

1 **Q: Reference: “Review of Existing and Proposed Network Additions Policies for**
2 **Newfoundland and Labrador Hydro,” The Brattle Group, November 19, 2019,**
3 **Executive Summary, Summary of Recommendations and Comparisons, p. 6.**
4

5 **For customers that select Option A (accepting financial**
6 **responsibility for network upgrades), we recommend a policy of**
7 **holding existing customers fully harmless from the effects of the**
8 **new load on Hydro’s costs.**
9

10 **a) In the experience of Brattle in reviewing policies from other jurisdictions,**
11 **is it common for regulators to adopt “... a policy of holding existing**
12 **customers fully harmless from the effects of the new load”? If so, is such**
13 **policy made explicit?**
14

15 **b) The current purchase cost to supply generation to Hydro’s rural customers**
16 **on the Labrador Interconnected System is 0.2 cents per kWh for up to**
17 **approximately 300 MW of generation capacity and approximately 2.4**
18 **cents per kWh for 239 MW of generation capacity available to Labrador**
19 **industrial customers. The average embedded cost for transmission demand**
20 **for the 2019 Test Year is \$1.08 per kW per month. The major contributing**
21 **factor to the lower embedded cost of transmission in Labrador is past**
22 **funding; the original transmission line from Churchill Falls to Labrador**
23 **West was funded by Labrador’s mining companies. Given that customer**
24 **rates on the Labrador Interconnected System are among the lowest in**
25 **North America and there is limited transmission capacity and generation**
26 **capacity currently available to serve load growth (i.e., embedded costs**
27 **being materially less than marginal costs), why is it a desirable policy to**
28 **hold existing customers fully harmless from the effects of the new load on**
29 **Hydro’s costs?**
30

31 **A. a) In this context, the Brattle Report used the term “holding existing customer fully**
32 **harmless” to indicate that existing customers would not pay for network**
33 **upgrades prompted by new customers with service requests exceeding a certain**
34 **size threshold. Five of six Canadian jurisdictions reviewed (B.C. Hydro, Hydro**
35 **Quebec, New Brunswick Power, SaskPower, and Ontario Energy Board for**
36 **“connection facilities” but not “network facilities”) use this general approach.**
37

38 **b) The answer to the questions is best contained within the reasons we provided in**
39 **the report for following cost causation principles and its corollary. As stated on**
40 **page 33 of the Brattle Report: “A corollary of the cost causation principle, and**

1 one that we believe is good regulatory policy, is protecting existing customers
2 from costs that they did not cause and which are caused by new customers. This
3 is sometimes known as a “hold harmless” policy and is the basis of the FERC
4 generation interconnection policy discussed previously. Two other regulatory
5 principles and general regulatory practices that play a role in guiding our overall
6 analysis and recommendation on this topic are the practice—and in most cases
7 requirement—that whatever policy is implemented should not be unduly
8 discriminatory and should not result in significant and dramatic changes in
9 customer rates, i.e., rate stability and prevention of “rate shock.””