

- 1     Q.     Further to the responses to PUB-NLH-05 and PUB-NLH-092 which describe non-  
2           regulated services performed by Hydro for Nalcor, provide a revised Exhibit 7 Non-  
3           Regulated Operations to reflect these non-regulated operations and any other  
4           additions, deletions or changes to such services so that Exhibit 7 accurately reflects  
5           current non-regulated operations of Hydro.  
6  
7  
8     A.     Please refer to PUB-NLH-300 Attachment 1.

***Non-Regulated Operations***

December 2013



## **Table of Contents**

PURPOSE OF DOCUMENT .....	1
DEFINITION.....	1
LIST OF NON-REGULATED ACTIVITIES.....	1
1. SUBSIDIARY COMPANIES.....	2
a) Churchill Falls .....	2
b) LCDC .....	2
2. SUPPLY OF POWER TO THE IRON ORE COMPANY OF CANADA .....	2
3. EXPORT SALES.....	3
4. NATUASHISH.....	3
5. STAR LAKE .....	4
6. EXPLOITS .....	4
7. RAMEA PROJECT .....	4
8. CONSERVATION DEMAND MANAGEMENT .....	4
9. COST RECOVERY BUSINESS UNITS.....	5
10. OTHER SPECIFIC NON-REGULATED COSTS .....	5
11. DIVIDENDS .....	6

### **APPENDIX A:**

Service Agreement between Churchill Falls (Labrador) Corporation Limited and Newfoundland and Labrador Hydro

**PURPOSE OF DOCUMENT**

The purpose of this document is to outline the non-regulated operations within Newfoundland and Labrador Hydro (Hydro). Activities conducted by Hydro staff on behalf of other Nalcor lines of business are non-regulated and are recorded in a business unit designated as a cost recovery business unit as outlined in Section 8 below.

**DEFINITION**

Non-regulated costs are defined as all costs associated with any asset which is not used and useful in the generation, transmission and distribution of electrical power and energy by Hydro within the Province of Newfoundland and Labrador (Province); activities exempted by specific legislation; and costs specifically identified by the Board of Commissioners of Public Utilities as being non-recoverable from rate payers.

**LIST OF NON-REGULATED ACTIVITIES**

To date, the following activities/costs have been determined to be non-regulated:

1. All activities associated with the following subsidiary companies:
  - a) Churchill Falls (Labrador) Corporation Limited (Churchill Falls) (CF(L)Co);
  - b) Lower Churchill Development Corporation Limited (LCDC);
2. Supply of power to the Iron Ore Company of Canada (IOC);
3. Export Sales;
4. Natuashish;
5. Star Lake;
6. Exploits;
7. Ramea Wind-Hydrogen project;

8. Conservation and Demand Management – Labrador;

9. Cost Recovery Business Units;

10. Other Specific Non-Regulated Costs; and

11. Dividends.

## **1. SUBSIDIARY COMPANIES**

### **a) Churchill Falls**

The services provided to Churchill Falls by Hydro are provided in accordance with the CF(L)Co – NLH Services Agreement dated January 1, 2010. The Agreement provides for the provision of services by Hydro to Churchill Falls and outlines the manner in which those services will be charged and paid by Churchill Falls. The agreement is outlined in Appendix A. Any employee providing services to this entity will charge their time in accordance with Nalcor's Intercompany Transaction Costing Guidelines as outlined in Exhibit 8.

### **b) LCDC**

Although this corporation is primarily inactive<sup>1</sup>, minimal costs such as external audit fees are being incurred and Business Unit (BU) 1953 is used to capture these costs. Any employee providing services to this entity will charge their time in accordance with Nalcor's Intercompany Transaction Costing Guidelines as outlined in Exhibit 8.

## **2. SUPPLY OF POWER TO THE IRON ORE COMPANY OF CANADA (IOC)**

Power and energy sales to IOC are a non-regulated activity. IOC is a customer on the Labrador Interconnected System and consequently, the costs associated with this customer is derived from the Cost of Service model. Rates charged to this customer are based on a negotiated contract and are not regulated. Any employee providing services to this activity will charge their time in accordance with Nalcor's Intercompany Transaction Costing Guidelines as outlined in Exhibit 8.

---

<sup>1</sup> This company is not participating in Nalcor's ongoing Lower Churchill project.

1 All revenues and expenses associated with this activity are captured in BU 1952 and are  
2 excluded from the determination of regulated net income. Any employee providing services to  
3 this activity will charge their time in accordance with Nalcor's Intercompany Transaction  
4 Costing Guidelines as outlined in Exhibit 8.

5 **3. EXPORT SALES**

6 Hydro meets the power and energy requirements for the Labrador Interconnected System  
7 primarily through an agreement with Churchill Falls. Under that agreement, Hydro purchases  
8 recall power and energy up to a maximum of 300 MW and 2,362 GWh annually. Power and  
9 energy surplus to meeting the needs of the Labrador Interconnected System is sold by Hydro to  
10 external markets.

11 All revenues and expenses associated with this activity are captured in BU 1950 and are  
12 excluded from the determination of regulated income. Any employee providing services to this  
13 activity will charge their time in accordance with Nalcor's Intercompany Transaction Costing  
14 Guidelines as outlined in Exhibit 8.

15 **4. NATUASHISH**

16 Hydro has been operating and maintaining the plant in the community of Natuashish on behalf  
17 of the Federal Government on a cost recovery basis. All costs are charged at bill rates plus  
18 overheads to ensure full cost recovery.

19 All revenues and expenses associated with this activity are captured in BU 1405 and are  
20 excluded from the determination of regulated income. Any employee providing services to this  
21 activity will charge their time in accordance with Nalcor's Intercompany Transaction Costing  
22 Guidelines as outlined in Exhibit 8.

**5. STAR LAKE**

Hydro is operating the Star Lake plant on behalf of Nalcor who is acting as an agent for the Province.

All revenues and expenses associated with this activity are captured in BU 1970 and are excluded from the determination of regulated income. Any employee providing services to this activity will charge their time in accordance with Nalcor's Intercompany Transaction Costing Guidelines as outlined in Exhibit 8.

**6. EXPLOITS**

Hydro is operating the Exploits generating facilities on behalf of Nalcor who is acting as an agent for the Province.

All revenues and expenses associated with this activity are captured in BU 2125, 2127, and 2129 and are excluded from the determination of regulated income. Any employee providing services to this activity will charge their time in accordance with Nalcor's Intercompany Transaction Costing Guidelines as outlined in Exhibit 8.

**7. RAMEA PROJECT**

In accordance with Board Order No. P.U. 31(2007), no costs associated with the construction of the wind-hydrogen diesel generation project at Ramea will be borne by ratepayers in the implementation, operation or abandonment of the facility. All expenses associated with this activity are captured in BU 1406 and are excluded from the determination of regulated income. Any employee providing services to this activity will charge their time in accordance with Nalcor's Intercompany Transaction Costing Guidelines as outlined in Exhibit 8.

**8. CONSERVATION DEMAND MANAGEMENT**

In accordance with Board Order No. P.U. 7(2008), Hydro and Newfoundland Power will undertake energy conservation initiatives. All expenses associated with this activity in Labrador West are captured in BU 1949 and are excluded from the determination of regulated income.

Employees providing services to this activity will charge their time in accordance with Nalcor's Intercompany Transaction Costing Guidelines as outlined in Exhibit 8.

**9. COST RECOVERY BUSINESS UNITS**

Hydro maintains a number of cost recovery business units to capture costs incurred by Hydro personnel on behalf of other lines of business. These costs are billed on a monthly basis to the lines of business and are excluded from the determination of Hydro regulated income. Any employee providing services to these business units will charge their time in accordance with Nalcor's Intercompany Transaction Costing Guidelines as outlined in Exhibit 8.

**10. OTHER SPECIFIC NON-REGULATED COSTS**

From time to time, costs related to the Hydro legal entity are incurred but are not charged to regulated customers. These costs are recorded in BU 1955 and include the following:

**a) Contributions and Donations**

Expenditures for charitable donations, community and charitable advertisements, street light subsidy and scholarships are not considered to be regulated expenses.

**b) Advertising**

Regulated advertising expenses are limited to matters relating to conservation, safety and consumer information. Advertising for corporate image building is not a regulated expense.

**c) Companion Travel Costs**

On occasion, management approves the cost of a Hydro employee's companion attending a corporate function. These costs are not considered regulated expenses.

**d) Bad Debt Expense**

Bad debt expenses incurred for uncommon reasons may be designated as non-recoverable and are excluded from the determination of regulated income.



1    **11. DIVIDENDS**

2    On a monthly basis, net cash associated with non-regulated activities, with the exception of  
3    items in Sections 6 through 9 of this policy, are paid to Nalcor as a dividend. Any residual  
4    amounts that are not subject to the dividend policy are retained within the Hydro legal entity  
5    but are reported as non-regulated costs.