Re: Page 41, lines 24-30

Q. The evidence states: "To the extent that these loads are expected to cover in excess of the incremental costs they impose on the system (to reflect some contribution towards the fixed costs of the system), this is already covered in the 10% premium charged on the energy rate, similar to the other three utilities reviewed."

Would the ICs accept that if it was demonstrated that the 10% premium covered items other than contribution to fixed costs, such as losses, oil and lubricants and administrative costs, that it could indeed be appropriate to include a separate demand charge to cover contribution to fixed costs?

A. The question appears to refer to Page 51, lines 24-30.

No.

The provision of interruptible energy on a surplus basis, with no guarantee of service, no assurance of supply, and no fixed pricing, should properly reflect the incremental energy costs of supplying the energy. No demand charges is appropriate for this service. To the extent that the energy rate covers in excess of the incremental costs, the customer is paying for plant that it did not require to be built or costs that it did not require to be incurred. The 10% premium on the energy rate is a common type of factor in interruptible rates to cover the costs of such things as oil, lubricants, administration, etc. as well as some contribution to the fixed costs of the system – however, this contribution to fixed costs should be minimized as interruptible customers do not drive investment in fixed costs. In addition, the inclusion of fixed costs in the rate design often results in the IC customers paying more for incremental power provided on an interruptible basis than, NP is paying for incremental power provided on a firm basis which is not a reasonable or fair treatment of these two groups of customers.