

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

2 Hydro states “The algebra is complicated by the fact that increasing peak demand usually has
3 multi-month implications under Hydro’s current definition of billed demand.” Should Hydro’s
4 current definition of billed demand be changed to improve the efficiency of the price signal?

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

8 Newfoundland and Labrador Hydro’s (“Hydro”) formulation of billed demand for the Island
9 Industrial rate is similar to other formulations in that it makes use of contract demand (Power
10 on Order), actual metered demand for the current month, and demand from previous billing
11 periods. Thus, the computation for the customer of the cost of exceeding Power on Order can
12 be challenging. Fortunately, all that is necessary for Hydro’s Island Industrial customers to make
13 informed decisions about consumption levels in the near and long term is that they must be
14 aware that it is generally cost-minimizing to control demand (or to maximize load factor). The
15 level of the demand price under this formulation is noticeable to the customer only if the price
16 changes significantly. In the case under discussion in the footnote, the customer served under
17 an Hours of Use design will perceive that an increase in peak demand can both increase this
18 month’s demand charge and future demand charges. The customer will also perceive that the
19 increase in demand will shift load from block 2 to block 1, and that this shift may apply to
20 multiple months, depending on how billing demand is calculated. Simplifying the formulation of
21 billed demand might simplify the customer’s estimate, but this would possibly defeat the
22 purpose of the original formulation: to induce the customer to reveal to Hydro their likely
23 normal level of peak demand, an important value for system planning.