

1 Q. **Cost of Service**

2 (Amended GRA) Please provide an analysis showing that all costs associated with  
3 providing service to CBPP including standby power are being fully recovered.  
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6 A. **General**

7 Hydro conducts an embedded Cost of Service study to determine if the proposed  
8 rate to the Island Industrial Customers (IIC) fully recovers the embedded cost of  
9 providing service for the test year used to determine prospective rates. The  
10 embedded Cost of Service reflects the cost of providing firm load to the IIC class and  
11 is completed in accordance with a methodology approved by the Board. Hydro  
12 does not conduct a separate Cost of Service study for each customer in the class.

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14 **Proposed Firm Rates to CBPP**

15 Based upon Hydro's Amended Application, the average demand cost of providing  
16 service to the IIC is \$100.56 per kW for firm billing demand or \$8.38 per kW per  
17 month.<sup>1</sup> The average energy cost is 5.151¢ per kWh.

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19 There is also a proposed specifically assigned charge to Corner Brook Pulp and  
20 Paper Limited (CBPP) of \$891,045. Specifically assigned charges recover costs  
21 incurred for assets that are in service solely for each IIC. These costs include  
22 operating and maintenance costs, depreciation and return on the specifically

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<sup>1</sup> The average demand cost reflects the portion of capacity assistance costs allocated to the IIC class.

1 assigned assets.<sup>2</sup> These charges relate primarily to the frequency converter in place  
2 to provide service to CBPP.

#### 3 4 **Non-Firm Rate to CBPP**

5 The IIC contracts currently include a provision for interruptible demand.<sup>3</sup>

6 The definition for CBPP is as follows:

7 *“Interruptible Demand”* means, that part of a Customer’s Demand,  
8 other than its Generation Outage Demand, which exceeds its Power  
9 on Order, which may be interrupted, in whole or in part, at the  
10 discretion of Hydro, and which is supplied to the Customer in  
11 accordance with Clause ...  
12

13 The 2015 Test Year Cost of Service Study does not include interruptible demand in  
14 determining the peak demand for the IIC class for cost allocation. The interruptible  
15 demand reflects the non-firm load requirement in the standard IIC contracts. When  
16 customers are using interruptible demand, they are generally required to pay for  
17 their additional energy requirements based upon the cost of fuel for the thermal  
18 generation source providing energy.

19  
20 In order to encourage the efficient use of its hydroelectric generation, CBPP is  
21 permitted to exceed its firm demand requirements without paying the non-firm  
22 energy price so long as such exceedance is due to a decrease in the output from its  
23 hydroelectric generation and not an increase in the demand at CBPP's paper mill  
24 facilities. If CBPP does not have its maximum generation available when requested  
25 to meet system requirements and its demand exceeds its firm demand, then CBPP

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<sup>2</sup> When a customer has paid a contribution in aid of construction for the specifically assigned assets, the costs reflected in the specifically assigned charge only recover the allocation of operating and maintenance costs for those assets.

<sup>3</sup> Provided the Amount of Power on Order is equal to or greater than 20,000 kW, the amount of Interruptible Demand and Energy available shall be the greater of 10% of the Amount of Power on Order and 5,000 kW. If the Amount of Power on Order is less than 20,000 kW, the Amount of Interruptible Demand and Energy available shall be 25% of the Amount of Power on Order.

1 must pay the cost of fuel for the thermal generation source providing energy. This is  
2 in accordance with the CBPP Demand Credit Contract proposed for final approval in  
3 Hydro's Amended Application. See Section 2.5.4 Pages 70 to 71.<sup>4</sup>  
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#### 5 **Capacity Assistance Agreements**

6 Hydro has entered into two agreements with CBPP to provide capacity assistance.  
7 The initial capacity assistance agreement with CBPP allows Hydro to call on CBPP for  
8 its ability to provide up to 60 MW capacity assistance to Hydro during winter peak  
9 demand periods by both reducing its firm demand supplied by Hydro (9 MW), and  
10 by providing 51 MW of capacity to Hydro's system from the CBPP hydraulic  
11 generating facilities. In Order No. P.U. 49(2014), the Board approved the capacity  
12 assistance agreement as it was satisfied that the Capacity Assistance Agreement  
13 between Hydro and CBPP will provide additional reliability to the Island  
14 Interconnected System.  
15

16 CBPP is provided a credit of \$28 per kW per winter season, plus 20¢ per kW per  
17 hour of interruption. The capacity credit applied to CBPP's firm demand results in a  
18 \$252,000 reduction (9,000 kW x \$28) in CBPP's billings from Hydro permitting the  
19 interruption of their 9 MW firm demand requirement. The \$28 per kW represents  
20 approximately 28% of the charge CPPP pays Hydro for firm demand. The capacity  
21 assistance credit was demonstrated as reasonable giving consideration to Island  
22 Interconnected System marginal costs for the period 2015 to 2017.  
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24 The additional capacity assistance payment to CBPP of \$1,428,000 (51,000 kW x  
25 \$28) is not the result of a reduction in CBPP firm demand requirements but is

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<sup>4</sup> In April 2009, the Board issued Order No. P.U. 17(2009) approving, on a pilot basis for a two-year period, a demand credit rate structure to be applied to Hydro's service agreement for CBPP. This service agreement format was intended to provide a price signal that would facilitate more efficient use of that customer's hydraulic generating resources in coordination with its pulp and paper mill operations.

1 effectively a capacity assistance purchase from CBPP and is not viewed as a  
2 reduction in CBPP's cost of purchases from Hydro.

3  
4 Hydro also has a Supplemental Capacity Assistance Agreement, which provides for  
5 an additional net capacity assistance of approximately 22 MW through a further  
6 interruption by CBPP of its operating load that is normally provided by the CBPP  
7 hydro generating facilities. For this capacity assistance purchase, Hydro provides  
8 payment to CBPP on a cent per kW per hour of interruption basis if the capacity  
9 assistance is required.<sup>5</sup> The supplemental capacity assistance agreement is not  
10 viewed as a reduction in CBPP's cost of purchases from Hydro. The cost incurred by  
11 Hydro represents a capacity assistance purchase from CBPP consistent with the 51  
12 MW of capacity assistance purchase described in the previous paragraph.

#### 13 14 **Summary**

15 The proposed IIC firm rate and non-firm rate which applies to CBPP provides  
16 recovery of the cost of providing service to CBPP. The capacity assistance  
17 agreement has the net effect of reducing the proposed firm demand costs to be  
18 paid by CBPP by 28%. Hydro submits that the cost of capacity assistance is  
19 reasonable for the reliability benefits provided to customers and the net cost paid  
20 by CBPP to Hydro for firm and non-firm purchases is reasonable.

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22 The costs incurred for capacity assistance purchases from CBPP are the result of  
23 capacity purchases and are not incurred as a result of providing service to CBPP.

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<sup>5</sup> The payment is 55 cents per kW per hour for the first 10 MW of Supplemental Capacity Assistance and 65 cents per kW per hour for Supplemental Capacity Assistance in excess in 10 MW.