

Volume 1, Section 3 – Finance

Q. (pages 86 – 89) Please provide the likelihood that the impact of the 2008 unit cost variance will exceed the deadband in the Purchased Power Unit Cost Variance Reserve. Also please extend Table 35 at page 88 by adding columns to show:

a. The largest positive unit cost variance that NP anticipates for 2008, and

b. The largest negative unit cost variance that NP anticipates for 2008.

A. In this Application, Newfoundland Power is proposing to modify the Purchased Power Unit Cost Variance Reserve to make it explicitly related to demand management. The definition of the proposed Demand Management Incentive Account (“DMI Account) is provided in Exhibit 4.¹ This response assumes the proposed DMI Account is approved.

Newfoundland Power has limited experience under the demand and energy rate. As a result, it has insufficient historical data to provide the likelihood that the Demand Supply Cost Variance will exceed the Demand Management Incentive of 1% of test year wholesale demand charges.

Based on historic variability of native peak adjusted for weather,² it is reasonable to expect that actual demand will vary from forecast within the range of ± 4.0%. Table 1 shows the pro-forma transfers to the DMI Account based on this range of variability.

Table 1

**Pro-forma DMI Account Transfers
Based on a ±4% Variance From Forecast ³
(\$000s)**

	+ 4%	-4%
Demand Supply Cost Variance ⁴	(2,325.5)	896.4
Deadband ⁵	± 524.8	± 524.8
Variance ⁶	(1,800.7)	371.6
Tax Effects ⁷	(621.4)	128.2
Net Transfer To (From) Reserve⁸	(1,179.4)	243.4

¹ See also Customer Operations Evidence, pages 39 to 43.

² Native peak is the maximum demand forecast to be served by Newfoundland Power.

³ Based on a ±4% variance from 2008 test year forecast native peak.

⁴ A 4% increase in Native Peak in 2008 will result in the Supply Cost increasing by \$2,325,500, (48.45 MW x 4 \$/kW x 12). The effect of a 4% reduction in Native Peak will be limited by the wholesale rate minimum billing demand. The effect on the Company’s demand charges for a 4% reduction in Native peak will be \$896,400 (18.68 MW x 4 \$/kW x 12).

⁵ The deadband is proposed to be set at 1% of the wholesale test year demand charges. For 2008, this will be \$524,800 (2008 forecast wholesale demand charges \$52,482,700 x 1%).

⁶ This is the Demand Supply Cost Variance less the deadband.

⁷ DMI Account transfers are on an *after-tax* basis. (The tax effect is the variance multiplied by the 2008 income tax rate of 34.5%).

⁸ Negative transfers indicate amounts due from customers and positive transfers indicate amounts owed to customers.