

1 Q. In the Stone and Webster report “Review of Rate Design for Newfoundland
2 Power”, it is stated on page 11, the demand cost should be set at a level that
3 is “sufficient to provide a load management incentive to NP.
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5 Please describe any potential options for Hydro to provide Newfoundland
6 Power load management incentives other than through a demand energy
7 rate.
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10 A. Other, but less attractive, options to a demand and energy rate are offered
11 below.
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13 One is to implement seasonal energy rates, where the rate during the winter
14 period is significantly higher than in the summer period. This, however, is not
15 a preferred option because as an energy-only rate, it does not provide price
16 signals that are directly related to the way in which costs are incurred.
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18 Another option is to keep the energy-only rate in place, and to provide an
19 incentive for NP to improve the utilization of generating resources as
20 measured by load factor, rather than demand per se. Hydro could perhaps
21 have an additional charge or credit to the bill based on the extent to which
22 NP’s load factor increased or decreased with respect to a specified reference
23 load factor. In order to account for minor fluctuations in load factor there
24 could be a “dead band” of $\pm x\%$, such that the charge or credit would not kick
25 in until the load factor crossed the threshold of the specified band. The load
26 factor could be measured with respect to annual energy or with respect to
27 winter energy. However, an annual load factor would have the disadvantage
28 of introducing unwanted summer variables. Over all, this type of incentive is

1 not seen as being viable in that: (1) it requires the use of an energy as well
2 as a demand normalization adjustment; (2) the demand component would
3 need to be keyed off native load; (3) the underlying energy-only rate still does
4 not provide an appropriate price signal; and (4) it does not conserve demand
5 per se.

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7 Finally, another option is for Hydro to offer a credit based on the avoided cost
8 of a new generating unit for load that is eliminated from peak as the result of
9 load management efforts by NP. However, this option will involve not only a
10 demand normalization mechanism, but also the use of statistical models, and
11 their attendant uncertainties, to distinguish between the components of load
12 related to growth versus conservation.