

1 Q. LAB-NLH-85 Re: NLSO, Methodology for the Development of Rates for
2 Transmission Service (Section F of NLSO Application), pages 22 and 23 of 37,
3 Tables 4 and 5; P.U. 3(2018), Schedule 9

4 Preamble:

5 Table 4 of Section F indicates a NLSO revenue requirement of \$44.4 million for
6 Network Integration Transmission Service during the pre-LIL/LTA period.

7 Table 5 of Section F indicates a NLSO revenue requirement of \$96.8 million for
8 Network Integration Transmission Service during the post-LIL/LTA period.

9 Schedule 9 of P.U. 3(2018) indicates that the rate charged for Network Integration
10 Transmission Service (NITS) is \$3,253.42/MW of Reserved Capacity per month.

11

12 a) Please confirm that the NLSO revenue requirement for Network Integration
13 Transmission Service will be covered by the NITS rate paid by NLH for
14 transmission service to service its native load customers. If this is not the case,
15 please explain what entity or entities will be responsible for meeting the
16 revenue requirement allocated to NITS;

17 b) Please confirm that the rate set out in Schedule 9 (“the NITS rate”) represents
18 the amounts to be paid by NLH to NLSO for transmission service for its Native
19 Load customers;

20 c) Please estimate the annual cost to NLH of the NITS rate in 2018TY and in
21 2019TY;

22 d) Please explain how the payments made under NITS rate will be allocated among
23 the various systems administered by NLH;

- 1 e) Please clarify if transmission service to Newfoundland Power is included in the
2 NITS rate; and
- 3 f) Please indicate where in the Additional Cost of Service Information for the
4 Deferral Account Scenario and/or the Expected Supply Scenario the amounts to
5 be paid to NLSO for Network Integration Transmission Service are found or, if
6 they are not included therein, why not.

7

8 A.

- 9 a) Hydro, as a transmission customer, will pay the approved transmission tariff to the
10 Newfoundland and Labrador System Operator (NLSO), which includes the costs of
11 the Labrador-Island Link (LIL) and the Labrador Transmission Assets (LTA) when
12 Hydro begins to receive service over the LIL, however, transmission tariff charges
13 that apply to Hydro as a result of the implementation of the Network Integration
14 Transmission Service (Network Service) rate will not increase the revenue
15 requirement to be recovered from Hydro's Native Load customers.

16

17 The payment of the Network Service rate will provide recovery of the revenue
18 requirement related to the 230 kV common transmission assets to the NLSO.

19 However, as the NLSO does not own the transmission assets, the NLSO is required
20 to distribute transmission tariff revenues to the entities whose transmission costs
21 are the basis for the tariffs. As Hydro is effectively incurring all the transmission
22 costs reflected in the Network Service rate, Hydro will be reimbursed its Network
23 Service rate charges through the disbursement of Network Service rate revenues
24 from the NLSO.

1 Hydro will continue to recover its transmission-related revenue requirement from
2 its native load customers through the establishment of customer rates through its
3 General Rate Application (GRA) process.

4

5 b) It is confirmed.

6

7 c) Hydro forecasts the annual charges to Hydro based on the approved Network
8 Service tariffs will be \$69.1 million in 2018 and \$98.7 million in 2019. Please refer
9 to a) and b).

10

11 d) Payments made under the Network Service rate will not be allocated among Hydro's
12 various systems for recovery from its Native load customers. The revenue
13 requirement used to determine the Network Service tariff was determined solely for
14 the purpose of designing transmission service rates that are fair and not-unjustly
15 discriminatory. The approval of the transmission tariffs in Board Order No. P.U.
16 3(2018) did not result in a change in Hydro's Test Year transmission revenue
17 requirements, in total or by system, from its customers.

18

19 Please refer to f) for Hydro's approach to recovery of its transmission revenue
20 requirement.

21

22 e) Transmission Service to supply Newfoundland Power over the 230 kV and above
23 transmission system is included in the Network Service rate, however,
24 Newfoundland Power is not required to pay the published transmission tariff to the
25 NLSO. Hydro recovers its Board approved transmission-related costs from its
26 customers through its approved Schedule of Rates, Rules, and Regulations.

1 f) The 230 kV transmission asset costs reflected in the approved transmission tariffs
2 reflect a subset of the total costs provided in Hydro's Test Year revenue
3 requirements in its GRA.

4

5 In completing the 2018 and 2019 Test Year GRA Cost of Service studies for both the
6 Deferral Account Scenario and the Expected Supply Scenario, Hydro has applied the
7 Board-approved methodology for functionalization, classification, and allocation of
8 Hydro's transmission assets. For the Expected Supply Scenario, Hydro has treated
9 the costs of using the LIL and the LTA as purchase power costs incurred to serve the
10 Island Interconnected System and classified these costs as energy-related, given
11 these costs are incurred to reduce the cost incurred to consume Holyrood fuel.¹
12 Hydro considers this approach reasonable from a cost causality perspective given
13 Holyrood fuel costs are currently classified as energy.²

¹ For the Deferral Account Scenario, the revenue requirements for the 2018 and 2019 Test Years do not include the charges for the use of LIL and LTA.

² The different treatment of the LIL and the LTA costs between the GRA Cost of Service studies under the Expected Supply Scenario and the revenue requirement functionalized as transmission under the Network Service tariff would create differences between the 230 kV common transmission revenue requirement between that used in computing the transmission tariffs and that that used in determining the GRA revenue requirements.