

- 1 Q. **References:** (i) Order P.U. 2 (2018) – NLH 2017 GRA
2 (ii) Order P.U. 9 (2018) – NLH 2018 Capital Budget Application
3 (iii) NLH 2017 GRA, Evidence, Exhibit 10 – Average Rate Base
4 Methodology
5 (iv) NLH 2017 Additional Cost of Service Information, March 22,
6 2018
7
- 8 **Preamble:** On March 23, the Board issued its Order P.U. 9 (2018), denying NLH
9 2018 Capital Budget Application with regards to the addition of a
10 new transmission section from Muskrat Falls to Happy-Valley-Goose
11 Bay. The Board found:
12
13 *[...] Hydro has not completed a comprehensive plan to address load*
14 *growth and reliability on the Labrador Interconnected system. In*
15 *particular Hydro did not demonstrate that it has explored options to*
16 *manage load in the context of additional demand. Hydro admitted*
17 *that it did not discuss load curtailment with existing and prospective*
18 *customers, despite the potential benefits in relation to transient or*
19 *short duration peaks. [...]* (page 8)
20
21 *As a part of the application for approval of such a significant project*
22 *Hydro is required to demonstrate that it conducted appropriate*
23 *planning for the system in a comprehensive manner which would*
24 *include development of reasonable planning criteria, identification of*
25 *needs on the system and assessment of reasonable alternatives. This*
26 *planning must address both Labrador East and Labrador West as*
27 *they are both part of the Labrador Interconnected system. In*
28 *addition, Hydro would be expected to address its obligation to*
29 *provide least cost reliable service, considering the impact on existing*
30 *customers of meeting new loads which may affect adequacy or*
31 *reliability on the system. Hydro acknowledged that it could apply to*
32 *the Board to be relieved of its obligation to serve but argued that,*
33 *while this issue is important, it should not impact the approval of the*
34 *proposed project. The Board does not accept this position and*

1 *believes that Hydro should address this issue before this project is*
2 *approved. [...] (pages 8-9)*

3
4 Notwithstanding this recent Order P.U. 9 (2018), NLH’s evidence,
5 Exhibit 10: *Rate base methods for determining utility rates:*
6 *Consideration of alternatives and recommendations* supports a
7 request from NLH to include the prospective cost of the MFA-HVY
8 transmission line in its rate base and Test Year Cost of service.
9

10 Please update the Cost of service information (Appendix B, page 2 – Schedule 1.1
11 and Appendix H, page 43 – Schedule 2.3E) to reflect the impact of Order P.U. 9
12 (2018).

13
14 A. For clarification, the Muskrat Falls to Happy Valley Project was not denied by the
15 Board in P.U. 9(2018); rather, the Board determined that it needs further
16 information on the project to make a decision regarding its approval. As such, the
17 Board requested that Hydro propose an interim solution to ensure reliability in
18 Labrador East in 2018/2019 and ordered Hydro to propose a process and timelines
19 for further consideration of the Muskrat Falls to Happy Valley Project.

20
21 IOC-NLH-042, Attachment 1 provides Schedule 1.1, page 2 of the 2018 Cost of
22 Service information for the Revised Deferral Account Scenario reflecting the
23 removal of the Muskrat Falls to Happy Valley transmission line from the 2018 Rate
24 Base.

25
26 IOC-NLH-042, Attachment 2 provides Schedule 2.3E of the 2018 Cost of Service
27 information for the Expected Supply Scenario reflecting the removal of the Muskrat
28 Falls to Happy Valley transmission line from the 2018 Rate Base. With respect to the

- 1 inclusion of this project in determining its 2019 Test Year revenue requirement,
- 2 please refer to Hydro's response to IOC-NLH-041.

NEWFOUNDLAND AND LABRADOR HYDRO
2018 Test Year - Revised Deferral Account Scenario (IOC-NLH-042)
Total System
Return on Rate Base

Line No	1	2	3	4	5	6	7	8
	Total	Island	Island	Labrador	L'Anse au	Labrador		Basis of Proration
	\$	Interconnected	Isolated	Isolated	Loup	Interconnected		
		\$	\$	\$	\$	\$		
Rate Base:								
1	Average Net Book Value	2,055,953,054	1,847,332,269	14,915,487	74,419,989	15,605,821	103,679,488	Schedule 2.3
2	Cash Working Capital	2,772,000	2,490,721	20,110	100,339	21,041	139,789	Prorated on Average Net Book Value - L. 1
3	Fuel Inventory - No. 6 Fuel	68,920,057	68,920,057	-	-	-	-	Specifically Assigned - Holyrood
4	Fuel Inventory - Diesel	2,994,759	102,326	357,296	2,379,253	93,027	62,856	Detailed Fuel Analysis
5	Fuel Inventory - Gas Turbine	4,735,192	4,494,326	-	-	-	240,866	Detailed Fuel Analysis
6	Inventory/Supplies	33,034,000	29,357,535	179,125	1,287,523	284,862	1,924,955	Prorated on Total Plant in Service, Schedule 2.2
7	Deferred Charges: Holyrood	-	-	-	-	-	-	Detailed Analysis
8	Deferred Charges: Foreign Exchange Loss and Regulatory Costs	82,041,000	73,716,171	595,189	2,969,664	622,737	4,137,239	Prorated on Average Net Book Value - L. 1
9	Rate Base Available for Equity Return	2,250,450,061	2,026,413,405	16,067,208	81,156,768	16,627,488	110,185,192	
Corporate Targets:								
10	Capital Structure: Percent of Debt	77.73% ⁽¹⁾						
11	Return	5.34%						
12	Weighted Average Return: Debt	4.15%						
13	Capital Structure: Percent of Equity	18.56% ⁽¹⁾						
14	Return	8.50%						
15	Weighted Average Return: Equity	1.58%						
16	Weighted Average Cost of Capital	5.73%						
Return on Rate Base by System (%):								
17	Return on Rate Base - Debt Component	-	4.15%	4.15%	4.15%	4.15%	4.15%	
18	Return on Rate Base - Equity Component	-	1.58%	1.58%	1.58%	1.58%	1.58%	
Return on Rate Base (\$):								
19	Return on Debt	93,409,376	84,110,292	666,901	3,368,572	690,157	4,573,454	Schedule 2.6, L.12
20	Return on Equity	35,505,403	31,970,772	253,493	1,280,412	262,332	1,738,394	Schedule 2.6, L.13
21	Return on Rate Base (\$)	128,914,779	116,081,063	920,394	4,648,984	952,489	6,311,848	Schedule 2.6, L.14
Return on Total Rate Base (%):								
22	Return on Rate Base - Debt Component	4.15%	4.15%	4.15%	4.15%	4.15%	4.15%	L. 19 divided by L.9
23	Return on Rate Base - Equity Component	1.58%	1.58%	1.58%	1.58%	1.58%	1.58%	L. 20 divided by L.9
24	Return on Rate Base (%)	5.73%	5.73%	5.73%	5.73%	5.73%	5.73%	L. 21 divided by L.9

⁽¹⁾ Debt and equity weightings reflect a 0.62% funded ARO and 3.09% component for Employee Future Benefits at 0% cost.

NEWFOUNDLAND AND LABRADOR HYDRO
2018 Expected Supply Cost Scenario (IOC-NLH-042)
Labrador Interconnected
Functional Classification of Net Book Value

Line No.	1 Description	2 Total Amount (\$)	3 Production Demand (\$)	4 Production Energy (\$)	5 Transmission Demand (\$)	6-15 Distribution										16 Accounting Customer (\$)	17 Specifically Assigned Customer (\$)
						6 Substations Demand (\$)	7 Primary Lines Demand (\$)		8 Line Transformers Demand (\$)		9 Secondary Lines Demand (\$)		10 Services Customer (\$)	11 Meters Customer (\$)	12 Street Lighting Customer (\$)		
Production																	
1	Gas Turbines	5,891,549	5,891,549	-	-	-	-	-	-	-	-	-	-	-	-	-	
2	Diesel	529,009	529,009	-	-	-	-	-	-	-	-	-	-	-	-	-	
3	Subtotal Production	6,420,557	6,420,557	-	-	-	-	-	-	-	-	-	-	-	-	-	
Transmission																	
4	Lines	8,432,741	-	-	8,432,741	-	-	-	-	-	-	-	-	-	-	-	
5	Terminal Stations	30,034,124	-	-	16,713,641	13,320,483	-	-	-	-	-	-	-	-	-	-	
6	Subtotal Transmission	38,466,865	-	-	25,146,382	13,320,483	-	-	-	-	-	-	-	-	-	-	
Distribution																	
7	Substations	4,301,979	-	-	-	4,301,979	-	-	-	-	-	-	-	-	-	-	
8	Land & Land Improvements	552,020	-	-	-	-	416,196	53,022	-	-	48,274	34,529	-	-	-	-	
9	Poles	25,068,976	-	-	-	-	14,498,592	4,954,933	-	-	2,566,261	3,049,190	-	-	-	-	
10	Primary Conductor & Eqpt	4,064,158	-	-	-	-	3,604,908	459,250	-	-	-	-	-	-	-	-	
11	Submarine Conductor	272,491	-	-	-	-	272,491	-	-	-	-	-	-	-	-	-	
12	Transformers	10,734,135	-	-	-	-	-	-	3,875,023	6,859,112	-	-	-	-	-	-	
13	Secondary Conductor&Eqpt	533,051	-	-	-	-	-	-	-	-	310,768	222,282	-	-	-	-	
14	Services	2,376,795	-	-	-	-	-	-	-	-	-	-	2,376,795	-	-	-	
15	Meters	1,863,005	-	-	-	-	-	-	-	-	-	-	-	1,863,005	-	-	
16	Street Lighting	351,509	-	-	-	-	-	-	-	-	-	-	-	-	351,509	-	
17	Subtotal Distribution	50,118,119	-	-	-	4,301,979	18,792,186	5,467,205	3,875,023	6,859,112	2,925,304	3,306,001	2,376,795	1,863,005	351,509	-	
18	Subttl Prod, Trans, & Dist	95,005,541	6,420,557	-	25,146,382	17,622,462	18,792,186	5,467,205	3,875,023	6,859,112	2,925,304	3,306,001	2,376,795	1,863,005	351,509	-	
19	General	8,563,117	1,035,681	-	3,091,157	732,009	828,708	236,668	165,427	292,820	133,069	147,235	96,252	157,313	25,129	1,621,651	
20	Telecontrol - Specific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
21	Feasibility Studies	(730)	-	-	-	(730)	-	-	-	-	-	-	-	-	-	-	
22	Software - General	111,560	7,539	-	29,528	20,693	22,067	6,420	4,550	8,054	3,435	3,882	2,791	2,188	413	-	
23	Software - Cust Acctng	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
24	Total Net Book Value	103,679,488	7,463,777	-	28,267,067	18,374,433	19,642,961	5,710,293	4,045,000	7,159,986	3,061,808	3,457,117	2,475,838	2,022,505	377,051	1,621,651	