

1 Q. **Reference: Exhibit 17, page 4**

2 Hydro states *"The choice of demand price does alter somewhat the signal to the customer to*
3 *control peak demand."* Would the efficiency of the price signal be improved if the demand
4 charge varied by season to reflect marginal capacity costs? For example, might an industrial
5 customer be encouraged to take a production shutdown in summer rather than winter if the
6 winter demand rate were double the summer demand rate?

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

10 The reference appears to be to Exhibit 17, p. 4, footnote 5, which discusses the incentive
11 properties of the demand component of the marginal price. Since an increase in demand above
12 Power on Order results in increased billed demand and increased demand charges in multiple
13 future months, it may not matter much whether making the demand price seasonal would
14 affect the customer's perceived marginal price of adding load near peak demand. However,
15 making the demand price seasonal would affect the seasonal pattern of bill payments by the
16 customer. It is not clear that this shift in bill payments to winter months would improve the
17 match to the seasonal pattern of Newfoundland and Labrador Hydro's ("Hydro") embedded
18 capacity costs. Utilities do not necessarily seek to recover demand-related costs primarily in
19 peak months via seasonal pricing, but Hydro could do so if it desired. Customers would likely not
20 benefit from making utility bills more seasonal, though, since the seasonal match of costs with
21 sales would likely worsen. Recall, also that the block 2 energy price already produces a seasonal
22 shift in bills, along with its incentive property regarding the pricing of incremental load.