

1 Q. Per Schedule 1, Attachment 1, page 11, CA Energy indicates they "encourage Hydro and  
2 Newfoundland Power to consider setting demand charges at significantly higher levels in the  
3 near future... " Please confirm the basis for this recommendation is to improve peak load price  
4 signals (if not, please explain why not, and the basis of the recommendation if not price signals).  
5 Please discuss the alternative in the near-term of setting the Tier 2 winter energy rate at the  
6 blended energy price shown in in Table 7 to directionally replicate the price signal for increased  
7 use of power during acute or peak winter load periods.

8

9

10 A. The following response was provided by Christensen Associates Energy Consulting ("CA  
11 Energy"):

12 The recommendation to increase the demand price covers, implicitly, the advisability of  
13 recovering a higher proportion of demand-related costs, as identified by the Cost-of-Service  
14 study, via the demand charge. The recommendation also covers, explicitly, the advisability of  
15 moving the demand price upward in the direction of the marginal cost of capacity. Thus, CA  
16 Energy confirms, at least in part, that the basis for the recommendation is to improve peak load  
17 signals.

18 Newfoundland and Labrador Hydro ("Hydro") could indeed set the Tier 2 winter energy rate  
19 based on a marginal cost that includes capacity, and at the same time charge nothing further for  
20 demand beyond a "contract" level. This would avoid double counting for capacity costs.  
21 However, the current method allows Hydro and its customer to retain more of the current rate  
22 structure without sacrificing much in terms of pricing. Under both alternatives, the customer  
23 perceives that the cost to add load in the winter is the Tier 2 energy price plus an estimated  
24 amount for increased capacity cost.