

1 **Volume 1, Section 1 - Introduction**
2

3 **Q. (page 6, lines 15-19) “This, in turn, may require Newfoundland Power to file more**
4 **frequent general rate applications than over the past decade simply to recover the**
5 **cost associated with supplying modest customer growth. Second, the high price of**
6 **fuel can be expected to increase the regulatory focus on customer rate design, and,**
7 **in particular, the economic efficiency of customer rate design”.**
8

9 **a. Is NP of the view that this trend will compromise the appropriateness of**
10 **the existing regulatory mechanisms for achieving least cost regulation that**
11 **is mentioned at page 5, line 23 to page 6, line 2?**

12 **b. Does NP expect the Board to direct that it increase its focus on economic**
13 **efficiency of rate design, or is NP proposing to put a process in place to**
14 **increase regulatory focus on rate design?**

15 **c. What process or plan does NP believe would be the most effective at**
16 **increasing regulatory focus on rate design?**

17 **d. Please list in detail the ways in which the current customer rate design is**
18 **inefficient and the changes that would be required to eliminate these**
19 **sources of economic efficiency.**

20 **e. Please explain why each change in customer rate design that would**
21 **increase economic efficiency is not being proposed as part of the 2008**
22 **GRA.**
23

24 **A. (a)** Regulatory mechanisms currently exist to benefit Newfoundland Power and its
25 customers by permitting recovery of prudently incurred costs beyond the
26 Company’s control thus reducing the frequency of general rate proceedings
27 and contributing to least cost regulation. The current supply cost dynamics, in
28 absence of the proposed changes to regulatory mechanisms, will reduce the
29 effectiveness of the existing regulatory mechanisms in contributing to least
30 cost regulation.¹
31

32 **(b)** Newfoundland Power has incorporated marginal cost considerations in its rate
33 designs proposed in this Application to increase the efficiency of its rate
34 designs.
35

36 The quantitative impact the consideration of marginal costs has had on the
37 rates being proposed for each class is provided in response to Request for
38 Information CA-NP-254.
39

40 The Company believes a number of policy issues should be addressed before
41 the Board before implementation of alternative rate designs. An increased
42 emphasis on economic efficiency in rate design should be balanced with
43 customer considerations.

¹ The Company has proposed an Energy Supply Cost Variance for inclusion in the Rate Stabilization Clause. Details of the proposed adjustment are provided in Section 4: Customer Rates and Regulations, pages 122-124.

- 1 (c) Newfoundland Power believes participation of all interested stakeholders is
2 desirable when considering material changes to customer rate structures. The
3 Company is not proposing a specific schedule to deal with customer rate
4 alternatives at this time.
5
- 6 (d) Newfoundland Power's retail rates are not inefficient. Rate design requires a
7 balancing of many rate design objectives. All aspects of Newfoundland
8 Power's rate design, including the rate design proposals in this Application,
9 are guided by the Criteria for Sound Rate Structure described by James
10 Bonbright in *Principles of Public Utility Rates*.² These criteria are
11 summarized in Section 4: Customer Rates and Regulations, pages 109-110.
12
- 13 (e) Time-based or inverted rate designs reflecting variances in marginal costs
14 deserve consideration for the island interconnected system. As explained in
15 (b), the Company believes a number of policy issues should be addressed
16 before the Board before material changes to rate structures are implemented.
17
- 18 Please refer to response to Request for Information CA-NP-184.

² Bonbright, *Principles of Public Utility Rates*, Columbia University Press, 1961, Chapter 16.