Q. What cases is Hydro considering to run to determine such things as the appropriate demand/energy balance, variations in its revenue stream, etc. (Cost of Service evidence, Exhibit RDG-2, Section 6.3)?

A. Before a demand/energy tariff can be implemented for Newfoundland Power, the following areas will need to be explored by all parties. For each of these items, Hydro has indicated where case results will assist the PUB in reaching a decision, or where other means might be necessary to achieve agreement.

(1) **Appropriate Demand/Energy Balance:** Hydro believes that the appropriateness of the level of revenues collected through demand charges is not something that can be established by running various scenarios. Rather, this item needs to be established within the boundaries of the accepted Cost of Service methodology, constrained by factors which may produce undesirable results. For example, Hydro would not wish to establish a demand charge which was too low and which might not provide incentive to Newfoundland Power to actively pursue load management. Nor would it wish to establish a demand charge which was too high which might encourage Newfoundland Power to purchase and install additional thermal generation in order to reduce demand charges.

For the above reasons, Hydro has proposed that its demand revenues from Newfoundland Power be based on the demand component of Newfoundland Power's allocated cost of service, before deficit and revenue credit allocation.

(2) **Treatment of Newfoundland Power's Generation**: One of the components of a demand billing determinant for Newfoundland Power is the treatment of its generation. Stone & Webster's report has presented three options concerning this matter in Appendix 3. Hydro is proposing Option A: Full credit to Newfoundland Power (less an allowance for operating reserve), regardless of the generation in operation at time of peak. This option will continue to provide Newfoundland Power with the operating flexibility to maximize energy production from its hydraulic resources. As well, this option will relate a change in Newfoundland Power's purchased power costs to a change in its native load, which is the target of a demand rate structure.

(3) **Hydro's Risk:** The degree of risk assumed by Hydro is related to several factors:

a. The level of the demand rate: This is addressed in the preceding paragraph (1).

b. The variability in the billing determinant: If Option A is accepted, variability is focused on changes in Newfoundland Power's native load. Variations in Newfoundland Power's native load have been addressed in the response to PUB-151 NLH and PUB-152 NLH; and

c. Minimums or maximums to limit the degree of revenue variation: Hydro has proposed a minimum of 98% of the Test Year billing determinant, based on Option A NP Generation Treatment and an approximate demand charge of $7.00 per kW of billing demand. Cases can be developed to evaluate a minimum billing demand, in combination with the level of the demand charge and the generation treatment option.

(4) **Weather Normalization:** Stone & Webster's report recognizes the need for a mechanism to remove the impacts of weather extremes from a demand price signal. To this end, Hydro believes that a joint technical assessment group, comprised of Hydro and Newfoundland Power personnel, should be established to assess statistical data and modeling techniques in order to develop a mutually acceptable weather normalization computer model.