

Q. Would Newfoundland Power and its customers benefit from a wholesale tariff with Hydro that varied by time-of-day and season?

A. The answer to this question would depend on whether it is beneficial for Newfoundland Power to have time of use and seasonal rates for its customers.

The impact of Newfoundland Power introducing seasonal and time-of-day rates on a mandatory basis would be revenue neutral in the short term. However, the impact on some individual customers would likely be significant. Section 7 of the report "A Study on Innovative Approaches to Rate Design Based on Marginal Costs (see attached) shows the impact of a mandatory seasonal rate on the billings of Domestic customers.

Introducing seasonal and time-of-day rates on a voluntary basis is more attractive for customers. Only customers that are better off take advantage of the rate options, thus avoiding negative customer impacts. However, revenue shortfall is a natural result of implementing voluntary time-of-day or seasonal rates. The revenue shortfall must be recovered, either by increasing rates for all customers or by only increasing the price of usage in the peak periods.

There are mechanisms available to deal with revenue recovery. However, the implementation of time-of-day and or seasonal rates can have implications for overall rates. For example, time-of-use/seasonal rates can have an impact on end-uses such as electric heat because the price is higher in the winter period. This, in turn, could impact overall sales levels which would have a tendency to increase rates.

The impact on overall rates needs to be evaluated before Newfoundland Power can determine if time-of-use/seasonal rates would benefit its customers.