

1 Q. (Amended 2013 GRA) Does Mr. Dean recommend that the costs associated with the
2 CBPP frequency converter be specifically assigned to CBPP as proposed by Hydro?
3 Please provide support for your response.

4 A. In P.U.7(2002-2003), the Board ruled that the frequency converters be specifically
5 assigned to the IC in the cost of service (COS) (section 5, pages 113-114). There have
6 been two readily apparent changes since that time. The first is that the specific
7 allocated charge for CBPP has increased from \$91,321 (P.U.21(2002-2003),
8 schedule A, page 2 of 30) in 2002 to \$891,044 which is proposed in the 2015 COS
9 (Schedule 3.A, sum of lines 23 and 24, column 2). The second is that in January
10 2014, the frequency converter was used to convert Deer Lake power to sixty hertz for
11 the benefit of all customers on the grid. Subsequent to the January 2014 outages, a
12 capacity agreement has been entered into with CBPP.

13 With regard to the large increase in specific allocated costs, the Updated Pre-filed
14 Testimony of P. Bowman and H. Najmidinov dated June 4, 2015 (section 7.0, pages
15 55-61) discusses the capital expenditure on the frequency converter and the de-
16 rating of the converter. I submit that the quantity of capital work, the effectiveness of
17 that work and the rating of the frequency converter may be a prudence issue but it is
18 not an issue of specific assignment. The issue of specific assignment should be
19 based on fundamental principles, not the assigned cost.

20 I do note that the capital spent on the frequency converter was in recent years and
21 thus the assigned amount of Hydro's operating, maintenance and administration
22 (OMA) expense assigned to CBPP is disproportionately high. As discussed in my
23 evidence dated June 4, 2015 (pages 3-10), Hydro's method of allocating OMA
24 expense does not take into account the time value of money. Hydro's response to V-
25 NLH-083 revision 1 recalculates the OMA expense based on using indexed original

1 costs. This method, which I submit, is a much more equitable methodology will
2 reduce CBPP specific assigned charge by \$166,509 a year.

3 The second issue is who benefits from the frequency converter. A similar issue was
4 the assignment of the Great Northern Peninsula plant in both the 2001 GRA (P.U.
5 7(2002-2003), Section 4, pages 110-113) and the 2003 GRA (P.U.14(2004), section
6 2, pages 89-93). The reoccurring theme that arose in the Board's discussion on
7 assignment was who received the substantial benefit, and the dominant use of the
8 transmission plant. This is instructive in relation to the assignment of the frequency
9 converter. The IC evidence and the response to CA-NLH-295 differ on the benefits,
10 however, I would agree that the substantial benefit is for CBPP.

11 In conclusion, I recommend that the frequency converter remain specifically assigned
12 to CBPP. However, the annual OMA cost should be reduced in accordance with
13 Hydro's response to V-NLH-083 revision 1. In addition, in light of the fact that the
14 frequency converter has been used and could be used in the future for the benefit of
15 all island interconnected customers, I recommend that the frequency converter be
16 considered as a necessary component of the capacity agreement and any
17 compensation that the Board deems appropriate should form part of the agreement.