Q. Further to NP-182 NLH, the incremental price for kWh usage by Industrial Customers (without increasing billing demand and without requesting interruptible service) is 2.811¢ per kWh. Given the short-run marginal cost of providing energy is 5.13¢ per kWh, does Mr. C. F. Osler and Mr. P. Bowman believe the 2.811¢ per kWh incremental price promotes efficient use of energy by Industrial Customers.

A. The rate structure proposed by Hydro (including the RSP as proposed by Hydro) does not result in industrial customers facing an effective energy rate of 2.811 cents for each kW.h saved or added. There are two matters to be addressed:

- **Energy rate as incremental price signal:** Industrial customers are high load factor operations. There is typically little ability to utilize additional power without setting a new and higher demand peak, so the specific incremental energy rate does not operate in isolation from the demand rate. Under the current demand billing system, however, IC customers pay for this additional demand (up to the Power on Order level) whether they use the demand or not. Mr. Osler and Mr. Bowman have proposed revising the demand billing approach to ensure customers pay for actual peaks, not take-or-pay contracted peaks. Under that approach, customers would face incremental costs including the energy rate, the incremental demand charges, as well as any higher ratcheted demand charges that may arise. This would help industrial customers to receive reasonable price signals (and cost savings) from reducing their energy consumption and/or peaks.

- **RSP Impacts:** In addition, regardless of the 2.811 cents/kW.h being paid on consumption on each month's bill (and the short-run marginal cost of energy being at 5.13 cents/kW.h), the existing RSP complicates the true price signal received by IC and NP. The result

is that IC face incremental savings for energy conservation that is well below the 2.811 cents/kW.h cited in the question (and NP face incremental costs for load growth that are nowhere near the levels implied by the approved energy rates). As set out at page 62 of Mr. Osler and Mr. Bowman's evidence, the current RSP only results in 0.829 cents/kW.h savings to industrial customers from reducing their energy load below GRA forecast levels, and these savings are spread out across all four IC customers. In the case of NP, increased consumption only results in costs of 2.97 cents/kW.h despite the approved energy rate being 4.789 cents/kW.h. Until this load variation complication from the RSP is addressed (Mr. Osler and Mr. Bowman recommend elimination of this component), incremental price signals on the Island Interconnected system, as referenced in the question, can do little to promote efficient use of energy.