

1 Q. **Cost of Service**

2 (Amended GRA) On page 4.29 (lines 3 to 5) it is stated “*The material increase in the*
3 *specifically assigned costs to CBPP is a result of approximately \$3.5 million of capital*
4 *expenditures by Hydro over the period 2007 to 2015 forecast on the frequency*
5 *converter in place to provide service to CBPP*”. Please comment on the following:

- 6 a) Does the \$3.5 million spent on the frequency converter benefit any
7 customers on the Island Interconnected System other than CBPP?
8 b) Does the Corner Brook frequency converter provide a legacy benefit to
9 all customers? Please explain.
10 c) Why does Hydro not simply retire the Corner Brook frequency converter
11 from service, or alternatively, transfer ownership to CBPP? If it were to
12 do so, which customers on the system would be disadvantaged and
13 how?
14 d) If the \$3.5 million spent on the frequency converter were not recovered
15 from CBPP, which customer classes would it be recovered from and how
16 much would be recovered from each customer class?

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19 A. a) The \$3.5 million of capital expenditures for the frequency converter by
20 Hydro over the period 2007 to 2015 forecast will result in a material
21 increase in Specifically Assigned costs to CBPP. This unit is of primary
22 benefit to CBPP as it allows CBPP to convert some of its 50 Hz generation to
23 60 Hz for use within its mill operations, thereby reducing the amount of
24 power it would otherwise have to purchase from the grid. In addition, the
25 unit provides an ancillary benefit of increasing the overall stability of CBPP's
26 50 Hz power system. The unit will provide for system capacity support on

1 occasion as, under the CBPP Demand Credit Agreement, Hydro is able call
2 upon CBPP to maximize its 60 Hz generation when required. In this manner,
3 if there is generation in excess of CBPP's mill requirements, it is made
4 available to the grid.

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6 b) Hydro does not believe that the CBPP frequency converter provides a legacy
7 benefit to all customers as the power system has evolved such that the unit
8 is of primary benefit to this customer. Hydro believes that the specific
9 assignment of all costs associated with this unit to CBPP is appropriate.

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11 c) Hydro has not contemplated retiring the CBPP frequency converter as it
12 would create undue hardship on CBPP. The retirement of this unit would
13 reduce CBPP's 60 Hz generating capacity by 18 MW and result in a
14 significant increase in power purchase requirements from Hydro or
15 alternatively, a partial shut of operations in the mill. Hydro has not entered
16 into discussions with CBPP on the transfer of this unit in recent years so it is
17 unable to comment on whether this would be advantageous or
18 disadvantageous to CBPP.

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20 d) Hydro believes that the \$3.5 million spent on the frequency converter is
21 appropriately assigned to CBPP, so it deems that an analysis to determine
22 which customer classes it would otherwise be recovered from and how
23 much would be recovered from each customer class is unnecessary.
24 However, if the frequency converter was treated as a common cost, it would
25 be recovered from all customers on the Island Interconnected System, of
26 which more than 90% of revenue requirement is recovered from retail
27 customers.