

Q. **Reference: NP-NLH-120**

NP-NLH-120 identifies a \$17.86 million “*Change in Costs*” for Island Industrial Customers between the 2019 and 2027 Test Years attributable collectively to changes in supply costs, other Test Year costs, functionalization, classification, load and allocation factors. Please quantify the portion of the \$17.86 million attributable to changes in the underlying costs included in Hydro’s revenue requirement, holding functionalization, classification and customer allocation factors constant.

A. NP-NLH-120 of this proceeding identifies an approximately \$17.86 million decrease in costs allocated to Island Industrial Customers between the 2019 Test Year and the 2027 Test Year. The three principal line items contributing to this decrease are shown Table 1.

Table 1 compares the amounts allocated to Island Industrial Customers in the 2019 and 2027 Test Years. The differences shown reflect both changes in the underlying costs included in Newfoundland and Labrador Hydro’s (“Hydro”) revenue requirement and changes in the applicable demand and energy allocation factors between the two test years.

Table 1: Main Contributors to Island Industrial Customers Cost Change (\$ Millions)¹

Description	2019TY	2027TY	Variance
Holyrood Fuels	20.69	5.62	(15.06)
Power Purchases – Off-Island	1.52	-	(1.52)
Power Purchases – Other	5.44	3.98	(1.46)
Total of Identified Items	27.64	9.60	(18.04)
Other Cost Changes, Net			0.19
Total Cost Change			(17.86)

¹ Numbers may not add due to rounding

Hydro performed a sequential analysis of these three principal items using the 2019 Test Year Cost of Service Study as the baseline. The analysis successively substituted:

- i. 2027 Test Year cost amounts;
- ii. 2027 Test Year system load factor;
- iii. 2027 Test Year wind capacity factor; and
- iv. 2027 Test Year Island Industrial customer-allocation factors.

The analysis retained the exclusion of direct project-related costs applied in NP-NLH-120. Table 2 provides the resulting reconciliation.

Table 2: Reconciliation of Island Industrial Change in Costs (\$ Millions)²

Description	Revenue Requirement	Incremental Change	Cumulative Change from 2019TY
2019 Test Year Baseline	45.662		
Substitute 2027 Costs Amounts ³	30.137	(15.525)	(15.525)
Substitute 2027 System Load Factor	30.068	(0.069)	(15.593)
Substitute 2027 Wind Capacity Factor	29.752	(0.316)	(15.910)
Substitute 2027 Customer Allocators	27.619	(2.133)	(18.043)
Other Differences (Residual)	27.804	0.185	(17.858)
2027 Test Year	27.804		(17.858)

The 2019 Test Year baseline amount allocated to Island Industrial Customers was \$45.662 million. After substituting the 2027 Test Year cost amounts for Holyrood Fuels, Off-Island Power Purchases and Other Power Purchases, while retaining the remaining 2019 Test Year assumptions, the resulting Island Industrial amount was \$30.137 million. Accordingly, the underlying cost changes associated with the three principal items produced a decrease of approximately \$15.525 million.

The applicable system load factor was then changed from the 2019 Test Year value of 54.34% to the 2027 Test Year value of 50.29%. This changed the classification of Other Power Purchases

² Numbers may not add due to rounding.

³ For the three principal items only (Holyrood Fuels, Power Purchases-Off-Island, and Power Purchases-Other).

1 between demand and energy and resulted in a further decrease of approximately \$0.069 million
2 in the amount allocated to Island Industrial Customers.

3 The 2027 Test Year wind capacity factor was then substituted. This further changed the demand
4 and energy classification of Other Power Purchases and resulted in an additional decrease of
5 approximately \$0.316 million. The combined underlying cost and classification effects of the
6 three principal items were therefore approximately \$15.910 million.

7 Finally, the 2027 Test Year Island Industrial demand and energy allocation factors were
8 substituted. This resulted in a further decrease of approximately \$2.133 million. Following that
9 substitution, the calculated decrease associated with the three principal items was
10 approximately \$18.043 million.

11 The corresponding calculated Island Industrial amount was \$27.619 million, compared with the
12 2027 Test Year amount of \$27.804 million. The approximately \$0.185 million residual represents
13 the net effect of all other costs, functionalization, classification, allocation, and specifically
14 assigned differences not captured through the analysis of the three principal items. The residual
15 offsets the \$18.043 million calculated decrease to produce the \$17.858 million decrease
16 reported in NP-NLH-120.

17 Accordingly, the three principal items explain substantially all of the change reported in NP-NLH-
18 120. The residual associated with all remaining differences is approximately 1% of the reported
19 change.