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April 4, 2018

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 of Corporate Services & Board Secretary**

Dear Ms. Blundon:

**Re: Application of Newfoundland and Labrador Hydro (Hydro) regarding a Motion for the Deferral of Cost of Service Methodology Issues Raised in the 2017 General Rate Application to the Cost of Service Methodology Review Hearing**

Enclosed with this letter one (1) original and thirteen (13) copies of Hydro's Application regarding deferral of Cost of Service Methodology issues raised in the GRA to the Cost of Service Methodology Review Hearing (the Application) for approval of Newfoundland and Labrador Hydro's (Hydro) 2018 and 2019 forecast costs and customer rates.

This application is being filed in compliance with the Board's schedule set on March 27, 2018 outlining that any preliminary motions are to be filed by April 5, 2018. It is also Hydro's understanding that any written submissions in relation to this application will be filed by April 10, 2018 and Hydro is to file its Reply to any submissions by April 11, 2018.

Should you have any questions, please do not hesitate to contact the undersigned.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**



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Geoffrey P. Young  
Corporate Secretary & General Counsel

GPY/bds

cc: Gerard Hayes - Newfoundland Power  
Paul Coxworthy - Stewart McKelvey  
Denis J. Fleming - Cox & Palmer  
ecc: Van Alexopoulos - Iron Ore Company  
Senwung Luk - Olthius Kleer Townshend LLP

Dennis Browne, Q.C. - Brown Fitzgerald Morgan & Avis  
Dean Porter - Poole Althouse

Benoit Pepin - Rio Tinto

**IN THE MATTER OF** the *Electrical Power Control Act, 1994*, R.S.N.L. 1994, Chapter E-5.1 (the *EPCA*) and the *Public Utilities Act, R.S.N.L. 1990, Chapter P-47* (the *Act*) and regulations thereunder;

**AND IN THE MATTER OF** a General Rate Application by Newfoundland and Labrador Hydro to establish customer electricity rates for 2018 and 2019 filed on July 28, 2017, and subsequently revised on September 15, 2017, October 16, 2017, October 27, 2017 and November 27, 2017 (the *GRA*).

**TO: The Board of Commissioners of Public Utilities**

**The Application of Newfoundland and Labrador Hydro regarding deferral of Cost of Service Methodology Issues raised in the GRA to the Cost of Service Methodology Review Hearing states:**

1. Newfoundland and Labrador Hydro (Hydro) is a corporation continued and existing under the *Hydro Corporation Act, 2007*, is a public utility within the meaning of the *Act*, and is subject to the provisions of the *EPCA*.
2. Under the *Act*, the Board of Commissioners of Public Utilities (the Board) has the general supervision of public utilities and requires that a public utility submit for the approval of the Board the rates, tolls and charges for the service provided by the public utility and the rules and regulations which relate to that service.

3. In Order No. P.U. 49(2016) relating to Hydro's previous general rate application, the Board ordered, among other things, that Hydro file its next general rate application no later than March 31, 2017, with a 2018 test year.
  
4. On February 20, 2017, Hydro filed an application requesting approval to file its next general rate application on or before July 31, 2017, reflecting 2018 and 2019 test years. In Order No. P.U. 8(2017), the Board ordered Hydro to file its next general rate application by July 31, 2017.
  
5. In Order No. P.U. 49(2016), the Board accepted the Settlement Agreement and the Supplemental Settlement Agreement (together, the Settlement Agreements) that were jointly proposed to the Board by Hydro and the Intervenors. In the Settlement Agreements, the parties agreed that in light of the material change in the forecast supply cost mix with the commissioning of the Muskrat Falls Project, Hydro would file a Cost of Service Methodology Review Report with the Board by March 31, 2016, and would also conduct a comprehensive Cost of Service Methodology Review Hearing in 2016. The scope of the Cost of Service Methodology Review, as stated in the Supplemental Settlement Agreement, is as follows: *"The Cost of Service Methodology Review to be completed in 2016 will include a review of: (i) all matters related to the functionalization, classification and allocation of transmission and generation assets and power purchases (including the determination whether assets are specifically assigned and the*

*allocation of costs to specifically assigned assets) and (ii) the approach to CDM cost allocation and recovery.”* The parties also agreed that the generation credit agreement between Hydro and Corner Brook Pulp and Paper Limited (CBPP), which was approved on a pilot basis by the Board in Order No. P.U. 4(2012), would be reviewed in the Cost of Service Methodology Review Hearing.

6. Hydro filed the required Cost of Service Methodology Review Report on March 31, 2016. In preparing the report, Hydro assumed that supply costs from the Muskrat Falls Project would be reflected in the 2019 costs for the full year. In June 2016, Hydro was advised that the Muskrat Falls Project was behind schedule and that full commissioning is not expected until 2020.
  
7. On July 28, 2016, Hydro wrote to the Board proposing to delay the Cost of Service Methodology Review Hearing until 2018 in light of the delay in the Muskrat Falls Project. It was anticipated that the delay in the Muskrat Falls Project schedule would require Hydro to file an application in 2019 to provide the opportunity to recover the supply costs resulting from the commissioning of the Muskrat Falls Project. As such, Hydro believed the Cost of Service Methodology Review Hearing could be held in early 2018 to provide an opportunity to reflect methodology changes in Hydro's 2019 filing to recover costs related to the Muskrat Falls Project.

8. Hydro further proposed in its July 28, 2016 letter that items falling within the scope of the Cost of Service Methodology Review that are not related to the completion of the Muskrat Falls Project could be addressed in the GRA filing and that discussions be held with the parties in advance of such filing to attempt to achieve agreement on these matters. Hydro stated that the GRA filing would materially reflect the existing cost of service methodology, subject to Order No. P.U. 49(2016).
  
9. By letter dated September 9, 2016, the Board agreed to delay the Cost of Service Methodology Review Hearing. The Board further stated:

*The Board acknowledges that there are cost of service issues that will need to be addressed as part of Hydro's next general rate application, including issues related to the methodology for calculating specifically assigned charges. The Board believes that these issues can be addressed in the usual course apart from the full cost of service methodology review which will be required prior to inclusion of Muskrat Falls project costs in Hydro's cost of service. In terms of timing of the cost of service methodology review, the Board agrees it is premature to establish a plan at this time but to ensure that the review proceeds in an orderly fashion Hydro should advise as to its plans for the review when it files its next general rate application.*

10. On July 28, 2017, Hydro filed the GRA with the Board. The GRA was revised on September 15, 2017, October 16, 2017, October 27, 2017 and November 27, 2017. Hydro's plan for the full Cost of Service Methodology Review to reflect the inclusion of Muskrat Falls Project costs is included in Chapter 5 of the evidence to the GRA. Regarding the timing of the Cost of Service Methodology Review Hearing, Hydro stated:

*Hydro plans to file an application in the third quarter of 2018 to conduct a Cost of Service and Rate Design Methodology Review to determine the changes required to reflect the Labrador-Island interconnection. The reports filed by Hydro in 2015 and 2016 in accordance with the 2013 GRA Settlement Agreements on marginal costs, cost of service methodology, and rate design post Muskrat Falls Project commissioning will be considered by the Board in the proposed review process. The results of the Board's decision on these matters will be reflected in Hydro's subsequent GRA filing planned for 2019.*

11. In light of the delay of the inclusion of Muskrat Falls Project costs in the cost of service, the GRA materially reflects the existing approved cost of service methodology. However, there are certain cost of service issues not related to the completion of the Muskrat Falls Project which Hydro proposed be dealt with in the GRA. The GRA proposes the following in respect of cost of service

methodology, as set out in Chapter 5 and Exhibit 13 of the evidence in support of the GRA:

- (a) that the generation credit service agreement between Hydro and CBPP, which was approved on a pilot basis by the Board in Order No. P.U. 4(2012), be discontinued;
- (b) that assignment of the frequency converter to CBPP as a specifically assigned asset be approved;
- (c) that Hydro's proposal to allocate operating and maintenance expenses for specifically assigned assets by customer be based on the determination of test year transmission asset values via Handy-Whitman indexes be approved;
- (d) that wind energy purchases be classified as 100% energy-related be approved; and
- (e) that Hydro's allocation of revenue requirements for the 2018 Test Year and the 2019 Test Year, reflecting the allocation of the Rural Deficit using the revenue requirement method approved by Order No. P.U. 49(2016), be approved.

12. In addition to the foregoing, the Consumer Advocate has raised other cost of service methodology issues for consideration in the GRA, as follows:

- (a) On October 6, 2017, the Consumer Advocate filed requests for information (RFIs) CA-NLH-001 through CA-NLH-160. The RFIs included CA-NLH-090, which requested that Hydro *"quantify the impact of [the third transmission*



*line (TL267) from Bay d'Espoir to Western Avalon] on customer classes in terms of revenue allocation and rate impacts if 10%, 20%, 30%, 40% and 50% of its costs were classified as energy”;*

- (b) On October 19, 2017, Hydro wrote to the Board setting out its position that CA-NLH-090 was outside the scope of the GRA as it raised issues for consideration in the present proceeding that were better dealt with in the scheduled Cost of Service Methodology Review Hearing. Hydro stated:
- “...issues of cost of service methodology are more efficiently dealt with in such a proceeding. That is, while these issues are proper matters for the Board’s inquiry, the present proceeding is not the proper time for their examination as no ruling or order with regard to them is being sought. Moreover, the Board has determined that these issues are best dealt with in a generic hearing that is dedicated to these issues.”;*
- (c) On November 3, 2017, the Board issued Order No. P.U. 36(2017) addressing, amongst other things, Hydro’s position regarding CA-NLH-090. The Board cited its finding in Order No. P.U. 35(2017), that it “*...believes that effective and efficient regulation is served by full disclosure of information which may be relevant early in the process to allow for appropriate focus on relevant matters as the matter progresses.*” The Board then stated: *“The Board agrees that, in general, the cost of service methodology issues should be addressed together in the upcoming generic hearing. However TL267 is a significant asset which is being added to the rate base as of 2018 for which customers*



*will begin to pay in rates arising from this proceeding. As such the Board acknowledges that the fair classification and allocation of costs for the TL267 transmission line may be an issue which the parties may wish to argue should be addressed in this proceeding in advance of the scheduled cost of service hearing. While the Board may ultimately determine that such issues should be left to be addressed in the cost of service proceeding, the Board believes that it is reasonable at this stage to allow parties to gather information with respect to this issue. The Board acknowledges Hydro's submission that running five cost of service studies would be onerous and that it would not be able to provide an answer to this RFI in the set timeframe for responses. The Board accepts that it is appropriate for Hydro to make reasonable assumptions to provide indicative evidence of the cost assignment impacts. Hydro will be required to answer CA-NLH-090 based on this approach."*

[Emphasis added.];

- (d) On November 17, 2017, Hydro filed its response to CA-NLH-090 based on the approach set out in Order No. P.U. 36(2017); and
- (e) On December 4, 2017, the Consumer Advocate filed expert evidence of C. Douglas Bowman in response to the GRA. The expert evidence raises, among other things, cost of service methodology issues concerning (i) again, the allocation of the third transmission line (TL267) from Bay d'Espoir to Western Avalon between demand and energy, and (ii) the marginal cost signal to be reflected in the Newfoundland Power wholesale rate design as a result of the

interconnection with the North American grid. These specifically appear as issues 12 and 13 of the expert's evidence, at pages 13 to 15 thereof.

13. In the 2017 GRA, Hydro has followed the approved cost of service methodology for classification of common transmission assets between demand and energy. There has been no evidence presented that demonstrates that the current methodology is unfair. It is Hydro's position that it is consistent with regulatory efficiency that an evaluation of whether the current methodology is in need of revision should be dealt with in the hearing planned to review the cost of service and rate design methodologies.
14. In its 2017 GRA, Hydro proposed to continue to apply the accepted wholesale rate design approach for Newfoundland Power. Hydro proposed a minor change to the amount of kWh to be included in first block to maintain a reasonable price for the first block while maintaining the second block to be priced based on the cost of Holyrood fuel.
15. In June 2016, Hydro filed a report prepared by Christensen Associates Energy Consulting, LLC in June 2016 providing a rate design review for Newfoundland Power and Island Industrial Customers. It was expected revisions in rate structures resulting from interconnection with the North American grid would be

dealt with in the Cost of Service and Rate Design Methodology Review proceeding.

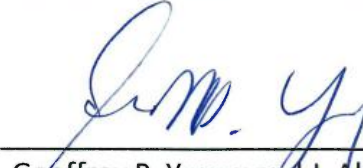
16. Hydro believes that if it was anticipated that a material revision to Newfoundland Power's rate structure was expected in the 2017 GRA, then Newfoundland Power may have submitted expert evidence in the current proceeding. It is Hydro's position that it is consistent with regulatory efficiency and procedural fairness that modifications to the wholesale rate design to better reflect marginal cost changes resulting from interconnection with the North American grid should be dealt with in the hearing planned to review the cost of service and rate design methodologies.
  
17. It is Hydro's position that the cost of service methodology issues to be dealt with in the 2017 GRA be limited to proposals set out in Chapter 5 of Hydro's evidence. These include:
  - (i) the generation credit service agreement between Hydro and CBPP, which was approved on a pilot basis by the Board in Order No. P.U. 4(2012);
  - (ii) the assignment of the frequency converter to CBPP as a specifically assigned asset;
  - (iii) the methodology for allocation of operating and maintenance expenses to specifically assigned assets;
  - (iv) the classification of purchases of wind energy; and

(v) the methodology for allocation of the rural deficit.

18. These are matters ongoing from the 2013 GRA for which Hydro has submitted expert evidence to support its proposals. While the issues presented by the Consumer Advocate are proper matters for the Board's inquiry, the present GRA proceeding is not the most efficient and effective process for their examination. Hydro submits that the goal of regulatory efficiency is best achieved by dealing with these issues at the proceeding focused on, and specifically dedicated to, their resolution.
19. Hydro further submits that the goal of regulatory efficiency in regards to the present GRA is best achieved by the Board making a pre-hearing determination of this Application, and thereby clarifying the scope of the proceeding as it regards cost of service methodology issues.
20. Hydro therefore seeks a Board order that defines the scope of the cost of service methodology issues to be dealt with in the 2017 GRA.

**DATED** at St. John's, in the Province of Newfoundland and Labrador, this 4<sup>th</sup> day of April 2018.

**NEWFOUNDLAND AND LABRADOR HYDRO**



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**IN THE MATTER OF** the *Electrical Power Control Act, 1994*, R.S.N.L. 1994, Chapter E-5.1 (the *EPCA*) and the *Public Utilities Act*, R.S.N.L. 1990, Chapter P-47 (the *Act*) and regulations thereunder;

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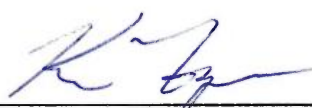
**AFFIDAVIT**

I, Kevin J. Fagan, of St. John's in the Province of Newfoundland and Labrador, make oath and say as follows:

1. I am Manager, Rates and Regulations, of Newfoundland and Labrador Hydro, the Applicant named in the attached Application.
2. I have read and understand the foregoing Application.
3. I have personal knowledge of the facts contained therein, except where otherwise indicated, and they are true to the best of my knowledge, information and belief.

**SWORN** at St. John's in the )  
Province of Newfoundland and )  
Labrador, this 4th day of )  
April 2018, before me: )

  
\_\_\_\_\_  
Barrister – Newfoundland and Labrador

  
\_\_\_\_\_  
Kevin J. Fagan