

1 Q. **Reference: Labrador Interconnected System Network Additions Policy, Summary Report,**  
2 **Page 3, Lines 13-25.**

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4 Please explain in detail how the requirement to fund sustaining capital will be applied to  
5 the customer. For example, would the customer be required to compensate Hydro in  
6 advance of the necessary capital expenditures being incurred? In the response, please  
7 address the example of the failure of a specifically assigned transformer, and the financial  
8 impact that funding its replacement may have on the customer to whom the transformer is  
9 assigned.

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12 A. The proposed “Network Additions Policy – Labrador Interconnected System” reflects the  
13 requirement of the customer to fund sustaining capital for specifically assigned assets.  
14 Newfoundland and Labrador Hydro (“Hydro”) would work with the customer to enter into a  
15 contract to define project scope, project cost and payment terms. Payment would normally  
16 require an upfront contribution from the customer and full payment upon projection  
17 completion.

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19 In the case of a failure of a specifically assigned transformer, the customer would be  
20 required to fully fund the cost of the replacement transformer. This contribution would be  
21 deducted from Hydro’s rate base. The contribution would remove the requirement for  
22 Hydro to recover return and depreciation from the customer on the new specifically  
23 assigned transformer.

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25 Requiring the customer to fund sustaining capital on specifically assigned assets would  
26 impact the customer through an increase in capital financing costs and an avoidance of  
27 additional specifically assigned charges recovered through the rate paid to Hydro.