

1 **Q. Does Newfoundland Power agree with the wholesale power rate recommended by**
2 **Hydro's consultant in Exhibit RDG-2? If not, what changes would Newfoundland**
3 **Power make to the consultant's recommended rate and why?**
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5 A. Hydro's consultant did not recommend a specific wholesale rate for implementation as
6 part of Hydro's General Rate Application. At page 13, subsection 6.3 of the Stone &
7 Webster report filed with Hydro's application titled *Review of Rate Design for*
8 *Newfoundland Power* (the "Stone & Webster Report"), it states:
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10 "This report does not recommend an actual demand rate to NP, but rather, a
11 demand rate structure that is based on the principles set out in this section using
12 the preferred Option A outlined in Section 4. Using these principles, it is
13 recommended that Hydro run cases to carefully determine measures for such
14 things as the appropriate demand/energy balance, variations in its revenue stream,
15 etc. It is also recommended that the results of various cases be shared with NP
16 and that the proposed demand rate be based on discussions between both
17 utilities."
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19 Newfoundland Power has not received the results of any rate analyses from Hydro, and
20 as a result, specific discussions between the two utilities with respect to any change in the
21 current rate structure have not yet taken place.
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23 ***Newfoundland Power's Position***

24 While a demand-energy rate may be theoretically desirable in many circumstances,
25 introducing a demand-energy rate structure into the power purchase arrangement between
26 Newfoundland Hydro and Newfoundland Power at this time is neither necessary nor
27 desirable.
28

29 Newfoundland Power's position is that maintaining an energy only rate structure between
30 the two utilities remains appropriate so long as the rate design used by Newfoundland
31 Power to bill its customers continues to reflect the reasonable recovery of the demand,
32 energy, and customer components of the total cost of service, including purchased power
33 from Hydro.
34

35 ***Sample Demand/Energy Rate provided by Stone & Webster***

36 The Stone & Webster Report, Chart 1, does provide a *sample* demand/energy rate that is
37 "illustrative in form and operation". The monthly demand charge of \$7.00 per kW (\$84
38 per kW on an annual basis) in the sample rate is based on the embedded cost determined
39 from the 2004 cost of service study. There are two energy blocks in the sample rate
40 presented. The first block of 420,000,000 kWh is priced at 3.44 ¢ per kWh and all
41 energy above that level is priced at 4.7 ¢ per kWh. The 4.7 ¢ per kWh appears to be
42 based on the forecast cost of fuel at Holyrood.
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1 Overall, the sample rate presented:
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- 3 1. Places too much emphasis on embedded demand costs;
- 4 2. Reflects a marginal price for energy that is below the marginal cost of energy
5 (i.e., Holyrood fuel costs) for most of the year;
- 6 3. Is not expected to have material benefits for Newfoundland Power's
7 customers;
- 8 4. Will not promote efficient use of hydro production; and
- 9 5. Increases Newfoundland Power's business risk.