

1 **Q. Reference: Cost of Service implications of Labrador Rate**

2 Please provide a detailed comparison of the cost implications to Island customers from growth  
3 in usage of the Labrador Non-Firm rate. Please provide the net revenue requirement  
4 implications of a given load, say 5 MW, being sold as exports (either NYISO or New England)  
5 versus sold as Labrador Non-firm rates. Please ensure the illustration is clear about (a) where  
6 the export revenues reside in terms of system (Labrador, Island, shared Labrador/Island,  
7 shareholder) without the non-firm sale, versus (b) where the non-firm revenues reside in the  
8 case of a non-firm Labrador sale. Does 5 MW used in Labrador via a non-firm sale lead to the  
9 same revenue requirement outcome for all customers as a 5 MW export at the same pricing?

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12 A. Based on current application proposals, there are no direct cost implications on revenue  
13 requirement to Island customers from growth in usage of the Labrador Interconnected System  
14 Non-Firm Rate. Non-firm sales are not used in the determination of revenue requirement or the  
15 allocation of costs between customer classes in the cost of service for test year rate setting.  
16 However, there may be differences in the impact of the net revenues from Labrador  
17 Interconnected System non-firm sales on customer rates.

18 Recapture Energy that is not used to meet provincial customer load requirements is sold in the  
19 export market and the benefit accrues to Nalcor Energy Marketing Corporation (“NEM”).<sup>1</sup> It is  
20 anticipated by Hydro that profit from Recapture Energy sales would be utilized by the provincial  
21 government to support its commitment to provide rate mitigation funding.

22 While not proposed in Hydro’s application, Hydro supports an approach in which the additional  
23 net revenue from the Labrador Interconnected System non-firm sales would be recorded in the  
24 Supply Cost Variance Deferral Account for future disposition by the Board of Commissioners of  
25 Public Utilities.<sup>2</sup> As explained in Hydro’s response to PUB-NLH-004 of this proceeding, Hydro

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<sup>1</sup> NEM is a non-regulated entity. Please refer to part c) of Newfoundland and Labrador Hydro’s (“Hydro”) response to LAB-NLH-010 of this proceeding regarding the corporate relationship between NEM and Hydro.

<sup>2</sup> Net Revenue from Exports component.

1 supports the use of net revenues from Labrador Interconnected System non-firm sales to  
2 provide rate mitigation to customers on the Island Interconnected System. The utilization of  
3 Labrador Interconnected System non-firm revenues in this manner would be aligned with the  
4 expectation that net revenues from exports of Recapture Energy would be utilized by the  
5 provincial government to support rate mitigation to customers on the Island Interconnected  
6 System.

7 There is material uncertainty with respect to the projected net revenues for Labrador  
8 Interconnected System non-firm sales. However, to illustrate the materiality of the potential  
9 revenues, a 5 MW load at 50% load factor and a 9 cent per kWh net sale price would provide  
10 approximately \$2 million in additional net revenues in a 12-month period.

11 The difference in net revenues from 5 MW of Labrador Interconnected System non-firm sales  
12 accruing to a deferral account and the net profit from 5 MW of sales of Recapture Energy to  
13 NEM would be dependent on the variability between the actual average net market price from  
14 the export sale of Recapture Energy and the forecast average net market price under the sale of  
15 Labrador Interconnected System non-firm energy.