

1 Q. **Reference: Chapter 6, Section 6.6.2**

2 Hydro states that the proposed demand charge of \$5.50 per kW per month will continue to
3 provide an appropriate demand-management signal to Newfoundland Power.

- 4 a) Explain how Hydro determined that \$5.50 per kW per month constitutes an appropriate
5 demand-management signal.
- 6 b) Provide the marginal capacity cost, or other capacity-related cost information,
7 considered in establishing the proposed demand charge.
- 8 c) Explain why Hydro selected a 10% increase rather than maintaining the existing charge
9 or moving the charge closer to the 2027 Test Year embedded demand cost of \$20.40 per
10 kW per month.
- 11 d) Quantify the portion of Newfoundland Power's allocated demand-related costs
12 recovered through the proposed demand charge and the portion recovered through the
13 First Block Energy rate.

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16 A. a) Newfoundland and Labrador Hydro ("Hydro") determined the proposed demand charge by
17 applying a 10% increase to the existing demand charge of \$5.00 per kW per month, resulting
18 in a proposed demand charge of \$5.50 per kW per month. The 2026 General Rate
19 Application states that Hydro is proposing "*a modest increase in the demand charge for*
20 *Newfoundland Power Inc. ("Newfoundland Power") of 10%, increasing the demand charge*
21 *from \$5.00 per kW per month to \$5.50 per kW per month,*" and that Hydro believes this
22 increase will continue to provide the appropriate demand-management signal to
23 Newfoundland Power.

24 Hydro considers the proposed \$5.50 per kW per month charge to provide an appropriate
25 demand-management signal because it continues to expose Newfoundland Power to a
26 specific demand-based charge, while maintaining the broader rate design under which
27 remaining demand-related revenue is recovered through the First Block Energy rate. The

1 proposed recovery of demand costs and the seasonal Second Block Energy rate
2 implemented on January 1, 2025 sends an appropriate price signal in the winter period.

3 **b)** Marginal capacity cost was not considered in establishing the proposed demand charge.

4 **c)** Hydro selected a 10% increase to the demand charge as a modest increase from the existing
5 approved charge. Maintaining the existing \$5.00 per kW per month demand charge would
6 not reflect any movement in the demand charge despite the increase in the average
7 embedded demand cost from \$12.21 per kW per month in the 2019 Test Year to \$20.40 per
8 kW per month in the 2027 Test Year.

9 Conversely, moving the demand charge materially closer to the 2027 Test Year embedded
10 demand cost of \$20.40 per kW per month would represent a substantial shift in cost
11 recovery, increasing the portion of Newfoundland Power's revenue requirement recovered
12 through the demand charge rather than through the First Block Energy rate.

13 Hydro's proposed approach is therefore to increase the demand charge incrementally while
14 maintaining the existing approach to cost recovery of demand-related costs through a
15 combination of the demand charge and the First Block Energy rate.

16 **d)** The proposed demand charge recovers \$92.730 million from Newfoundland Power,
17 calculated as the proposed demand rate of \$5.50 per kW per month multiplied by
18 16,860,014 kW of billing demand.

19 Before deficit and revenue credit allocation, Newfoundland Power's allocated demand-
20 related costs are \$344.019 million. On this basis, the proposed demand charge recovers
21 \$92.730 million, or approximately 27.0%, of Newfoundland Power's embedded demand-
22 related costs. The remaining \$251.289 million, or approximately 73.0%, is recovered through
23 the First Block Energy rate.