

1 Q. With regard to the reports entitled *Newfoundland and Labrador Hydro*  
2 *Marginal Costs of Generation and Transmission* dated May 2006 and  
3 *Implications of Marginal Cost Results for Class Revenue Allocation and Rate*  
4 *Design* dated July 2006:

5

6 a. The July 2006 report makes specific recommendations on rate  
7 designs for Newfoundland Power and Industrial Customers (Tables 5  
8 and 7, respectively). The rate designs in Tables 5 and 7 include a two-  
9 block energy charge with the tail-block set at marginal energy cost,  
10 and a time-varying demand charge applied during the winter peak and  
11 winter off-peak periods. Does Hydro support these recommendations?  
12 If not, please provide reasons, and if so, please provide an  
13 implementation plan.

14 b. Using Tables 5 and 7 from the July 2006 report as a basis, please  
15 provide rate designs for 2007 for NP and each of the Industrial  
16 Customers on the basis of the revenue allocations derived in the 2007  
17 Forecast Cost of Service included in Mr. Greneman's Cost of Service  
18 evidence.

19

20

21 A. With regard to the reports entitled *Newfoundland and Labrador Hydro*  
22 *Marginal Costs of Generation and Transmission* dated May 2006 and  
23 *Implications of Marginal Cost Results for Class Revenue Allocation and Rate*  
24 *Design* dated July 2006:

25

26 a. Hydro agrees that marginal price signals should be incorporated into  
27 rates for Newfoundland Power and the Industrial Customers. Hydro's

1 preferred implementation solution is a joint submission with the  
2 customers after considering rate impacts.

3

4 b. Please see attached. As there is only a small difference in the fuel  
5 costs used in the July 2006 report and the fuel cost used in the Test  
6 Year, the demand and second block rates have not been adjusted. It  
7 should be noted that the rate results of the Marginal Cost reports  
8 exclude Newfoundland Power's deficit allocation, while the attached  
9 rate design includes the deficit allocation.

Line No Demand Revenue

	Newfoundland Power			Industrial Customers			Rate Source
	kW	\$/kW	Revenue	kW	\$/kW	Revenue	
No Demand Revenue							
1 Winter Peak	4,150,256	1.67	\$ 6,930,928	438,732	1.67	\$ 732,683	July 2006 report
2 Winter Off-Peak	4,038,566	0.43	1,736,583	448,200	0.43	192,726	July 2006 report
3 Total Demand			\$ 8,667,512			\$ 925,409	
	kWh	\$/Kwh	Revenue	kWh	\$/Kwh	Revenue	
4 First Block Revenue	3,000,000,000	0.0507	\$ 152,100,000	600,000,000	0.0316	\$ 18,960,000	Line 12
5 Second Block Revenue	1,964,000,000	0.0847	166,350,800	294,300,000	0.0847	24,927,210	July 2006 report
6 Energy Revenue			\$ 318,450,800			\$ 43,887,210	
7 Total Revenue			\$ 327,118,312			\$ 44,812,619	
8 Revenue Requirement			\$ 327,187,429			\$ 44,832,866	Source (Exhibit RDG-1, p 3 of 108)
9 Revenue from Demand and Second Block			175,018,312			25,852,619	Lines 3 and 5
10 Revenue Required from First Block			\$ 152,169,117			\$ 18,980,247	Line 8 - 9
11 First Block kWh			3,000,000,000			600,000,000	July 2006 report
12 First Block Rate (\$ per kWh)			0.0507			0.0316	Line 10/ Line 11