Q. (Re: Pre-filed Testimony of P. Bowman and H. Najmidinov, page 37, lines 23 to 27). Please explain how a marginal cost based rate or a two block rate would be made obsolete by the Labrador in-feed, and how such rate designs would exacerbate rate pressures if the rates were designed to collect the same revenue requirement.

A. In practical terms, the current GRA seeks to impose rate increases on the industrial customers, over the period from 2013 to 2015, that range from approximately 60% to 120%[1]. This degree of increase is, under any reasonable definition, unacceptable rate shock and would lead to significant cost pressures for each of the industrial customers compared to past and current experience. While the concurrent implementation of a two block rate based on Holyrood marginal cost (17.6 cents/kW.h) would not increase the overall cost pressures, it would be expected to increase the incentives and pressures on the customers to find measures, possibly extraordinary measures, to reduce loads.

Under the current rate design, an industrial customer operating at an 85% load factor faces a practical marginal cost of 6.253 cents/kW.h[2]. As provided by Hydro in response to CA-NLH-033, the marginal cost of energy following a Labrador infeed could fall to the 5.4 cents/kW.h level [compared to 17.6 cents/kW.h in 2013] after interconnection is completed and Holyrood generation would no longer be the incremental cost for the system.

The implementation of a two block rate, as a short-term solution at this time, would act as a price signal in concert with the current rate pressures to incent behavior (including potentially long-term commitments) that would be economically inefficient within a short period of time.

[1] Appendix E and F of the Hydro's July 30, 2013 RSP filing.
[2] Please see PUB-IC-3.