

1 Q. Does NERA agree that the difference between the proposed marginal energy
2 rate to Newfoundland Power of 8.907¢ per kWh and the proposed marginal
3 firm energy rate to Industrial Customers of 3.811¢ per kWh is justified on
4 fairness and efficiency principles? Please explain your position. (Cost of
5 Service Evidence, page 8, lines 4 to 6)

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8 A. NERA has provided the following response to this Request For Information:

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10 The referenced text is as follows:

4 between the blocks. The inverted energy rate structure that was put in place for
5 NP is better suited to providing a proper price signal for the conservation of
6 natural resources than a flat energy rate.

11 As economists, we are experts on efficiency principles, but offer no particular
12 expertise on fairness. Hydro's proposed second-block NP energy rate (8.907
13 cents/kWh) is very close to our estimate of 2007 base case marginal energy
14 cost (8.73 cents/kWh) and represents a reasonably efficient price for
15 marginal energy consumption.

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17 Hydro's proposed Industrial energy charge (3.811 cents/kWh), however, is
18 well below the efficient level.