Q. **Reference: Volume II, Exhibit 9: Cost of Service Study / Utility and Industrial Rate Design Report**

Page 17 of Exhibit 9: *Cost of Service Study/Utility and Industrial Rate Design Report* includes the statement:

"Adjusting the IC rate structure at this time for a fuel price signal, expected to no longer be required within the relatively near term, and in light of the CDM requirements being addressed as discussed previously, does not appear to be prudent."

Based upon the preceding statement, explain why is it prudent in the wholesale rate to Newfoundland Power to decrease the energy price in the 1st kWh block and increase the energy price in the excess kWh block from 8.805¢ per kWh to 10.400¢ per kWh. (Volume II, Exhibit 9, Page 17)

A. In the case of the IC, adjusting the rates for a price signal by means of a two-part energy rate would introduce a relevant price signal, and were it not for the existing complexities surrounding the IC load and rates, Hydro would give serious consideration to such a rate structure. The load for Vale is forecast to ramp up over the near term, leading to difficulty in establishing a first block of energy that would not result in either punitive energy charges or windfall gains to the customer. Additionally, the effective IC rates to 2016 have largely been determined by Government direction, so any price signals would be muted by phased-in rates. Thirdly, the Muskrat Falls interconnection requires study to determine the appropriate price signals.