

1 Q. **Reference: Schedule 1 – Evidence, pages 8 and 9**

2 It is stated

3 Hydro is proposing modifications to the CDM Cost Deferral Account definition
4 and CDM Cost Recovery Adjustment to permit recovery of Labrador
5 Interconnected System costs from those customers, including their portion of
6 the Rural Deficit allocation related to CDM investments for Hydro Rural
7 customers.

8 a) Please explain this further, in particular, how will “their portion of the Rural Deficit
9 allocation related to CDM investments for Hydro Rural Customers” be calculated and why it
10 is appropriate?

11 b) Please provide an example.

12

13

14 A. a) Currently, conservation and demand management (“CDM”) costs incurred on the Labrador
15 Interconnected System are not recovered through customer rates.¹ For all other CDM costs
16 incurred, a portion of program costs allocated to Rural Island Interconnected are added to
17 the Rural Isolated recoverable amount and allocated to Newfoundland Power Inc.
18 (“Newfoundland Power”); a portion is also allocated to the Labrador Interconnected System
19 in the same proportion the rural deficit was allocated in the approved test year cost of
20 service study which is absorbed by Newfoundland and Labrador Hydro (“Hydro”).²

21 Hydro’s application seeks approval to modify its deferral accounts so that customers on the
22 Labrador Interconnected System will begin to pay their allocated portion of rural systems
23 costs; this change in approach is appropriate as (i) following the commissioning of the
24 Muskrat Falls Project assets, it is anticipated the benefits of the recapture energy will accrue

¹ CDM initiatives on the Labrador Interconnected System contributed to an increase in available exports of recapture energy for which the benefits accrue to Nalcor Energy Marketing.

² The allocation between Newfoundland Power and Labrador Interconnected System is 96.1% and 3.9%, respectively. The portion allocated to Labrador Interconnected System is currently written off to Hydro’s net income (loss) even though customers benefit from initiatives to manage the rural deficit.

1 to Hydro’s customers and (ii) the Labrador system is experiencing system constraints which
 2 will benefit from a demand management approach.

3 b) An example of the current allocation of CDM costs between customers follows. Of the
 4 \$2,067 in CDM costs to be recovered, \$1,962 is recovered from Newfoundland Power, \$51
 5 from the Island Industrial Customers, and \$54 from customers on the Labrador
 6 Interconnected System.

Allocation of CDM to the Labrador Interconnected System

Line Inputs

1 **Rural Deficit Allocation - 2019 Test Year**

2	Newfoundland Power	96.1%
3	Labrador Interconnected	3.9%
4		100%

7 **CDM Costs to be Recovered**

8	Island Interconnected	724
9	Hydro Rural Isolated	1,343
10		2,067

		2020 Energy Sales (kWh)	Percent of Total kWh	Allocation of Recoverable Amount (\$000)	
13	<u>Island Interconnected Allocation</u>				
14	Newfoundland Power	5,529,011,037	86.0%	623	
15	Island Industrial Firm	452,051,689	7.0%	51	
16	Rural Island Interconnected	446,614,812	6.9%	50	
17	Total	6,427,677,538	100.0%	724	Line 8 Allocation
18					
19	<u>Rural Island Interconnected Allocation</u>				
20	Newfoundland Power	1,339			(Line 9 + Line 16) x Line 2
21	Labrador Interconnected	54			(Line 9 + Line 16) x Line 3
22	Total	1,393			(Line 9 + Line 16)
23					
24	<u>Total by Customer</u>				
25	Newfoundland Power	1,962			Line 14 + Line 20
26	Island Industrial Firm	51			Line 15
27	Labrador Interconnected ³	54			Line 21
28	Total	2,067			Line 10

³ This is the amount currently written off to net income (loss) proposed to be collected from customers on the Labrador Interconnected System in addition to program costs specific to the Labrador Interconnected System.