

1 Q. In Order P.U. 7 (2002-2003), the Board states on page 114:

2 *"The Board agrees with NLH that the frequency converters should be specifically*  
3 *assigned to the industrial customers as they are of benefit to only those*  
4 *customers. The suggestion that a previous assignment of plant would not be able*  
5 *to be changed if the circumstances for the original assignment changed is neither*  
6 *acceptable nor reasonable."*

7 *The Board accepts NLH's proposal that the frequency converters be specifically*  
8 *assigned to the IC in the COS."*

9 Please explain in detail the changes in circumstance that have occurred since 2001 that  
10 would justify the Board treating the frequency converter as a common asset in Hydro's  
11 2015 Cost of Service Study.

12 A. There are 3 major changes in circumstances:

- 13 1) The cost of the frequency converter specifically assigned costs now comprises  
14 over 21% of what CBPP is forecast to pay Hydro in the Test Years. The above  
15 allocation was derived when the impact on CBPP was only 0.4% of its annual bill.
- 16 2) Material capital investment has occurred to the Frequency Converter in the past  
17 few years. As a rate base asset that is specifically assigned, CBPP is effectively  
18 exposed to a "blank cheque" relationship with Hydro in respect of the unit, with  
19 little to none of the protections that would occur under a reasonable contractual  
20 relationship between the parties to provide this service (where CBPP would be  
21 expected, for example, to have input and control over what degree of investment  
22 Hydro makes into the unit, and have performance guarantees on the capability of  
23 the unit and the capital works undertaken by Hydro). For this reason, a rate base  
24 treatment with specific assignment to CBPP is of concern for fairness reasons. At  
25 the time of the above PUB decision, there was little capital investment nor  
26 concerns arising with respect to the performance of the unit.

1           3)     Hydro is presently investing in customer CDM which is predicated on reducing  
2               the net load on the 60 Hz system, which is paid for by all customers. As a  
3               resource that helps reduce the 60 Hz load on Hydro (by converting 50 Hz power  
4               to 60 Hz) the resource provided by the frequency converter is 5 times more  
5               power than the CDM program (approximately 158 GW.h compared to 32 GW.h  
6               for CDM) at a cost that is one-third as much (\$0.35 million/year compared to \$1  
7               million/year). As CBPP is effectively required to pay for a share of the CDM and  
8               load reduction activities of other customers at a relatively high cost for the  
9               resource gained, it is not clear why comparable treatment would not be afforded  
10              CBPP for the large benefit of the frequency converter at a relatively small cost to  
11              other ratepayers. At the time of the 2003 decision quoted, Hydro was not actively  
12              engaged in CDM as it is now.