service studies any more than a radial system with, e.g.,
4 eight radial lines should each have their own cost of service.

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6 It is therefore my view that the treatment of the Labrador interconnected
7 system as a single system in the cost of service study, as was reaffirmed
8 by the Board in Order No. P.U. 7, is fair and proper.