

1 **Volume 2: Cost of Service Study**

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3 **Q. On March 28, 2023, NL Hydro submitted comments on Newfoundland Power's**  
4 **supplemental application for the MUN-T2 Transformer Replacement project at**  
5 **MUN Substation. In its comments Hydro stated "*In the interest of regulatory***  
6 ***fairness and consistency with accepted utility practice in this jurisdiction, Hydro***  
7 ***believes that, prior to approving the proposed project, the Board should require***  
8 ***Newfoundland Power to enter into an agreement with Memorial University requiring a***  
9 ***contribution from the customer for the total capital cost required to maintain***  
10 ***redundant supply, including the replacement of transformer T2.*" In response to**  
11 **invitations from the Board to the parties to comment on the Consumer Advocate's**  
12 **request for a rehearing on this application, Hydro was supportive of the Consumer**  
13 **Advocate's request, stating in its letter to the Board dated June 12, 2023 " ... *agrees***  
14 ***with the Consumer Advocate 's position that the Board's Order is inconsistent with***  
15 ***generally accepted utility practice in this province, and should be reconsidered. The***  
16 ***costs of the project proposed in Newfoundland Power's Application should be***  
17 ***recovered from the customer.*"**

- 18 a) **Is Hydro correct that if Newfoundland Power had required a contribution from**  
19 **the customer for the project it would have been acting in a manner that is**  
20 **consistent with regulatory fairness and consistency in this jurisdiction?**  
21 b) **What is generally accepted practice in Canada respecting treatment of costs for**  
22 **transmission facilities that benefit only one customer?**  
23 c) **How does Hydro treat costs for facilities that benefit only one customer?**  
24 d) **What policy does Hydro employ when assigning costs that benefit only one**  
25 **customer?**  
26 e) **Does Newfoundland Power have a policy relating to cost assignment of**  
27 **transmission facilities that benefit only one customer? If so, please file a copy for**  
28 **the record.**  
29 f) **What are the main differences between Newfoundland Power's policy and**  
30 **Hydro's policy?**  
31 g) **Should Hydro's policy be changed to conform with Newfoundland Power's**  
32 **policy respecting treatment of costs of facilities that benefit only one customer,**  
33 **or should Newfoundland Power's policy be changed to conform with Hydro's**  
34 **policy? Which policy is more consistent with generally accepted regulatory**  
35 **practice in Canada?**

36  
37 **A. a) In its letter dated March 28, 2023, Hydro submitted that: "*T2 constitutes redundant***  
38 ***supply and is therefore a special facility, requiring contribution from the***  
39 ***customer...*"<sup>1</sup>**

40  
41 **In its letter dated June 12, 2023, Hydro stated: "*In Hydro's view, MUN-T2 is***  
42 ***redundant supply for MUN-T1, within the Memorial Substation.*"<sup>2</sup>**

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<sup>1</sup> See Hydro's March 28, 2023 letter *Re: Newfoundland Power Inc. – 2023 Supplemental Capital Application – Memorial Substation Power Transformer Replacement – Comments*, page 1.

<sup>2</sup> See Hydro's June 12, 2023 letter *Re: Newfoundland Power Inc. – 2023 Supplemental Capital Application – Memorial Substation Power Transformer Replacement – Comments*, page 2.

1 The evidence on record in the proceeding confirmed that MUN-T2 should not be  
2 considered a redundant transformer, as submitted by the Consumer Advocate and  
3 Hydro. This is due to the fact that MUN-T1 is incapable of supplying Memorial  
4 University during normal operation. The Board clarified this matter in its letter  
5 denying the Consumer Advocate’s request for a re-hearing of the 2023 Supplemental  
6 Capital Application for the replacement of the MUN-T2 transformer. In its letter, the  
7 Board stated:

8  
9 *“While both the Consumer Advocate and Hydro submit that MUN-T2 is a*  
10 *redundant supply within the Memorial Substation, this position is not supported*  
11 *by the evidence. MUN-T2 was added to the Memorial Substation in 1976 to*  
12 *accommodate load growth on the University’s campus, not as a redundant supply.*  
13 *Since 1976 the Memorial Substation has functioned as the University’s point of*  
14 *supply, most recently serving a load of approximately 19 MVA [sic]. While the*  
15 *Consumer Advocate asserts that the two transformers at the Memorial Substation*  
16 *each have the capacity to carry the entire substation load, this is incorrect. The*  
17 *record shows that in normal operation the Memorial Substation load is*  
18 *approximately 19 MVA and MUN-T1 cannot service more than 14.83 MVA. As*  
19 *noted in Order P.U. 14(2023) with MUN-T2 out of service, the Memorial*  
20 *Substation cannot meet load and is limited by the capacity of MUN-T1.*

21  
22 *The Board is satisfied that the treatment of the MUN-T2 transformer replacement*  
23 *at Memorial Substation is consistent with Newfoundland Power’s approved cost*  
24 *of service and longstanding regulatory principles and is in no way unfair or*  
25 *discriminatory.”<sup>3</sup>*

26  
27 Newfoundland Power agrees with the Board’s determination that treatment of the  
28 MUN-T2 transformer is in no way unfair or discriminatory.

- 29  
30 b) The National Association of Regulatory Utility Commissioners (“NARUC”) *Electric*  
31 *Utility Cost Allocation Manual* (the “NARUC Manual”) is a generally accepted  
32 reference for the industry methods used to perform a cost of service study. It defines  
33 radial transmission facilities as *“those facilities that are not networked with other*  
34 *transmission facilities, but are used to serve specific loads directly. For cost of*  
35 *service purposes, these facilities may be directly assigned to specific customers on the*  
36 *theory that these facilities are not used or useful in providing service to customers not*  
37 *directly connected to them.”<sup>4</sup>*
- 38  
39 c) Hydro applies Newfoundland Power’s *Contribution in Aid of Construction Policy*  
40 (“CIAC Policy”) to determine customer contributions that are required for its  
41 Domestic and General Service customers on the Island Interconnected System. See  
42 for example, Hydro’s *Application for Approval of a Contribution by Parks Canada*

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<sup>3</sup> See the Board’s July 7, 2023 letter *Re: Newfoundland Power Inc. – 2023 Supplemental Capital Application – Approval for the Purchase and Installation of a Replacement Power Transformer for Memorial Substation – Response to Consumer Advocate’s Request for Re-hearing of Application*, page 2.

<sup>4</sup> See NARUC Manual, January 1992, page 74.

1           for Three-Phase Service Upgrades which was filed with the Board on  
2           March 10, 2022 and approved in Order No. P.U. 8 (2022).<sup>5</sup>

3  
4           For Island Industrial customers which have customer plant in service that is  
5           specifically assigned to them, Hydro includes an annual specifically assigned charge  
6           in its Industrial – Firm rate for those particular customers (“Specifically Assigned  
7           Charges”). Hydro’s Specifically Assigned Charges recover Hydro’s operating and  
8           maintenance costs associated with the specifically assigned assets as well as Hydro’s  
9           return on equity, return on debt, and depreciation associated with those assets.<sup>6</sup>

10  
11          d) See part c).

12  
13          e) Yes. Newfoundland Power’s CIAC Policy requires a customer to pay a contribution  
14          when the cost to provide and maintain a line extension or upgrade for the customer  
15          will not be recovered through electricity rates paid by the customer. The Company’s  
16          policy includes transmission facilities. As an example, construction of the 40 km  
17          transmission line for the Roycefield (“RFD”) mine in central Newfoundland required  
18          a customer contribution.<sup>7</sup>

19  
20          f) As described in part c), Hydro uses Newfoundland Power’s CIAC Policy to  
21          determine customer contributions that are required for its Domestic and General  
22          Service customers on the Island Interconnected System. Effectively, there is no  
23          difference in the policies used by the utilities.

24  
25          Hydro has an Industrial – Firm rate for Island Industrial Customers.<sup>8</sup> It includes  
26          Specifically Assigned Charges that recover Hydro’s operating and maintenance costs,  
27          return on equity, return on debt, and depreciation associated with an Industrial  
28          customer’s specifically assigned assets. Newfoundland Power does not have an  
29          Industrial Customer rate.

30  
31          g) See the response to part c) and part f).

32  
33          Newfoundland Power’s CIAC Policy, which is used by both Newfoundland Power  
34          and Hydro, reasonably ensures the cost of facilities that serve a particular customer  
35          are not unduly borne by other customers that are not directly connected to them, as  
36          outlined in the NARUC Manual.

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<sup>5</sup> In its Application, Hydro states at pages 1 to 2, paragraph 4: “The amount of the CIAC was calculated in accordance with Clause 5(e) of the CIAC Policy: Distribution Line Extensions and Upgrades to General Service Customers, approved by Board Order P.U. 27(2005) (“Policy”). As the cost of the line upgrade was estimated to be greater than \$100,000, the detailed cost estimate specified in Clause 5(e) was used.” Clause 5(e) referenced by Hydro in its Application is the same as Clause 5(e) of Newfoundland Power’s CIAC Policy which was most recently approved by the Board in Order No. P.U. 6 (2024).

<sup>6</sup> See Hydro’s 2017 General Rate Application, Volume 1 (Revision 5), July 4, 2018, Section 5.3.3 Allocation of Operating and Maintenance Costs to Specifically Assigned Assets, page 5.9, footnote 9.

<sup>7</sup> Construction of the RFD Tap Substation and transmission line were approved in Order No. P.U. 9 (1996-1997).

<sup>8</sup> Hydro’s Industrial – Firm rate is typically reviewed and approved as part of a Hydro general rate application. Hydro’s most recent general rate application and Industrial – Firm rate design was approved by the Board in Order No. P.U. 30 (2019).