

1 **The impact of elasticity Volume 1, Section 3 – Finance**  
2

3 **Q. Please confirm that impact on NP's net income due to the elasticity impact is the net**  
4 **decline in revenue as opposed to the gross decline in revenue; hence, the**  
5 **appropriate price elasticity offset in Exhibit 11 should be equal to the decline in**  
6 **revenue at the proposed rates resulting from the decline in demand minus the**  
7 **decline in costs due to the elasticity impact on demand.**

8  
9 A. The impact of elasticity on Newfoundland Power's net income is equal to the decline in  
10 revenue offset by the decline in cost.

11  
12 Exhibit 11 shows that the effect of elasticity on revenue (including RSA and MTA  
13 charges), assuming existing rates apply before and after the elasticity effects take place,  
14 is \$2,606,000. Table 42 on page 100 of the Company evidence shows that the elasticity  
15 effect on purchased power costs is \$3,099,000. The net effect of these two impacts is an  
16 increase in net income (before tax) of \$493,000<sup>1</sup>.

17  
18 Exhibit 11 does not show the impact on the Company's *net income* due to elasticity  
19 effects. It shows the effect on the Company's *revenue* due to elasticity effects. Exhibit  
20 11 was intended to show the proposed average increase in customer *rates*.

21  
22 It is not appropriate to show a *net* impact of elasticity in Exhibit 11. Table 4 in response  
23 to CA-NP-182 shows the impact of elasticity on net income (i.e., the decline in revenue  
24 less the decline in cost) with the impact on revenue based on proposed rates.

25  
26 To determine the proposed increase in customer rates it is necessary to compare revenue  
27 under existing rates to revenue under proposed rates using the same load forecast. The  
28 most relevant forecast to use is the 2008 load forecast with elasticity effects included.  
29 Table 1 shows the 2008 average rate increase in a slightly different format which may be  
30 of helpful.

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<sup>1</sup> Decline in cost less decline in revenue (\$3,099,000 - \$2,606,000).

**Table 1**  
**2008 Average Rate Increase**  
**(\$000s)**

	<b>Existing Rates applied to Forecast without Elasticity Effects<sup>1</sup></b>	<b>Elasticity Effects on Revenue<sup>2</sup></b>	<b>Existing Rates applied to Forecast with Elasticity Effects<sup>3</sup></b>	<b>Proposed Rates Applied to Forecast with Elasticity Effects<sup>4</sup></b>	<b>Effect of Increase in Rates<sup>5</sup></b>	<b>Percent Increase<sup>6</sup></b>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>
Revenue From Rate:	478,535	(2,606)	475,929	502,486	26,557	5.6%
RSA Charges	22,741	(148)	22,593	22,593	-	0.0%
MTA Charges	11,935	(67)	11,868	12,499	631	5.3%
<b>Total</b>	<b>513,211</b>	<b>(2,821)</b>	<b>510,390</b>	<b>537,578</b>	<b>27,188</b>	<b>5.3%</b>

<sup>1</sup> Revenue from existing rates from Exhibit 11.

<sup>2</sup> Elasticity Impact on Revenue at Existing Rate from Exhibit 11.

<sup>3</sup> Sum of Column A and B.

<sup>4</sup> Revenue from proposed rates from Exhibit 11.

<sup>5</sup> Column D less Column C.

<sup>6</sup> Column E expressed as percentage of Column C.