


HQTD Request R-4270-2024 Phase 1

Nalcor Energy Marketing Corporation (NEMC)
Presentation



NEMC Introduction


- NEMC is a customer of Hydro-Québec's point-to-point transmission service in its transmission activities (the "Transmission Provider")
 - NEMC is an affiliate of Newfoundland and Labrador Hydro on whose behalf it makes use of the Transmission Provider's grid and exports electricity from Newfoundland and Labrador to wholesale markets in northeastern North America
 - NEMC has clear interest in intervening in this proceeding as the decision to be rendered by the Régie in this case will have a direct impact on the tariffs and conditions of Hydro-Québec's transmission services applicable to NEMC
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Focus of NEMC's comments


1. Impact of Action Plan 2035 on HQTD's revenue requirements
2. Increases in requested rates and the proposed regulatory treatment for costs related to vegetation management



HQ's Action Plan 2035

- HQ released its new corporate business plan titled Action Plan 2035 in the fall of 2023
 - The objectives of the plan are to #1 make it possible to reduce greenhouse gases, #2 meet demand growth, and #3 provide reliable, simple and affordable service
 - The plan describes HQ's 5 priorities for meeting the following 2 challenges:
 - The energy transition
 - HQ customer needs
 - Action Plan 2035 is an ambitious plan requiring massive and unprecedented investments
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Impact of Action Plan 2035

- HQT D's joint application is structured around the Action Plan 2035
 - HQT D's position is that costs presented to the Régie in this application must be assessed based on the Action Plan 2035 rather than by a comparison to historical costs
 - However, Action Plan 2035 is not open for debate or subject to formal approval by the Régie
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Impact of Action Plan 2035

- HQ's corporate business plan is referenced in the justification of numerous costs increases throughout the application
- Despite these numerous instances, HQT D has responded that it is not able to break down and quantify the costs relating to the implementation of its Action Plan 2035
- Without this breakdown, it is challenging to evaluate whether the additional costs are just and reasonable



NEMC's recommendation #1

- NEMC's recommendation to the Régie was to order HQT D to break down and specifically quantify the costs related to the increases attributed to the implementation of the Action Plan 2035.
- The purpose of this recommendation is to ensure:
 - Costs are well understood and justified prior to integration in the rate base, and
 - Rates set are just and reasonable



New regulatory practice for vegetation management costs

- HQT D is requesting that the costs relating to vegetation management be accounted for as a regulatory asset
- As such, the costs would be integrated into the rate base and depreciated over the period during which the work is expected to benefit the quality of service (7 years for transmission)



Rate increases related to vegetation management costs

- Increased incurred operating costs:
 - Amounts relating to vegetation management are significant and higher than those authorized by the Régie in its decision D-2022-063
 - NEMC questions whether it is fair for customers to bear the costs of more complex and costly interventions today resulting from the Transmission Provider's past prioritization decisions
- Increased carrying costs:
 - HQTD is proposing to create a regulatory asset each year going forward, for the full incurred cost of vegetation management (not just the portion related to backlogs), despite catch up by 2024



Merits of proposed regulatory practice

- NEMC understands that the application of the new regulatory practice would mitigate the short-term tariff impact for customers, but questions the merit of this practice in relation to:
 - tariff principles
 - its application to operating expenses

Tariff principles


- Principle of truth of costs: the annual revenue requirement should reflect the average annual cost of service
 - In 2025, only a portion of the average annual cost of vegetation management would be included in the revenue requirement
- Predictability and simplicity of rates
 - The proposed amortization calculation is now better understood
 - The impact on future rates is still difficult to assess



Tariff principles (continued)

- Equity:
 - Accounting for regular, cyclical vegetation management costs as operating expenses naturally smooths rates and grants equity
 - Customers in 2025 will benefit from vegetation management completed in previous years (NEMC calculates an annual average of 18 873 ha cleared)
 - Under the proposed treatment, transmission customers in 2025 will pay just 4% of the incurred costs to clear 22 200 ha. The rest of the costs will be borne by future rate payers
 - Beginning in 2031 and for the future, the proposed regulatory treatment is forecasted to increase the revenue requirement relative to accounting for vegetation management costs as operating expenses
 - As a result, the proposed regulatory treatment appears to create intergenerational inequity

Application of proposed regulatory treatment to operating expenses

- HQTD provided references to other jurisdictions where vegetation management costs are treated as a regulatory asset
 - NEMC reviewed the references related to Manitoba Hydro and Maritime Electric
 - In those jurisdictions, vegetation management costs are generally treated as operating expenses, except that costs associated with clearing new or newly widened corridors may be capitalized
 - NEMC understands that under this method of categorization, HQTD's incurred costs of vegetation management would be categorized as operating expenses
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NEMC recommendation #2

- Based on the information on file at this stage, it appears that the proposed regulatory treatment for vegetation management costs will have an upward impact on future rates
- In the short-term, it appears advantageous for customers, particularly in 2025
- NEMC relies on the judgement of the Régie regarding the adoption of the proposed regulatory treatment and what the Régie considers to be in the best interest of all customers



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