Q. What evidence is there to support the elasticity effect asserted to diminish growth in sales from 1.7% to 1.0%, having regard to the relative strength of the Newfoundland and Labrador economy?

A. The growth in energy sales forecasts for 2010 of 2.0% under existing rates and 1.2% under proposed rates primarily reflect the economic indicators forecast by the Conference Board of Canada. These key economic indicators are provided in Table 1.

Table 1
Key Economic Indicators

	2008	**2010F**
GDP - Service Producing Industry Growth	3.7%	1.3%
Personal Disposable Income Growth ($2002)	4.3%	-0.4%
Unemployment Rate	13.3%	15.9%

These indicators show that economic growth is forecast to be lower in 2010 compared to 2008. Newfoundland Power experienced growth in 2008 energy sales of 2.3%. In addition, 2008 was a leap-year which resulted in an additional day of energy sales compared to 2007. Removing the impact of the additional day of sales in 2008 would result in an adjusted growth in energy sales for 2008 of 2.0%.

Newfoundland Power incorporates the impact of elasticity into the energy sales forecast as required by Order No. P.U. 7 (1996-97). As indicated in response to Request for Information CA-NP-28 (e) the elasticity impacts in the forecast are derived from econometric models which are consistent with this Order.

These models indicate that a 1% increase in the price of electricity will result in a 0.10% decrease in energy sales in the first full year of the rate increase. With a proposed increase in revenue from rates of 7.2% (i.e., relative to rates as of July 1, 2009 as indicated in response to Request for Information PUB-NP-10), the impact of elasticity on energy sales under proposed rates in 2010 would be expected to be 0.72% (-0.10*7.2%) lower than the energy sales forecast of 2.0% under existing rates.