Q. In Mr. Bowman's review of the "Industrial Customer (IC) Rate Design", Section 5 of his report, he recommends a rate design similar to the one shown on Table 1, page 10 of Exhibit 12 of Hydro's Application. Would Mr. Bowman agree that energy rates to Industrial Customers based on a two block structure with the second block reflecting marginal cost would convey an appropriate price signal? Please explain the response in detail.

A. Mr. Doug Bowman agrees that an IC rate design with a two-block energy charge with the second block reflecting the marginal cost of energy would convey an appropriate price signal. This is of particular importance to the efficiency objective of rate design, but is also important in that it results in better cost tracking; i.e., if load varies from forecast, changes in costs and revenues will be more closely aligned. Mr. Doug Bowman continues to be supportive of the NP rate design which includes a two-block energy charge with the second block reflecting the marginal cost of energy and recommends a similar design for the ICs.

As noted, Mr. Doug Bowman favours a rate design with a second block energy charge reflecting the marginal cost of energy, but points out that this rate design objective must: 1) be balanced with other rate design objectives, and 2) recognize that marginal energy costs vary, both on a moment to moment basis (i.e., as loading on Holyrood changes, so does its conversion efficiency, or heat rate), and when significant changes take place on the system. The commissioning of Muskrat Falls will result in changes to system marginal costs, although its commissioning in 2017 falls outside the time that the rates determined in the 2013 GRA are expected to be in place. For this reason, Mr. Doug Bowman favours a second block energy charge that is weighted to the period prior to Muskrat Falls commissioning, but recognizes that the marginal cost of energy is likely to decrease following its commissioning. Marginal energy costs are forecast to average about 16 cents/kWh over the 2014 to 2017 timeframe, and about 6.2 cents/kWh during the 2018 to 2021 timeframe (CA-NLH-33). On this basis, Mr. Bowman believes that a second block energy charge of the order of 12 cents/kWh provides a reasonable balance of the rate design objectives under the current situation in the Province and would be a considerable improvement over the current IC rate design with a single block energy charge of 3.676 cents/kWh (CA-NLH-6, page 2 of 4).