

1 Q: Re: Brattle Group, Embedded and Marginal Cost of Service Review, May 3,
2 2019, page 13 (17 pdf)

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4 Citation:

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6 In our opinion, given that the two systems have been
7 interconnected via the LIL, viewing the LIS and the IIS as a
8 single integrated system for COS purposes would be beneficial
9 going forward and can be done while still adhering to the
10 relevant policy constraints that exist. It is quite common in COS
11 studies to reflect relevant policy constraints—such as exempting
12 (mandating) that certain classes of customers avoid (pay) for
13 specific assets or expenses as is currently the case with the
14 Muskrat Falls project—without the need to have separate COS
15 studies to accommodate such policy considerations. In the
16 present case, Hydro can straightforwardly accommodate the
17 aforementioned policy constraints within an integrated system
18 for COS purposes. For example, the COS study can retain
19 separate rate classes based upon geography and the costs of the
20 Muskrat Falls project could be assigned 100% to customers
21 who reside within the Island Interconnected system—an
22 approach that is an option that CAEC raised (at 8). The benefits
23 of a single integrated system for COS purposes is that it will
24 more readily accommodate the changing nature of the systems
25 going forward in which future assets and expenses will more
26 likely be shared among regions compared to the system before
27 the LIL. While that will not happen immediately, over time, one
28 would expect more of Hydro’s assets to be used to provide
29 services in both territories and it would be more
30 straightforward to treat both areas as one independent area for
31 COS purposes. (underlying added)

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33 a) On what basis does Brattle conclude that “future assets and expenses will
34 more likely be shared among regions compared to the system before the
35 LIL”?
- 36
37 b) On what basis does Brattle conclude that “over time, one would expect
38 more of Hydro’s assets to be used to provide services in both territories”?
- 39
40 c) Please provide examples of the types of assets and expenses which Brattle

1 anticipates would be shared between the Island and Labrador
2 Interconnected Systems.
3

4 d) The Brattle report states “the benefits of an integrated system for COS
5 purposes is that it will more readily accommodate the changing nature of
6 the systems going forward in which future assets and expenses will more
7 likely be shared among regions compared to the system before the LIL”.
8 Please explain:
9

10 a. whether there are other “benefits of an integrated system for COS
11 purposes” other than the one identified above; and
12

13 b. what is meant by “the changing nature of the systems going forward”.
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15 A. a) The basis is that the two systems will be physically interconnected.
16

17 b) See response to a) above.
18

19 c) Possible assets and associated expenses include generation and transmission.
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21 d) a. Yes, compared to systems that are not interconnected, interconnected
22 systems generally achieve efficiencies that would not be possible absent
23 interconnection, such as improvements in overall system load factor and
24 economies of scale. As an example, generation units with different marginal
25 costs can be used more efficiently, and at lower overall costs, in an
26 interconnected system.
27

28 b. This refers to changing demand and supply conditions, such as changing
29 consumer demand and changing technology.