

1 **Q. (response to CA-NP 262) “The impact on individual customer bills within each class**
2 **influenced the tail block increases proposed in this Application.” Please provide**
3 **support for this statement including the rate designs considered and resulting**
4 **customer impacts (in a format similar to CA-NP 197).**

5
6 A. In its rate proposals, Newfoundland Power focused on achieving a reasonable balance
7 between the various criteria for sound rate design, given current information on
8 embedded costs, marginal costs and the impact the changes in rate design will have on
9 customers.¹ To accomplish this, it is necessary to change the various rate components by
10 different percentages. This results in impacts on customers that vary depending on each
11 customer’s consumption pattern. Response to CA-NP-197 provides the customer
12 impacts of the Company’s proposed rates.

13
14 CA-NP 262 deals with setting the demand charges and tail block energy charges for Rate
15 2.2, 2.3 and 2.4. Response to CA-NP-197 shows a wide range of customer impacts as a
16 result of the proposed changes to Rates 2.2, 2.3 and 2.4. This wide range of impacts is
17 primarily the result of material increases in the proposed tail block energy charges,
18 decreases in demand charges during the non-winter period, and increases in the
19 maximum energy charges. Collectively the impacts on individual customers, due to the
20 proposed changes to Rate 2.2, 2.3 and 2.4, vary from decreases of approximately 2% to
21 increases of over 7%.

22
23 The primary reason for the highest percent increases is the proposed increase in the tail
24 block energy charges. Given the wide range of impacts on individual customers, the
25 Company limited the amount of the increase in the tail block energy charges to
26 approximately 11%.² Any additional increase in the tail block charges would have been
27 offset by a further reduction in other charges resulting in a further widening of the range
28 of impacts on customers within each class.

29
30 The wider the range of individual customer impacts within each class, the greater the
31 concern with customer understandability of the Company’s rate proposals. The
32 Company believes its rate proposals provide a reasonable balance between the various
33 criteria for sound rate design including customer understandability.

34
35 The Company’s rate design approach is to develop an initial set of rates to achieve a
36 reasonable balance between the various criteria for sound rate design. Based on the
37 resulting customer impacts and rate class transitions that result, the rate components are
38 modified to address any concerns with the rates developed. This is an iterative approach to
39 rate design. As a result, the Company does not maintain a series of alternative rate designs
40 that were considered in developing its proposed rates.

¹ This is further detailed in the Rate Design Review provided in *Volume 2: Supporting Materials, Tab 13* of the Company’s evidence.

² The increases in the tail block rate for Rate 2.2, 2.3 and 2.4 were approximately the same in order to maintain the price differentials between the rates. Maintaining the price differential is necessary to minimize the impact on customers that results when customers change from one rate to another as a result of changes in their maximum demand. This rate transition concern is discussed in more detail in *Volume 2: Supporting Materials, Tab 13, Rate Design Review, Section 3.2*.