

1 Q. **Reference: Volume III, Exhibit 17: Pricing for a Revised Island Industrial Rate Report**

2 a) Describe generally accepted utility practice with respect to the recovery of system costs
3 when self-generators are receiving benefits from being able to access supply from an
4 interconnected grid. Does an hours-of-use rate adequately compensate the utility in this
5 scenario? Explain.

6 b) Explain if it is common in the industry for stand-by charges to be applied to self
7 generators.

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

11 a) Customers with on-site generation that provides customers with most of their needs
12 typically have very low load factors. Consumption expands significantly at times of planned
13 outage for site generator maintenance or unplanned outage due to site generator failure.
14 Some utilities create special standby rates for such customers, especially if standard rate
15 prices depart significantly from unit costs. Such rates usually require that the customer
16 nominate a contractual level of demand set by likely peak consumption during an unplanned
17 outage, and pay a price related to cost to serve to reserve that capacity. Such demand
18 pricing is supplemented with a variety energy pricing schemes.

19 An Hours of Use rate design can adequately compensate the utility provided that fixed costs
20 can be recovered in fixed charges. However, if the customer does indeed have a low load
21 factor, then they may not have significant block 1 usage and will not gain access to the
22 marginal cost-based pricing of block 2.

23 b) Yes, standby charges are in common use to serve customers with significant site generation.