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August 14, 2019

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

Attention: Ms. Cheryl Blundon  
Director Corporate Services & Board Secretary

Dear Ms. Blundon:

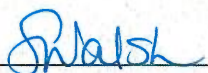
**Re: Cost of Service Methodology Review – Requests for Information – Expert Reports**

Enclosed please find the original plus eight copies of Newfoundland and Labrador Hydro's Requests for Information NLH-IC-001 to NLH-IC-008.

Should you have any questions, please contact the undersigned.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**

  
\_\_\_\_\_  
Shirley A. Walsh  
Senior Legal Counsel, Regulatory  
SAW/las

Encl.

cc: Gerard M. Hayes, Newfoundland Power  
Paul L. Coxworthy, Stewart McKelvey  
Dean A. Porter, Poole Althouse  
ecc: Gregory Moores, Stewart McKelvey

Dennis Browne, Q.C., Browne Fitzgerald Morgan & Avis  
Denis J. Fleming, Cox and Palmer  
Senwung Luk, Olthuis Kleer Townshend LLP



**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*);

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

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**Newfoundland and Labrador Hydro**  
**Requests for Information**  
**NLH-IC-001 to NLH-IC-008**

**August 14, 2019**

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1 **NLH-IC-001** **Reference: “Newfoundland and Labrador Hydro Cost of Service Methodology Review**  
2 **Application,” Pre-Filed Testimony of Andrew McLaren, August 5, 2019, p. 18/18-19.**

3  
4 The InterGroup Consultants Ltd. (“InterGroup”), in line with The Brattle Group’s  
5 (“Brattle”) recommendation, indicates the preference that Muskrat Falls power  
6 purchases be classified according to the system load factor, as opposed to Hydro’s  
7 recommendation that the equivalent peaker methodology be adopted. On page 18  
8 (lines 18-19), InterGroup states that, with respect to the classification of the Muskrat  
9 Falls facility, “. . . unusually high or low baseload investment may distort the energy  
10 portion of the classification.”

- 11
- 12 a) Please elaborate on what is meant by “distort” and explain how high or low  
13 baseload investment gives rise to distortion?
- 14
- 15 b) Does InterGroup agree that, in general, it is more common that large generation  
16 projects built to lower energy costs will experience significant cost overruns, as  
17 compared to peaker projects that take far less time to construct? If yes, does  
18 InterGroup agree that treating a material portion of cost over-runs as energy-  
19 related is consistent with cost-causality? If no, why not?

20

21 **NLH-IC-002** **Reference: “Newfoundland and Labrador Hydro Cost of Service Methodology Review**  
22 **Application,” Pre-Filed Testimony of Andrew McLaren, August 5, 2019.**

23

24 Does The InterGroup Consultants Ltd. agree that rate mitigation funds made available  
25 by the Provincial Government of Newfoundland and Labrador should be functionalized,  
26 classified, and allocated among all customer classes as a separate expense credit item  
27 within the Cost of Service Study and shared among customer classes on a consistent  
28 basis with the overall cost allocation approach to be approved by the Board of  
29 Commissioners of Public Utilities for the Muskrat Falls Project? If not, what method does  
30 Mr. McLaren propose for the treatment of available rate mitigation funds in the Cost of  
31 Service Methodology?

1 **NLH-IC-003**      **Reference: “Newfoundland and Labrador Hydro Cost of Service Methodology Review**  
2 **Application,” Pre-Filed Testimony of Andrew McLaren, August 5, 2019. p. 18 / 25-26.**

3  
4 The InterGroup Consultants Ltd. (“InterGroup”) supports the Brattle Group’s  
5 recommendation to functionalize the Labrador-Island Link (“LIL”) as transmission and,  
6 by extension, does not support Hydro’s recommendation that the LIL be classified  
7 according to the equivalent peaker methodology. On page 18 (lines 25-26), it is stated  
8 that the Brattle Group’s opinion with respect to the classification of the LIL facility is  
9 based on the view that “. . . the underlying cost characteristics of the LIL are such that  
10 the main cost driver is demand.” The InterGroup recommendation that follows is that “it  
11 may be appropriate to classify the LIL using the system load factor, the same method  
12 used for Hydro’s existing hydraulic generation assets and recommended [by the Brattle  
13 Group] for Muskrat Falls Generation.”

14  
15 a) Does InterGroup agree that if Hydro’s sole focus was to provide least-cost  
16 reliability (i.e., energy provision was not a consideration), equivalent to that of  
17 Muskrat Falls (824 MW of capacity), a reasonable expectation would be that  
18 such comparative capacity would be installed near the load centres?

19  
20 b) Does InterGroup agree that in order for the Muskrat facility to deliver energy  
21 (which will translate into long-term fuel cost savings for Hydro and its  
22 customers) it requires transport facilities, such as that of the LIL? Therefore,  
23 would InterGroup agree that it is reasonable to conclude that the underlying  
24 driver of the LIL is energy cost savings and that the LIL is predominantly energy-  
25 related?

26  
27 **NLH-IC-004**      **Reference: “Newfoundland and Labrador Hydro Cost of Service Methodology Review**  
28 **Application,” Pre-Filed Testimony of Andrew McLaren, August 5, 2019. p. 19/17-19.**

29  
30 It is stated with respect to classification methodology of the Muskrat Falls facility “. . . in  
31 InterGroup’s view, these vintage issues will also affect calculations in the future. It  
32 seems likely the Board of Commissioners of Public Utilities previously expressed

1 concerns will be an issue in subsequent COS studies if the equivalent peaker method is  
2 adopted.”

3  
4 Please explain how the vintage issues will affect calculations in the future if the  
5 proposed equivalent peaker cost allocation methodology is linked to costs that are  
6 more-or-less contemporary and thus observed?

7  
8 **NLH-IC-005 Reference: “Newfoundland and Labrador Hydro Cost of Service Methodology Review  
9 Application,” Pre-Filed Testimony of Andrew McLaren, August 5, 2019, p. 20/6-12.**

10  
11 It is stated with respect to classification of the Labrador Transmission Assets (“LTA”)  
12 facilities that:

13  
14 The Christensen Associates report states the LTA facilities are being put  
15 in place to enable least cost operation of the combined Churchill Falls  
16 and Muskrat Falls generation facilities and that they will improve  
17 network reliability while facilitating energy transfers outside the  
18 Province. The fact that the LTA improves network reliability suggests it  
19 has characteristics in common with network transmission assets, rather  
20 than simply being a generation lead. For those reasons, InterGroup  
21 recommends classifying the LTA 100% to demand, consistent with  
22 Hydro’s other transmission assets.  
23

24 a) From a cost causality perspective, would it be more appropriate to describe the  
25 purpose of the LTA as the means to facilitate least-cost operation of the combined  
26 Churchill Falls and Muskrat Falls?

27  
28 b) Does The InterGroup Consultants Ltd. agree that virtually all transmission facilities  
29 contribute to network reliability, regardless of whether they are explicitly built for  
30 the following:

31  
32 i. Facilitation of dispatch (e.g., integration of Churchill Falls and Muskrat  
33 Falls);

34 ii. Generation leads; or

- 1                                   iii.    Satisfaction of reliability requirements in view of North American  
2                                                           Electric Reliability Corporation reliability standards?

3                                   If so, please explain how improved reliability from the LTA is a reasonable basis for  
4                                   classification according to peak demand? Please elaborate as necessary.

- 5  
6                                   c)   Does Manitoba Hydro include its HVDC facilities within the pool of transmission  
7                                   assets used to determine transmission charges under Manitoba Hydro's conforming  
8                                   Open Access Transmission Tariff? How are similar assets treated by BC Hydro?

9  
10   **NLH-IC-006      Reference: "Newfoundland and Labrador Hydro Cost of Service Methodology Review**  
11                                   **Application," Pre-Filed Testimony of Andrew McLaren, August 5, 2019, p. 20/5.**

12  
13                                   It is stated with respect to classification of the Labrador Transmission Assets facilities as  
14                                   demand-related, "This is consistent with InterGroup's experience."

- 15  
16                                   a)   Does The InterGroup Consultants Ltd. agree that the Federal Energy Regulatory  
17                                   Commission provides broad discretion to the Canadian regulatory authorities with  
18                                   respect to the treatment of cost allocation, for purposes to setting conforming  
19                                   transmission tariff prices and Open Access Transmission Tariffs? If not, please  
20                                   provide evidence to support the basis for disagreement.

21  
22   **NLH-IC-007      Reference: "Newfoundland and Labrador Hydro Cost of Service Methodology Review**  
23                                   **Application," Pre-Filed Testimony of Andrew McLaren, August 5, 2019, p. 16/19 to p.**  
24                                   **17/2.**

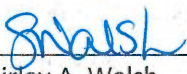
25  
26                                   The InterGroup Consultants Ltd. observations are in favour of functionalizing the  
27                                   Labrador-Island Link and Labrador Transmission Assets as transmission rather than  
28                                   generation, based on adverse impact to the Island Industrial Customer. Is the concept of  
29                                   adverse impact justifiable in Cost of Service Methodology?

1 **NLH-IC-008**      **Reference: "Newfoundland and Labrador Hydro Cost of Service Methodology Review**  
2 **Application," Pre-Filed Testimony of Andrew McLaren, August 5, 2019, p. 21/18-32.**

3  
4            The InterGroup Consultants Ltd. ("InterGroup") report indicates that the relationship of  
5 Corner Brook Pulp and Paper generation to the grid will change, but does not address  
6 Newfoundland and Labrador Hydro's ("Hydro") assertion that the value of the benefits  
7 to the system following start-up of Muskrat Falls will decline.

- 8  
9            a) Does InterGroup agree with Hydro's assessment in its "Cost of Service Methodology  
10            Review Application," page 18, lines 4-10 (page 29 of 144)?
- 11  
12            b) Does InterGroup recommend the continuation of the current agreement between  
13 Hydro and Corner Brook Pulp and Paper if the value of the benefit declines or  
14 should the agreement be terminated once a new agreement with efficient price  
15 incentives is implemented?

**DATED** at St. John's, in the Province of Newfoundland and Labrador this 14 day of August, 2019.

  
\_\_\_\_\_  
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