Q. In Section 3.4: Rate Implications for Industrials, page 18, lines 11-12, the IIC's Consultants state that "The proposed increases are especially problematic for the IIC group given the savings this group has provided to the overall system." They also state that the reduction of the combined load of the ICC group in the system has resulted in material grid-wide savings for all customers due to reduced quantity of No. 6 fuel required to serve the Island. Do you agree that when energy rates are set to reflect marginal cost, customers will see the direct benefit (savings) of reduced fuel consumption if load is reduced, in the same way they will be responsible for the extra cost in fuel consumption when load increases? Please explain your answer in detail.

A.

Yes, within a reasonable bounds. This is the basis for Messrs. Bowman and Najmidinov indicating that they support the principles of the IC Rate Design Report which recommends moving towards a two block revenue-neutral marginal cost based rate design (even if the timing for implementation of the report's recommendations at this time is problematic and not recommended).

This is also the basis for Messrs. Bowman and Najmidinov's conclusion that the industrial customer group was not "subsidized" by NP customers during the period since 2007, in contrast to the conclusions of other intervenor experts. This is because the 2007 GRA set up a regime that precisely credited the industrial customer group for the marginal cost/savings of changes in load. As far as NP's customers were concerned, this was the exact same outcome that would arise if a marginal cost rate were in place and the industrial customers dropped their load and received the marginal credit of the system savings.

For the industrial customers, a true marginal cost based rate would have credited the amounts back to a specific customer rather than the class as a whole, and would have done so with less risk to each customer related to the load changes of a different customer. But this distributional issue is irrelevant to NP's customers, who would only see that there was no "savings" credited to them from load reductions by another class.

Finally, part of the issue over the period since 2007 was an insufficient regulatory review/GRA cycle for Hydro, which exacerbated the length of time until the system was rebalanced with a new Revenue Requirement and Cost of Service.