

Newfoundland & Labrador Hydro

2003 General Rate Application

Towns of Labrador City and Wabush Responses to Hydro Information Requests

Request

NLH-238 LC Please discuss, in Mr. Drazen's estimation and judgment, any known factors that would cause a material difference in the long-run marginal costs (LRMC) between Labrador West and Labrador East. Address generation, transmission and distribution separately.

Response

The long run marginal cost of generation for Labrador West will continue to be the cost of supply from Churchill Falls, because the contract amount allows for many years' substantial growth. According to PUB-3 NLH (Attachment 2, Page 18), growth in Labrador West is projected to be 0.3% annually for 2005-2007. Incremental supply from Churchill Falls for Labrador East will have the same cost as for Labrador West. However, ongoing costs for the operation, maintenance and capital replacement of the standby capacity in Labrador East is an additional long run marginal cost for Labrador East that is not incurred for service to Labrador West. The growth projected for Labrador East is higher than for Labrador West. According to PUB-3 NLH, Labrador East growth is forecast to be about 2.4% to 2.5% annually for 2005-2007.

Ongoing operation, maintenance and capital replacement costs for the Hydro-owned transmission line from Churchill Falls to Labrador East represent a marginal cost of service (i.e., cost that could be avoided if service were not provided). Corresponding costs for the Twinco-owned line to Labrador West are not incurred by Hydro. In theory, if new transmission lines were required for service to Labrador East or Labrador West, then the capital-related and operating costs of such facilities would be a marginal cost. The amount of such costs and any differences between Labrador East and Labrador West are speculative.

The marginal distribution cost as between Labrador East and Labrador West may be similar, although the different growth rates mean that different amounts of such costs will be incurred.