

1 **NLH-IN-001**

2 Q. Page 61, Lines 13 to 17: Given that in Order No. P.U. 7(2002-2003), the  
3 Board found that the Labrador Interconnected System should be treated as one  
4 system for the purpose of setting rates and in Order No. P.U. 14(2004), the  
5 Board found that Hydro's proposals for uniform rates were not unjustly  
6 discriminatory, please explain why the Board should approve a rate rider to  
7 apply to customers in Labrador West that is not consistent with the Board's  
8 previous decisions on uniform rates on the Labrador Interconnected System.  
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11 A. The view of Mr Philip Raphals is as follows:  
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13 "In its prior decisions, the Board exercised its judgment with respect to the facts that were  
14 before it, and chose not to establish geographically distinct rates in Labrador. That does  
15 not constrain its exercise of judgment with respect to a different factual context, as in the  
16 present proceeding.  
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18 It is my understanding, based on my reading of the Board's past decisions, that the  
19 Board's past decisions turned primarily on whether or not the LIS should be treated as a  
20 single system. Thus, in P.U. 14 (2004), the Board quoted its 1993 decision as follows:  
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22 The Board is not aware of any instance where more than one embedded cost of  
23 service study has been deemed necessary for a single interconnected system and  
24 moreover considers that all customers served within the Labrador Interconnected  
25 System share common costs of generation, transmission and a variety of  
26 overheads. It therefore concludes that a single cost of service study is appropriate  
27 for that system.<sup>1</sup>  
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29 The Board concluded this section of P.U. 14 with the statement:  
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31 In Order No. P.U. 7 (2002-2003) the Board found that the Labrador  
32 Interconnected System should be treated as one system for the purposes of setting  
33 rates. (p. 104)  
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35 My suggestion to apply a rate rider to assign the costs of the Labrador City Distribution  
36 Upgrade in no way contradicts these conclusions.  
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38 Later in the same decision (p. 112), the Board wrote:  
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40 The Board agrees with the opinion of Mr. Greneman however that the fact that  
41 there are cost differences does not in and of itself justify separation of the system  
42 for rate setting purposes. A sub-dividing of any other geographic area or region on  
43 the Island Interconnected System for example would in all likelihood result in

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<sup>1</sup> NLPUB, 1993 report, page 10, quoted in P.U. 14 (2004), page 104.

1 cost differences between the two. However the Board would have to be satisfied  
2 that there is a valid reason to identify and segregate the different costs for the  
3 provision of service before proceeding to develop separate rates for the different  
4 areas. (emphasis added)  
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6 The Board exercised its judgment, finding no valid reason to justify developing different  
7 rates for the different areas. Having done so, it then rejected the complaint of the Towns  
8 of Labrador City and Wabash, finding that the NLH proposals for uniform rates were not  
9 unjustly discriminatory.  
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11 In my report (p. 35), I quoted Mr. Baker's comments emphasizing the critical role of  
12 judgment in resolving the "inherent conflict between Bonbright's desirable attributes of  
13 equity on the one hand and simplicity and understandability on the other." He further  
14 observed that "Judgment can be expected to vary from case to case."

15 I recommended that, given the magnitude of the costs of the Lab City Distribution  
16 Upgrade given that the benefits of the project are unambiguously limited to Labrador  
17 West and given that socio-economic conditions in that region are substantially superior to  
18 those in Labrador East — and especially to those in Sheshatshiu —, which will derive no  
19 benefit from the project, the Board consider assigning those costs to Labrador West.

20 The fact that the Board first concluded that a single cost-of-service study was appropriate  
21 for Labrador and then rejected the complaint of the Towns, finding that the rates flowing  
22 from its earlier decision were not unjustly discriminatory, does not prevent it from  
23 exercising its judgment in this instance."