

1 Q. **Re: Responses to NP-NLH-101 and 102.**

2 In light of the impact on the rural deficit due to increasing consumption in the
3 L'Anse au Loup and Isolated Labrador systems, has NL Hydro communicated to
4 government that the NSP electricity rebate is working to increase the rural deficit?
5 If so, what guidance or response, if any, has NL Hydro received?

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8 A. Prior to the introduction of the NSP in 2007, Hydro had earlier experienced
9 increasing consumption on the L'Anse au Loup System resulting from the
10 introduction of Island Interconnected rates in this area in 1996. This is outlined on
11 page 1.13 of Hydro's evidence as follows:

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13 *L'Anse au Loup has experienced strong electricity sales growth following*
14 *the introduction of lower electricity rates as a result of the interconnection*
15 *of the L'Anse au Loup system to Hydro Québec's Lac Robertson system.*
16 *Over one-third of the homes on the L'Anse au Loup system now have*
17 *electricity as the main heating source whereas prior to the rate change very*
18 *few homes were heated by electricity. Given the cost to consumers of*
19 *heating fuel compared to electricity costs, further conversion to electric*
20 *heat is anticipated and additional capital expenditure will likely be required.*

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22 During the 1996 hearing into electrical rates in the Labrador Straits area, Hydro
23 maintained the position that isolated system rates should continue to be charged,
24 even in light of the interconnection to Hydro Québec's Lac Robertson hydro-electric
25 project. On page 32 of the Board's Report it is noted as follows:

1 *Hydro argues that in addition to the examination of cost recovery*
2 *ratios it is important to consider the actual cost differences between*
3 *the two systems. In support of its argument to maintain isolated*
4 *system rates, with the exception of the proposed rate reduction for*
5 *general service customers in Rate Class 2.5, Hydro cites the higher*
6 *relative unit cost of energy on the L'Anse au Loup system, compared*
7 *with the Island interconnected system (19.8 cents/kWh versus 14.1*
8 *cents/kWh).*

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10 During the 1996 hearing the Consumer Representative put forward the position
11 that Island Interconnected System rates should be charged. On page 32 of the
12 Board's Report it is stated as follows:

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14 *On behalf of consumers of electrical power in the area, Mr. Hearn*
15 *takes the position that Island interconnected rates should be*
16 *charged after the intertie with Quebec has been completed. He*
17 *states that the L'Anse au Loup system will be unlike all isolated*
18 *systems in the Province in that the source of energy in the*
19 *foreseeable future will be, principally, if not entirely, supplied from*
20 *hydro electric rather than diesel generation.*

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22 In its Report to the Lieutenant-Governor in Council on July 12, 1996 the Board
23 outlined the estimated impact of various scenarios on the rural deficit and
24 recommended that Island Interconnected rates be applied in the Labrador
25 Straits area. Government accepted the recommendations of the Board's
26 Report.

1 Regarding the Northern Strategic Plan, a key consideration in any rates
2 analysis would be the impact on consumption and other costs. Hydro has
3 received no further guidance or response from Government regarding the
4 NSP other than that provided in OC2007-307¹ and that shown in response to
5 IN-NLH-137.

¹ Refer to CA-NLH-024, Attachment 3.