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NEWFOUNDLAND AND LABRADOR HYDRO

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1998 08 31

Ms. Cheryl Blundon
Clerk of the Board
Board of Commissioners of Public Utilities
P.O. Box 21040
St. John's, NF
A1A 5B2

Dear Ms. Blundon:

Newfoundland Power has been requested to address a variety of issues at their upcoming hearing. Two of these issues have particular significance for Newfoundland & Labrador Hydro; the appropriate rate form, expressed in the form of separate demand and energy components, for sales to Newfoundland Power and the evaluation of innovative rates based on marginal costs.

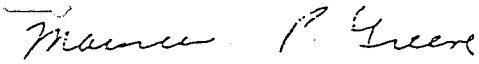
The Board reviews Newfoundland & Labrador Hydro's wholesale rate for Newfoundland Power at Hydro's own hearings. Reviews have at times included discussions on the appropriate structure for a demand and energy rate. Implementation of changes to either the level or structure of this rate would result from these hearings. Hydro respectfully submits that the issue of the structure of this rate should be addressed in context with Hydro's other rates issues and it would therefore be more appropriate for a hearing in which Newfoundland & Labrador Hydro is the proponent. Consistent with the requirements of the *Electrical Power Control Act, 1994*, Hydro currently anticipates that it will request the Board to review specific rates and other rates related issues in 1999 at which time the appropriate wholesale rate form would be addressed.

The issue of marginal cost based rates has implications for customers of both utilities. The effects of such rates may vary significantly from one utility to the other. As discussion of these relative impacts at one utility's rate hearing would add extra complexity to the hearing's proponent, this issue would be more appropriately addressed at a hearing specific to this issue. At such a 'generic' proceeding both utilities would present their results and customers from both utilities could put their views forward. This approach would allow a more thorough review of an issue that has wide ranging effects on customers. Such a generic hearing could be held in 1999, at a time that is acceptable to all interested parties.

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We understand that Newfoundland Power is in general agreement with this approach and will be writing the Board in this regard.

Sincerely,



Maureen Greene

Vice-President Human Resources,

General Counsel and Corporate Secretary

cc: Mr. Peter Alteen. NP