

1 Q. Confirm that the NERA report referenced did not recommend a rate increase
2 to Industrial Customers as a result of implementing marginal cost based
3 rates. (Cost of Service Evidence, page 16, lines 13 to 17)
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6 A. NERA has provided the following response to this Request For Information:
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8 Referenced text:

13 customers, such as the Island Industrial Customers. This is evidenced by
14 the 13.5% increase in the rates for Industrial Customers that is indicated in
15 Table 2, Page 7 of the NERA "Implications of Marginal Cost Results for
16 Class Revenue Allocation and Rate Design" report, when rates are based
17 on marginal costs.

9 NERA's recommendations were limited to rate structure, and did not include
10 class revenue allocation. In addressing rate structure, we did develop
11 illustrative rates that would produce class revenues equal to (1) forecast
12 2007 class revenues based on current rate structures and (2) an equi-
13 proportional adjustment to class marginal cost revenues, which is one way to
14 set marginal-cost-based class revenue requirements.