

1 Q. **Reference: IOC-NLH-111**

2 Preamble:

3 Table 1 shows that the Labrador Interconnected Transmission-Demand Revenue Requirement
4 has increased since the last GRA by 82.3%, from \$6.3 million to \$11.5 million.

5 a) Please provide a table showing the components resulting in this increase, including for
6 2019TY and 2027TY:

7 a. Labrador transmission rate base value,

8 b. Labrador transmission capital costs,

9 c. Labrador transmission operating costs, and

10 d. Any other relevant components.

11 b) Please explain in detail the reasons for this very substantial increase.

12 c) Can similar increases be expected in the future? Please present a similar table with
13 forecast values for 2031TY, 2035TY and 2040TY.

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16 A. a) The components contributing to the increase in the Labrador Interconnected transmission-
17 demand revenue requirement between the 2019 Test Year and the 2027 Test Year are
18 provided in Table 1.

Table 1: Labrador Interconnected Transmission-Demand Revenue Requirement and Rate Base (\$)¹

Description	2019TY	2027TY	Variance
Operating and Maintenance Expense	3,298,085	4,679,099	1,381,014
Depreciation Expense	901,865	2,348,631	1,446,766
Expense Credits	(12,007)	(15,304)	(3,297)
Return on Debt	1,480,992	2,782,766	1,301,774
Return on Equity	652,108	1,728,828	1,076,720
Total Revenue Requirement	6,321,043	11,524,019	5,202,976
Transmission Demand Rate Base	39,283,599	92,450,686	53,167,087

The increases in return on debt and return on equity reflect growth in the underlying Labrador transmission rate base between the 2019 and 2027 Test Years. Operating and maintenance expense, as well as depreciation expense, have increased correspondingly as additional transmission assets have been placed into service.

b) The increase in the Labrador Interconnected transmission-demand revenue requirement is primarily attributable to growth in the transmission asset base since the 2019 Test Year and the resulting increases in depreciation and required returns. As shown in Table 1, depreciation expense increased by approximately \$1.45 million, return on debt increased by approximately \$1.30 million, and return on equity increased by approximately \$1.08 million. Together, these three capital-related components account for approximately 73% of the total increase in revenue requirement. Operating and maintenance expenses increased by approximately \$1.38 million and account for most of the remaining increase. The increase in operating and maintenance costs is generally consistent with the increase in transmission assets in service and higher related support costs. Similar drivers were identified in the response to IOC-NLH-031 of this proceeding, which showed increases in both direct transmission costs and associated administrative and general cost allocations. Please refer to IOC-NLH-001 and IOC-NLH-006 of this proceeding for capital additions, and explanations surrounding the increase in the transmission demand revenue requirement.

¹ Numbers may not add due to rounding.

1 **c)** Future increases of the magnitude experienced between the 2019 and 2027 Test Years are
2 not necessarily indicative of expected future trends. The 2019 to 2027 period included
3 significant changes to Newfoundland and Labrador Hydro's ("Hydro") asset base following
4 the completion and integration of major transmission investments. Future projects, such as
5 the Labrador West transmission project, are in the early planning stages, and the impact is
6 not yet known. Please refer to Hydro's response to LAB-NLH-044 of this proceeding for
7 additional information pertaining to the Labrador West transmission project.