

1 Q. **On pages 8 and 9 of Schedule 1 of the COS Methodology Review Report**, Hydro notes that
2 *“upon interconnection of the system to the North American grid, marginal generation*
3 *energy and reserve costs will be represented in most hours by wholesale prices from eastern*
4 *regions of that grid. For the Island Interconnected grid, marginal generation capacity costs*
5 *will reflect the costs incurred on the island to serve additional capacity due to the potential*
6 *for transmission constraints applying at times of peak demand.”*

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8 If the marginal generation energy values (from added or lost exports) are relatively low,
9 and the marginal costs due to capacity constraints are relatively high, does Hydro/CA
10 Energy Consulting view this as an indication that cost of service classification ratios should
11 err towards capacity? Why or why not?

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14 A. This response has been provided by Christensen Associates Energy Consulting.

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16 Generation cost of service classification under approaches such as equivalent peaker
17 (proposed) or system load factor (in use for some generation) are based upon embedded
18 cost calculations that do not explicitly take account of the presence of and interconnection
19 with wholesale markets. The capacity costs of peaking or baseload generation are not
20 affected by transmission constraints which, from time to time, may separate markets.

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22 Please refer to the response to CA-NLH-010 for Hydro’s assessment on whether marginal
23 costs should be the basis for cost allocation for Hydro’s customer classes.