

1 **Q:** **Reference: “Review of Existing and Proposed Network Additions Policies for**
2 **Newfoundland and Labrador Hydro,” The Brattle Group, November 19, 2019,**
3 **p. 22, paragraph 1.**

4
5 **Concerning network upgrades, the beneficiary pays concept is not well defined**
6 **and is lacking clear foundational rules, implementation methodologies, and**
7 **proposed calculations and formulas. Its application within the context of**
8 **network upgrades and additions would be problematic, challenging, and**
9 **unduly subjective.**

- 10
11 **a) What is Brattle’s definition of the beneficiary pays approach? Please**
12 **elaborate.**
- 13
14 **b) What are the boundaries that determine when cost allocation procedures**
15 **adhere to the cost causation principle and when they do not? Doesn’t the**
16 **beneficiary pays approach permit Hydro to bifurcate transmission costs**
17 **between interconnection costs and common network costs?**
- 18
19 **c) Does Hydro’s proposed approach not assign to the initiating customer the**
20 **change in costs (incremental costs associated with system-wide upgrades),**
21 **as determined by the system expansion study?**
- 22
23 **d) Does Brattle’s proposed approach account for capital indivisibility—a**
24 **characterization of the lumpy nature of transmission facility additions?**
- 25
26 **e) In Brattle’s understanding, doesn’t Hydro’s use of the term “beneficiary**
27 **pays” define a means of assignment of a sizable share of incremental costs**
28 **to the initiating customer, as opposed to assignment of the total costs to the**
29 **initiating customers or customers (with the exact allocation to class not yet**
30 **specified)?**
- 31
32 **f) Does Brattle agree that the essence of the cost assignment issue, applicable**
33 **to network facilities on the margin, is a matter of socialization of**
34 **incremental costs through rolled-in pricing; new loads paying for the full**
35 **cost; and some rule for the sharing of incremental costs? Please elaborate.**
- 36
37 **g) Does Brattle agree that transmission facilities, often, constitute highly**
38 **indivisible capital facilities wherein the full capability of new facilities may**
39 **not be fully utilized by utilities for a number of years? If yes, does this not**
40 **suggest that charging incremental loads the full cost—as Brattle suggests—**

1 **will provide improperly high transmission charges—paying for facilities**
2 **that cannot be fully employed, and thus deterring the location of new**
3 **customers?**
4

- 5 A. a) In the cited text, Brattle was specifically referring to the use of the “beneficiary
6 pays approach” proposed by Hydro as the basis of its network additions policy.
7 The conceptual definition of the beneficiary pays approach reflects the principle
8 that costs should be allocated proportionally to beneficiaries. However, that
9 general definition, without further specification, is challenging to apply to a
10 given context, as echoed by Hydro in its October 1, 2018 report (page 8, lines
11 4-10):

12
13 “The experience of utilities and transmission organizations using the
14 beneficiary pays methodology indicates that exact methods can vary from case
15 to case. This is due to several factors. First, transmission projects are diverse in
16 size, location, and complexity of effect on the grid. Second, these projects can
17 have different objectives, not merely customer connection, but reinforcement
18 to influence quality of service. Third, transmission users can have varying
19 priorities and definitions of benefits. The beneficiary pays approach generally
20 requires stakeholder engagement in defining benefits and methods of cost
21 analysis.”

22
23 More generally, we note that implementing a beneficiary pays approach is by
24 no means a simple process and remains controversial and an unresolved area
25 for transmission cost allocation.
26

- 27 b) The phrase “boundaries that determine when cost allocation procedures adhere
28 to the cost causation principle and when they do not” is not commonly or well
29 understood and can have different meanings for different practitioners. In
30 general, cost allocation should be based on the effect of an entity's actions on
31 costs incurred. Cost allocation procedures that reflect the principle of cost
32 causation can be demonstrated to allocate costs in an efficient and fair manner.
33 We do not dispute that Hydro is using its version of the beneficiary pays
34 approach to bifurcate transmission costs into common transmission costs that
35 are socialized among all customers and other transmission costs that are
36 assigned directly to the customer requesting new or additional load above a
37 threshold. For the reasons discussed in the Brattle Report, however, we believe
38 that Hydro’s approach can be improved under cost causation principles to
39 assign transmission costs to the cost causer better.

- 1 c) Based upon Brattle’s understanding of the question, “incremental costs” as used
2 by Hydro refers to the “Expansion Cost per kW” included in Hydro’s proposed
3 NAP. The Expansion Cost per kW in Hydro’s proposed NAP term refers to the
4 average cost of investments that would be required to meet demand beyond
5 2043. This calculation of “incremental costs” is not equivalent to the “but for”
6 approach proposed by Brattle. The “but for” analysis recommended by Brattle,
7 which identifies network upgrades that would not be required “but for” the new
8 load, is likely to produce different results than the generic Expansion Cost per
9 kW calculation for any given customer.
- 10
- 11 d) Yes, Brattle’s recommendations include differentiation by the size of the
12 customer. Customers below the size threshold would not be charged for
13 transmission network upgrades. Brattle’s recommendations also include a
14 provision for the sharing of capital costs through refunds.
- 15
- 16 e) As discussed in response to part c above, the approach proposed by Hydro
17 determines an Expansion Cost per kW based on investments beyond the 2043
18 time horizon. Under this approach, it is not possible to determine if a “sizable”
19 share of “incremental costs” would be assigned to the initiating customer. This
20 approach is not equivalent to the “but for” approach, as proposed by Brattle.
- 21
- 22 f) The question lacks sufficient clarity as to permit a practitioner to differentiate
23 among potential interpretations, and so it is not possible to provide a precise
24 answer without additional information and a more explicit context underlying
25 the question. Generally, the issues at stake in this proceeding resemble the
26 policy and economic analysis and discussion regarding rolled-in vs. incremental
27 cost pricing in network industries, a topic that is quite voluminous in regulatory
28 and academic settings. Those economic and policy issues involve significant
29 tradeoffs, tend to be case-specific and do not lend themselves to a simple
30 characterization. As stated in the Brattle Report, the implementation of the
31 Labrador NAP should balance the four regulatory principles of cost causation,
32 the “hold harmless” policy, avoidance of undue discrimination, and rate
33 stability.
- 34
- 35 g) Yes, transmission upgrades are typically, although not exclusively, significant
36 capital investments. The “but for” analysis should identify the minimum cost
37 facilities to meet the customer’s demand, which may include no new
38 investment, a “small” capital investment, or a “large” capital investment.
39 Please refer to the response to NLH-PUB-004.