1 Q. In Section 6.2: NP Rate Design, page 44, lines 3-4, the consultants state that "A
2   preferred approach today would remain rooted in the 2007 principles, namely that
3   the second block rate is linked to the Holyrood incremental cost." If setting NP
4   energy rates so that the second block is linked to the incremental cost of fuel at
5   Holyrood provides the correct price signal, please explain why the same logic
6   should not apply to setting tail block energy rates for Industrial Customers. Please
7   provide a detailed explanation of your response.

8 A. As noted in PUB-IC-013, adopting revised rate designs (whether to address marginal
9   price signals or other rate design priorities) are most effective when they will form a new
10   pricing regime with principles and rate structures that will remain in place for a long
11   duration, sufficient for customers to respond with both operating and capital decisions.
12   Customers cannot always react quickly to rate price signals, and inconsistent signals
13   within a few years' horizon can often lead to confusion, false starts by customers on
14   reacting to one signal just as the rate is transitioning to a different signal, or a lack of
15   confidence by the customers that any rate design can be relied upon as a basis for
16   capital decisions. In one example in which Mr. Bowman has been involved, Manitoba
17   Hydro proposed a new industrial rate design which would adversely affect some
18   companies, which was rejected by the Manitoba PUB. The rate was developed over the
19   period from 2005-2008 before its final rejection. There remain customers today, 7-10
20   years later, who continue to express a lack of confidence in Manitoba Hydro's industrial
21   rate structure based on that proposal, and the hang-over effects have led to companies
22   electing to not expand in Manitoba.

23   It would be appropriate to review industrial tail block rate options, as well as any
24   restructuring of the NP rate, after the Labrador infeed is in service and a proper
25   consistent long-term price signal can be implemented. Until that time it is appropriate to
26   remain with the rate design principles for both NP and IC that arose out of the last GRA.