

1 **Q. Re: IN-NLH-051 and IN-NLH-054**

2 "There has been an increase in domestic and general service load as a result of
3 increased economic activity, due to the ramp up of mining activity in the area.
4 This increase in domestic and general service load has resulted in a requirement
5 to upgrade the distribution system." (IN-NLH-051)

6 "There will be no improvements in reliability or other characteristics of electric
7 service that the improvements in the Labrador West distribution system will
8 provide to consumers in Labrador East or the Labrador Isolated systems. The
9 improvements in Labrador West target the distribution systems in that area
10 only." (IN-NLH-054)

11 Given that the distribution system upgrades in Labrador West are due to a ramp-up
12 of mining activity in the area and that these improvements will provide no
13 improvements in reliability or other characteristics of electric service in Sheshatshiu
14 or elsewhere in Labrador East, please explain why in Hydro's view it is just and
15 reasonable that rates in Sheshatshiu or elsewhere in Labrador East reflect the costs
16 of the Labrador West distribution system upgrades?

17 Is there any precedent at the NLPUB for assigning costs of a distribution upgrade to
18 the specific customers that benefit from it? Please provide references.

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21 **A.** In its 1993 Cost of Service Methodology Report, filed in response to PUB-NLH-113,
22 the Board recommended (Recommendation 2) that there would be one cost of
23 service study for the Labrador Interconnected System. Further, in 2003, in response
24 to a complaint that the proposed rates for Labrador West were discriminatory, the
25 Board heard the matter of how rates were to be determined for the Labrador
26 Interconnected System. The Towns of Labrador City and Wabush argued that
27 Labrador West and Labrador East should be considered separately for rate setting

1 purposes because of the significant cost differences between the two systems and
2 also because of the historical factors contributing to the development of the
3 Labrador West system. In its Order No. P.U. 14(2004), the Board stated:

4 *While it may be argued that the historical development or the costs of a*
5 *system are factors to be considered in the determination of substantially*
6 *similar circumstances and conditions, the Board notes that the same could be*
7 *said in respect of a determination for any of the customers of NLH. Each*
8 *customer or group of customers of NLH could argue that they cause less*
9 *costs than another customer or group of customers or that the history of the*
10 *system providing the service is different. The basic goal of cost of service is to*
11 *determine the relative cost differences between customer classes. The Board*
12 *is satisfied that the customers on the Labrador Interconnected System are*
13 *provided service of the same description under substantially similar*
14 *circumstances and conditions. The Board concludes a single COS study for*
15 *customers on the Labrador Interconnected System is appropriate as the basis*
16 *for determining the rates for all customers on that system.*

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18 Hydro is not aware of any precedent in this provincial jurisdiction for assigning costs
19 of a distribution upgrade, such as has occurred in Labrador West, to the specific
20 customers that benefit from it. Individual customers requesting the utility to
21 extend electricity service where none exists or customers in seasonal cottage areas
22 may be required to pay a portion of the construction costs. This policy is detailed in
23 Hydro's "Contribution In Aid of Construction Policy"¹ which is approved by the
24 Board.

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[http://www.nlh.nl.ca/hydroweb/nlhydroweb.nsf/0/F2DD6761AFDE2176A3257507004DC316/\\$File/CIACPolic
yforHydroWebsite2013.pdf](http://www.nlh.nl.ca/hydroweb/nlhydroweb.nsf/0/F2DD6761AFDE2176A3257507004DC316/$File/CIACPolic
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