

1 **Q. Reference: Responses to PUB-NLH-050 and PUB-NLH-051**

2 Exhibit 14 recommends that the third Holyrood TGS unit be classified separately from Units 1
3 and 2, and premises its endorsement of the existing method on Units 1 and 2 operating at
4 higher capacity factors than in recent years.

5 **a)** Given the availability of Generation Outage Power to Corner Brook Pulp and Paper and
6 the frequency in which its demand requirements exceed its Power on Order, would it be
7 reasonable for Corner Brook Pulp and Paper to pay stand-by charges? Explain.

8 **b)** Explain the methodology typically used to derive stand-by charges.

11 **A. *This response was provided by Christensen Associates Energy Consulting.***

12 **a)** Not necessarily. A key consideration is whether the rate structure provides adequate
13 recovery of the utility's fixed, demand-related, and energy-related costs. Newfoundland and
14 Labrador Hydro ("Hydro") considers the proposed hours-of-use rate to be an appropriate
15 platform for serving customers with generation capacity. Provided that the rate design
16 recovers the applicable demand- and energy-related costs, the revenue requirement
17 remains satisfied. To the extent customers require capacity beyond their power-on-order
18 demand arrangement, and that service is provided on an interruptible or non-firm basis,
19 Hydro considers the proposed rate structure sufficient to recover the associated costs.

20 **b)** Standby charges are typically developed using a cost-of-service methodology that estimates
21 the costs incurred by the utility to maintain the capability to serve a customer's load when
22 the customer's self-generation is unavailable. The methodology generally begins by
23 determining the services provided under standby service, including energy, operating
24 reserves, transmission, distribution, and other required system services. The costs of these
25 services are then allocated to standby customers based on measures of the customer's
26 expected use of standby service and the capacity the utility must maintain to serve the
27 customer (e.g., standby capacity requirement). These costs are commonly recovered
28 through a combination of customer charges, reservation charges, demand charges, and

1 energy charges. Reservation charges are typically based on a contract demand or reserved
2 capacity amount that represents the utility's obligation to stand ready to serve the
3 customer, while demand and energy charges recover costs associated with actual use of
4 standby service. The objective is to ensure that standby customers contribute appropriately
5 to the costs imposed on the system while maintaining adequate recovery of utility costs.