

1 Q. Reference: CA-NLH-001; CA-NLH-117

2 Hydro states in CA-NLH-117 that the targeted RCC for Island and Labrador Industrial Customers
3 is 1.00. Please explain the basis and rate design rationale for targeting an RCC of exactly 1.00 for
4 Industrial Customers, including whether Hydro regards 1.00 as a precise measure of the costs
5 caused by the class or as a benchmark produced by the approved Cost of Service methodology.
6 As part of the response, please identify any legislation, Government direction, Board order,
7 settlement agreement, Hydro policy or accepted rate-design principle that Hydro considers
8 requires or supports rates to be set at unity (i.e. 1.00).

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11 A. The basis and rate design rationale for targeting a revenue-to-cost coverage of exactly 1.0 is
12 based on the widely accepted principle of cost causation.¹ A fundamental principle of cost-based
13 rate design is that each customer class should bear the costs properly attributable to serving
14 that class, including its appropriate share of common system costs.

15 Newfoundland and Labrador Hydro is also legislatively prohibited from collecting revenues from
16 Island Industrial customers in excess of the cost to serve that customer class in order to
17 subsidize Rural customer classes. Order in Council OC2003-347 directed the Board of
18 Commissioners of Public Utilities to:

19 [...] continue to fund the financial deficit resulting from providing electrical
20 service to Newfoundland and Labrador Hydro's rural customers through the
21 electricity rates charged to Newfoundland and Labrador Hydro's other
22 electricity customers, including its Labrador interconnected retail customers and
23 Newfoundland Power, **but excluding the industrial customers.**²

¹"The total revenue requirement of the utility is attributed to the various classes of customers in a fashion that reflects the cost of providing utility services to each class." Please refer to "Electricity Utility Cost Allocation Manual," National Association of Regulatory Utility Commissioners, January 1992, p. 13, https://www.pubmanitoba.ca/pdf/cos_review/exhibits/mipug-28.pdf.

² Government of Newfoundland and Labrador, *Order in Council OC2003-347*, July 8, 2003.

1 Further, the *Electrical Power Control Act, 1994* also states that “[...] industrial customers shall
2 not be required to subsidize the cost of power provided to rural customers in the province, and
3 those subsidies being paid by industrial customers [...].”³

³ *Electrical Power Control Act, 1994*, SNL 1994, c E 5.1, s 3.