

1 **Q. At p. 5 of its Load Forecast, Newfoundland Power states, “Using proposed rates the**
2 **average use of energy is forecast to increase by 0.4% in 2012, remain unchanged in**
3 **2013 and decrease by 0.6% in 2014.” Why is the average use of energy expected to**
4 **decrease in 2014 and how accurate have Newfoundland Power’s previous studies in**
5 **relation to forecasting average use of energy been when forecasting the same beyond**
6 **the next year?**

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8 A. Changes in domestic average use is influenced by a number of factors such as the number
9 of customers who use electricity to heat their homes (market share), the marginal price of
10 electricity and real personal disposable income per customer. The change in average
11 domestic use shown above is primarily related to changes in the *marginal* price of
12 electricity to domestic customers, in particular, the July 1, 2012¹ increase of 7.3% arising
13 from the annual review of the Rate Stabilization Account and the 7.9% increase effective
14 March 1, 2013² as proposed in this application. Since the elasticity effects of a change in
15 marginal rates to domestic customers is experienced over a two year period these
16 increases significantly impact average use in 2012, 2013 and 2014.

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18 Newfoundland Power does not have any formal studies with respect to the accuracy of
19 average use when forecasting beyond the next year. Historical average use and basic
20 economic theory support the principle that changes in customer usage are directly related
21 to the price of the commodity and household income. The accuracy of the forecast of
22 average use is dependent on the key assumptions used in preparing the forecast. Should
23 those assumptions vary so will the average use.

¹ As a result of the annual review of the Rate Stabilization Account, there was an overall average increase in electricity rates of approximately 6.6% effective July 1, 2012.

² In the 2013/2014 General Rate Application the Company is proposing an average increase of 7.2% to the domestic class effective March 1, 2013.