

1 Q. **Reference: Chapter 6, Sections 6.7.2 and 6.7.3; Exhibit 17**

2 Hydro proposes to price Island Industrial Second Block Energy using forecast seasonal export
3 prices.

- 4 a) Describe the calculation of the proposed winter and non-winter Second Block Energy
5 rates. As part of the response, identify all adjustments made to the forecast export
6 prices and provide the rationale for such adjustments.
- 7 b) Explain whether the proposed Second Block rates reflect the value of preserving energy
8 for sale or use during higher-priced periods. If not, explain why.
- 9 c) Explain how Hydro determined that it will be economically indifferent between
10 supplying Second Block energy to Island Industrial customers and exporting that energy.
- 11 d) Quantify the forecast annual contribution of Second Block industrial sales toward
12 recovery of Hydro's fixed and embedded system costs.
- 13 e) Quantify the forecast change in export volumes and export revenues resulting from the
14 proposed Island Industrial rate design.
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17 A. *Responses to parts a) and d) were provided by Christensen Associates Energy Consulting.*

- 18 a) The Second Block Energy prices are Newfoundland and Labrador Hydro's ("Hydro")
19 forecasted marginal energy costs for the coming seasons. No adjustments to these marginal
20 costs are made. Note that the customer's perceived effective energy price includes the price
21 per kWh of applicable riders, but these are not part of the Second Block price.
- 22 b) The Second Block rates are based on marginal energy costs, which are highest during the
23 winter period. Higher winter rates are intended to encourage industrial customers to reduce
24 winter electricity consumption and, where feasible, schedule maintenance and shutdowns
25 during winter months.

- 1 **c)** The marginal energy costs embedded in the Second Block rate reflect the Island netback
2 value of New England wholesale export prices. Therefore, supplying Industrial Second Block
3 load or exporting the energy yields the same marginal value, resulting in no financial impact
4 to Hydro.
- 5 **d)** The Block 2 energy price is set at forecasted marginal cost. Accordingly, Block 2 sales make
6 no contribution to Hydro's fixed and embedded system costs.
- 7 **e)** Decisions regarding operational changes remain at the discretion of individual industrial
8 customers. As a result, Hydro is unable to determine or quantify any changes that may arise
9 from the proposed Island Industrial rate design.