Q. Provide the analysis that Hydro has undertaken in making its determination as to why the capacity payment of $28 per kW per winter and the variable credit of 20 cents per kW per hour for the maximum capacity assistance requested and provided is considered reasonable and economic by Hydro.

A. The analysis with respect to the reasonableness of the $28 per kW capacity credit is provided on pages 5 and 6 of the evidence to the Application. The marginal capacity costs establish the upper limits Hydro would consider in negotiating capacity assistance arrangements. The evidence indicates that Hydro's marginal cost of capacity averages $71.67 over 2015-2017. The marginal cost of capacity was determined based upon a probabilistic analysis of the likelihood of a capacity shortage. The proposed capacity assistance agreement reduces the probability of a future shortfall at a cost that is materially below the system marginal cost of capacity. The proposed capacity assistance agreement makes economic sense for both customers and Hydro.

The 20 cents per kW per hour payments provide Hydro with coincidental fuel savings as Hydro will be requesting capacity assistance be implemented prior to starting its last operational combustion turbine. Therefore, Hydro will be avoiding fuel costs which would otherwise be incurred by running its combustion turbine. The variable credit reflects approximately one-half the cost of operating Hydro's higher cost standby units.