Q. Explain the basis for setting NUG charges higher in 5 winter months relative to the other months, and indicate the extent to which these differences reflect Hydro's variability in seasonal time-of-use costs.

A. In the 1992 RFP for non-utility generation from small scale hydro projects, Hydro set a maximum price schedule for proposals whereby proponents could elect to submit those prices or an alternative lower schedule of prices.

Only the demand component of the pricing structure (expressed in ¢/kWh) varied between winter and summer. The energy portion (in ¢/kWh) was held constant for the year. The basis for setting the demand component of the price higher for the winter months was the September 1984 study of Marginal Time of Use (TOU) Costs. That study indicated that, with respect to long run marginal costs, the seasonality of load affected costs whereby the ratio of winter costs to summer costs was 1.5.

To factor seasonal TOU into avoided costs, the Loss of Load Expectation (LOLE) index was used to allocate the capacity component of costs throughout the year. This resulted in a distribution of capacity costs of 60% during November to March and 40% for the remaining months.