

SARIKAS  
JAN/92  
supplemental  
evidence

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1 Q. Do you agree with the use of a non-ratcheted demand charge as recommended by  
2 Mr. Brockman? ,

3 No, I do not. The business risk of a firm is essentially proportional to the extent to  
4 which costs are fixed. Eighty-two percent of Hydro's cost to serve NLP is fixed.  
5 Therefore, Hydro's business risk will be greatly increased unless a demand ratchet  
6 is utilized. A non-ratcheted demand charge may be appropriate for NLP as it has  
7 a number of demand metered customers so that substantial averaging is possible with  
8 respect to demand revenue. In the case of Newfoundland Hydro, NLP, the only  
9 retailer, is nearly 80 percent of the total demand and therefore averaging is not  
10 possible. For that reason, substantial revenue shortfall is possible.

11 The existing energy only rate form, in conjunction with the RSP, assures Hydro of  
12 the recovery of its fixed costs. For that reason, Newfoundland Power will be no  
13 worse off in paying fixed costs with the use of a demand ratchet than under the  
14 existing energy only rate form.

15 Hydro's capacity related cost of service is essentially a function of the peak demand  
16 it must supply (assuming no significant change in load factor). Since NLP's peak  
17 demand is coincident with Hydro's peak in virtually every year it is this singular NLP  
18 demand that is of prime importance. Peak demands in other months will, therefore,  
19 have little, if any, impact upon cost of service. Thus, the appropriate rate form is an  
20 annual demand charge payable on a monthly basis. This is equivalent to the use of  
21 a 100 percent demand ratchet.

22 Hydro must provide capacity for NLP's planned-for peak demand. If actual demand  
23 is less, there will be no savings for Hydro. If actual demand is higher than the  
24 planned-for peak, then, NLP and Hydro's other customers will have a greater risk  
25 of outage. If there is no ratchet, and the billing demand in each month is based  
26 upon the actual demand established in the respective month instead of the planned-

1 for peak demand, there may be an incentive for NLP to over forecast by a  
2 comfortable margin and only have to pay for the actual demand established. Also,  
3 NLP could use DSM to reduce monthly peaks and thereby its demand charges  
4 without a concomitant reduction in demand cost for Hydro.

5 Q. Do you agree with Mr. Brockman's suggestion that the deficit should be allocated  
6 at least in part on the basis of energy rather than revenue?

7 A. No, I do not. Hydro's proposal to assign the deficit in proportion to revenue  
8 requirements results in the deficit being shared in proportion to aggregate demand  
9 and energy cost, rather than in proportion to a single component, namely energy.  
10 Use of a methodology that recognizes sales, rather than revenue requirements, will  
11 result in a different revenue to cost ratio for the industrial customers and NLP and  
12 thereby distort equitable treatment. The use of revenue requirements to allocate the  
13 deficit results in an equal revenue to cost ratio, i.e. 1.13 for NLP and the industrial  
14 customers.

15 Use of energy to allocate the deficit results in a revenue to cost ratio of 1.11 for  
16 Newfoundland Power and 1.14 or \$542,000 more for the Island Industrial customers.

17 Q. Mr. Brockman points out on page 14 of his direct testimony that increased energy  
18 usage, especially at high load factors can result in the addition of far more capital  
19 intensive base load plants. Is the use of base load plants limited to high load  
20 factors?

21 A. No, it is not. Base load plants are also installed to supply loads in the range above  
22 20 percent load factor. Such base load plants are not used as intensively as the base  
23 load plants used to supply high load factor loads.