

Volume 1, Section 3 – Finance

Q. Please provide a table showing for each rate class:

- a. The lost revenue associated with a 1% decline in demand, separately identifying the decline in revenue related to the demand charges and the energy charges (i.e.; no impact on revenue from the basic customer charge since it is per customer demand that declines, not the number of customers);**
- b. The corresponding reduction in costs associated with a 1% decline in demand, separately showing the decline in costs related to energy, generation capacity, transmission, and distribution substation (as per Schedule 23 of Marginal Cost Study at Volume 2, Tab 12); and**
- c. The lost revenue, cost reductions, net impact on net income resulting from the elasticity impact of the proposed increase.**

A. (a) Table 1 shows the estimated revenue loss associated with a 1% decline in sales, separately identifying the decline in revenue related to demand charges and energy charges.

Table 1
Revenue Loss
1% Reduction in Energy & Demand¹
(\$000)

Class of Service	Energy Charges	Demand Charges	Total
Residential	2,718	-	2,718
General Service			
0-10 kW	102	-	102
10-100 kW	478	145	623
110-1000 kVA	589	156	745
Over 1000 kVA	255	58	313
Total	4,142	359	4,501

(b) Table 2 shows the estimated cost reduction associated with a 1% decline in sales. It is calculated according to the marginal cost estimates contained in the Marginal Cost Study. For simplicity the costs provided in Schedule 24 of the Marginal Cost Study were used instead of the marginal costs provided in Schedule 23.

¹ Revenue impact based on a 1% reduction in consumption as billed. Also the revenue excludes RSA and MTA charge and includes forfeited discount impacts.

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Table 2
Cost Reduction
1% Reduction in Energy & Demand²
(\$000)

Class of Service	Energy	Generation Capacity	Transmission Capacity	Dist. Substation Capacity	Total
Residential	2,871	11	41	47	2,970
General Service					
0-10 kW	89	-	1	1	91
10-100 kW	596	2	7	9	614
110-1000 kVA	814	3	10	11	838
Over 1000 kVA	384	1	4	4	393
Total	4,754	17	63	72	4,906

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(c) Tables 3 and 4 provide the impact on the Company's net income of the elasticity effects as measured based on Existing Rates and Proposed Rates respectively. The impact, as measured on existing rates, is the basis for the revenue impact shown in Exhibit 11 of the Company evidence.

² Based on Schedule 24 of the Marginal Cost Study.

Table 3
Effects of Elasticity on Net Income in 2008
due to Proposed Rate Change
Showing Revenue by Class at EXISTING Rate
(Rates effective July 1, 2007)
(\$000)

	Forecast Revenue without Elasticity	Forecast Revenue with Elasticity Effects	Change
Impact on Revenue from Rates			
Residential	293,087	291,590	(1,497)
General Service			
0-10 kW	12,589	12,600	11
10-100 kW (110 kVA)	63,267	63,303	36
110-1000 kVA	71,840	71,840	-
Over 1000 kVA	29,913	29,913	-
Street Lighting	12,291	12,291	-
Forfeited Discounts	2,705	2,695	(10)
	485,692	484,232	(1,460)
Total Revenue from Rates	485,692	484,232	(1,460)
Purchased Power Expense	336,819	335,173	(1,646)
Transmission, Substation and Distribution operating cost forecast ³			-
Impact on Net Income (before taxes)			186
Impact on Income Tax ⁴			64
Total Impact on Net Income			122

³ The Company's transmission, substation and distribution costs are not forecast to change as a result of elasticity impacts on the load forecast. Transmission, Substation and Distribution costs would only vary if the change in forecast is sufficient to delay the construction of new equipment. The Company does not expect that the elasticity effects will impact its requirement to add new equipment in 2008.

⁴ Based on a 2008 tax rate of 34.5%.

Table 4
Effects of Elasticity on Net Income in 2008
due to Proposed Rate Change
Showing Revenue by Class at PROPOSED Rate
(Rates effective Jan. 1, 2008)
(\$000)

	Forecast Revenue without Elasticity	Forecast Revenue with Elasticity Effects	Change
Impact on Revenue from Rates			
Residential	304,758	303,191	(1,567)
General Service			
0-10 kW	12,440	12,452	12
10-100 kW (110 kVA)	63,161	63,201	40
110-1000 kVA	73,188	73,188	-
Over 1000 kVA	30,782	30,782	-
Street Lighting	12,642	12,642	-
Forfeited Discounts	2,778	2,770	(8)
Total Revenue from Rates	499,749	498,226	(1,523)
Purchased Power Expense	336,819	335,173	(1,646)
Transmission, Substation and Distribution operating cost forecast ⁵			-
Impact on Net Income (before taxes)			123
Impact on Income Tax ⁶			42
Total Impact on Net Income			81

⁵ The Company's transmission, substation and distribution costs are not forecast to change as a result of elasticity impacts on the load forecast. Transmission, Substation and Distribution costs would only vary if the change in forecast is sufficient to delay the construction of new equipment. The Company does not expect that the elasticity effects will impact its requirement to add new equipment in 2008.

⁶ Based on a 2008 tax rate of 34.5%.