

1 Q. **Reference: Exhibit 17, page 14**

2 Hydro states *"The lowest load factor customer fails to reach Block 2 when the HOU block*
3 *boundary is set at 400 but reaches Block 2 in seven months when the block boundary is 200 HOU.*
4 *This customer's load factor is somewhat seasonal. When the block boundary is 200 HOU, they*
5 *reach Block 2 in all winter months but not in several nonwinter months."*

6 a) Is a seasonal load factor a good reason for having rates that vary seasonally and reflect
7 marginal costs?

8 b) What are the repercussions of a customer not reaching Block 2 in a non-winter month?

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

12 a) A customer with a "seasonal load factor" is presumably one whose usage varies by season
13 but whose peak demand does not, at least to the same degree. The reason for having
14 seasonal block 2 pricing in the proposed Hours of Use ("HOU") design is not related to
15 seasonality of load pattern but seasonality of Newfoundland and Labrador Hydro's marginal
16 cost. The HOU design provides a marginal cost-based energy price signal to customers
17 whose load factor is high enough to record energy in block 2. For customers whose load
18 factor in some months is not high enough to reach block 2, the question arises whether
19 some form of seasonal pricing should be offered to them. The block 1 price or the demand
20 price could be made seasonal. However, seasonal recovery of fixed, embedded costs is not
21 essential for full or fair revenue recovery. As long as the proposed HOU design recovers cost
22 to serve fairly and fully, there is no great need to make prices other than the block 2 energy
23 price seasonal. Report Table 10 indicates that the proposed design and pricing meet these
24 requirements.

25 b) A customer who does not reach block 2 in a non-winter month faces the block 1 energy
26 price as their marginal price, at least for small load increases or for load decreases.