

1 Q. **Reference: 2018 Cost of Service Methodology Review Report, page 12, Table 2**

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3 Hydro proposes that it continue classifying Island Interconnected and Labrador
4 Interconnected diesel and gas turbine units and variable fuel costs as demand. The Brattle
5 Group in its report at page 44, lines 2-9 recommend that variable fuel costs be classified as
6 energy. Explain in detail whether (i) Hydro and (ii) CA Energy agree with this
7 recommendation.

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10 A. **(i) Newfoundland and Labrador Hydro's Response**

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12 Newfoundland and Labrador Hydro does not agree with the recommendation of The
13 Brattle Group, Inc. to classify diesel and gas turbine fuel costs on the Island and Labrador
14 Interconnected Systems as energy-related. In the Board of Commissioners of Public
15 Utilities' (the "Board") Proposed Cost of Service Methodology, February 1993,¹ ("1993 Cost
16 of Service Report"), the Board determined that the treatment of these fuel costs as
17 demand-related costs would more adequately reflect cost causation.² Hydro agrees with
18 the Board's reasoning as the requirement to operate these units is not normally driven by
19 the requirement to supply energy. Typically, gas turbines and diesel units are operated on
20 the Island Interconnected System for system reliability considerations (i.e., to maintain
21 operating reserves and to support system operating limits) consistent with the classification
22 as demand-related operation.

¹ "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.

² Ibid. p. 56, Recommendation 12.

1 **(ii) Christensen Associates Energy Consulting's Response:**

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The Board's conclusions in 1993 link diesel and gas turbines and their fuels as peaking costs and classifies all these costs as demand-related, and reflective of cost causation. Classifying fuel costs as demand-related is not a common approach by industry standards, and Brattle's recommendation to convert fuel costs to energy-related seems sensible if Hydro's actual operation of these generators is not taken into account. In practice, since these generators do not perform a conventional load following role but instead are tied to transmission system reliability, continuation of the use of demand causation for fuel appears justifiable, especially in light of past Board rulings.