Q. In the G. H. Mitchell evidence (page 17, lines 11 to 15), Hydro recommends that an embedded cost methodology for determining rates be retained. Hydro believes that it is important to maintain some stability in demand charges, and that there would be wide fluctuations based solely on marginal costs that are leveraged to fuel price forecasts.

a. Does Hydro believe that elements of the marginal cost study could be incorporated in rate designs while retaining the embedded cost of service revenue allocations derived in the 2007 Forecast Cost of Service evidence so that there are no further impacts on rates beyond those proposed by Hydro in the 2006 GRA? Could this be done while maintaining some stability in demand charges?
b. If so, what elements of the marginal cost study might be incorporated in rate designs?
c. How does Hydro propose to use the results of the marginal cost study?

A. With respect to marginal costs:

a. Hydro believes that it is possible to incorporate elements of the marginal cost study in rate designs while retaining the embedded cost of service revenue allocations derived in the 2007 Forecast Cost of Service study.

b. Hydro believes that reflecting the level and seasonality of capacity costs in rates can be examined.

c. Hydro proposes to discuss marginal rates with the parties to determine how the results might be applied. Following this discussion, Hydro will submit a proposed change to the rates for the Board's consideration.