

1 Q. **Reference: Exhibit 17 page 21**

2 Hydro states *"Based on the foregoing analysis, Hydro may prefer a design with a \$5.50 per kW*
3 *demand price and a 300 HOU block boundary (currently 54% of class load factor). This results in*
4 *modest bill impacts relative to the current design. Other choices can readily be made, though, if*
5 *alternative bill impacts recommend themselves."* Does Christensen believe that when compared
6 to the current rate design, the proposed rate design is superior with respect to 1) revenue
7 recovery, 2) fairness, and 3) efficiency? How important are rate impacts?

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10 A. *This response was provided by Christensen Associates Energy Consulting ("CA Energy").*

11 CA Energy believes that the proposed Hours of Use ("HOU") rate design has advantages over the
12 current design. The two most important are that the HOU design offers customers energy at the
13 margin priced at forecasted marginal cost and improves the match between recovery of
14 required revenues via billing and incurring of related costs. These advantages do not sacrifice
15 class revenue recovery and relate billings to cost to serve on a customer basis. Thus, the HOU
16 design can be said to be equal to the existing design in terms of revenue recovery, both class-
17 wide and by customer. Additionally, the new design is demonstrably at least as fair as the
18 current design since it matches billing to cost to serve. Please see Table 10, which reports on
19 revenue/cost ratios at current loads. Another dimension of fairness is the modest nature of the
20 bill impacts at current levels of usage, if we presuppose that the existing rate is fair. The HOU
21 design is superior to the current design in that the customer's marginal price for changing load is
22 equal to Newfoundland and Labrador Hydro's forecasted marginal cost, under the condition
23 that the customer's usage is sufficient to reach block 2, a condition that applies in most cases.
24 Usefully, the Island Industrial customers' marginal price is based on the same methodology as
25 that of the Utility rate's marginal (block 2) price, adjusted for differences in load profile.