Q. Please explain in detail why Hydro is proposing to keep the size of the First Block for the NP energy charge at 250 GWh/month, while in the 2013 application it proposed to increase it to 280 GWh/month.

A. The Holyrood fuel price reflected in the 2013 Test Year was $108.74 per bbl. or approximately 18¢ per kWh.[1] This compared to a tail block energy charge of 8.805¢ per kWh in the existing utility rate. The use of the marginal energy price of 18¢ per kWh in establishing the tail block energy rate combined with a proposed demand charge based upon recovery of fully embedded demand cost for Newfoundland Power would result in over-recovery of costs unless modifications to the blocking structure were considered.

If the existing 250 GWh first block was maintained and the second block was priced at the price of fuel oil at Holyrood, the first block would be significantly negative. By raising the first block size to 280 GWh, the second block volume was lowered permitting a higher tail block energy price.[2]

In Hydro's Amended Application, the fuel cost at Holyrood was reduced to $93.32 per barrel and Hydro also reduced the proposed demand rate to Newfoundland Power to give recognition to an updated estimate of the marginal cost of capacity. The combined effect of these changes removed the requirement for modification of the size of the first block.

[1] Based upon a Holyrood fuel conversion factor of 612 kWh per barrel.
[2] The development of the proposed rate for Newfoundland Power in the original Application is described more fully in Volume II, Exhibit 9, Section 2.2.