

1 Q. Stone and Webster does not believe that marginal costs are as appropriate
2 for the Island Industrial customers as for NP. Does NERA agree with the
3 Stone and Webster position? If not, why not? (Cost of Service Evidence,
4 page 17, lines 7 to 8)

5

6

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

8

9 S&W gives three reasons for their position on this issue (paraphrased):

10

11 (1) The marginal cost study shifts costs from NP to the Industrials.

12

13 (2) With no [actually a low] demand charge, Industrial customers will not
14 have a lower average price per kWh than NP, which they are entitled
15 to because of their high load factor.

16

17 (3) Industrial customers have high load factors and relatively little ability to
18 shift loads, and so may not be able to respond to marginal cost price
19 signals.

20

21 Our rate implications report presented illustrative rate structures for two sets
22 of class revenue requirements. One set was based on a forecast of 2007
23 class revenues at current rate structures. While the marginal cost results can
24 be used to set class revenue requirements (which would shift costs to the
25 Industrial class), class revenue requirements can also be set on the basis of
26 a traditional embedded cost-of-service study, with rate design within each
27 class based on marginal costs. This approach would continue to produce a

1 lower average price per kWh for Industrials than for NP, assuming the results
2 of the new embedded study are similar to current revenue allocations.

3

4 With regard to the relative inelasticity of industrial customers: The purpose of
5 marginal cost pricing is not to shift loads, but rather to give consumers
6 efficient price signals so that when they make decisions about electricity
7 consumption, they are doing so based on the economic cost of using more or
8 less at a particular time.