

1 **Volume 2, Tab 13 – Rate Design Review**

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3 **Q. (page 7) Is it fair to say that the primary reason for the significant difference**
4 **between the energy charge and embedded cost in Rate 2.1 is the fact that the rate**
5 **(energy and customer components) is recovering 119.8% of embedded costs? Does**
6 **this justify a further reduction in the amount of revenue recovered from this class;**
7 **i.e., 110% of costs rather than the proposed 115% (Table 56)?**

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9 **A.** There are two principal reasons for the significant difference between the energy charge
10 and the embedded cost in Rate 2.1.

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12 Table 1 compares the January 1, 2007 Rate 2.1 rates to embedded costs from the *Cost of*
13 *Service Study*.

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Table 1
Rate 2.1
Comparison of Rates to Embedded Costs

	\$ per Month		¢ per kWh
Customer Charge	17.88	Energy Charge	11.462
Embedded Customer Costs	23.80	Embedded Demand and Energy Costs	8.26
Difference	(5.92)		3.20
Difference as a % of Cost	(25)		39

Because the Rate 2.1 customer class, on average, has very low usage, customer costs comprise approximately 27% of the total cost to serve.¹ This compares with approximately 10.5% for the average of all classes combined.² As a result, the transfer of the customer cost under-recovery to the energy charge has had a disproportionate effect, and has resulted in the energy charge being set materially higher than the embedded demand and energy cost.

The lower demand cost allocation to the Rate 2.1 class as a result of the updated information from the load research study has also had a significant impact on the difference between the energy charge and the blended demand and energy cost from the *Cost of Service Study*. The lower demand cost allocation is also the principal reason the rate is recovering 119.8% of embedded costs.

¹ Schedule 1.3 of the *Cost of Service Study*; Customer Cost of \$3,085,000 divided by Total Cost Recovered in Rates of \$11,418,000 equals 27%.

² Schedule 1.3 of the *Cost of Service Study*; Customer Cost of \$53,459,000 divided by Total Cost Recovered in Rates of \$502,858,000 equals 10.6%.

1 In the circumstances, Newfoundland Power believes its proposed gradual approach to
2 achieving its target revenue to cost ratios is appropriate. As noted in the response to
3 CA-NP-190, the Company's current plan is to propose bringing all customer classes
4 within its target revenue to cost ratios at its next general rate proceeding.