

1 Q. **Reference: Vol. I, Ch. 6, secs. 6.2–6.3, pp. 6.2–6.10 (PDF pp. 176–184); Vol. I, Schedule F (2027**
2 **TY Cost of Service Study), Labrador Interconnected schedules F 2.1E–F 3.2E (PDF pp. 287–302);**
3 **Vol. I, Schedule G (2027 TY COS, Excluding Rate Mitigation) (PDF pp. 357–464).**

4 Preamble:

5 The Application implements the cost-of-service methodology approved in Board Order No. P.U.
6 37(2019) and addressed in the 2025 Cost of Service Methodology Application, under which
7 Muskrat Falls Project costs are functionalized as generation. IOC seeks to isolate the effect of
8 the methodology change on the allocation to Labrador Industrial customers.

9 Explain how the proposed cost-of-service methodology changes the allocation of transmission
10 costs to Labrador Industrial customers compared with the methodology used in the 2019 Test
11 Year and provide a quantified before-and-after comparison.

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14 A. Under the authority of the *Electrical Power Control Act, 1994*, the Lieutenant Governor in
15 Council, in Order-in-Council OC2013-343, directed the Board of Commissioners of Public Utilities
16 (“Board”) to adopt a policy wherein costs incurred by Newfoundland and Labrador Hydro
17 (“Hydro”) that are payable to an entity to which the Muskrat Falls Exemption Order,
18 OC2013-342, applies are to be recovered by Hydro in its rates charged to the appropriate classes
19 of customers served from the Island Interconnected System. The Muskrat Falls Exemption
20 Order, OC2013-342, applies to: the entities that own and operate the Muskrat Falls
21 Hydroelectric Generating Facility; the Labrador Transmission Assets, which is the transmission
22 line connecting the Churchill Falls Generating Station and the Muskrat Falls Hydroelectric
23 Generating Facility; and the Labrador-Island Link, which starts from Muskrat Falls and
24 terminates at the Soldiers Pond Converter Station.

- 1 The proposed Cost of Service Methodology changes related to the Muskrat Falls Project costs
- 2 have no impact on Labrador Industrial customers since all costs are to be recovered from
- 3 customers served from the Island Interconnected System.