Q. **Reference: Exhibit 17, page 7)**

Hydro states "*Christensen Associates Energy Consulting developed a model that calculates Island Industrial customer bills, first under the current rate design at current prices, then using updated prices required to recover the utility's target forecasted revenues. (Both calculations use forecasted customer usage and demand levels for calendar 2027.) Finally, the model uses the new HOU rate design at price levels sufficient to recover the same class forecasted revenue requirement for 2027.*" In Christensen's opinion, should the proposed rates be established to collect the same class revenue requirement, or the same individual customer revenue requirement? More specifically, should rates be revenue neutral on an individual customer basis or a customer class basis?

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

Rates are typically designed to recover required revenues on a class basis but are not required to achieve the same revenue/cost ratio for every customer. For example, energy-only rates make no allowance across a class for differences in load factor. Customer-demand-energy rates cannot achieve identical revenue/cost ratios across customers unless prices are set at unit cost. However, rates are also typically designed with some measure of fairness or equity in mind, to ensure that, both between and within classes, rates are equitable even if customer-specific revenue neutrality is not achieved. Meeting revenue sufficiency requirements and observing some degree of fairness are just two of many desirable characteristics of a rate design. In the case of the proposed Hours of Use rate, the design is revenue neutral for the class in the same sense as other rate designs are: they are priced to recover required revenues. The block 1 and demand prices are not set at unit cost, but the rate does achieve reasonable revenue/cost ratios, as seen in Table 10 of the report (p. 19), both in terms of range across customers and relative to the current design.