

1 Q. **Reference: 2018 Cost of Service Methodology Review Report, page 7, lines 21-24**

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3 Hydro proposes to maintain separate cost of service studies for the Labrador
4 Interconnected and Island Interconnected systems. The Brattle Group in its report on page
5 13, line 17 to page 14, line 6 recommends that there be a single integrated system for cost
6 of service purposes in future general rate application proceedings. Explain in detail whether
7 or not (i) Hydro and (ii) CA Energy agree with Brattle’s recommendation in this regard.

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10 A. **Background**

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12 The Cost of Service study preparation includes: (1) the identification and segregation of
13 costs directly attributable to any particular class; (2) the arrangement of the remaining
14 costs so that they can be allocated to the various groups of customers which are jointly
15 responsible for the incurrence; and (3) the allocation of such costs in accordance with
16 physically measurable attributes of the services provided to customer classes.¹ The
17 breakdown of costs by system is consistent with the first of the above steps in preparing a
18 cost of service study.

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20 Historically, Newfoundland and Labrador Hydro (“Hydro”) has prepared a separate cost of
21 service study for the Labrador Interconnected System. This approach was consistent with
22 the Board of Commissioners of Public Utilities’ (“Board”) Proposed Cost of Service
23 Methodology, February 1993² (“1993 Cost of Service Report”) in which the Board stated it
24 “. . . considers that all customers served within the Labrador Interconnected System share
25 common costs of generation, transmission and a variety of overheads. It therefore
26 concludes that a single cost of service study is appropriate for that system.”³

¹ “NARUC Cost Allocation Manual;” 1973 ed.

² “A Referral By Newfoundland and Labrador Hydro for The Proposed Cost of Service Methodology and a Proposed Method for Adjusting its Rate Stabilization Plan to Take Into Account the Variation in Hydro’s Rural Revenues Resulting from Variations in the Rates Set by the Board to be Charged by Newfoundland Light & Power Co. Limited to its Customers,” Board of Commissioners of Public Utilities, February 1993.

³ Ibid, p. 10.

1 **(i) Newfoundland and Labrador Hydro’s response**

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3 In its report “Embedded and Marginal Cost of Service Review”, The Brattle Group,
4 Inc. (“Brattle”) recommends “. . . that there be a single integrated system for cost
5 of service purposes in future general rate application proceedings.”⁴ From Hydro’s
6 perspective, the Board’s 1993 Cost of Service Report provides guidance in
7 determining if the change to the use of a single integrated system is an appropriate
8 approach. Recommendation 1 from the 1993 Report requires “. . . that the
9 methodological objective be to allocate [embedded] costs to rate classes in a fair
10 and equitable manner based on causal responsibility for cost incurrence.”⁵ Hydro
11 believes the Board’s recommended approach from the 1993 Cost of Service Report
12 continues to be the appropriate approach in making cost of service methodological
13 decisions.

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15 Section 2 of the “Cost-of-Service Methodology Review Revised Version”⁶ prepared
16 by Christensen Associates Energy Consulting (“CA Energy”) provided a review of the
17 systemization issue. CA Energy’s recommendation is consistent with Hydro’s
18 recommendation to continue to maintain separate cost of service studies for the
19 Labrador Interconnected and Island Interconnected systems.

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21 From Hydro’s perspective, the Muskrat Falls Project was undertaken to meet the
22 electricity requirements of customers on the Island Interconnected System. This
23 position is consistent with OC2013-343 which requires that any expenditures,
24 payments, or compensation paid directly or indirectly by Hydro under an
25 agreement or arrangement to which the Muskrat Falls Exemption Order applies
26 shall be included as costs in Hydro’s cost of service, without disallowance, to be
27 recovered through Island Interconnected System customer rates.

⁴“Embedded and Marginal Cost of Service Review,” The Brattle Group, Inc. p. 8, lines 3-4.

⁵“A Referral By Newfoundland and Labrador Hydro for The Proposed Cost of Service Methodology and a Proposed Method for Adjusting its Rate Stabilization Plan to Take Into Account the Variation in Hydro’s Rural Revenues Resulting from Variations in the Rates Set by the Board to be Charged by Newfoundland Light & Power Co. Limited to its Customers,” Board of Commissioners of Public Utilities, February 1993, p.8.

⁶“Cost-of-Service Methodology Review Revised Version,” Christensen Associates Energy Consulting, p.6-9.

1 Brattle has not provided details with respect to the methodology they are
2 proposing (i.e., whether the costs of all other generation and transmission assets,
3 with the exception of the Muskrat Falls Project, are proposed to be combined and
4 allocated between the two systems). Depending on the approach selected, Hydro
5 believes the use of a single integrated system for cost of service purposes could
6 materially increase the costs allocated to customers on the Labrador
7 Interconnected System.

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9 Hydro does not believe the potential outcome of this approach would be consistent
10 with cost allocation from a cost causality perspective. Such an increase in costs
11 would indirectly be a result of incorporating the costs of the Muskrat Falls Project
12 into the cost allocation process. Hydro does not believe the end result of such an
13 approach would reflect the Board’s direction “. . . that the methodological objective
14 be to allocate [embedded] costs to rate classes in a fair and equitable manner
15 based on causal responsibility for cost incurrence.” Therefore, Hydro disagrees with
16 Brattle’s recommendation and instead supports the continuation of maintaining a
17 separate cost of service studies for the Island Interconnected System and the
18 Labrador Interconnected system.

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20 **(ii) Christensen Associates Energy Consulting response**

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22 CA Energy Consulting does not agree with Brattle’s recommendation that Hydro
23 immediately amalgamate its two interconnected service regions for cost-of-service
24 purposes. As stated in our report, neither theory nor industry practice indicates
25 that such an approach is superior to the maintenance of separate regional cost-of-
26 service studies and cost allocation. Additionally, the Brattle report,⁷ appears to
27 consider a trend in increasing cost sharing to be likely, but the legislative mandate
28 of charging the Island’s customers for the full cost of the Muskrat Falls project does
29 not support this assumption.

⁷“Embedded and Marginal Cost of Service Review”, The Brattle Group, Inc. p.13, lines 3-4.