

October 31, 2018

The Board of Commissioners of Public Utilities  
Prince Charles Building  
120 Torbay Road, P.O. Box 21040  
St. John's, NL A1A 5B2

**Attention: Ms. Cheryl Blundon**  
**Director Corporate Services & Board Secretary**

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro ("Hydro") - Network Additions Policy**

In correspondence dated October 24, 2018 the Board of Commissioners of Public Utilities (the "Board") described concerns it had with the Network Additions Policy Review filed by Hydro on October 1, 2018. In particular, the Board requested that Hydro provide clarification and an explanation on three specific points:

- why the Network Additions Policy was not filed on October 1, 2018;
- whether the proposed filing date of December 14, 2018 for the Network Additions Policy will allow the necessary and appropriate measures to be implemented in Labrador East for next winter; and
- how Hydro will address the issues related to network additions on the Island Interconnected System.

### **Hydro's October 1, 2018 filing**

Hydro's review of its current approach to the assignment of cost responsibilities for network additions determined that an enhancement to its current policy is warranted. In its October 1, 2018 filing, Hydro's intent was to highlight the material elements and principles that would apply to the proposed Network Addition Policy Guidelines. In that filing, Hydro summarized its current approach and identified the issues in Labrador that would require changes to ensure the goal of maintaining just and reasonable rates in light of new transmission additions. Hydro summarized its review and analysis up to that point, and provided an overview of the principles and practices of the beneficiary pays approach and the application of that approach in other jurisdictions. Hydro's intent was to communicate to the Board that Hydro believed the principles of the beneficiary pays approach are applicable to the Labrador Interconnected System ("LIS"). Hydro committed to filing, by December 14, 2018, a proposal to the Board providing the policy that applies the principles set out in the October 1, 2018 letter to enable

Hydro to determine the contributions that will be required from customers requiring large load additions for the LIS.

### **December 14, 2018 Network Additions Policy filing date**

Hydro believes that an evaluation of the potential financial impacts on those to which the policy will apply should be provided prior to proposing the formal adoption of a network additions policy. The Labrador Interconnected System Transmission Expansion Study (the “Expansion Study”) will serve as a basis for the derivation of the potential charges that would apply under differing scenarios. The Expansion Study will be filed with the Board on October 31, 2018.

### **Labrador East Winter 2019-2020**

The proposed Network Additions Policy will need adequate time to proceed through a thorough regulatory process. The proposed implementation of a Network Additions Policy in Labrador will likely result in substantial discussion and debate. However, Hydro believes that the regulatory process for the Network Addition Policy can be separate from and therefore not impact the implementation of appropriate measures in Labrador East for the winter 2019-2020. The Board has approved a regulation limiting service connections and upgrades greater than 100 kW for the winter 2019-2020<sup>1</sup> (“load addition limitation”). An extension of the load addition limitation for Labrador East, continuing until the Network Addition Policy is submitted, reviewed, discussed, and eventually approved would provide necessary controls on load growth while allowing for appropriate time to debate the new policy.

Extension of this load addition limitation would also allow the Board to proceed with its review of the Muskrat Falls – Happy Valley Interconnection capital project (the “Project”) without the concern that the additional capacity provided to Labrador East through approval of the project will be immediately consumed by new customer load. Hydro continues to recommend the Project as the least-cost option for the Labrador East system. The Project is also recommended in the Labrador Expansion Study which will be submitted October 31, 2018. Once the Network Additions Policy is approved, Hydro will apply it to deal with new large load requests. The load addition limitation can then be discontinued.

Hydro notes that the Project will require approval by mid-February 2019 in order to ensure that transmission construction could be completed in time for the 2019-2020 winter season.

### **Island Interconnected System**

Hydro has concerns with the potential complexity in implementing the beneficiary pays approach for the IIS. Therefore, Hydro proposed to maintain its current approach while the new principles are being implemented for the LIS. As with any capital expenditure costing more than

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<sup>1</sup> P.U. 32(2018) and P.U. 36(2018).

\$50,000, new network additions require Board approval (including those required to provide open access transmission services). This existing regulatory process enables the discussion of the beneficiary pays concept to assist in evaluation of applications for network additions for the IIS. If concerns arise with respect to new network additions on the IIS, or if fairness concerns arise, Hydro would advise the Board and stakeholders and may reassess at that time.

Once the new network addition principles have been successfully implemented in the LIS, Hydro will review how best to broaden the application to the IIS.

We trust that the above noted assists with the Board's concerns regarding Hydro's Network Addition Policy plan. Should you have any questions, please contact the undersigned.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**



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