The Consumer Advocate

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June 11, 2019

Hand Delivered

The Board of Commissioners of Public Utilities
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: G. Cheryl Blundon, Director of Corporate Services / Board Secretary

Dear Ms. Blundon:

Re: Newfoundland and Labrador Hydro – Application for Revisions to Cost of Service Methodology - Requests for Information

Further to the above-captioned, enclosed please find enclosed the original and eight (8) copies of the Consumer Advocate's further Requests for Information numbered CA-NLH-001 to CA-NLH-045.

A copy of this letter, together with enclosure, has been forwarded directly to the parties listed below.

Yours truly,

Stephen Fitzgerald
Counsel for the Consumer Advocate

Encl.
/bb

cc **Newfoundland and Labrador Hydro:**
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Labrador Interconnected Customer Group:
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IN THE MATTER OF
the Electric Power Control Act, 1994,
SNL 1994, Chapter E-5.1 (the "EPCA")
and the Public Utilities Act, RSNL 1990,
Chapter P-47 (the "Act"); and

IN THE MATTER OF an application from
Newfoundland and Labrador Hydro for approval
of revisions to its Cost of Service Methodology
pursuant to Section 3 of the EPCA for use in the
determination of test year class revenue requirements
reflecting the inclusion of the Muskrat Falls Project
costs upon full commissioning.

CONSUMER ADVOCATE
REQUESTS FOR INFORMATION

CA-NLH-001 to CA-NLH-045

Issued: June 11, 2019

CA-NLH-001 (2018 Cost of Service Methodology Review Report dated November 15, 2018) Why was the Muskrat Falls project committed for construction and how has this been reflected in Hydro's proposed cost of service methodology? Please address the project as a whole, and its individual components; i.e., Muskrat Falls generation, LIL and LTA. In Hydro's opinion, has this been accurately reflected in the Brattle Group Inc review of Hydro's proposed cost of service methodology (May 3, 2019 report by Brattle Group, Inc entitled *Embedded and Marginal Cost of Service Review)*? If not, please explain.

CA-NLH-002 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 7 (lines 8 to 11) it is stated "*The addition of TL-269 from Granite Canal to Bottom Brook to support the import and export of energy over the Maritime Link requires a change to the functionalization of Hydro's TL-234 and TL-263 from generator leads to common high-voltage transmission*". Please explain why this is necessary and identify the impacts of this change on island customer classes.

CA-NLH-003 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 11 (lines 13 to 14) it is stated "*Hydro proposes to continue to use system load factor for classification of its existing hydraulic based generation.*" Page 17 (lines 15 – 20) of the CA Energy Consulting Report states "*Additionally, if the equivalent peaker approach, with its grounding in system planning, appeals conceptually to Hydro, the utility may wish to consider applying this approach to its entire fleet of Interconnected generation. The theoretical advantage is that each unit is judged for its demand and energy components under the same set of assumptions. The challenge is to compute the current value of each generation unit. (Indexes like the Handy-Whitman are available for this purpose.)*" Please provide all supporting documentation that led to Hydro's decision to propose classification of existing hydro generation on the basis of system load factor including a comparison of using this classification to a classification based on the equivalent peaker approach.

CA-NLH-004 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 11 (lines 13 to 14) it is stated "*Hydro proposes to continue to use system load factor for classification of its existing hydraulic based generation.*" Page 17 (lines 15 – 20) of the CA Energy Consulting Report states "*Additionally, if the equivalent peaker approach, with its grounding*

in system planning, appeals conceptually to Hydro, the utility may wish to consider applying this approach to its entire fleet of Interconnected generation. The theoretical advantage is that each unit is judged for its demand and energy components under the same set of assumptions. The challenge is to compute the current value of each generation unit. (Indexes like the Handy-Whitman are available for this purpose.)" Is computing the current value of each generating unit using indexes like Handy-Whitman any more challenging than the computation that Hydro now carries out for specifically-assigned O&M costs? Please explain.

CA-NLH-005 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 11 (lines 17 to 22) it is stated "*Hydro proposes to continue to use system load factor for classification of Other Power Purchases (excluding Wind), the largest of which is Exploits generation. From an operational perspective, Hydro operates Exploits assets no differently than if Hydro owned the hydraulic production assets. Hydro has been informed by the Government that the long-term plan is to transfer ownership of the Exploits assets to Hydro. This classification would also apply to Hydro's purchases of Recapture Energy from CF(L)Co.*" Page 17 (lines 15 – 20) of the CA Energy Consulting Report states "*Additionally, if the equivalent peaker approach, with its grounding in system planning, appeals conceptually to Hydro, the utility may wish to consider applying this approach to its entire fleet of Interconnected generation. The theoretical advantage is that each unit is judged for its demand and energy components under the same set of assumptions. The challenge is to compute the current value of each generation unit. (Indexes like the Handy-Whitman are available for this purpose.)*" Please provide all supporting documentation that led Hydro to propose classification of other power purchases (excluding wind) on the basis of system load factor including a comparison of the impact on Island customer classes of using this classification to a classification based on the equivalent peaker approach. If it was decided that the equivalent peaker was the appropriate classification approach, would a 20%/80% demand/energy split be an appropriate approximation as Hydro proposes for Muskrat Falls?

CA-NLH-006 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 11 (lines 17 to 22) it is stated "*Hydro proposes to continue to use system load factor for classification of Other Power Purchases (excluding Wind), the largest of which is Exploits generation. From an*

operational perspective, Hydro operates Exploits assets no differently than if Hydro owned the hydraulic production assets. Hydro has been informed by the Government that the long-term plan is to transfer ownership of the Exploits assets to Hydro. This classification would also apply to Hydro's purchases of Recapture Energy from CF(L)Co." Page 17 (lines 15 – 20) of the CA Energy Consulting Report states "*Additionally, if the equivalent peaker approach, with its grounding in system planning, appeals conceptually to Hydro, the utility may wish to consider applying this approach to its entire fleet of Interconnected generation. The theoretical advantage is that each unit is judged for its demand and energy components under the same set of assumptions. The challenge is to compute the current value of each generation unit. (Indexes like the Handy-Whitman are available for this purpose.)*" Please provide all supporting documentation that led to Hydro's decision that it is appropriate to classify Recapture Energy from CF(L)Co on the basis of system load factor including a comparison of the impact on Island customer classes of using this classification to a classification based on the equivalent peaker approach and to a classification based on 100% energy.

CA-NLH-007 (2018 Cost of Service Methodology Review Report dated November 15, 2018) Please explain how Hydro's planners depend on Recapture Energy for meeting capacity demands on the Island Interconnected System.

CA-NLH-008 (2018 Cost of Service Methodology Review Report dated November 15, 2018) Please provide a modified Table 6 (page 21) assuming all of Hydro's hydro generation, and all other purchases (excluding wind, but including Recapture Energy) are classified on the basis of the equivalent peaker approach.

CA-NLH-009 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 26 (lines 10 – 13) of the CA Energy Consulting Report it is stated with respect to a marginal cost-based allocation that "*The approach presents the technical challenges of 1) marginal cost and class load development and 2) the possibly more variable cost shares than are found in embedded costing. U.S. jurisdictions demonstrate the feasibility of the approach.*" Would a methodology be needed to reconcile marginal costs to embedded costs to ensure the full recovery of the revenue requirement? Roughly, what is the difference between marginal cost-based rates and embedded cost-based rates; i.e., are marginal costs about 75% of embedded

costs? How might Hydro apply a marginal cost-based allocation approach to the combined generation and transmission components of Muskrat Falls?

CA-NLH-010 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 29 (lines 22 – 24) of the CA Energy Consulting Report it is stated with respect to a marginal cost-based allocation "*It appears that Hydro can undertake this approach, as the utility already possesses the costing capabilities to generate the requisite marginal cost scenarios.*" Is it true that Hydro has this capability and if so, did Hydro consider it, and what impact did it have on cost allocations?

CA-NLH-011 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 12 (lines 10 to 12) it is stated "*Hydro recommends that the cost of wind purchases be classified as 22% demand and 78% energy reflecting the "Effective Load Carrying Capability Study" conducted by Hydro's resource planning group regarding wind availability during peak periods*". Please file a copy of this report for the record.

CA-NLH-012 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 14 (lines 24 to 25) it is stated "*Hydro recommends that all functionalized transmission costs be classified as 100% demand related. This is consistent with the approach currently used in the cost of service study.*" In Hydro's October 19, 2017 letter to the Board referencing the Consumer Advocate's challenge of Hydro's proposed classification of transmission assets as 100% demand related, Hydro indicated that issues relating to the cost of service methodology are more efficiently addressed in the proposed 2018 hearing on the cost of service methodology (page 2). Please provide all studies and documentation relating to Hydro's assessment of whether a portion of transmission assets should be classified as energy that have been carried out in support of its application on the Cost of Service Methodology.

CA-NLH-013 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 14 (lines 24 to 25) it is stated "*Hydro recommends that all functionalized transmission costs be classified as 100% demand related. This is consistent with the approach currently used in the cost of service study.*" Please confirm that 100% of all transmission in the Province was constructed to supply increasing demand and that transmission provides no energy benefit to consumers.

CA-NLH-014 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 14 (lines 24 to 25) it is stated "*Hydro recommends that all functionalized transmission costs be classified as 100% demand related. This is consistent with the approach currently used in the cost of service study.*" Hydro states (2017 GRA Volume I, page 3.25, lines 15 to 18) "*The reduced production forecast for Hydro's Island Interconnected System gas turbines and diesels for 2017 through to the 2019 Test Year reflect the reliability benefit of the planned in service of a third transmission line from Bay d'Espoir to Western Avalon (TL267).*" Further, Hydro states that the new transmission line will reduce transmission system losses (2017 GRA Volume I, page 3.28, line 18), and will enable more efficient use of, and decreased spill from, hydro generation (IC-NLH-090). These statements suggest that transmission does provide energy benefits, which appears to be contrary to Hydro's proposal to classify 100% of transmission costs as capacity-related. Please explain.

CA-NLH-015 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 14 (lines 24 to 25) it is stated "*Hydro recommends that all functionalized transmission costs be classified as 100% demand related. This is consistent with the approach currently used in the cost of service study.*" Please provide the generation capacity/peak demand balance and generation/production energy /energy demand balance for the Avalon Peninsula for the 2019 test year in the 2017 GRA with all thermal and hydro generation on the Peninsula in service and operational for energy production. Please provide these tables showing each source of supply, and with and without the transmission connecting the Avalon Peninsula to the remainder of the Island system.

CA-NLH-016 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 14 (lines 24 to 25) it is stated "*Hydro recommends that all functionalized transmission costs be classified as 100% demand related. This is consistent with the approach currently used in the cost of service study.*" Please provide documentation showing that each transmission line connecting the Avalon Peninsula with the remainder of the Island system has been committed to meet growing demand.

CA-NLH-017 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 14 (lines 24 to 25) it is stated "*Hydro recommends that all functionalized transmission costs be classified as 100% demand related.*

This is consistent with the approach currently used in the cost of service study." Please confirm that Hydro has never constructed a transmission line at a voltage level or with a conductor size greater than that needed to supply increasing demand.

CA-NLH-018 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 34 (lines 11 to 15) of the CA Energy Consulting Report, it is stated "*Also, transmission can substitute for local generation, in selected cases. For example, the recent expansion of transmission capability in Southwest Connecticut and along California's Path 15 rather dramatically improved flow capability, thus reducing the costs of generation by significantly lowering congestion costs, specifically costs related to out-of-merit generation dispatch.*" In these cases, were the transmission assets classified as 100% demand related? In Hydro's opinion, should transmission assets in such cases be classified as 100% demand related?

CA-NLH-019 (2018 Cost of Service Methodology Review Report dated November 15, 2018) Table 3 (page 38) of the CA Energy Consulting Report shows classification and allocation methods used for transmission facilities in various Canadian jurisdictions. In Hydro's opinion does the table show that it is common to treat interconnections differently than customer connections and network facilities? Does Hydro believe that the LIL, LTA and Maritime link should likewise be treated differently than network facilities? Please explain.

CA-NLH-020 (2018 Cost of Service Methodology Review Report dated November 15, 2018) Information on transmission network classification is not provided in the CA Energy Consulting Report for the competitive markets in the United States and Canada. How is network transmission allocated to wholesale customers in competitive markets?

CA-NLH-021 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 40 (lines 19 - 21) of the CA Energy Consulting Report it is stated with respect to transmission assets "*Some expenditures might be clearly peak demand-related, while others could be viewed as reliability reinforcement, or replacement and thus assigned to energy for purposes of cost allocation.*" Are Hydro planners able to identify any such facilities on the Island system, for example, TL267?

CA-NLH-022 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 40 (lines 25 - 26) of the CA Energy Consulting Report it is stated with respect to transmission assets "*Another alternative is to conceive of general transport facilities as no more than an extension of generation.*" Is this in fact what is done in Nova Scotia? Did Hydro consider using a system load factor or equivalent peaker classification approach for transmission similar to what it proposes to use for Muskrat Falls, other hydro generation and other purchases on the Island system? If not why not? If so, why was it rejected?

CA-NLH-023 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 16 (lines 6 to 8) it is stated "*Until a reasonable alternative method is developed, Hydro recommends the use of indexed asset costs in operating and maintenance cost allocations in the determination of specifically assigned charges.*" Please provide detailed spreadsheets showing the calculation of specifically-assigned O&M charges using the proposed methodology and the methodology previously employed. Please provide in a level of detail that allows the Parties to reconstruct the calculation.

CA-NLH-024 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 16 (lines 6 to 8) it is stated "*Until a reasonable alternative method is developed, Hydro recommends the use of indexed asset costs in operating and maintenance cost allocations in the determination of specifically assigned charges.*" The CA Energy Consulting Report (page 65, lines 17 – 19) states that Hydro found that the outcome of its calculations confirm that "*the relatively newer transmission assets directly assigned to customers, when compared with other transmission assets, produced a reduced O&M cost allocation for the direct assignment customers.*" Please file a copy of these calculations. If Hydro has confirmed that newer transmission assets have lower O&M costs than other transmission assets, why isn't it proposing use of actual O&M costs for specifically-assigned assets?

CA-NLH-025 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 16 (lines 6 to 8) it is stated "*Until a reasonable alternative method is developed, Hydro recommends the use of indexed asset costs in operating and maintenance cost allocations in the determination of specifically assigned charges.*" The CA Energy Consulting Report (page

68, lines 17 – 19) states "*We also support Hydro's plan to adopt the process of separate accounting of actual O&M expenses for each customer, and to develop a history of cost tracking to guide subsequent policy. We note also that the charges for services would include a markup for A&G services.*" Please confirm that this is indeed Hydro's plan.

CA-NLH-026 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 18 (lines 16 to 17) it is stated "*net export revenues be classified in the same manner as the classification of the Muskrat Falls Project costs in the cost of service study*". Please elaborate further and provide a working example of how "*net export revenues*" will be classified in the same manner as the Muskrat Falls project.

CA-NLH-027 (2018 Cost of Service Methodology Review Report dated November 15, 2018) Table 4 on page 19 shows "*Power Purchases – LTA Costs*" and "*Power Purchases – LIL Costs*". Please provide further explanation of what these costs include and how they are calculated.

CA-NLH-028 (2018 Cost of Service Methodology Review Report dated November 15, 2018) Did Hydro consider the possibility of treating each Island Industrial Customer as a separate class in the cost of service study, or at the very least, treating CBPP as a separate customer class, in light of Hydro's statement on page 18 (lines 7 to 10) that it "*believes CBPP should have the opportunity to manage its generation as efficiently as possible and, to that end, proposes to work with CBPP in the rate design review planned for 2019 to develop a proposal to achieve this objective*"?

CA-NLH-029 (2018 Cost of Service Methodology Review Report dated November 15, 2018) Hydro states on page 18 (lines 7 to10) that it "*believes CBPP should have the opportunity to manage its generation as efficiently as possible and, to that end, proposes to work with CBPP in the rate design review planned for 2019 to develop a proposal to achieve this objective*"? What is the status of this proposal?

CA-NLH-030 (2018 Cost of Service Methodology Review Report dated November 15, 2018) On page 73, lines 28 – 29 and page 74, line 1 of the CA Energy Consulting Report, it is stated with respect to NP generation "*Second, consider a situation in which the Hydro demand discount is terminated and Hydro and NP enter into a power purchase agreement in which Hydro*

purchases all the usage of the plants." Did Hydro consider such an arrangement with NP? If not, why not? Is Hydro considering such an arrangement with CBPP? If not, why not?

CA-NLH-031 (Reference May 3, 2019 report by Brattle Group, Inc entitled *Embedded and Marginal Cost of Service Review*) On Table 1, page 5 (Systemization) the Brattle Group proposes that the Labrador Interconnected and Island Interconnected systems be combined into a single integrated system. Does Hydro agree or disagree with this proposed modification? Please provide justification for your response including legal ramifications and provide an indication of the impact of this proposal on average rates on the Labrador Interconnected and Island Interconnected systems.

CA-NLH-032 (Reference May 3, 2019 report by Brattle Group, Inc entitled *Embedded and Marginal Cost of Service Review*) On Table 1, page 5 (Functionalization) the Brattle Group proposes that LIL and LTA be functionalized as transmission. Does Hydro agree or disagree with this proposed modification? Please provide justification for your response and provide an indication of the impact of this proposal on average rates for Island customer classes.

CA-NLH-033 (Reference May 3, 2019 report by Brattle Group, Inc entitled *Embedded and Marginal Cost of Service Review*) On Table 1, page 5 (Functionalization) the Brattle Group proposes that TL-247 and TL-243 be functionalized as transmission. Does Hydro agree or disagree with this proposed modification? Please provide justification for your response and provide an indication of the impact of this proposal on average rates for Island customer classes.

CA-NLH-034 (Reference May 3, 2019 report by Brattle Group, Inc entitled *Embedded and Marginal Cost of Service Review*) On Table 1, page 5 (Functionalization) the Brattle Group proposes the conduct of "*a general review of Hydro's assets, which provide interconnection into the transmission system for possible refunctionalization as transmission*". Does Hydro agree or disagree with this proposal? Please provide justification for your response and provide an indication of the impact of refunctionalizing interconnecting transmission as transmission on average rates for Island customer classes.

CA-NLH-035 (Reference May 3, 2019 report by Brattle Group, Inc entitled *Embedded and Marginal Cost of Service Review*) On Table 1, page 5 (Functionalization) the Brattle Group proposes with respect to Holyrood Unit 3 synchronous condenser capital and O&M costs that current rate base and depreciation be functionalized as generation. Does Hydro agree or disagree with this proposed modification? Please provide justification for your response and provide an indication of the impact of this proposal on average rates for Island customer classes.

CA-NLH-036 (Reference May 3, 2019 report by Brattle Group, Inc entitled *Embedded and Marginal Cost of Service Review*) On Table 1, page 6 (Classification) the Brattle Group proposes that the Muskrat Falls PPA be classified using system load factor. Does Hydro agree or disagree with this proposed modification? Please provide justification for your response and provide an indication of the impact of this proposal on average rates for Island customer classes.

CA-NLH-037 (Reference May 3, 2019 report by Brattle Group, Inc entitled *Embedded and Marginal Cost of Service Review*) On Table 1, page 6 (Classification) the Brattle Group proposes that Holyrood Unit 3 operating and incremental capital costs be classified as energy, and original capital costs and depreciation be classified as demand. Does Hydro agree or disagree with this proposed modification? Please provide justification for your response and provide an indication of the impact of this proposal on average rates for Island customer classes.

CA-NLH-038 (Reference May 3, 2019 report by Brattle Group, Inc entitled *Embedded and Marginal Cost of Service Review*) On Table 1, page 6 (Classification) the Brattle Group proposes that LIS and IIS diesel and gas turbine units be classified as demand with variable fuel costs classified as energy. Does Hydro agree or disagree with this proposed modification? Please provide justification for your response and provide an indication of the impact of this proposal on average rates for Island customer classes.

CA-NLH-039 (Reference May 3, 2019 report by Brattle Group, Inc entitled *Embedded and Marginal Cost of Service Review*) On Table 1, page 6 (Classification) the Brattle Group proposes that LIL and LTA be classified as demand. Does Hydro agree or disagree with this proposed modification? Please provide

justification for your response and provide an indication of the impact of this proposal on average rates for Island customer classes.

CA-NLH-040 (Reference May 3, 2019 report by Brattle Group, Inc entitled Embedded and Marginal Cost of Service Review) On Table 1, page 7 (Other) the Brattle Group states "*Maybe classify a portion of CDM as demand for future GRAs*". Does Hydro agree or disagree with this proposed modification? Please provide justification for your response.

CA-NLH-041 (Reference May 3, 2019 report by Brattle Group, Inc entitled Embedded and Marginal Cost of Service Review) On Table 1, page 7 (Other) the Brattle Group states "*Specifically assigned O&M charges should be tracked separately for each customer, use of indexed costs as interim basis per settlement agreement*". Does Hydro agree or disagree with this proposed modification? Please provide justification for your response.

CA-NLH-042 (Reference May 3, 2019 report by Brattle Group, Inc entitled Embedded and Marginal Cost of Service Review) On Table 1, page 7 (Other) the Brattle Group states "*Hydro establish rider for net export revenues; classify and allocate revenues in same manner as Muskrat Falls; establish periodic schedule for true-up, with frequency no less than annually*". Does Hydro agree or disagree with this proposed modification? Please provide justification for your response.

CA-NLH-043 (Reference May 3, 2019 report by Brattle Group, Inc entitled Embedded and Marginal Cost of Service Review) On page 45 (lines 2 to 3) the Brattle Group states "*The underlying cost characteristics of the LIL are such that the main cost driver of the LIL is demand*". Does Hydro agree with this statement? Please explain.

CA-NLH-044 (Reference May 3, 2019 report by Brattle Group, Inc entitled Embedded and Marginal Cost of Service Review) On page 49 (line 6) it is stated "*Hydro forecasts a single winter peak in its planning process*". Is it accurate to suggest that Hydro considers only a single winter peak in its planning process? Does Hydro consider only a single winter peak when assessing the need for new generating capacity? Please elaborate.

CA-NLH-045 (Reference May 3, 2019 report by Brattle Group, Inc entitled Embedded and Marginal Cost of Service Review) In the appendix entitled *Marginal Cost of Service Study*, the Brattle Group makes a number of observations and opinions relating to Hydro's marginal cost study, particularly with respect to the marginal cost of generation capacity. Does Hydro have any plans to change its methodology to address these observations and opinions?

DATED at St. John's, Newfoundland and Labrador, this 10th day of June, 2019.

Per: _____

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