

1 Q. **Reference: LAB-NLH-021**

2 Citation:

3 The costs associated with the Muskrat Falls project are allocated only to customers on the Island
4 Interconnected System. As outlined in part a) of this response, Rural Labrador Interconnected
5 System customers are allocated a portion of the rural deficit resulting from supply cost variances
6 in the Rural Island Interconnected deficit areas, consistent with cost allocation in the Cost of
7 Service Study and past practice for disposition of deferral account balances related to supply
8 costs.

9 **a)** Are any costs associated with the Muskrat Falls project allocated to Rural Island
10 Interconnected customers? If so, please explain in detail how this allocation is carried
11 out.

12 **b)** In the affirmative, please explain in detail the mechanism by which costs associated with
13 the Muskrat Falls project are excluded from the Rural Deficit, of which Rural Labrador
14 Interconnected System customers pay a share.

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17 A. **a)** Yes, a portion of Muskrat Falls Supply Costs are allocated to Rural Island Interconnected
18 customers. Muskrat Falls Supply Costs are allocated between Island Interconnected System
19 production demand and energy in the Cost of Service Study using the system load factor.
20 Demand and energy costs are then allocated to customer classes based on customer class
21 coincident peak and customer class energy consumption, respectively.

22 **b)** The Rural Deficit is a calculation of revenue shortfall between the costs to serve customers
23 in Rural Deficit areas and the revenue recovered through applicable customer rates.

24 While Labrador Interconnected customers contribute to the recovery of the Rural Deficit,
25 this should not be equated with the allocation of Island Interconnected System production
26 costs, including Muskrat Falls Supply Costs, to Labrador Interconnected customers.

1 Under Newfoundland and Labrador Hydro's Cost of Service methodology, Muskrat Falls
2 Supply Costs are allocated to Island Interconnected System customer classes only through
3 the approved demand and energy allocators. These costs are not directly assigned to
4 Labrador Interconnected customer classes.

5 The Rural Deficit, by contrast, is a rate recovery mechanism established by the Government
6 of Newfoundland and Labrador to recover the revenue shortfall associated with providing
7 service in Rural Deficit areas. It operates after costs have been allocated through the Cost of
8 Service Study and does not alter the underlying allocation of costs to customer classes. The
9 Rural Deficit is allocated between Newfoundland Power Inc. and Rural Labrador
10 Interconnected customers at 96.6% and 3.4%, respectively, as per Hydro's Application.
11 However, the portion allocated to Rural Labrador Interconnected customers in between test
12 years is not recovered from customers and is instead written off against Hydro's net income.

13 Accordingly, while Labrador Interconnected customers contribute to the recovery of the
14 Rural Deficit, this contribution does not mean that Muskrat Falls Supply Costs have been
15 allocated to Labrador Interconnected customers.