

1 **Q. Please provide an estimate of the incremental costs to NP for purchased power in**
2 **2004 if loads exceed the load forecast by 5% based on Hydro's proposed rates.**

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4 A. Under the proposed energy-only rate, the cost of serving Newfoundland Power's demand
5 and energy requirements are expressed in a ¢/kWh charge. If Newfoundland Power's
6 kWh purchases exceed forecast by 5%, then the Company would pay Hydro 5% more
7 than the amount included in the test year forecast (i.e., 5% more demand costs, 5% more
8 energy costs and 5% more specifically assigned costs). The energy-only rate effectively
9 assumes that a 5% variance from forecast energy would also result in a 5% variance from
10 forecast demand (this maintains the load factor assumed in Hydro's test year cost of
11 service study).

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13 The incremental cost to Newfoundland Power of the 5% higher purchased power charges
14 from Hydro depends on the reason for the increased purchases. If the 5% increased
15 purchases are weather-related, the increased purchased power charges are dealt with
16 through the weather normalization reserve and do not increase Newfoundland Power's
17 purchased power expense.

18
19 If the 5% increased kWh purchases are not strictly growth related, Newfoundland Power
20 incurs 5% additional purchased power expense (i.e., 5% increased demand costs, 5%
21 increased energy costs, and 5% increased specifically assigned costs).

22
23 If Newfoundland Power's peak demand exceeds forecast but the annual energy purchases
24 match the forecast, there is no immediate incremental cost to Newfoundland Power. The
25 impact of Newfoundland Power's peak demand exceeding forecast will be reflected
26 through an increased allocation of demand costs to Newfoundland Power in Hydro's cost
27 of service study filed at the subsequent Hydro general rate proceeding. The increased
28 demand cost to Newfoundland Power is then recovered from its customers through an
29 adjustment to retail rates.

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31 The incremental purchased power cost to Newfoundland Power as a result of loads that
32 exceed forecast under the Sample Rate are discussed in Section 3 of the *Prefiled*
33 *Evidence: Perry and Henderson*.