

1 Q. **Reference: Reference: Hydro’s Revised Application for Approval of Construction of Hydro’s**
2 **long-term supply plan for southern Labrador, *Schedule 2 – Long-Term Supply for Southern***
3 ***Labrador – Evidence Supporting the Revised Application, May 31, 2023, Page 15, Footnote 20.***

4 *“The forecast rate impact of the total project is approximately 1.5% for the end*
5 *consumer on the Island Interconnected System and 2.0% for consumers on the*
6 *Labrador Interconnected System. Assumes the average revenue to cost ratio for*
7 *customers on the Labrador Isolated System in the 2019 Test Year is 24%, which*
8 *represents their portion of costs recovered through rates.”*

- 9 a) What additional revenue does Hydro anticipate it will receive from ratepayers in
10 southern Labrador given that Hydro expects a relatively stable customer load over the
11 25-year evaluation period?
- 12 b) Considering that Hydro expects a relatively stable customer load in southern Labrador
13 over the 25-year evaluation period, please explain how Hydro can expect to recover
14 approximately 24% of the cost of the project from customers in southern Labrador.
- 15 c) Please recalculate the customer rate impact based on the response to Part a) above.
- 16 d) Since Newfoundland Power’s customers pay approximately 96% of Hydro’s rural deficit,
17 please confirm that virtually all of the cost of Hydro’s long-term plan to supply
18 customers in southern Labrador will be borne by Newfoundland Power’s customers.

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21 A. a) Ratepayers in southern Labrador are part of the Labrador Isolated System which is subject
22 to rate change as Newfoundland Power Inc. (“Newfoundland Power”) changes its rates.
23 Section 16 of Newfoundland and Labrador Hydro’s (“Hydro”) Schedule of Rates, Rules and
24 Regulations, Policies for Automatic Rate Changes,¹ requires the following relating to rural
25 isolated rates:

¹ “Schedule of Rates, Rules and Regulations,” Newfoundland and Labrador Hydro, January 1, 2023.
<https://nlhydro.com/wp-content/uploads/2023/01/Schedule-of-Rates-Rules-and-Regulations_Jan-2023_Jan30.pdf>

- 1 i. Isolated Rural Domestic customers, excluding government departments, pay the same
2 rate as Newfoundland Power for the basic customer charge and first block consumption
3 (as outlined in Rate 1.2D). Rates charged for consumption above this block will be
4 automatically adjusted by the average rate of change granted Newfoundland Power;
- 5 ii. Rates for Isolated Rural General Service customers, excluding government departments,
6 will increase or decrease by the average rate of change granted Newfoundland Power
7 from time to time; and
- 8 iii. As Newfoundland Power changes its rates, Hydro will automatically adjust Rural Isolated
9 Street and Area Lighting rates, excluding those for government departments, such that
10 these rates are the same as charged Newfoundland Power customers.

11 The additional revenue from the Labrador Isolated System will depend on the rate of change for
12 Newfoundland Power customers over the 25-year evaluation period.

13 **b)** The revenue to cost ratio of 24% based on the 2019 Test Year was used to illustrate the
14 potential rate impacts of the project for the long-term supply for southern Labrador. The
15 recovery of 24% of the cost from customers on the Labrador Isolated System depends on the
16 level of rate increases as discussed in part a), and also the costs to serve all customers on the
17 Labrador Isolated System. The cost to serve these customers will depend on a number of factors
18 including capital replacements, fuel costs, and operating costs for the total Labrador Isolated
19 System, including the incremental costs relating to the proposal for the long-term supply for
20 southern Labrador.

21 **c)** The customer rate impact depends on the Newfoundland Power increases as discussed in part
22 a), along with cost changes on the Labrador Isolated System as discussed in part b). The rate
23 change will be a proportionate share of the rural deficit which is equal to revenue less the cost
24 to serve.

25 Hydro has not completed a long-term analysis incorporating this proposal for the long-term
26 supply for southern Labrador along with a forecast of total costs for the Labrador Isolated
27 System.

1 Table 1 shows the revenue and costs for the Labrador Isolated System for the 2007, 2015 and
2 2019 Test Years. The relationship between costs and revenue has been fairly consistent since
3 2007.

**Table 1: Revenue to Cost Ratios
Labrador Isolated System**

Test Year	Revenue (\$ Millions)	Cost of Service before Deficit (\$ Millions)	Revenue to Cost Ratio (%)
2007	6.0	23.6	25
2015	7.9	34.3	23
2019	9.0	37.9	24

4 **d)** Currently, Newfoundland Power’s customers pay 96.1% of the rural deficit. Hydro can confirm
5 that costs of the proposed project not recovered from customers on the Labrador Isolated
6 Systems will be primarily recovered from the customers of Newfoundland Power.