

1 Q. **Reference: CA-NLH-134**

2 CA-NLH-134 states that a Labrador-Island Link shortfall event or other generating-facility
3 unplanned outage would not influence the proposed allocation of costs or supply-cost variances.
4 Please distinguish the effect of an actual outage from the role of Hydro's planning and operating
5 criteria in determining Cost of Service inputs and classification. In particular, explain why Hydro
6 proposes a demand-and-energy allocation, rather than an energy-only allocation, for the costs
7 and credits identified in CA-NLH-134, given the role of the LIL shortfall-event criterion.

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10 A. Newfoundland and Labrador Hydro's ("Hydro") proposed Cost of Service Study uses a 2027 Test
11 Year. A test year is the selected period of costs, sales and loads used to establish rates expected
12 to apply beyond that period. Because Hydro's 2027 Test Year is a forecast, its inputs represent
13 Hydro's reasonable expectations based on the information available when the study is
14 prepared; they are not a record of every event that will occur in 2027. The National Association
15 of Regulatory Utility Commissioners Electric Utility Cost Allocation Manual describes a test year
16 as normally comprising 12 months of cost and sales data expected to be representative while
17 rates are in effect and expressly recognizes the use of projected data.¹ Section 3 (a) (ii) of the
18 *Electrical Power Control Act, 1994*, states that rates "*should be established, wherever*
19 *practicable, based on forecast costs for that supply of power for 1 or more years.*"

20 An actual Labrador-Island Link ("LIL") shortfall or unplanned generating-facility outage could
21 change the resources dispatched and the supply costs incurred. It could therefore give rise to an
22 actual supply-cost variance. It would not, simply by occurring, retroactively change the forecast
23 inputs or the method used to allocate costs and credits among customer classes in the proposed
24 Cost of Service Study. Material variations from the proposed 2027 Test Year would be captured
25 in the Long-Term Supply Cost Variance deferral account. Information about expected availability

¹ "Electric Utility Cost Allocation Manual," National Association of Regulatory Utility Commissioners, January 1992, ch. 3, p. 24,
https://www.pubmanitoba.ca/pdf/cos_review/exhibits/mipug-28.pdf.

1 and outages can inform the forecast when the study is prepared; an individual event after that
2 point is an operating result, rather than a new basis for classifying all generation-related costs.

3 Hydro proposes to allocate the costs and credits associated with the Muskrat Falls assets on a
4 demand-and-energy basis because those assets serve both customers' energy requirements and
5 the system's capacity requirements. The assumption that the assets provide 0 MW during a LIL
6 shortfall event addresses how Hydro plans for that particular contingency; it does not determine
7 how the assets are used to serve the system under normal circumstances or how costs and
8 credits are classified for the test year.

9 The existing methodology that uses a system load factor for the demand/energy split was
10 approved by the Board of Commissioners of Public Utilities in Order No. P.U. 37(2019).