

1 **Q. In reference to Exhibit LCH-5, pages 3, 4 and 5, what is the basis for the design and**
2 **levels of the winter and non-winter demand charges in Rates 2.2, 2.3 and 2.4?**

3 A. A \$0.50 differential between winter and non-winter demand charges was introduced in
4 1987 to reflect a higher marginal cost of demand during the winter period. The
5 differential was increased to \$0.75 (including municipal taxes) following the 1991
6 General Rate Application.

7 A marginal cost estimate of possible seasonal cost differences was included in NP's
8 *Study of Innovative Approaches to Rate Design Based on Marginal Cost and Time-of-Use*
9 *Design Principles* (the Study), provided in the response to Request for Information CA-
10 312. However, as discussed in Section 6 of Mr. Brockman's report entitled *A Review of*
11 *the Curtailable Service Option for Newfoundland Power*, provided in response to CA-
12 295, the Company has concerns about the accuracy of its estimates of Hydro's marginal
13 generation and transmission costs which were the basis of the Study.