

1 Q. Please reconcile the logic for charging NP an incremental energy rate equal
2 to Holyrood fuel costs while crediting NP's hydraulic generation with the
3 average embedded cost of Hydro's generation.
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6 A. One is capacity-related and the other is energy-related, but each is related to
7 their basis for cost incurrence. Hydro, along with the overwhelming majority
8 of utilities in North America uses fully-allocated embedded cost of service
9 studies to assess the degree to which costs are equitability distributed
10 among customer classes. Under the existing credit mechanism, NP's
11 hydraulic generation is considered as a generation resource along with
12 Hydro's own embedded generation. If there was a reduction in NP's hydraulic
13 generation it would incur additional cost based on Hydro's average
14 embedded cost. Therefore the value to NP is Hydro's embedded cost. With
15 regard to charging NP an incremental energy rate equal to Holyrood fuel
16 costs, NP pays an incremental energy rate at Holyrood based on their energy
17 usage. The inverted rate feature in the wholesale rate provides an explicit
18 price signal for marginal consumption in order to encourage conservation.