

1 Q. Reference: Volume II, Exhibit 9: Cost of Service Study / Utility and Industrial  
2 Rate Design Report

3 Page 10 of Exhibit 9: *Cost of Service Study/Utility and Industrial Rate Design Report*  
4 states...

5 ***“Rate designs will incorporate an element of revenue/price stability, certainty,***  
6 ***predictability and understandability. This will include consideration of marginal***  
7 ***costs over a number of years into the future.”***

8 Given that Hydro is proposing a 4.8% *decrease* in wholesale charges to  
9 Newfoundland Power, please explain in detail how an *increase* in the demand  
10 charge from \$4 per kW to \$9.12 per kW (128%) and an *increase* in the marginal  
11 energy rate (i.e., the excess rate) from 8.805¢ to 10.400¢ per kWh (18%) is  
12 consistent with each of the principles of revenue/price stability, certainty,  
13 predictability and understandability and considers marginal costs over a number of  
14 years into the future (i.e., gives consideration of marginal costs of a Labrador  
15 Interconnection). (Volume II, Exhibit 9, Page 10)

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18 A. []  
19 In Hydro's Amended Application, the demand charge is now proposed to *increase*  
20 from \$4.00/kW to \$5.50/kW. This modest increase was proposed in response to  
21 both negotiation with Newfoundland Power and Hydro's updated estimate of  
22 marginal costs based on the NERA marginal costing methodology used in Hydro's  
23 2007 GRA. The second block energy rate is proposed to increase from  
24 \$0.08805/kWh to \$0.11622/kWh. The rationale for this increase is explained in  
25 Section 4.5 of the Evidence and Section 3 of the Addendum to Exhibit 9 of the  
26 Amended Application.