

Newfoundland & Labrador Hydro

2003 General Rate Application

Towns of Labrador City and Wabush Responses to Hydro Information Requests

Request

NLH-231 LC Aside from costs, to what extent does Mr. Drazen agree or disagree that the Labrador East and Labrador West systems are not materially dissimilar in configuration, i.e., in light of the fact that if any system is conceptually cut in two there will be differences between each?

Response

The differences between the two systems in terms of generation, transmission and distribution are explained in the evidence. Most electric utilities are “not materially dissimilar in configuration” in the sense that they all have generation supply (owned and/or purchased), transmission, distribution and customer service (e.g., meter reading and billing) functions. However, there are differences in ownership, nature of facilities and cost, all of which lead to rate differences. The same is true of Labrador East versus Labrador West.

If a “system is conceptually cut” in two (or more) pieces, there may be cost differences among the pieces that were not previously recognized. For example, when integrated utilities have been divided functionally into generation, transmission and distribution (examples being Alberta, Ontario and Québec), it was determined that risk differences among the parts justified different capital structures and/or returns on equity. However, the issue here does not involve cutting an existing system in two, but whether to combine systems that have historically been separate.