Perry and Henderson

(Re: Page 1, line 18)

Q. With reference to line 18, which reads, "The sample Rate significantly increases the potential financial impact of forecast variances", and Table Nos. 5 and 6 on pages 15 and 17, respectively. Does NP agree that if the energy charges are taken out of the second columns of each table and also taken out of the first column (titled "Tail Block Energy Rate") of each table at the same value, that there will be even greater volatility than NP has demonstrated, such that it is not Hydro's energy rate per se that causes the volatility, but rather, NP own rate design as it pertains to collection of its other system costs? If not, why?

A. If the same energy charge value is taken out of both the first and second columns of Table 5 and Table 6, the contribution margin would not change. As a result there would be no change in the contribution margin already shown in these tables.

Line 18 states that the Sample Rate increases volatility. The level of volatility is dependant on both the tail block energy rate (Newfoundland Power's retail rate design) and the energy charge component of the purchase power rate. Newfoundland Power's current rate reasonably reflects a fair allocation the Island Interconnected System costs, and also strikes a reasonable balance between fairness and the need to ensure overall efficient use of the Island Interconnected System. The volatility that is of concern to Newfoundland Power is due to the potential impact of a change from the proposed energy-only rate to the Sample Rate.