

1 **Q. In Mr. Bowman's review of proposed changes to Newfoundland Power rate,**
2 **would he agree that a superior rate design would be based on an energy rate (second**
3 **block) that reflects marginal cost rather than doubling the demand charge? Please**
4 **explain the response in detail.**

5
6 **A. Mr. Doug Bowman agrees that an NP rate design with a second block energy**
7 **charge reflecting the marginal cost of energy would be more favourable than a rate design**
8 **where the demand charge is more than doubled. As noted in his response to PUB-CA-1, a**
9 **second block energy charge that reflects the marginal cost of energy is important to the**
10 **efficiency objective of rate design, and results in better cost tracking between utility costs**
11 **and revenues.**

12
13 As explained in PUB-CA-1, the marginal cost of energy is forecast to be about 16
14 cents/kWh over the 2014 to 2017 time frame, and Mr. Doug Bowman believes a second
15 block energy charge of the order of 12 cents/kWh is reasonable under the current
16 situation in the Province. The rate design in CA-NLH-26 freezes the demand charge at
17 \$4/kW/month resulting in a second block energy charge of 13.6 cents/kWh, while the rate
18 design in NP-NLH-152 allows proportional changes in the demand and energy charges
19 while maintaining the current size of the first energy block, resulting in a demand charge
20 of \$4.75/kW/month and a second block energy charge of 10.455 cents/kWh. Mr. Doug
21 Bowman believes these rate designs provide an appropriate basis for negotiations by the
22 Parties of a suitable rate design for NP, and are far superior to the rate design proposed in
23 the GRA with the significantly increased demand charge.