

1 Q. Reference: 2018 Cost of Service Methodology Review Report, Appendix A, Cost of  
2 Service Methodology Review, Christensen Associates Energy Consulting (CAEC), Nov. 15,  
3 2018, page 8 (64 pdf)

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5 Citation:

6 **Discussion/Analysis.** It appears that Hydro can resolve this issue in two ways that  
7 potentially lead to similar outcomes. First, the COS methodology could retain  
8 separate treatment of the two interconnected systems, based on the belief that all  
9 new and future assets and expenses will be readily separable by service territory.  
10 This would be computationally simple in the short run and would conform to cost  
11 assignment requirements. Second, the COS methodology could unify the two areas  
12 but retain separate rate classes based on geography, thus retaining the ability to  
13 allocate costs in the mandated fashion. This alternative might more readily accept  
14 future cost allocation in cases of assets or expenses that both regions must share. If  
15 this unification is not performed, then a “jurisdictional” assignment of costs must  
16 continue. (underlining added)

17  
18 a) Does Hydro envisage significant costs in the coming years that would be shared by the  
19 Island and Labrador regions? If so, please describe these costs, their magnitudes and  
20 the likely dates when they would appear.

21  
22 b) With regard to the second methodology described in the citation:

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24 i. Please describe the Board’s precedents regarding the use of separate rate  
25 classes based on geography; and

26  
27 ii. Please describe the methodology that Hydro would use to establish rates in  
28 each of the two regions, and the extent to which that methodology would  
29 resemble the first methodology described in the citation.

- 1 A. a) At this time Newfoundland and Labrador Hydro does not envisage significant costs in  
2 the coming years that would be shared by the Island and Labrador regions.  
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- 4 b) Part b of this response has been provided by Christensen Associates Energy Consulting.  
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- 6 (i) Hydro references precedent from a Board report reviewing Hydro's COS  
7 methodology in 1993.<sup>1</sup> In that report, the Board considered a request by the  
8 Labrador towns for disaggregation of the Labrador Interconnected system. In  
9 rejecting the request, the Board affirmed Hydro's regional segmentation in its  
10 Recommendation 2: "That the structure adopted by Hydro for cost of service  
11 purposes comprising one study for the Island Interconnected System, one for the  
12 Labrador Interconnected System and one for all Isolated Rural Systems be  
13 approved."  
14
- 15 (ii) Ratemaking for Hydro's classes requires a COS methodology that recognized the  
16 assignment or allocation of all costs to the rate classes of each of the two  
17 geographic regions. Under the (current) separate systems method, Hydro first  
18 separates shared or common costs by system and then performs a separate COS  
19 study for each system. Under the alternative combined system, Hydro would face  
20 the challenge of assigning, costs for each line item to the two regions, and then  
21 applying the current classification and allocation rules. (Combining the two  
22 systems' costs of each line item of the uniform system of accounts would render  
23 impossible a classification and allocation scheme that would yield the identical  
24 allocation of costs to rates to that obtained by the first method.)

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<sup>1</sup> Report of the Board of Commissioners of Public Utilities to The Honourable Minister Of Mines And Energy, Government Of Newfoundland And Labrador on a Referral by Newfoundland and Labrador Hydro for the Proposed Cost of Service Methodology, February, 1993, pp. 16-19.