

1 **Volume 2, Tab 7 – An Analysis of Current Supply Cost Dynamics**

2
3 **Q. (page 5, Table 2)**

- 4
5 **a. If the Marginal Contribution forecast for 2008 were close to zero would there be**
6 **any need for the Energy Supply Cost Variance proposed by NP for inclusion in**
7 **the Rate Stabilization clause (Exhibit 12, page 5 of 5)? If so, please provide the**
8 **justification.**
- 9 **b. Please provide a table showing the portion of the deficit in the Marginal**
10 **Contribution forecast for 2008 attributable to each of the six customer classes.**
- 11 **c. Please provide the Marginal Contribution forecast for 2008 if the Basic**
12 **Customer Charge for Rate 1.1 were reduced by \$1/month, and the energy**
13 **charge were increased to recover the remaining revenue requirement allocated**
14 **to the Domestic class consistent with proposed rates.**
- 15 **d. Please provide the Marginal Contribution forecast for 2008 if Rates 2.2 and 2.3**
16 **were re-designed to a Hopkinson structure; i.e., set the demand charge for the**
17 **non-winter months at \$3/kVA of billing demand, and set the tail block energy**
18 **charge close to marginal costs without exceeding the revenue allocation to these**
19 **classes under proposed rates.**
- 20 **e. Please provide the Marginal Contribution forecast for 2008 if Rate 2.4 were re-**
21 **designed, setting the demand charge for the non-winter months at \$3/kVA of**
22 **billing demand, and the tail block energy charge close to marginal costs without**
23 **exceeding the revenue allocation to this class under proposed rates.**

- 24
25 **A. (a)** The marginal contribution shortfall *for 2008* is not the basis for the proposed Energy
26 Supply Cost Variance adjustment. The supply cost associated with serving load
27 growth in 2008 is reflected in the Company's 2008 proposed revenue requirement.

28
29 For years beyond 2008, the marginal contribution shortfall impairs Newfoundland
30 Power's ability to recover not only its supply costs from Hydro but also its own costs
31 of providing service. This can be expected to result in increased frequency in rate
32 cases for Newfoundland Power.¹

33
34 If the marginal contribution shortfall beyond 2008 were zero, all revenue related to
35 increased sales would be required to recover the supply cost from Hydro. None of
36 the revenue from additional sales would be available to recover increases in the
37 Company's other costs of providing service. These would include the cost of
38 connecting new customers, the cost of replacing aging plant, and cost increases in
39 salary and benefits and other inflationary pressures. If increased sales were to

¹ As Table 2 in the report *An Analysis of Current Supply Cost Dynamics* shows, an increase in sales prior to 2007 resulted in an increase in contribution.

1 provide no revenue to offset these costs, this could also be expected to result in
 2 increased frequency of rate cases.

3
 4 (b) Table 1 provides a comparison of the forecast marginal revenue per kWh to the
 5 marginal supply cost per kWh for each customer class.
 6

Table 1
Marginal Contribution Shortfall by Class
2008F
(¢ per kWh)

Class	Marginal Revenue	Marginal Supply Cost of Sales ²	Marginal Contribution
Domestic	9.7	10.6	(0.9)
General Service (0-10 kW)	13.0	10.3	2.7
General Service (10-100 kW)	9.8	10.3	(0.5)
General Service (110-1000 kVA)	8.4	10.2	(1.8)
General Service (1000 kVA and Over)	7.2	10.1	(2.9)
Street and Area Lighting	34.9	10.6	24.3
Overall	9.5	10.5	(1.0)

7
 8
 9 In Table 1, marginal revenue is the increased revenue that will accrue from basic
 10 customer charges, energy charges and demand charges. Table 1 is based on the
 11 assumption that increased revenues result from serving new customers and there is no
 12 change in overall average use.³
 13

14
 15 (c) If the proposed rate were revised by increasing the energy charge and decreasing the
 16 basic customer charge, there would be no change in either the forecast marginal
 17 revenue per customer class or the marginal contribution per customer class shown in
 18 Table 1. On the assumption that marginal revenue is based on a combination of
 19 demand, energy and customer charges, decreasing basic customer charges and
 20 increasing energy charges to maintain revenue requirement would not alter the total
 21 marginal revenue resulting from serving new customers.
 22

² The marginal cost of supply varies by class, reflecting variations in class coincidence factors at time of NP's peak.

³ Marginal revenues will vary, on a ¢ per kWh basis, if customers change their average use. For example, if a large general service customer increases its energy requirements without increasing demand (i.e., increased load factor), the marginal revenue from that customer will be lower than the marginal revenue from a new customer (since it would reflect only the tail block energy rate). This would have the effect of increasing the marginal contribution shortfall, as the marginal energy supply cost of serving that customer would not have changed.

Requests for Information

- 1 (d) Revising the proposed rate components to achieve the same revenue requirement will
2 neither change the forecast marginal revenue per customer class nor the marginal
3 contribution per customer class shown in Table 1.
4
5 (e) See the response to (d).