

1 Q. Please compare and contrast the forecast variance risk Hydro faces in
2 providing service to Industrial customers versus the forecast variance risk of
3 serving NP customers (assuming all the conditions and requirements listed in
4 PUB 149 NLH were satisfied and Hydro implements a demand based rate
5 structure).

6

7

8 A. The nature of the risk associated with serving industrial customers is different
9 than with serving NP customers. That is, forecast variance risk for NP is
10 principally due to weather variability, whereas for industrial customers it is
11 primarily related to business risk.

12

13 Under the existing energy-only rate for NP there is virtually no risk to Hydro.
14 Industrial customers, who have a rather steady load profile, take service
15 under Power on Order, which is a form of take-or-pay. There is, however,
16 some degree of risk. With respect to demand, Hydro can lose an industrial
17 customer or customers can operate at a reduced demand due to adverse
18 business conditions. In these cases Hydro can lose demand revenues down
19 to the minimum rate provision of 85 percent of Power on Order, plus
20 specifically assigned facilities charges. If the Power on Order level continues
21 at a reduced level, Hydro may petition the Board to adjust its rates. Hydro's
22 risk is then related to lost revenues through the time it finds it necessary to
23 petition the Board for a rate adjustment, plus the loss of revenues associated
24 with regulatory lag until the Board issues an order. Under a demand and
25 energy rate structure for NP, the risks associated with forecast variance,
26 although having different causes, are more comparable.