

1 Q. At page 11 of Mr. Bowman's evidence, it is stated "If Newfoundland Power's
2 wholesale rates were properly designed to reflect marginal costs while recovering
3 the revenue requirement, it would not be necessary to look beyond the wholesale
4 rate design." Since marginal costs and embedded costs are almost never equal,
5 how can rates be designed to recover marginal costs without over-recovering or
6 under-recovering revenue requirements?

7

8 ANSWER:

9 Rates can be designed to reflect marginal costs while recovering embedded costs
10 in a number of ways. Mr. Bowman points to two examples utilized by
11 Newfoundland Power in its retail rate designs (see Bowman Pre-filed Evidence,
12 page 11, lines 4 to 15). In its 1996 Application, Newfoundland Power's rate
13 design experts, Mr. Brockman and Mr. Connors, submitted evidence showing
14 how Newfoundland Power reflects marginal costs in its run-out energy block rates
15 for its retail customers. In addition, Mr. Brockman and Mr. Connors submitted
16 evidence related to Newfoundland Power's curtailable rate designed on the basis
17 of marginal costs.