

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

2  
3 **Q. Newfoundland Power states (CA-NP-181 pertaining to the 2024 Capital Budget**  
4 **Application) “if Memorial University were to be directly assigned all costs associated**  
5 **with its service from MUN Substation, consideration would have to be given to whether**  
6 **it remained appropriate for Memorial University to continue to pay a rate that recovers**  
7 **a portion of costs associated with substations, transformers, and distribution equipment**  
8 **that are used to serve other customers in the General Service Rate #2.4 customer rate**  
9 **class.”**

10 a) **Why did Newfoundland Power not provide such consideration during the review**  
11 **process for the 2024 Capital Budget Application? Was Newfoundland Power not**  
12 **familiar with its cost of service study and rate designs at that time?**

13 b) **Does Newfoundland Power believe that if Memorial University is directly**  
14 **assigned all costs associated with service from MUN Substation that it should**  
15 **not be required to pay a rate that recovers a portion of costs associated with**  
16 **equipment that is used to serve other General Service Rate 2.4 customers?**  
17 **Please explain.**

18 c) **Is Memorial University currently paying a rate that recovers costs for facilities**  
19 **that provide no benefit to Memorial University?**

20 d) **Does Newfoundland Power believe that if Memorial University is directly**  
21 **assigned all costs associated with service from MUN Substation that it should**  
22 **not be required to pay for common facilities that benefit many customers on the**  
23 **system including itself?**

24 e) **Please identify all costs and customer allocations for facilities included in the cost**  
25 **of service study that benefit only one customer but are being recovered from**  
26 **customers other than the benefitting customer.**

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28 A. a) Newfoundland Power’s treatment of customer contributions and capital expenditures  
29 associated with Memorial University are consistent with the application of Board  
30 approved rates, policies, and methodologies. This includes the Company’s *Schedule*  
31 *of Rates, Rules and Regulations*<sup>1</sup>, the *Contribution in Aid of Construction (“CIAC”)*  
32 *Policy*,<sup>2</sup> and cost of service methodology.<sup>3</sup>

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<sup>1</sup> Newfoundland Power’s *Schedule of Rates, Rules and Regulations, Effective July 1, 2023* was approved in Order No. P.U. 17 (2023).

<sup>2</sup> Newfoundland Power’s *CIAC Policy, Effective February 16, 2024* was approved by the Board in Order No. P.U. 6 (2024).

<sup>3</sup> The Company’s cost of service methodology has been approved by the Board since it was reviewed in detail as part of the Company’s *2003/2004 General Rate Application*. In Newfoundland Power’s *2003/2004 General Rate Application*, the Company presented detailed evidence on its cost of service study methodology. Through a mediation process, the parties at the hearing recommended the approval of the cost of service study methodology. In Order No. P.U. 19 (2003), the Board approved the recommendations as presented in the evidence and the Mediation Report. In Order No. P.U. 32 (2007), the Board stated that it was satisfied that Newfoundland Power’s cost of service study and methodology were appropriate to be used in establishing 2008 customer rates. At Newfoundland Power’s 2010, 2013/2014, 2016/2017, 2019/2020, and 2022/2023 general rate applications, the results of the Company’s cost of service studies were accepted for use in establishing customer rates.

1 The referenced statement was in relation to the incorrect position that Memorial  
2 University should pay all of the costs associated with work at the Memorial (“MUN”)  
3 substation. This position was not consistent with Board approved rates, policies and  
4 methodologies. The referenced statement identifies issues that would be created by  
5 adopting the incorrect position that Memorial University pay for all of the costs  
6 associated with MUN substation.

7  
8 Newfoundland Power’s treatment of costs associated with MUN substation was  
9 considered by the Board to be “*in no way unfair or discriminatory.*”<sup>4</sup>

- 10  
11 b) See part a).
- 12  
13 c) General Service Rate #2.4 is determined based on the aggregate revenue and  
14 aggregate costs to serve all of the customers in this rate class. Costs are allocated to  
15 the General Service Rate #2.4 customer rate class in accordance with Newfoundland  
16 Power’s approved cost of service methodology.
- 17  
18 d) See part a) and part c). The cost of common facilities that benefit many customers on  
19 the system are appropriately allocated to Newfoundland Power’s various rate classes  
20 in accordance with its approved cost of service methodology.
- 21  
22 e) Newfoundland Power requires a customer contribution in accordance with its *CIAC*  
23 *Policy* when the cost to serve a customer is in excess of the costs that will be  
24 recovered through rates. Customer contributions are deducted from Newfoundland  
25 Power’s rate base. As such, Newfoundland Power’s *CIAC Policy*, which is used by  
26 both Newfoundland Power and Hydro, reasonably ensures the cost of facilities that  
27 serve a particular customer are not unduly borne by other customers that are not  
28 directly connected to them.

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<sup>4</sup> See the Board’s July 7, 2023 letter *Re: Newfoundland Power Inc. – 2023 Capital Budget Supplemental 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.