

1 **NP-CA-86**

2 **Reference: Page 13, Footnote 22**

3 **Q. Does Mr. Todd agree that the proposed Energy Supply Cost Variance**
4 **clause would reduce the requirement for Newfoundland Power to file more**
5 **frequent general rate applications? If not, why not?**

6

7 A. There is no way of knowing whether a future GRA will be necessitated by
8 the absence of the proposed Energy Supply Cost Variance clause.

9 Assuming continued customer growth at 1%, the impact of this growth on the
10 company's revenue sufficiency/deficiency in terms of the energy supply cost
11 variance would not be \$1.7 million as shown in Table 57 at page 123 of NP's
12 evidence. That table shows the variance in purchased power costs only. It does
13 not reflect the difference between marginal revenue and marginal cost.

14 A very different impact would be calculated using Table 2 of Volume 2, Tab 7: An
15 Analysis of Current Supply Cost Dynamics. It compares Marginal Revenue from
16 new customers (see the footnote, #13) to the Marginal Supply Cost of Sales. For
17 2008 the shortfall shown is 0.7¢/kWh. This may be the best estimate of the short
18 run impact of variances in energy demand due to customer growth.

19 Using these figures, the impact of 1.1% growth can be estimated using the
20 difference in energy purchases for the test year for a 1.0% variance shown in
21 Table 57 at page 123 of NP's evidence, which is 50,000,000 kWh. Hence for
22 1.1% growth the difference would be approximately 55,000,000 kWh. Given the
23 shortfall of 0.7¢/kWh noted above, the resulting shortfall for 1.1% customer
24 growth would be \$385,000. This impact is significantly less than the \$1.7 million
25 that would be transferred to the RSA under the Energy Supply Cost Variance
26 mechanism being proposed by the company.

27 The preceding calculation does not take into account the full long run marginal
28 distribution costs associated with serving new customers. If the company wishes
29 to avoid GRA's by creating an automatic mechanism for adjusting rates to reflect
30 the impact of customer growth, that mechanism should be based on the
31 difference between total marginal costs and total marginal revenue. (See the
32 Marginal Cost of Electricity Service Study that appears at Volume 2 Tab 7.) This
33 could be determined by customer class.

34 The Energy Supply Cost Variance proposal is a mechanism for removing all of
35 the risk associated with variances from forecast in power purchases and for
36 eliminating any load management associated with energy as opposed to
37 demand. Hence, it misses the target in dealing with the impact of load growth in
38 non-GRA years. Also see the response to NP-CA-87