

IN THE MATTER OF the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 (the "*EPCA*") and the *Public Utilities Act*, RSNL 1990, Chapter P-47 (the "*Act*"), as amended, and regulations thereunder; 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.

Requests for Information

by the Labrador Interconnected Group

LAB-PUB-001 to LAB-PUB-008

June 10, 2019

Requests for Information Regarding

LAB-PUB-001 Re: Brattle Group, Embedded and Marginal Cost of Service Review, May 3, 2019, page 20 (24 pdf)

Citation:

Concerning all of Hydro's assets that provide interconnection into the transmission system, we recommend a general review of these assets for possible refunctionalization as transmission. As already noted, it appears that Hydro uses whether the asset can be associated with loop flow on the transmission network as its criterion for transmission functionalization. As the U.S. Federal Energy Regulatory Commission's open access transmission policy no longer deems that as the sole basis for determining if an asset should be treated as a component of the transmission system, and thus, have a transmission tariff, it seems appropriate to review Hydro's current functionalization of such assets.

- a) Please explain the current FERC policy for determining what assets should be treated as a components of the transmission system.
- b) Please provide references to FERC documents explaining that whether the asset can be associated with loop flow is no longer deemed the sole basis for determining if an asset should be treated as a component of the transmission system.

LAB-PUB-002 Re: Brattle Group, Embedded and Marginal Cost of Service Review, May 3, 2019, page 13 (17 pdf)

Citation:

In our opinion, given that the two systems have been interconnected via the LIL, viewing the LIS and the IIS as a single integrated system for COS purposes would be beneficial going forward and can be done while still adhering to the relevant policy constraints that exist. It is quite common in COS studies to reflect relevant policy constraints—such as exempting (mandating) that certain classes of customers avoid (pay) for specific assets or expenses as is currently the case with the Muskrat Falls project—without the need to have separate COS studies to accommodate such policy considerations. In the present case, Hydro can straightforwardly accommodate the aforementioned policy constraints within an integrated system for COS purposes. For example, the COS study can retain separate rate classes based upon geography and the costs of the Muskrat Falls project could be assigned 100% to customers who reside within the Island Interconnected system—an approach that is an option that CAEC raised (at 8). The benefits of a single

integrated system for COS purposes is that it will more readily accommodate the changing nature of the systems going forward in which future assets and expenses will more likely be shared among regions compared to the system before the LIL. While that will not happen immediately, over time, one would expect more of Hydro's assets to be used to provide services in both territories and it would be more straightforward to treat both areas as one independent area for COS purposes. (underlying added)

- a) On what basis does Brattle conclude that “future assets and expenses will more likely be shared among regions compared to the system before the LIL”?
- b) On what basis does Brattle conclude that “over time, one would expect more of Hydro’s assets to be used to provide services in both territories”?
- c) Please provide examples of the types of assets and expenses which Brattle anticipates would be shared between the Island and Labrador Interconnected Systems.
- d) The Brattle report states “the benefits of an integrated system for COS purposes is that it will more readily accommodate the changing nature of the systems going forward in which future assets and expenses will more likely be shared among regions compared to the system before the LIL”. Please explain:
 - a. whether there are other “benefits of an integrated system for COS purposes” other than the one identified above; and
 - b. what is meant by “the changing nature of the systems going forward”.

LAB-PUB-003 Re: Brattle Group, Embedded and Marginal Cost of Service Review, May 3, 2019, page 13 (17 pdf)

Citation:

Although a high voltage radial line interconnecting a generation station is usually termed a ‘generator lead,’ the Federal Energy Regulatory Commission has consistently required that high voltage circuits that connect solely to a single generator, or group of generators in the case of wind farms, are deemed required to have an Open Access Transmission Tariff (OATT). It appears that the Newfoundland-Labrador System Operator (NLSO) has anticipated this and has preliminarily included these lines in its OATT.

- a) Please specify what document Brattle is referring to as “its [Hydro’s] OATT”, and provide a link to or a copy of said document.
- b) In Brattle’s view, do the documents approved by the Board in P.U. 3(2018) constitute an OATT that meets the minimum standards for an OATT set out in FERC’s Order 890 or subsequent orders?

LAB-PUB-004 Re: Brattle Group, Embedded and Marginal Cost of Service Review, May 3, 2019, Table 6, page 34 (38 pdf)

Please indicate if the costs shown in Table 6 are in US or Canadian dollars. If US dollars, please present a copy of the table in Canadian dollars.

LAB-PUB-005 Re: Brattle Group, Embedded and Marginal Cost of Service Review, May 3, 2019, page 36-37 (40-41 pdf)

Fifth, a useful piece of evidence to consider when evaluating the classification split between demand and energy in a power purchase agreement is the agreement itself. Importantly, under the agreement the payments that Hydro makes to the Muskrat Fall[s] Corporation are not related to the amount of energy Hydro purchases. The Muskrat Falls power purchase agreement calls for a 50-year Base Block Capital Cost Recovery payment schedule. Each month Hydro pays the Muskrat Falls Corporation a pre-determined amount that recovers the original investment cost of the Muskrat Falls generation and LTA assets. The schedule of monthly payments reflects an internal rate of return approach to derive a payment schedule that escalates annually at a rate of 2% per year. There is an additional component that recovers the Operating and Maintenance (O&M) costs, as well as for sustaining capital for the assets over the 50-year supply period, which also does not vary in relation to the amount of energy that Hydro purchases. (underlining added)

Please elaborate on the significance Brattle sees in the fact that the payments that Hydro makes to the Muskrat Falls Corporation are not related to the amount of energy taken by Hydro. More specifically:

- a) Does Brattle conclude from this fact that, apart from the O&M component, the contract is essentially for capacity, with no additional cost for energy taken?
- b) What is Brattle's understanding concerning the ownership of the Muskrat Falls energy not taken by Hydro, and of the export revenues it generates? If Hydro takes possession of all the energy and exports the portion it does not use, should the contract be thought of as a "take or pay" contract for power and energy? Conversely, if MFC retains ownership of the energy not taken by Hydro, should the contract be thought of as a firm capacity contract in which energy is provided at no additional charge? Please elaborate.

LAB-PUB-006 Re: Brattle Group, Embedded and Marginal Cost of Service Review, May 3, 2019, page 46 (50 pdf)

Citation:

The following criteria are ones to consider when determining the appropriateness of a specific allocation methodology:

1. Reflect cost causation as much as possible; i.e., based upon the actual activity that drives a particular cost and on rate classes' share of that activity;
2. Reflect the actual planning and operating characteristics of the utility's system;
3. Recognize customer class characteristics such as electric load demands, peak period consumption, number of customers and directly assignable costs;
4. Produce fairly stable results on a year-to-year basis;
5. Customers who benefit from the use of the system should also bear some responsibility for the costs of utilizing the system.

a) Are these criteria derived from a particular text or authority? If so, please provide the source.

b) Please explain how these five criteria apply to the question of the appropriate allocations for the various elements of the Lower Churchill Project (Muskrat Falls, LTA, LIL).

LAB-PUB-007 Re: Brattle Group, Embedded and Marginal Cost of Service Review, May 3, 2019, page 61 (65 pdf)

Citation:

The Muskrat Falls PPA agreement between Muskrat Falls and Hydro provides Muskrat Falls with the opportunity to sell any excess energy and capacity into external markets including markets in Quebec and New York and, because of the LIL and the ML, markets in Nova Scotia, New Brunswick and New England. As stated in the PPA agreement, the ability to sell excess energy and capacity on a firm or non-firm basis will depend upon Hydro's demand for energy and capacity and at times, there may not be energy or capacity available to export. Because of government policy, Island Interconnected customers are required to pay for the facilities of Muskrat Falls. At the same time, all export sales associated with the Muskrat Falls PPA are to be credited to Island Interconnected customers, also resulting from government policy.

Note 59: See letter from the Premier to the Minister of Natural Resources dated December 14, 2015 where the government indicated that export sales will be used to mitigate potential increases in electricity rates (PUB-NLH-018).

Preamble:

The letter found in PUB-NLH-018, Attachment 1, apparently the mandate given to the Minister of Natural Resources by the Prime Minister in 2015, states: "You will direct Nalcor to sell surplus power generated from the

Muskrat Falls Project and use revenue to mitigate potential increases in electricity rates and ratepayers' bills.” (page 2)

- a) Is Brattle aware of any order-in-council or official government policy enacting the instruction found in the mandate letter?
- b) Absent such OIC or policy, is it Brattle's position that the Board has the power to oblige the Muskrat Falls Corporation to transfer all such export revenues available to Hydro?

LAB-PUB-008 Re: Brattle Group, Embedded and Marginal Cost of Service Review, May 3, 2019, page 62 (66 pdf)

As a result, an important step in a marginal COS study is to reconcile the resulting rates and revenue requirement with the embedded COS study. There are different ways to reconcile the differences between the authorized revenue requirement and the implicit revenue requirement that results from marginal cost calculation. For example, the approach used in California is to increase or decrease the marginal cost rate by the same proportion for each class to reconcile the revenue requirements.

Please provide links to or copies of documents detailing the approach used in California to increase or decrease the marginal cost rate by the same proportion for each class to reconcile the revenue requirements.