EES Consulting makes two observations regarding the application of the generation credit. They are as follows:

- ***The generation credit inappropriately reduces the amount NP pays for transmission costs***

Because NP generating units are located within the Hydro service area, NP still requires Hydro transmission capacity to deliver the energy to its load centres. However, EES Consulting notes that both the Hydro cost study and the resulting rate design do not sufficiently unbundle transmission from generation to ensure that NP pays the full price of Hydro transmission services. The resulting rate means that NP will pay proportionally less for transmission than an otherwise equivalent customer who does not posses generation facilities within the Hydro service area.

On the rate side, Hydro's bundled rate recovers both transmission and generation costs using a single set of demand and energy charges. Thus, by crediting NP's billing demand against the full demand charge, the calculation is also indirectly crediting NP for transmission capacity at the same time.

While the generation credit is necessary to ensure that Hydro does not over-collect generation costs, the manner in which it is used in the cost study under-allocates NP its appropriate share of transmission costs. On the cost side, Hydro relies upon a single allocator for apportioning generation and transmission costs to NP. This allocator is built on load data after a credit for NP generation is applied. Thus when this single allocator is used to apportion transmission costs, NP does not receive its full share of transmission costs.

EES Consulting has provided an example, based on figures from Hydro's application, in the tables below to illustrate this point.
<Contents of table below are revised from original version>

Table 11
Gross and Net Allocators

	Peak Demand (Gross MW)	CP Allocator (Gross)	Peak Demand (Net MW)	CP Allocator (Net)
NP	1,162	1,162/1,411 =82%	1,037	1,037/1,286 =81%
All Others	249	249/1,411 =18%	249	249/1,286 =19%
Total	1,411	100%	1,286	100%

Table 11 above provides a sample calculation of two sets of coincident peak allocation factors, one gross and one net of the NP generation credit of 124.8 MW. Using gross load data, the above table shows that NP contributes 1,162 MW to a total coincident peak demand of 1,411 MW; using gross data to calculate allocators would result in NP being allocated 82 percent of all demand related costs deemed to be allocated on coincident

peak demand. However, because NP provides some of this generation capacity, it is not appropriate to allocate generation costs as if its load were 1,162 MW. Once load data is adjusted to credit NP for 124.8 MW of its own generation, NP is now allocated 81 percent of coincident peak demand related costs.

These allocation factors are carried forward into Table 12 below, where an illustrative cost allocation exercise is performed on both generation and transmission costs.
<Contents of table below are revised from original version>

Table 12
Illustrative Cost Allocation, Hydro Method ($,000)

Function	Demand Related Cost	Allocated to NP	Allocated to All Others
Generation	79,402	*81%=64,002	*19%=15,401
Transmission	28,464	*81%=22,944	*19%=5,521
Total	107,867	86,945	20,921

In the above table, the cost of service study has already identified some $108 million of demand related costs to be allocated based on coincident peak demand. This study also determined that of this amount, $79.4 million is functionalized as generation and $28.5 million is functionalized as transmission. However, in the Hydro cost study, the net allocation factor of 81 percent is used to allocate all demand related costs to the respective rate classes.

The problem with the above method is that from a transmission perspective, NP is still relying upon the full 1,162 MW of capacity despite being allocated costs on the basis of 1,037 MW. Table 13 below demonstrates how this allocation should be performed. In this example, using only the credit-adjusted allocator for both generation and transmission means that $488,000 is inappropriately allocated to other customers instead of NP.
<Contents of table below are revised from original version>

Table 13
Illustrative Cost Allocation, Full Transmission Costing Method ($,000)

Function	Demand Related Cost	Allocated to NP	Allocated to All Others
Generation	79,402	*81%=64,002	*19%=15,401
Transmission	28,464	*82%=23,432	*18%=5,033
Total	107,867	87,433	20,433

- ***Crediting total capacity, not actual output, inappropriately dulls long term incentives***

EES Consulting does not agree that the incentive for NP to use its own generating units in times of peak demand is necessarily a wrong or undesirable outcome. Much of the justification to take away this pricing incentive is hinged upon SWMCI's comparison of NP's thermal and Hydro's Holyrood marginal production costs. Even if EES Consulting were to accept this conclusion on face value, we do not believe it appropriate that the