

1 Q. **Reference: Application, Volume I, Section 6.7 Rates for Island Industrial Customers;**
2 **Application Volume III, Christensen Associates Report Tables 1-4.**

3 Hydro states at page 6.18 that under its proposed rate structure, customers who manage their
4 demand effectively and achieve a high load factor would increase their amount of energy use
5 billed on the lower-cost Second Block Energy rate.

6 At page 10 of Exhibit 17, Table 1 shows the load factors of each industrial customer, with
7 Customers 3 and 5 having the lowest load factors. Table 4 (p 13) appears to indicate that for the
8 option currently proposed by Hydro of a demand charge of \$5.50 per kW and 300 hours of use
9 (“HOU”), the lowest load factor customers will experience decreases in bills compared to
10 current rates, while the higher load factor customers would experience bill increases. With this
11 in mind, please:

12 a) Confirm the proposed Second Block Energy rate is higher in the winter months.

13 b) Indicate whether Hydro views its proposed rate structure as improving economic
14 efficiency as compared to its current rates and considering that the proposed rate
15 appears to reward lower load factor customers at the expense of higher load factor
16 customers. Please provide a detailed explanation for this conclusion.

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

20 a) The proposed Second Block Energy rate for Island Industrial Customers is 8.889 cents per
21 kWh during winter months, which is higher than 3.285 cents per kWh during non-winter
22 months (Please refer to Newfoundland and Labrador Hydro’s (“Hydro”) 2026 General Rate
23 Application, Volume I, Table 6-7). The winter block 2 energy price is also higher than the
24 block 1 energy price of 6.694 cents per kWh.

25 b) Hydro views the proposed Hours of Use (“HOU”) rate structure as more efficient than the
26 current design because it offers customers with block 2 load marginal cost-based energy

1 pricing. In the non-winter months, the block 2 price is well below the block 1 price,
2 rewarding increases in load factor via consumption increases. In winter months, the block 1
3 and 2 prices are similar, creating a slightly inclining block. However, the incentive to control
4 peak demand does apply, as peak demand, in the form of Power on Order, applies to all
5 months and cannot be readily decreased for non-winter months. Hydro notes that any
6 change in rate design will result in differing bill impacts across customers, depending on
7 their individual load characteristics and operating profiles. The fact that the lowest load
8 factor customer experiences a bill reduction under the 300 HOU, \$5.50/kW scenario is not
9 necessarily a weakness of the proposed design. Rather, it reflects the redistribution of costs
10 that can occur as a result of a transition to a new rate structure. This outcome may also
11 support customer acceptance of the rate transition, while preserving the rate design's
12 objective of encouraging more efficient load utilization over the longer term.