

1 **Volume 1, Section 2 – Customer Operations**
23 **Q. (pages 40 – 42 and Exhibit 4 - Demand Management Incentive Account)**
4

5 **a. (page 41, lines 4-5) “Based on the experience thus far with the demand and**
6 **energy wholesale rate, the Company believes that a continued incentive for**
7 **peak management is appropriate”. Please provide the data and information**
8 **upon which this belief is based including actual experience and benefits to**
9 **consumers.**

10 **b. (Exhibit 4, page 1 of 1) Please provide the analysis upon which NP based its**
11 **proposed Demand Management Incentive Account in Exhibit 4 including**
12 **alternatives considered and experience with demand management and**
13 **energy efficiency accounts in other jurisdictions.**

14
15 A. a. The establishment of a reserve account was approved with the demand and energy
16 wholesale rate in 2004. The Purchased Power Unit Cost Variance Reserve Account
17 (the “Reserve Account”) limits the impacts on the Company of variability in the
18 forecast average cost of purchased power to one percent of test year demand costs. A
19 one percent variance in billing demand will cause a variance in purchased power
20 costs from that reflected in customer rates by approximately \$520,000.¹ This
21 provides a meaningful demand management incentive to undertake reasonable
22 initiatives to minimize peak demand.

23
24 In 2006, the Reserve Account was credited with an amount reflecting a purchased
25 power cost savings to customers of approximately \$2.1 million. This savings
26 primarily resulted from Newfoundland Power’s billing demand from Newfoundland
27 and Labrador Hydro (“Hydro”) being approximately 4.7 percent, or 52 MW, below
28 forecast.

29
30 The results of 2006 demonstrate the variability in purchased power demand costs
31 under the demand and energy wholesale rate. If the Reserve Account did not exist in
32 2006, the benefit of the savings in purchased power costs would have gone to the
33 Company and not the customer.

34
35 In this Application, Newfoundland Power is proposing to modify the reserve
36 mechanism to relate it explicitly to demand management. The demand and energy
37 wholesale rate provides the Company with an incentive to minimize purchased power
38 demand costs from Hydro.

¹ Based on the current wholesale demand charge of \$4.00 per kW per month.

1 Customers benefit in both the short-term and long-term from demand management by
2 the Company. Short-term savings can be provided through the Demand Management
3 Incentive Account (as occurred in 2006 through the Reserve Account). Longer-term
4 savings can be achieved based on the impact that the Company's load management
5 has on system expansion related to demand growth.

6
7 b. The Demand Management Incentive Account shown in *Volume 1, Exhibit 4*, is
8 proposed based on the Company's experience thus far under the demand and energy
9 wholesale rate. The Company has no experience with demand management and
10 energy efficiency accounts in other jurisdictions.

11
12 The disposition of amounts currently credited to this reserve is reviewed in *Volume 1,*
13 *Finance, Section 3.7.2 Regulatory Reserves.*