

Q. On page 16, lines 3 to 6 of Mr. Brockman's Pre-filed Evidence, he states "You simply do not sell products below the short-run marginal cost to produce them (except perhaps as loss-leaders) because you will lose money on every incremental unit you produce". He indicates that this idea is not only well known to economists, but even to the ordinary businessman. Please show how NP honors this principle in each of its retail rate classes, providing a comparison of its short-run marginal costs to its retail rates.

A. Table 1 below shows how Newfoundland Power honors the efficiency principle by comparing the Company's current retail tail block rates against the system's short-run marginal costs, including losses, that were the basis for setting these rates.

Table 1
Comparison of Newfoundland Power's Tail Block Rates
to the System's Short-Run Marginal Cost

Customer Class	Rate	Retail Tail Block Rate (incl. RSA & MTA) (¢/kWh) ¹	Short-Run Marginal Cost (¢/kWh) ²	Tail Block Rate as % of Short-Run Marginal Cost
Domestic	1.1	7.185	5.07	142%
G.S., 0 – 10 kW	2.1	9.389	5.07	185%
G.S., 10 – 100 kW (110 kVA)	2.2	4.675	5.07	92%
G.S., 110 – 1000 kVA	2.3	4.564	5.06	90%
G.S., 1000 kVA and Over	2.4	4.463	4.98	90%
Average (weighted on sales)		6.242	5.06	123%

¹ Rates effective August 1, 2003.

² Based on Hydro's 2002 test year fuel cost

At Newfoundland Power's 2003 GRA evidence was presented which indicated that Newfoundland Power's retail tail block rates for Rates 2.2, 2.3 and 2.4 were below short-run marginal costs. Having rates for these rate classes that better reflect short-run marginal costs was recommended. Due to other considerations, such as the need to minimize customer impacts and a final order to decrease overall rates, Newfoundland Power was unable to increase its tail block rates. As shown in the *Prefiled Evidence: Perry and Henderson*, Page 4, Table 1, the number of customers in these rate classes is small (less than 5%) in relation to Newfoundland Power's total customer base.