Q. **Reference: $1.49 → $2.40 per kW/month (blended +61%); transmission sub-component $1.08 → $2.00 per kW/month (+85%) — Vol. I, Ch. 6, sec. 6.9.1, p. 6.29 (PDF p. 203); Vol. I, Ch. 1, sec. 1.7.2, p. 1.22 (PDF p. 55); Vol. I, Application, para. (xviii)(a), p. 11 (PDF p. 28).**

Preamble:

IOC seeks to understand the drivers of the proposed increase in order to assess whether each component is justified and properly allocated.

Itemize the proposed increase in the Labrador Industrial transmission demand rate into the contribution of each of the following, expressed in both dollars per kW/month and as a percentage of the total increase:

- **a)** transmission rate base growth;
- **b)** any change in the functionalization or classification of transmission-related costs implemented since the 2019 Test Year, including any Muskrat Falls Project-related amounts, if any;
- **c)** changes in the allowed return / cost of capital;
- **d)** changes in depreciation; and
- **e)** changes in billing determinants.

A) Table 1 provides a bridge of the increase based on the transmission-demand cost components reported in the respective cost-of-service studies.

Table 1: Transmission-Demand Cost Components[1]

Component	2019TY	2027TY	Variance	Variance ($/kW)	Variance (%)
Transmission Demand Revenue Requirement ($)[2]	6,321,043	11,524,019	5,202,976		
Labrador Industrial (CP kW%)[3]	57.05%	66.02%	8.97%		
Revenue Requirement – Labrador Industrial ($)	**3,606,165**	**7,608,202**	**4,002,037**		
Operations and Maintenance ($)	1,881,563	3,089,159	1,207,596	0.36[4]	39%
Depreciation ($)	514,515	1,550,575	1,036,060	0.31	33%
Expense Credits ($)	(6,850)	(10,104)	(3,254)	(0.00)	0%
Return on Debt ($)	844,908	1,837,193	992,284	0.30	32%
Return on Equity ($)	372,029	1,141,379	769,350	0.23	25%
Revenue Requirement ($)	**3,606,165**	**7,608,202**	**4,002,037**	**1.19**	
Billing Determinants (kW)[5]	3,352,000	3,804,000	452,000	(0.27)	-29%
Demand Rate ($/kW)	**1.08**	**2.00**	**0.92**	**0.92**	**100%**

The main drivers for the change in demand rate from $1.08/KW to $2.00/KW are detailed herein.

a) Transmission Rate Base Growth:

The largest contributors to the increase are the revenue-requirement impacts associated with growth in transmission plant investment. The Labrador Industrial Customers' share of transmission-related return on debt increased from approximately $0.84 million in 2019 to $1.84 million in 2027, while return on equity increased from approximately $0.37 million to $1.14 million. Together, these components contribute approximately $0.53/kW/month of the overall increase. The overall return on rate base decreased from 5.43% in the 2019 Test Year to 4.88% proposed in the 2027 Test Year.

[1] Numbers may not add due to rounding.
[2] Sch. 2.1E, col. 5/23.
[3] Sch. 3.1E, col. 5/14.
[4] Calculated as follows: (Variance ÷ 2019 Revenue Requirement) × 2019 Demand Rate = ($1.24 million ÷ $3.61 million) × $1.08/kW = $0.36/kW.
[5] Sch. 1.3.2, p. 3/8.

b) Depreciation:

Labrador Industrial Customers' allocated transmission-related depreciation expense increased from approximately $0.51 million in 2019 to $1.55 million in 2027, contributing approximately $0.31/kW/month of the increase. The increase reflects the larger transmission asset base included in the 2027 Test Year revenue requirement.

c) Operations and Maintenance:

The Labrador Industrial allocation factor for transmission demand costs increased from 57.1% in the 2019 Test Year to 66.0% in the 2027 Test Year, reflecting an increased share of coincident peak demand attributable to Labrador Industrial Customers. This change increases Labrador Industrial's share of the Labrador Interconnected transmission revenue requirement and contributes approximately $0.36/kW/month to the rate increase.

d) Billing Determinants:

Labrador Industrial Customer billing determinants increased from approximately 3.35 MW to 3.80 MW. Holding revenue requirement constant, this increase reduces the unit rate and offsets the increase by approximately $0.27/kW/month, thereby moderating the overall rate impact.