

Reference IC-421 NP

Q. If the proposed demand/energy rate to Newfoundland Power was implemented would Newfoundland Power operate its generation facilities contrary to Section 3(b)(i) of the Electrical Power Control Act? If not how does the rate do anything but cause Newfoundland Power to structure its rates to reflect this seasonal variation in its cost?

A. Newfoundland Power will continue to operate its hydraulic generating facilities in the best interests of the overall system in accordance with Section 3(b)(i) of the *Electrical Power Control Act, 1994* which states that all sources and facilities for the production, transmission and distribution of power in the province should be managed and operated in a manner that would result in the most efficient production, transmission and distribution of power.

It is Newfoundland Power's position that the Sample Rate proposed by Hydro provides an incentive for the management of generation facilities that is contrary to Section 3(b)(i) of the *Electrical Power Control Act* and is therefore inappropriate.

As stated in the *Prefiled Evidence: Perry and Henderson*, Newfoundland Power does not use the wholesale rate as a basis for retail rate design. The rate design method followed by Newfoundland Power appropriately focuses on the Island Interconnected System costs as opposed to the wholesale power rate used by Hydro to recover its costs from Newfoundland Power.