

1 **Q. In reference to the evidence of Lorne Henderson, page 20, lines 8 to 9 - “The**  
2 **Company is proposing the Curtailable Service Option continue to be based on a**  
3 **credit of \$29 per kVA.” - what is the value of the Curtailable Service Option to**  
4 **Newfoundland Power?**

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6 A. In reference to page 20, lines 8 to 9 of Lorne Henderson’s evidence, the value of the  
7 Curtailable Service Option to Newfoundland Power can be viewed from a short-run  
8 perspective (i.e., through a reduced allocation of embedded costs from Newfoundland  
9 and Labrador Hydro (“Hydro”)) or from a long-run perspective (i.e., through the deferral  
10 of the construction of additional generating facilities).

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12 Historically, the short-run savings for the reduced demand were provided to  
13 Newfoundland Power’s customers through the operation of Hydro’s Rate Stabilization  
14 Plan (RSP) as Hydro re-allocated embedded demand costs between the Industrial and  
15 Retail portions of the RSP based on actual peak demands.

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17 Effective September 1, 2002, Newfoundland Power’s reduced peak demand forecast  
18 (from the operation of the Curtailable Service Option) will be used by Hydro in General  
19 Rate proceedings to lower the embedded demand costs allocated to Newfoundland  
20 Power. The effects of the lower embedded demand costs will be reflected in lower rates  
21 to the Company’s customers. These savings can be viewed as the short run value of the  
22 Curtailable Service Option.

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24 The long-run savings due to the Curtailable Service Option depend on the marginal cost  
25 of generation capacity. As discussed in the report provided in response to Request for  
26 Information CA-295, the marginal cost of generation capacity is currently unknown. The  
27 Company is proposing to use Hydro’s Interruptible B credit (i.e., based on the savings  
28 from deferring the construction of a gas turbine) as a proxy in determining an appropriate  
29 credit for the Curtailable Service Option.