

1 Q. At Schedule 1, Attachment 1, page 1, CA Energy indicates that the proposed rate will ensure
2 "electricity consumers will be more fully informed of resource cost - indeed, avoided cost - and
3 this better able to balance the net benefits of consumption decisions, conservation, and
4 renewable choice options, compared to the underlying resource cost of electricity".

5 Please confirm that the "underlying cost of electricity" includes both demand and energy
6 components.

7 Is it CA Energy's contention that reducing the winter peak period price signal at a time when
8 high levels of investment in peak generating capacity is becoming required allows customers to
9 "better balance" the net benefits of consumption decisions, conservation, etc.? Please explain
10 the answer.

11

12

13 A. The following response was provided by Christensen Associates Energy Consulting ("CA
14 Energy").

15 The underlying resource cost of electricity is meant to mean the marginal cost of electricity. This
16 includes the marginal costs of energy, reserves, and capacity. The marginal costs of reserves and
17 capacity may be zero in many hours but non-zero at time of low reserves.

18 The customer's winter peak price signal will consist of their Tier 2 energy price plus their
19 perceived likelihood of setting a new peak, multiplied by the demand price. The utility customer
20 will want to consider this marginal price in its own retail rate setting. If carried out properly, the
21 resulting retail prices would provide for a better balance of the net benefits and costs from
22 consumption decisions. Simply put, Newfoundland and Labrador Hydro's revised utility rate
23 structure facilitates improved retail pricing.