Volume 2, Tab 12 – Marginal Cost Study

Q. (pages 34, 35 and 36) How has NP utilized these marginal costs in this application. Please identify the quantitative impact consideration of marginal costs has had on the rates being proposed for each class. How does NP intend to use these marginal costs in future?

A. For Domestic customers, Newfoundland Power is proposing to apply the full increase in revenue requirement to the energy charge to permit better reflection of current marginal energy costs. For General Service customers, a similar approach was taken in increasing the tail block energy charges. Also, for General Service customer demand charges, the seasonal price differential is proposed to be increased to better reflect seasonal marginal demand cost differences.

Tables 1 and 2 demonstrate the quantitative impact of reflecting marginal costs in Newfoundland Power's customer rates proposals.

Table 1 compares the proposed tail block energy charges for each rate class with an estimate of the tail block rates that would have been proposed if marginal costs had been ignored and the average revenue increase per class was applied to the existing tail block rates ("Demo Rate").

Table 1
Quantitative Impact of Marginal Cost Considerations
on Tail Block Energy Rates

	Tail Block Energy Rates (¢ per kWh)		Difference	
Class of Service	**Demo Rate[1]**	**Proposed Rate[2]**	**¢ per kWh**	**%**
Domestic	9.508	9.586	0.078	0.8
General Service 0-10 kW	11.614	11.462	(0.152)	(1.3)
General Service 10-100 kW	6.244	6.799	0.555	8.9
General Service 110-1000 kVA	6.233	6.645	0.412	6.6
General Service 1000 kVA and Over	6.179	6.501	0.322	5.2

Acceptance of the Company's rate design proposals will result in significant increases in the tail block rates for the General Service classes with demand and energy rate components. The proposal to decrease non-winter demand charges for General Service Rates 2.2, 2.3 and 2.4 helps alleviate the customer impacts of the increased tail block rates.

[1] Based on tail block rates effective January 1, 2007 times the proposed increase per class (6.41% for Rate 1.1, 1.33% for Rate 2.1, 2.33% for Rate 2.2, 4.33% for Rate 2.3 and 5.33% for Rate 2.4).

[2] See Schedule A to Application.

Table 2 compares the proposed non-winter demand charges for Rates 2.2, 2.3 and 2.4 with the non-winter demand charges that would have been proposed if marginal costs had been ignored and the average revenue increase per class was applied to the non-winter demand charges ("Demo Rate"). The non-winter demand charges were reduced to better reflect seasonal cost differentials, to better reflect the current low marginal cost of demand and to help offset the customer impact of increases in tail block charges.

Table 2
Quantitative Impact of Marginal Cost Considerations
on Non-Winter Demand Charges

	Non-Winter Demand Charge ($ per kW-kVA)		Difference	
Class of Service	**Demo Rate[3]**	**Proposed Rate[4]**	**¢ per kWh**	**%**
General Service 10-100 kW	8.06	7.13	(0.93)	(11.6)
General Service 110-1000 kVA	7.00	5.96	(1.04)	(4.9)
General Service 1000 kVA and Over	6.64	5.55	(1.09)	(16.4)

Newfoundland Power will continue to monitor marginal costs as an input into the determination of its future rate design proposals. Rate structure changes to further promote efficiency are a possibility. However, in modifying rate structures, it is Newfoundland Power's view that the cost impact on customers is also an important consideration.

[3] Based on the demand rates for non-winter effective January 1, 2007 times the proposed increase per class (2.33% for Rate 2.2, 4.33% for Rate 2.3 and 5.33% for Rate 2.4).

[4] See Schedule A to Application.