customers from the rates that would normally be applicable.

Q. Should the preferential rates be eliminated entirely at this time?

A. No. In my opinion an effort should be made to phase them out giving due recognition to the objective of gradualism. After these rates are withdrawn the customers should be served under the rate class appropriate to the nature and magnitude of the load served. These rates have been in effect for a number of years. The phase-in period should desirably be accomplished in a time frame of about ten years.

Q. How would you propose to establish pricing for the Domestic and General Service rate classes in the Isolated Areas?

A. I would recommend establishing pricing by a phase-in, over a reasonable period, of rate increases needed in order to reduce the difference between the existing rates in excess of 700 kWh per month and cost based rates for Isolated Areas which reflect the cost of diesel vs. interconnected service.

Q. Have you investigated options with respect to the existing energy only rate form for NLP?

A. Yes, I have investigated various options in response to the Board's recommendation, in its May 9, 1990 Report, that Hydro, at the next rate hearing, "present whatever information it may have with regard to a rate with a demand charge component for discussion and determination of a date for filing a rate proposal."

Q. What do you regard as options with respect to a rate design for NLP?

A. I regard the following as options for the design of a rate for NLP:

1. Continued used of the existing energy only rate form.

2. Use of a three part rate consisting of a cost based customer charge, an energy charge set at the level of marginal energy cost, and a flat demand charge. The total revenue derived will be equal to allocated cost of service plus NLP's share of the rural deficit.

3. A rate identical to Item 2 above except that the demand charge for demand in excess of the forecast billing demand will be set at the level of avoided cost.

4. Use of a three part rate consisting of a cost based customer charge, an energy charge set at the level of marginal energy cost, and a two block inverted demand charge. The tail block, applicable to all demands in excess of 800 MW, will be set at the level of avoided demand cost; the penultimate demand block will be set at a level which will result in total revenue equal to allocated cost of service plus NLP's share of the rural deficit.

Q. What is your recommendation with respect to the design of a rate for NLP?

A. I recommend that Option 2, a flat demand rate, be used at least initially in order to gain experience in its application and provide a suitable transition period. A suitable two-block inverted rate could be considered at a future date if experience indicated that such a rate form may be a useful adjunct to NLP's and Hydro's DSM programs.

Q. What type of demand ratchet do you recommend for the NLP rate?

A. The intent is to have a billing demand equal to the highest forecast demand in the 1992 test year. The billing demand for NLP is to be equal to the greater of:

a) The forecast demand for the 1992 test year.

b) The highest measured demand established in the current month or the previous eleven months.

Q. How should NLP-owned generation be treated in the determination of the billing demand for NLP?

A. It is important that NLP-owned generating capacity be adjusted to recognize the need for a suitable reserve percentage.

Q. How might a suitable reserve percentage be applied?

A. The sum of NLP's hydro, diesel, gas turbine and steam turbine generating capacity could be adjusted for reserve by dividing the MW of NLP generating capacity by one plus a reserve percentage of 18 percent. This percentage is based upon the results of an LOLE analysis prepared by Hydro's System Planning Department.

Q. Would it then be necessary for NLP to run its generation in order to obtain a demand credit?

A. No, the credit for generation, which would include an adjustment for reserve capacity, could be applied to total NLP native load irrespective of whether or not NLP is operating its generation, so long as NLP is willing to run such generation, at the request of Hydro. Assurance of adequate maintenance would also have to be provided by NLP.