Q. With regard to the report entitled *Review of the Operation of the Rate Stabilization Plan dated June 30, 2006* (page 16), it is stated "with NP's end block rate based on the average cost of No. 6 fuel, NP's net load variation will be small". The discussion on page 23 shows a difference of 3.9 cents/kWh between the average all-energy IC rate and the incremental cost of Holyrood production:

a. Does this suggest that the end block rate for the ICs should likewise be based on the average cost of No. 6 fuel?

b. Would such a change in the IC rate design be consistent with the recommendation in the report entitled *Implications of Marginal Cost Results for Class Revenue Allocation and Design* dated July 2006?

c. Would such a change in the IC rate design negate the need for the load variation clause in the RSP?

A. With regard to the report entitled Review of the Operation of the Rate Stabilization Plan (RSP) dated June 30, 2006 (page 16), where it is stated "with NP's end block rate based on the average cost of No. 6 fuel, NP's net load variation will be small":

a. The above comment is not a suggestion or indication that the same rate structure should apply to the Industrial Customer class. While some of the same principles may be appropriate, there are other considerations as discussed below.

b. While such a change would be consistent with the marginal cost study recommendations, it may raise additional issues. For instance, each

Industrial Customer has a different level of consumption. If the block sizes are set on the class level, some customers may never pay a second block charge, regardless of fluctuations in energy consumption. If different blocks are specified for each customer, the load variation of one customer may create a large impact on the class load variation. Therefore before embarking on such changes to Industrial Customers' rates, careful consideration must be given to the impacts caused by each customer.

c. The need for a load variation provision would have to be examined in conjunction with any Industrial Customer rate design change. Consideration would have to be given to the impact of monthly consumption fluctuations due to planned or unplanned shutdowns for machinery maintenance or labour disruptions. This variability may increase the likelihood of a load variation being calculated using the first-block energy rate, which will likely differ significantly from test year fuel costs. In the case of NP's load variation results, it should be noted that since implementation of the two-block structure, NP's monthly consumption has consistently exceeded the first block.