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April 11, 2018

SENT VIA E-MAIL

Cheryl Blundon
Board Secretary
Board of Commissioners of Public Utilities
P.O. Box 21040, St. John's, NL A1A 5B2

Dear Ms Blundon:

Re: Responses to RFIs from Labrador Interconnected Group, LAB-NLH-084 and LAB-NLH-085in 2017 NL Hydro General Rate Application ("GRA")

We are writing in respect of two Requests for Information ("RFIs") posed by the Labrador Interconnected Group ("LIG"), LAB-NLH-084 and LAB-NLH-085.

The questions relate to Hydro's additional cost of service information, filed on March 22, 2018 in compliance with PU 2 (2018). In our view, Hydro's answers are not responsive to the questions. As the answers were served on April 6, 2018, after the deadline for preliminary motions had already passed, the LIG respectfully requests that the Board order Hydro to fully respond to the two above-noted RFIs.

As a matter of background, PU 3 (2018) was issued on February 9, 2018, and it indicates (at page 2, paragraph 2) that the rates set out in Schedule A are approved, on an interim basis, as of that date. It further indicates (at paragraph 1) that the pro-forma transmission service agreements of the Newfoundland and Labrador System Operator ("NLSO"), as well as its NL Transmission Policies and Procedures and the Code of Conduct for NL Transmission System Operations are also approved on an interim basis.

Since the March 22 filing took place after the issuance of PU 3 (2018), we had expected the March 22 filing to take into account the changes in Hydro's operations resulting from the creation of the NLSO. One important change is that Hydro is now paying a set tariff for its use of NLSO transmission assets instead of operating those assets themselves. One would expect that concomitant changes to Hydro's revenue requirement would also be observed. What follows is a brief description of how this relates to LAB-NLH-084 and LAB-NLH-085.

As acknowledged in PU 3 (2018), the NLSO is a "functionally separate division of Hydro", which is responsible for the safe and reliable operation of the Newfoundland and Labrador transmission system, including the administration and provision of transmission service. The document entitled *Methodology for the Development of Rates for Transmission Service Newfoundland and Labrador System Operator,* which constitutes Section F of the Application approved by PU 3(2018) states:

> The NLSO assumes operational control of all assets comprising the NL Transmission System, administers a system wide transmission tariff applicable to all potential customers, and maintains system reliability. (underlining added)

The "NL Transmission System" is defined, in section 1.1 of the pro forma Newfoundland and Labrador Transmission Service Agreement for Network Integration Transmission Service (Section E of the Application) as follows:

> **"NL Transmission System"** means the transmission facilities located in NL, operating at a voltage level of 230 kV or higher, including, without limitation, the Labrador-Island Link, the Labrador Transmission Assets and Island Interconnected System, but excluding the high voltage direct current portion of the Maritime Link transmission line owned by NSP Maritime Link Incorporated, all as detailed in Appendix A;

We understand from the foregoing that, as part of the restructuring of Hydro to separate out NLSO as a distinct division, operational control of all transmission facilities of over 230 kV has been to the NLSO, and that costs related to these facilities are covered by the system-wide transmission tariffs administered by the NLSO. We understand that Hydro now pays this tariff in order to use these transmission facilities to provide service to existing customers.

The tariff also makes reference to the Multi-Party Pooling Agreement, defined as follows:

> **"Multi-Party Pooling Agreement"** means the agreement, first executed on April 13, 2015, which provides for the pooling of certain bulk transmission facilities within NL under the operational control of the NLSO for the purposes of providing open access and nondiscriminatory Transmission Service.

To the best of our knowledge, this Multi-Party Pooling Agreement (MPPA) has not been made public, nor is it clear what entities have executed it. In the absence of more precise information, we infer that it is through this MPPA that Hydro is compensated for the use of the transmission assets for which operational control has been ceded to the NLSO, and for the use of which the NLSO is compensated by transmission system users through its system-wide tariffs.

It is our understanding that, as a result of these instruments, while Hydro remains the owner of its high-voltage transmission assets, it has ceded operational control of them to the NLSO, and now has access to their use only under the NLSO tariff. As stated by Hydro in CA-NLH-265, "Hydro, as a transmission customer, will pay the approved transmission tariff to the Newfoundland and Labrador System Operator (NLSO)".

While the NLSO's transmission rates have now been set by the Board on an interim basis, it is our understanding that, going forward, they will be set by cost-of-service principles, described in general terms in *Methodology for the Development of Rates for Transmission Service Newfoundland and Labrador System Operator* (Section F of the Application). Section 5.2 states[1]:

> The initial step taken in designing the transmission rates was to extract the high-voltage transmission revenue requirement from Hydro's total transmission revenue requirement. To accomplish this, the PUB approved methodology for asset functionalization is deployed. The process begins with a definition of the assets that are used to provide the respective high voltage transmission services. (underlining added)

On the following page, it states[2]:

> Figure 2 below highlights the assets that are included in the NLSO transmission tariff. The highlighted transmission assets (those operated at 230 kV or higher) and the associated terminal station equipment, form the basis for the transmission tariff. (underlining added)

And on the subsequent page[3]:

> The total revenue requirement for Hydro's high-voltage transmission assets included in the transmission tariff has been determined to be $ 46.6 million for the period prior to the LIL and LTA being accepted for commercial operations, (the Pre LIL / LTA period) and includes all costs (asset amortization costs, operating, maintenance and administration costs, purchases of transmission service(s), interest and financing charges) plus Hydro's approved regulated rate of return on equity. (Note 16: During the Pre LIL / LTA period, only Hydro owned transmission assets on the Island Interconnected System are included in the tariff.) The revenue requirement captures costs relating to all transmission and terminal station assets included in the tariff, functionalized in a manner consistent with Hydro's 2018 Cost of Service Study as filed November 2017 with the asset adjustment noted above (regarding TL-234 and TL-263). Hydro's total revenue requirement after LIL and LTA are accepted for commercial operations, (the Post LIL / LTA period) increases to $ 47.0 million. (underlining added)

Based on these explanations, it would appear that, following PU 3 (2018), costs of $46.6 million (for the Pre LIL/LTA Period) and of $47.0 million (for the Post LIL/LTA Period) should have been "extracted" from NL Hydro's revenue requirement, which include "all costs for the

[1] Section F, page 13 of 37 (p. 219 of the pdf).
[2] Ibid., page 14 of 37 (p. 220 of the pdf).
[3] Ibid., page 15 of 37 (p. 221 of the pdf).

affected assets, as well as Hydro's approved regulated rate of return on equity". At the same time, additional costs should have been added to Hydro's revenue requirements, representing the transmission tariff it will pay to the NLSO under Schedule 9. While one might expect these two quantities to be of similar magnitude, one cannot presume that to be the case.

Even if the global amounts were to prove identical, one would need to know how the transmission tariff is to be allocated between the Island and Labrador Interconnected Systems in order to determine whether or not this transition will affect the overall cost of service in each system.

With regard to the amounts to be "extracted" from Hydro's revenue requirement, For instance, for Labrador, it would appear from that the costs related to the L2304 and L2303 transmission lines, being 230 kV or above, including the applicable return on equity, would have been transferred to the NLSO.[4] One would expect the recent updates to the Cost of Service Study to reflect this fact, as well as the portion of the Network Integration Transmission Service ("NITS") tariff applicable to Labrador.

As these changes would have taken place as a result of PU 3 (2018), we had expected them to be reflected in the March 22 cost of service updates.

More generally, one would expect to observe a reduction in Hydro's revenue requirements (before taking into consideration the transmission tariff to be paid to the NLSO) of \$46.6 million in the Pre LIL/LTA period, and of \$47.0 million in the Post LIL/LTA Period. In comparing Hydro's Revision 4 of its Application (dated November 27, 2017, prior to the emission of PU 3(2018)), and the March 22 update (subsequent thereto), we have been unable to identify any such reduction.

At the same time, we know from PU 3 (2018) that tariffs payable by Hydro to the NLSO have been approved. For example, Schedule 9 of this order provides for a NITS of \$3253.42/MW of reserved capacity per month. Yet there is no information in the March 22 filing regarding how much of this NITS tariff is being recovered from Labrador Interconnected customers.

Several of the questions posed by the LIG were intended to solicit additional information on how the transition to the NLSO may have impacted Hydro's cost of service.

LAB-NLH-084 (a) asks whether the costs related to Hydro's high-voltage transmission assets that are included in the NLSO revenue requirement are also included in the NLH revenue requirement and, if not, to identify which schedules of the Cost of Service Study are modified to reflect this change.

Hydro's answer simply refers the reader to CA-NLH-265 and LAB-NLH-085. CA-NLH-265, to summarize, simply offers reassurances that Hydro's customers will not be "required to

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[4] General Rate Application, Revision 4, vol 2, Exhibit 1, Schedule I.

pay twice for transmission costs". That may well be the case, but it does not actually give the evidence that would permit the Board to reassure itself of that fact.

The answer to LAB-NLH-085 is not of much additional assistance either. LAB-NLH-085 (a) seeks confirmation that Hydro will obtain transmission service from the NLSO under the NITS. The other parts of the RFI seek clarification as to how much this tariff is expected to cost during the 2018 and 2019 Test Years, how this cost will be allocated among Hydro customers, and where it is shown in the Cost of Service Study.

Hydro's response to LAB-NLH-085 was simply to affirm, without documentary support, that PU 3 (2018) did not change Hydro's revenue requirements, in total or by system. Whether or not the amounts to be paid under Schedule 9 will precisely offset the reductions in revenue requirements mentioned above is an important question that could affect rates in both the Island and Labrador Interconnected Systems. The document to which reference is made (CA-NLH-265) fails to provide any support for the affirmation made in LAB-NLH-085, nor does it respond to the specific questions posed therein.

Hydro is obliged to provide accurate information to the Board to enable it to determine whether Hydro's costs are reasonable, after giving a chance to the parties to make reasonable examination of these costs and to test the evidence. For this reason, we request that the Board order Hydro to fully answer the questions posed in LAB-NLH-084 and LAB-NLH-085.

We trust you find the foregoing satisfactory. Please be in touch should you have any questions or concerns.

Yours truly,
Olthuis Kleer Townshend LLP

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