



Senwung Luk
sluk@oktlaw.com
416.981.9443
73295

October 11, 2017

SENT VIA E-MAIL

Cheryl Blundon
Board Secretary
Board of Commissioners of Public Utilities
P.O. Box 21040, St. John's, NL A1A 5B2

Dear Ms Blundon:

Re: 2017 General Rate Application of Newfoundland and Labrador Hydro, Hydro Objections to Requests for Information, Round #1

We are in receipt of the letter from Newfoundland and Labrador Hydro (“Hydro” or “NLH”), dated October 6, 2017, outlining Hydro’s position that they would not provide responses to the following Requests for Information (“RFIs”) posed by the Labrador Interconnected Group: LAB-NLH-004, LAB-NLH-005, LAB-NLH-007, LAB-NLH-008, LAB-NLH-009, LAB-NLH-016, LAB-NLH-018, LAB-NLH-021, LAB-NLH-022, LAB-NLH-036, LAB-NLH-037, LAB-NLH-038, LAB-NLH-039, LAB-NLH-040.

Hydro states that these RFIs are beyond the scope of the Labrador Interconnected Group’s intervention or are otherwise not relevant to the present proceedings. In general, we observe that Hydro’s objections centre on RFIs that ask for information on the coming online of the Muskrat Falls project, the Labrador Transmission Assets, the Labrador Island Link, and the Maritime Link. Hydro’s objections appear to be premised on the proposition that since the Muskrat Falls related costs are to be fully borne by Island Interconnected customers, that those costs will have no effect on Labrador Interconnected customers, and are therefore beyond the scope of our intervention.

The Labrador Interconnected Group replies generally that Hydro’s objection misunderstands the scope of our intervention, as well as the factors that drive rates for Labrador Interconnected customers. We therefore propose to begin our response by clarifying the scope of our intervention.

We note that in the application for intervener status of the Labrador Interconnected group, the scope of our proposed intervention was stated as including the “reasonableness and fairness of the deferral account applied for by Hydro to deal with the costs and savings arising from the Labrador-Island Link, the Labrador Transmission Assets, and the Maritime Link”

(underlining added). In the present application, Hydro is proposing an Off-Island Purchases Deferral Account to capture the cost savings arising from Holyrood generation that can be avoided because off-island generation will soon become available to Island customers. While OC2013-343 directs that the costs, expenses or allowances from the Muskrat Falls Project "shall be recovered in full by Newfoundland and Labrador Hydro in Island interconnected rates charged to the appropriate classes of ratepayers", it is silent as to how the savings from the Muskrat Falls Project should be attributed. We are seeking information that would enable us to participate in the debate before the Board about fair and reasonable ways to attribute the savings arising from Off-Island Purchases. It is therefore our submission that questions relating to the Off-Island Purchases Deferral Account are squarely within the scope of our intervention.

Second, Hydro seems to be objecting to questions that relate to the Muskrat Falls project and the infrastructure connecting it to the Island system, and generally to how off-Island purchases will affect on-Island rates. The premise seems to be that the cost of service to Island Interconnected customers is simply not relevant to Labrador Interconnected customers, because Labrador Interconnected customers are not affected by Island costs. This premise is not true.

One of the mechanisms that ties the costs for the two customer groups together is the rural deficit subsidy. The rural deficit subsidy means that Labrador Interconnected rates are tied to Island Interconnected rates in at least two ways: (1) because Rural rates, which cause the rural deficit, are tied to Island Interconnected rates, and (2) because the allocation of the burden of the rural deficit is based on the equalization of the revenue to cost ratio between Labrador Interconnected customers and Newfoundland Power ("NP") customers.

The impact of the rural deficit subsidy on Labrador Interconnected rates is significant. As of the last NLH GRA, the rural deficit subsidy adds about 15% to the bill of every Labrador Interconnected domestic ratepayer, over and above the cost of service (PU (49) 2016, p101). The following describes in more detail how the rural deficit has this impact on Labrador Interconnected rates.

To comply with OC2003-347, the rates for the Lifeline Block of NLH's regulated diesel-serviced rural communities is priced at NP's interconnected domestic electricity rate. The cost of service of rural communities is higher than that rate, and the shortfall between the regulated price and the cost of service is financed through the rural deficit subsidy. Complying with the same OC2003-347, the shortfall must be paid by charging above-cost rates to two user groups: Labrador Interconnected customers and NP customers. Another order-in-council, OC2012-329, requires that changes to the rates of Rural Isolated Domestic and General Service customers be identical to the changes to the rates of the equivalent classes of NP customers.

Changes to the price of Island Interconnected electricity must therefore entail knock-on effects on the rates of Labrador Interconnected customers. Decreases in the rates charged to Island Interconnected customers will lead to decreases in the rates charged to the subsidized classes of rural customers. This is likely to increase the magnitude of the rural deficit. On the other hand, decreases in the rates of Island Interconnected customers may decrease the amount that NP customers are paying in to subsidize the rural deficit. Changes to the amount of rural deficit, and the amount that NP customers are paying in to the rural deficit, can be expected to

change the amount that Labrador Interconnected customers must pay in to finance the rural deficit.

Moreover, Island rural customers are a major cost driver for the rural deficit – as of the 2014 Test Year from the 2013 Amended GRA of NLH, Island Interconnected rural customers caused over 40% of the cost of the rural deficit (see, *eg*, CA-NLH-099 Rev 1 from the 2013 Amended GRA). Changes to cost of service in the Island Interconnected system – such as from off-Island purchases – can also be expected to change the amount of rural deficit that must be paid by subsidizing classes, including Labrador Interconnected customers.

Aside from the total amount of the rural deficit, the allocation of the burden of the rural deficit is another mechanism by which changes to Island Interconnected rates may be expected to affect Labrador Interconnected customers. *Per* PU 49 (2016), the allocation of the burden of the rural deficit is to be divided between Labrador Interconnected and NP customers according to the revenue requirement method, such that the revenue to cost ratios in the two customer groups are equalized. That is, the premium of the rates over the cost of service should be the same as between Labrador Interconnected and NP customers.

The Off-Island Purchases Deferral Account, as proposed by Hydro, appears to contemplate holding the rates of Island Interconnected (and therefore NP) customers constant, while the cost of service decreases, due to less reliance on Holyrood generation. (We expect that this hearing will deal with whether the decrease in actual cost of service will be accounted for as savings to be accumulated in a deferral account, or accounted for as a decrease in the cost of service.) This Deferral Account can therefore be expected to potentially affect the revenue to cost ratio of NP customers. Since the allocation of the rural deficit is based upon equalizing the revenue to cost ratios of NP customers and Labrador Interconnected customers, changes to the NP revenue to cost ratio can be expected to affect the rural deficit allocation as well.

The Labrador Interconnected group posed questions related to Muskrat Falls related infrastructure and other off-Island purchases in order to participate in debates before the Board that are sure to impact Labrador Interconnected customers, including in the ways outlined above. The scope of our intervention is to represent the particular interests of Labrador Interconnected customers, and in our submission, our questions fall squarely within that scope.

We will therefore deal with the particular questions to which Hydro has objected:

- LAB-NLH-004: this question seeks the model by which NLH has modelled the power supply from Muskrat Falls Generating Station. It is relevant to the cost of supplying power to Island Interconnected customers through the Labrador Island Link, and is therefore relevant to the calculation of the rural deficit and its allocation, and therefore relevant to Labrador Interconnected customers.
- LAB-NLH-005: this question seeks information on the treatment of power generated by Newfoundland Power, which is used to supply Island Interconnected customers. This treatment is relevant to the cost of supplying Island Interconnected customers, and is

therefore relevant to the calculation of the rural deficit and its allocation, and therefore relevant to Labrador Interconnected customers.

- LAB-NLH-007: this question seeks information on the production plan at Holyrood and how this production will interface with off-island imports. It will affect production costs for Island Interconnected customers and is also relevant to the rates that Island Interconnected customers – and therefore Rural customers, will pay for their power. It is therefore relevant to the calculation of the rural deficit and its allocation, and therefore relevant to Labrador Interconnected customers.
- LAB-NLH-008: this question seeks information on the fuel consumption and fuel costs of Holyrood production. It will affect production costs for Island Interconnected customers. It is relevant to the revenue-cost ratio of NP customers, and, during this proceeding, could become relevant to the rates paid by Island Interconnected customers.
- LAB-NLH-009: this question seeks information on the cost of off-island purchases. As off-island purchases are expected to displace Holyrood generation, the cost of off-island purchases is relevant to the cost of serving Island Interconnected customers. As discussed above, this cost will be relevant to the magnitude of the rural deficit, as well as to how the rural deficit will be allocated among the subsidizing classes. It is therefore relevant to Labrador Interconnected customers.
- LAB-NLH-016: this question seeks information on the Muskrat Falls Transmission Funding Agreement and the Muskrat Falls Power Purchase Agreement. As stated in Hydro's application currently before the Board, the Labrador Transmission Assets and the Labrador Island Link could be used to supply Island Interconnected customers by 2018, and commissioning period energy could be available from Muskrat Falls Generating Station by 2020 (Application vol 1, Rev 1, p6.5). The Transmission Funding Agreement and the Muskrat Falls Power Purchase Agreement are therefore relevant to the cost of serving Island Interconnected customers. They are therefore relevant to both the magnitude and allocation of the rural deficit, and therefore relevant to Labrador Interconnected customers.
- LAB-NLH-018: Hydro counsel has assisted us in obtaining the reports that are referenced by this question, and we are content to withdraw the question.
- LAB-NLH-021: this question seeks information on Nalcor and Hydro's projections for residential rates. Due to the various dynamic knock-on effects of changes to Island Interconnected rates, these projections will give a sense for the magnitude of the rural deficit as well as its allocation. For this reason, Questions 21(a) through (d) are relevant to Labrador Interconnected rates. In addition, Question 21(e) specifically asks about projections for Labrador Interconnected rates, and is therefore directly relevant to Labrador Interconnected customers, even without considering the knock-on effects of changing Island Interconnected rates.
- LAB-NLH-022: this question seeks information of the role of the Off-Island Purchases Deferral Account and its role in the broader plans for cost recovery and ratemaking by

Hydro. As discussed above, the structure of the Off-Island Purchases Deferral Account can be expected to affect both the size and allocation of the rural deficit, and therefore be relevant to Labrador Interconnected customers.

- LAB-NLH-036: this question seeks information on Hydro's plans for ratemaking in response to the increased costs arising from the Muskrat Falls project. While OC2013-343 does direct cost recovery for the project from Island Interconnected rates, as discussed above, there are various knock-on effects of Island Interconnected rates on Labrador Interconnected rates. The question seeks information on any planning and forecasting that Hydro has done on the impact to Labrador Interconnected customers.
- LAB-NLH-037: this question seeks information on the treatment of capital costs of the Labrador Island Link and the Labrador Transmission Assets. These are capital assets that Hydro has predicted could be in use by 2018. They are relevant to the cost of serving Island Interconnected customers through these assets, and to the savings arising from avoided Holyrood production. They are therefore relevant to the magnitude and allocation of the rural deficit, as well as to the fair apportionment of savings of avoided Holyrood production. For both these reasons, the information sought by this question are relevant to Labrador Interconnected customers.
- LAB-NLH-038: this question seeks information on the relationship between the Energy Supply Cost Variance Account and the Off-Island Purchases Deferral Account. It is relevant to the cost of service to Island Interconnected customers and therefore relevant to the magnitude and allocation of the rural deficit. It is also relevant to the treatment of avoided Holyrood production. This information is therefore relevant to Labrador Interconnected customers.
- LAB-NLH-039: this question seeks information on arrangements between NLH and Churchill Falls (Labrador) Co ("CF(L) Co") governing the purchase of power for NLH use. It seeks information on delivery and agency costs, as well as operations and maintenance costs of the Labrador Island Link and the Labrador Transmission Assets. As Hydro admits in its submissions, this information is related to costs and savings arising from Off-Island Purchases. The delivery and agency costs of the arrangement between CF(L) Co and NLH are relevant to the amount of savings that will result from off-Island purchases. The operations and maintenance costs of the Labrador Island Link and the Labrador Transmission Assets will have similar effects. This information is relevant to the cost of serving Island Interconnected customers and the rates to be charged to them, and is therefore relevant to the magnitude and allocation of the rural deficit. It is also relevant to the just and reasonable allocation of savings arising from off-Island purchases.
- LAB-NLH-040: this question seeks information on the treatment of the costs of using the Maritime Link and the process that will be followed to set those costs. As Hydro states, the Maritime Link could be used to serve Island Interconnected customers by late 2017. The use of this asset is relevant to the cost of serving Island Interconnected customers, and the timing of the application for the transmission tariff for the Maritime Link is relevant to forecasting

those transmission costs. As the cost of serving Island Interconnected customer is relevant to the magnitude and allocation of the rural deficit, it is also relevant to Labrador Interconnected customers.

Based on the above, the Labrador Interconnected customers submit that the questions it has posed, and to which Hydro has objected, are within the scope of its intervention. (The exception to this is LAB-NLH-018; the documents sought being publicly available, we withdraw this question).

We ask that the Board order Hydro to answer the questions to which it has raised objections, with the exception of LAB-NLH-018.

Yours truly,
Olthuis Kleer Townshend LLP



Senwung Luk

SL/tm

- c. Newfoundland and Labrador Hydro (gyoung@nlh.nl.ca; traceypennell@nlh.nl.ca; alex.templeton@mcinnescooper.com; NLHRegulatory@nlh.nl.ca)
Newfoundland Power (ghayes@newfoundlandpower.com; lobrien@curtisdawe.nf.ca; regulatory@newfoundlandpower.com)
Consumer Advocate (dbrowne@bfma-law.com; sfitzgerald@bfma-law.com; bbailey@bfma-law.com; sarahfitzgerald@bfma-law.com)
Industrial Customer Group (pcoxworthy@stewartmckelvey.com; dporter@poolealthouse.ca; dfleming@coxandpalmer.com)
Iron Ore Company of Canada (van.alexopoulos@ironore.ca; benoit.pepin@riotinto.com)