

IC-LAB-001: Reference: Presentation PDF page 13 notes that fuel costs are not viewed as an appropriate proxy for reliability benefits.

Is it Mr. Raphals contention that existing Labrador customers should pay (through unfunded additions to rate base) for reliability benefits based on some high-value measure (such as VOLL) that would decrease the financial contribution required from the proponent of new load expansions as compared to Hydro's approach? Please discuss the reasoning for the answer.

Response:

Mr. Raphals agrees with the Brattle Group's observation that Hydro's proposal would create a risk that Labrador consumers would have to make payments for reliability benefits that are not commensurate with customer value.

Power systems are planned to an acceptable level of performance, including the weighing of customer benefits due to decreased outages against the capital costs required to achieve them. A transmission plan thus includes the cost level required to increase reliability to be commensurate with its benefit. Increasing reliability beyond this level will result in a cost level not necessarily comparable with its benefits. (Brattle Report, page 31)

Since the transmission expansion plan already reflects a balance between customer rates and reliability, it is not appropriate to ask Labrador customers to pay for improvements in reliability above and beyond the level already judged optimal.

Should the Board nevertheless choose to adopt a network addition policy including reliability benefits such as those proposed by Hydro, Mr. Raphals has emphasized the inappropriateness of basing them on the cost of backup fuel that is not actually used by customers.