

1 Q. Please provide an order of magnitude of the amount that would be
2 associated with the Specifically Assigned Charge for Aur Resources Inc.,
3 based on the cost of service methodology and if different what the actual
4 Operating and Maintenance Expenses and Expense Credits amounts would
5 be forecast to be for 2006.

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8 A. If Hydro was to estimate an order of magnitude figure for operating and
9 maintenance expense related specifically assigned costs for Aur Resources
10 Inc., it would likely fall within \$150,000 - \$200,000 per year based upon the
11 existing methodology.

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13 For the following reasons, Hydro suggests that this figure not be given any
14 weight or importance in the current application to set rates for this new Island
15 Industrial customer:

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17 • The operating and maintenance aspect of customers' specifically
18 assigned costs are determined through the cost of service study using
19 those assets' original capital costs as an allocator. Hydro has discussed
20 this matter with Aur Resources inc. and has been informed that,
21 depending upon the outcome of the cost of service study and other
22 circumstances, Aur Resources Inc. may intervene to have the
23 appropriateness of this method of allocating operating and maintenance
24 costs explored or reconsidered. An opportunity to address this issue will
25 arise in Hydro's next GRA which is anticipated to occur later in this year.

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27 • The operating and maintenance element of the specifically assigned
28 costs for each customer is determined by multiplying all of Hydro's

1 transmission maintenance and related costs by the ratio of the original
2 capital costs of the specifically assigned plant to the total of the original
3 capital costs of all similar plant. This means that allocating and collecting
4 an operating and maintenance cost from Aur Resources Inc. as
5 incremental revenue would result in an apparent windfall to Hydro unless
6 all of the other customers' costs were reallocated and rates were
7 adjusted accordingly. This reallocation process occurs during each of
8 Hydro's general rate applications.

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- 10 • Hydro's present rates, including the specifically assigned charges, have
11 been developed based upon a cost of service study that used an
12 approved 2004 forecast test year. The cost of service study considers all
13 of Hydro's regulated costs and revenues and there are innumerable
14 interrelations and interdependencies amongst those values and amongst
15 the judgments that are used in that process. Revisiting one aspect of
16 those rates without considering the whole of the costing study on a
17 consistent basis provides information that is both artificial in its premise
18 and unreliable in its application.

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20 Because Hydro does not forecast or track operating and maintenance costs
21 for individual transmission lines for rates purposes, but instead uses the
22 allocator that has been briefly described above, Hydro has no means to
23 provide a forecast operating and maintenance cost of this line. Of course, as
24 the line is only now about to go into service, there have been no actual
25 operating and maintenance costs incurred for it to date. One can surmise
26 that the operating and maintenance costs for a new transmission
27 interconnection would be low but that has not always been Hydro's
28 experience.