

IN THE MATTER OF the *Electrical Power Control Act, 1994* (the “EPCA”) and the *Public Utilities Act, R.S.N. 1990, Chapter P-47* (the “Act”) and their subordinate regulations; and

IN THE MATTER OF an Application by Newfoundland and Labrador Hydro (“Hydro”) for approvals of: (1) Under Section 70 of the Act, changes in the rates to be charged for the Supply of power and energy to its Retail Customer, Newfoundland Power, its Rural Customers and its Industrial Customers; (2) Under Section 71 of the Act, its Rules and Regulations applicable to the supply of electricity to its Rural Customers; (3) Under Section 71 of the Act, the contracts setting out the terms and conditions applicable to the supply of electricity to its Industrial Customers; and (4) Under Section 41 of the Act, its 2002 Capital Budget.

RESPONSE TO NLH-97

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NLH-97 (Re: p.23, lines 33 to 1 on p.24)

Q: In the event of replacement or major repair of these frequency converters who should bear the cost and why?

A: All costs associated with the frequency converters, including replacement or repairs, should continue to be assigned to common.

The allocation of frequency converters, and all costs associated with them including replacement or repairs, to common or specifically-assigned is a cost causation issue that must be considered in the context of the Newfoundland electrical system history. As Mr. Osler understands this history, the frequency converters' role was integral to the development of the current low-cost hydro-based grid infrastructure, as opposed to having high-cost isolated systems on the Island (this is laid out in detail in the studies provided in IC-55, IC-56 and IC-219). All customers benefited and continue to benefit from the provision of these frequency converters, since without the frequency converters the grid and Bay D'Espoir as it exists today would not have been constructed (and consequently electrical rates would likely be higher on average throughout the Island Interconnected system).

In some cases, assets that change roles within a system (e.g. transmission lines that start out serving one customer, but over time come to serve more customers) can be reassigned from specific to common due to their changed role. The opposite can also occur over time. An example is the Bottom Brook to Grandy Brook transmission line that Hydro proposes to reassign from Common to Specifically Assigned Hydro Rural due to the closure of Hope Brook Gold (Budgell, page 20-21). In this case, it appears that while Hope Brook Gold was connected to the system, all Island Interconnected customers benefited from the increased load to share the system costs, and since it closed these benefits have disappeared - this is the basis for reassigning the line and not charging the costs to the other Island Interconnected customers at this time.

The frequency converters are a very different issue. The benefits to all Island Interconnected customers (the lower rates that come from having developed a hydro-based interconnected grid) continue now and into the future while the industrial customers who contributed to the development of this grid system must continue to rely upon the frequency converters retained from the outset to connect their specific loads. As a result, it is incorrect to assign the costs of these converters (including required repairs and replacements, as has been the case from the outset of the grid) to only the customers who continue to use 50 Hz power when the benefits continue to accrue to all Island Interconnected customers. Consequently, all costs associated with the frequency converters should be assigned to common.