

1 Q. The tail block rate for industrial customers is significantly less than the 2004
2 forecast short-run marginal energy cost at Holyrood. Does Stone and
3 Webster believe the tail block rate for industrial customers provides an
4 efficient pricing signal? (Rates and Customer Services, page 4, lines 7 to
5 10).

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8 A. The firm energy rate for industrial Customers was not designed to give the
9 type of pricing signal applicable to Newfoundland Power. Insofar as Hydro
10 has a weather-sensitive peak and Industrial Customers have a very high load
11 factor and are not weather- sensitive, the pricing signals being discussed for
12 Newfoundland Power that are based on the short-run marginal energy cost at
13 Holyrood are not seen as being appropriate for the ICs. The non-firm energy
14 rate for the Industrial Customers, which is priced based on incremental costs,
15 does, however, provide an efficient pricing signal.