Q. With regard to rate design for Island Interconnected Customers, please provide the following:

(a) The rate design objectives used by Hydro to guide rate design;

(b) The period of time over which Hydro has been using these rate design objectives;

(c) The rate design objectives categorized as primary versus those categorized as secondary; and

(d) The means employed for meeting objectives relating to recovery of revenue requirement, fairness and efficiency.

A. (a) The rate design objectives used by Hydro to guide rate design are those outlined by Dr. Robert H. Sarikas, Hydro's expert witness at its 1992 General Rate Application (GRA), and are as follows: meeting the annual revenue requirement, equity or fairness, economic efficiency, simplicity and understanding of the rate form, conservation of resources, stability, social goals, administrative ease, employment, and protection of the environment.

(b) Hydro has been using these rate design objectives since the 1992 GRA proceeding.

(c) Meeting the annual revenue requirement is a fundamental objective of rate design. In balancing the remaining rate design objectives outlined in (a) above, three of the secondary objectives merit close consideration:

- fairness – rates should be based upon cost causation and should reflect an equitable distribution of cost recovery amongst customer classes and amongst customers within each class;

- economic efficiency – rates should provide appropriate price signals for the conservation of capital and natural resources; and
- rate and revenue stability – this is important from the standpoints of both Hydro and its customers.

(d) The means employed for meeting objectives relating to recovery of revenue requirement, fairness and efficiency are as follows:

Rate design objective	Means employed to meet objective
Recovery of the revenue requirement	Hydro periodically reestablishes its rates based on forecast cost of service studies used in its General Rate Applications. By designing rates with demand, energy and customer components that are reasonably reflective of the corresponding costs, revenue under-recovery or over-recovery between rate applications tends to be minimized as a result of any changes in market conditions or customer usage characteristics. Additionally, the existence of the Rate Stabilization Plan, which stabilizes for changes in load, fuel price and hydrology between test years, further protects Hydro's net income and protects customers from over-collection of fuel costs. Finally, Hydro weather-normalizes NP's native demand for billing

	purposes in order to protect against revenue changes due to unpredictable weather.
Fairness	Rates are generally considered to be fair if they are based on cost. Hydro apportions its revenue requirement based on its cost of service to ensure that the revenue requirement for each class is equitable and non-discriminatory. Within each class, and to the extent practical, demand and energy rate structure components are also reflective of cost of service in order to minimize subsidies among customers. In addition, when Hydro has to periodically deal with special ratemaking issues, the issue of fairness is always a primary concern.
Efficiency	Hydro promotes the efficient utilization of capital and natural resources through cost-based rate design and marginal cost considerations in designing electricity rates. Examples include: the change to a demand and energy rate to NP from an energy-only rate; and the use of inclining energy rates for both NP and the IC.

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