

1 Q. Consumer Question: In PUB-Nalcor-46, on lines 16 and 17, Nalcor states that it
2 selected the escalating supply price model over the COS pricing model because of
3 stated advantages.

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5 (a) Under what authority did Nalcor choose the pricing model and
6 how much scope was given to Nalcor to select the pricing model?

7 (b) Were alternate pricing models for the Isolated Island option
8 considered and, if so, what were they?

9 (c) Are there pricing models, such as those with on-peak/off peak
10 prices or increasing block rates, that would make the Isolated
11 Island option less costly?

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14 A. (a) Nalcor's direct investments are not regulated and it therefore did not
15 require authority to propose the PPA pricing approach for Muskrat Falls. As
16 indicated in Exhibit 36, Nalcor, in consultation with its financial advisers,
17 approached the issue of pricing for Muskrat Falls in an alternative manner to
18 conventional cost of service price administration.

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20 (b) Alternative pricing models were not considered for the Isolated Island
21 option; such models are not required because capital investments are either
22 smaller, or have a cost structure driven by variable costs (i.e. fuel).

23 Accordingly, there are no material issues with respect to the ability of the
24 Island rate base to readily absorb incremental utility capital costs as they are
25 incurred. By contrast, under a cost of service approach for Muskrat Falls,
26 ratepayers would be asked to incur the highest fixed charges when their
27 utilization of the capital intensive facility was at its lowest.

1 (c) Decreases in electricity consumption would be required to reduce the cost
2 of the Isolated Island alternative. Implementing on peak / off peak rates
3 would not be expected to reduce overall consumption, and therefore would
4 not be expected to reduce fuel consumption for thermal generation.

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6 Increasing electricity prices to the point where electric heat is no longer
7 competitive with other heating alternatives would tend to reduce electricity
8 consumption, as a greater percentage of new homes would be built with
9 alternate heating systems.

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11 Such a decision would have the undesirable effect of forcing customers to a
12 restrictive set of alternatives for home heating, while at the same time
13 forgoing use of an indigenous renewable resource with a known and stable
14 cost structure.