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July 26, 2019

The 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 Corporate Services & Board Secretary

Dear Ms. Blundon:

Re: Cost of Service Methodology Review Responses to Requests for Information – Revised Response

Enclosed please find the original plus thirteen copies of Newfoundland and Labrador Hydro's revision to Requests for Information response NP-NLH-017, which was originally filed with the Board of Commissioners of Public Utilities on July 12, 2019.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

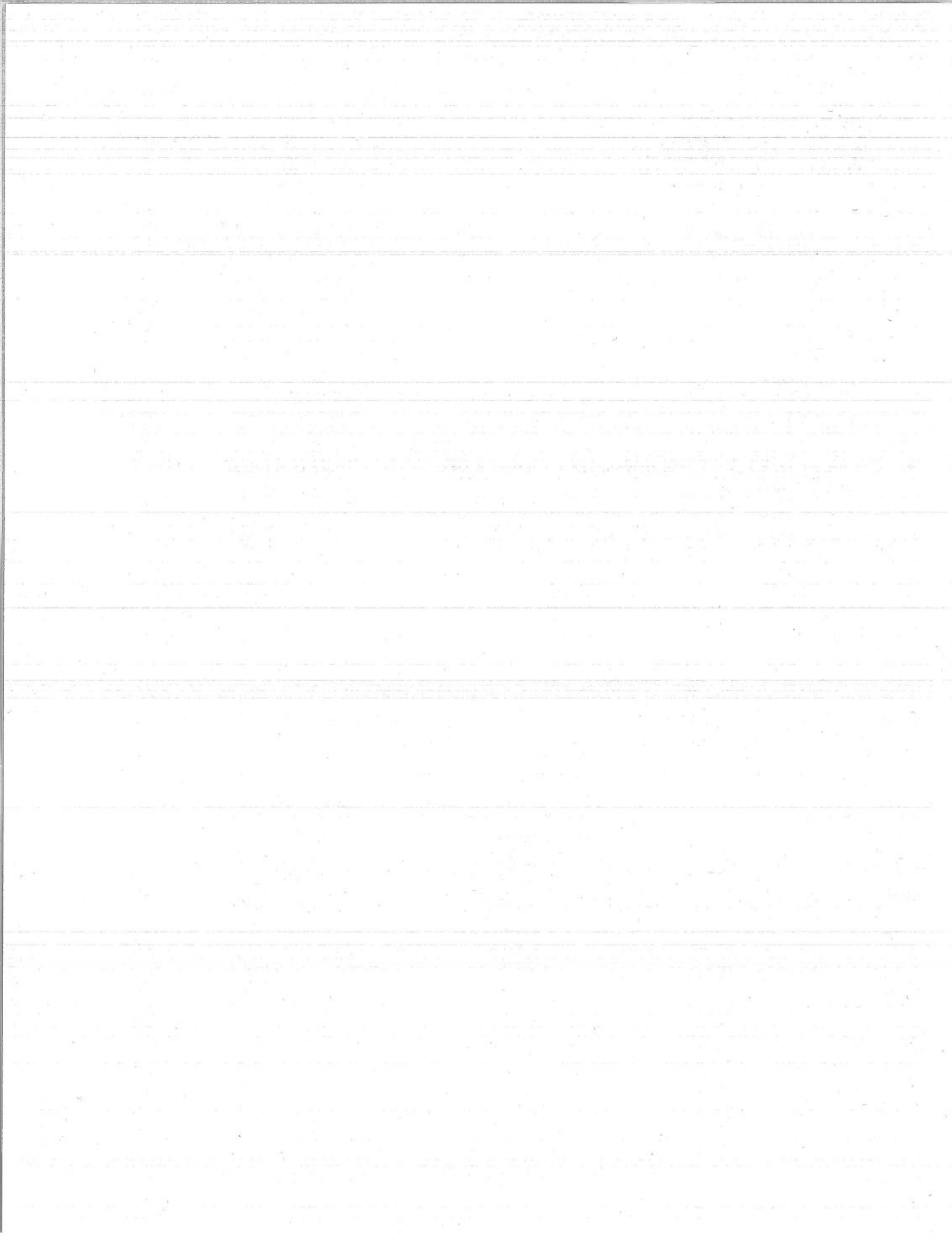
A handwritten signature in purple ink, appearing to read "Kevin Fagan", written over a horizontal line.

Kevin Fagan
Director, Regulatory Affairs
KF/las

Encl.

cc: Gerard Hayes, Newfoundland Power
Paul Coxworthy, Stewart McKelvey
ecc: Dean A. Porter, Poole Althouse
Senwung Luk, Olthuis Kleer Townshend LLP

Dennis Browne, Q.C., Browne Fitzgerald Morgan & Avis
Denis Fleming, Cox and Palmer
Greg Moores, Stewart McKelvey



1 Q. Reference: Newfoundland and Labrador Hydro 2018 Cost of Service Methodology Review
2 Report, November 15, 2018, Page 6, Lines 21-26.

3
4 *“Hydro forecasts that export revenues will result from available Recapture Energy, ponding*
5 *activities, exports to avoid spill, and due to the fact that its current forecast load*
6 *requirements from Muskrat Falls generation are less than its contacted (sic) entitlement*
7 *provided in Schedule 2 of the Muskrat Falls PPA Schedule 2. The sharing of the net revenues*
8 *from these exports need to be considered in the cost of service methodology. The cost of*
9 *service methodology does not deal with other rate mitigation funds that may be provided*
10 *from other sources.”*

11
12 Please identify other rate mitigation funds that may be provided, and provide Hydro’s
13 views on how consideration of these funds could: (i) impact the timing of the Cost of
14 Service Methodology Review, and (ii) be incorporated into Hydro’s proposed Cost of
15 Service methodology.

16
17
18 A. The determination of the availability of other rate mitigation funds to reduce customer
19 rates will be made by the Government of Newfoundland and Labrador (“Government”).
20 The Board of Commissioners of Public Utilities (the “Board”) has established the timing of
21 the Cost of Service Methodology review; Newfoundland and Labrador Hydro sees no
22 benefit in delaying the review pending the final decisions of Government on the rate
23 mitigation approach.

24
25 **In the absence of a specific direction by Government, Hydro recommends that rate**
26 **mitigation funds should be functionalized, classified and allocated among all customer**
27 **classes as a separate expense credit item within the cost of service study. Applying this**
28 **approach would result in the rate mitigation funds being shared among customer classes**
29 **on a consistent basis with the overall cost allocation approach to be approved by the Board**
30 **for the Muskrat Falls Project.**

1 Attachment 1 to response to NP-NLH-017 (Revised) provides summary schedules for the
2 2021 Illustrative Cost of Service Study (reflecting Hydro's proposed methodology) including
3 rate mitigation funds of \$490 million in 2021 as an explicit Muskrat Falls Project expense
4 credit item. The \$490 million is the estimated amount of rate mitigation required to arrive
5 at a retail rate estimate of 13.5 cents per kWh after allocation of the rate mitigation among
6 customer classes.¹

¹ 13.5 cents per kWh is a projection of the average retail rate in 2021 if customers do not have to pay for the costs of the Muskrat falls Project. Source: Government of Newfoundland and Labrador, "Protecting You from the cost Impacts of Muskrat Falls", April 2019.

NEWFOUNDLAND AND LABRADOR HYDRO
 2021 Illustrative Cost of Service Study with Rate Mitigation Included
 Total System Revenue Requirement

Line No.	1 Description	2 Total Amount (\$)	3 Island Interconnected (\$)	4 Island Isolated (\$)	5 Labrador Isolated (\$)	6 L'Anse au Loup (\$)	7 Labrador Interconnected (\$)	8 Basis of Proration
	Revenue Requirement							
	Expenses							
1	Operating, Maintenance and Admin.	150,375,000	112,891,707	7,467,526	16,474,621	1,639,347	11,901,800	Detailed Analysis
2	Fuels - No. 6 Fuel	41,346,120	41,346,120	-	-	-	-	Detailed Analysis
3	Fuels - Diesel	19,718,496	151,060	2,414,900	16,451,500	655,400	45,636	Detailed Analysis
4	Fuels - Gas Turbine	3,566,784	3,285,533	-	-	-	281,251	Detailed Analysis
5	Fuel Supply Deferral	-	-	-	-	-	1,490,325	Detailed Analysis
6	Power Purchases - CF(L)Co	1,490,325	-	-	-	-	-	Detailed Analysis
7	Power Purchases - Other	65,248,655	61,614,658	210,500	-	3,423,496	-	Detailed Analysis
8	Power Purchases - MF	293,021,738	293,021,738	-	-	-	-	Detailed Analysis
9	Total Exports	(53,388,712)	(53,388,712)	-	-	-	-	Detailed Analysis
10	Power Purchases - LTA Costs	52,887,301	52,887,301	-	-	-	-	Detailed Analysis
11	Power Purchases - LIL Costs	379,849,000	379,849,000	-	-	-	-	Detailed Analysis
12	Rate Mitigation	(490,000,000)	(490,000,000)	-	-	-	-	Detailed Analysis
13	Power Purchases - Off Island	1,691,700	1,691,700	-	-	-	-	Detailed Analysis
14	Depreciation	77,151,595	65,651,125	823,757	4,683,314	927,533	5,065,866	Detailed Analysis
	Expense Credits:							
15	Sundry	(456,000)	(342,335)	(22,645)	(49,958)	(4,971)	(36,091)	Total O&M Expenses
16	Building Rental Income	(15,600)	(15,600)	-	-	-	0	Detailed Analysis
17	Tax Refunds	-	-	-	-	-	-	Total O&M Expenses
18	Suppliers' Discounts	(39,600)	(29,729)	(1,967)	(4,338)	(432)	(3,134)	Total O&M Expenses
19	Pole Attachments	(1,598,389)	(1,151,878)	(23,750)	(103,327)	(68,522)	(250,912)	Detailed Analysis
20	Wheeling Revenues	-	0	-	-	-	-	Island Interconnected
21	Application Fees	(24,680)	(12,200)	(300)	(1,654)	(406)	(10,120)	Detailed Analysis
22	Meter Test Revenues	-	0	-	-	-	-	Weighted Customers
	Total Expense Credits	(2,134,269)	(1,551,742)	(48,661)	(159,277)	(74,331)	(300,257)	
23	Subtotal Expenses	540,823,731	467,449,488	10,868,022	37,450,157	6,571,445	18,484,620	Detailed Analysis
24	Disposal Gain/Loss	-	-	-	-	-	-	
25	Subtotal Rev Req Excl Return	540,823,731	467,449,488	10,868,022	37,450,157	6,571,445	18,484,620	
26	Return on Debt	94,161,073	83,111,360	805,800	4,202,212	711,099	5,330,603	Rate Base
27	Return on Equity	43,761,543	38,626,167	374,497	1,952,986	330,485	2,477,408	Rate Base
28	Total Revenue Requirement	678,746,347	589,187,015	12,048,319	43,605,354	7,613,029	26,292,631	

NEWFOUNDLAND AND LABRADOR HYDRO
 2021 Illustrative Cost of Service Study with Rate Mitigation Included
 Total System
 Comparison of Revenue & Allocated Revenue Requirement

Line No.	Rate Class	1	2	3	4	5	6	7
		Revenues	Cost of Service Before Deficit and Revenue Credit Allocation	Revenue Credits	Deficit	Revenue Requirement After Deficit and Revenue Credit Allocation	Revenue to Cost Coverage	
		(\$)	(\$)	(\$)	(\$)	(\$)	(Col.2/3)	
Total System								
1	Newfoundland Power	531,947,022	466,970,799	-	64,982,992	531,953,791	-	
2	RSP Activity	-	-	-	-	-	-	
2	Subtotal Newfoundland Power	531,947,022	466,970,799	-	64,982,992	531,953,791	-	1.14
3	Island Industrial	45,531,211	45,529,589	-	-	45,529,589	1.00	
4	Unallocated RSP Hydraulic Variation	-	-	-	-	-	-	
4	Labrador Industrial	6,896,883	6,898,074	-	-	6,898,074	1.00	
5	CFB - Goose Bay Secondary	-	-	-	-	-	-	
6	Rural Labrador Interconnected	22,079,583	19,394,557	-	2,698,919	22,093,476	1.14	
	Rural Deficit Areas							
7	Island Interconnected	56,908,686	76,686,626	-	(19,777,940)	56,908,686	0.74	
8	Island Isolated	1,789,880	12,047,960	-	(10,258,081)	1,789,880	0.15	
9	Labrador Isolated	10,090,915	43,605,354	-	(33,514,439)	10,090,915	0.23	
10	L'Anse au Loup	3,481,577	7,613,029	-	(4,131,451)	3,481,577	0.46	
11	CFB Revenue Credit Applied to Deficit	-	-	-	-	-	-	
12	Subtotal	72,271,059	139,952,969	-	(67,681,911)	72,271,059	0.52	
13	Total	678,725,758	678,745,989	-	-	678,745,989	1.00	