Q. (Re: Response to CA-NLH-159) The response indicates that if the RSP were abandoned, Lummus Consultants would revise the energy component of the rates for both NP and the IC. For NP this would involve the consideration of moving return associated with customer costs and the rural deficit into the first block. For the IC an inclining block energy rate would be considered where the tail block is reflective of only fuel oil costs. Please file rates derived on this basis and provide a discussion of the pros and cons of such rate designs.

A. CA-NLH-225 Attachment 1 illustrates an alternate rate design for NP with customer costs and the rural deficit moved out of the second energy block and into the demand charge and the first energy block. An advantage of this rate design is that it keeps the second block pure with respect to Holyrood fuel costs. A disadvantage of this rate design, compared with Hydro's proposed rate design, is that it lowers the second block further from the test year cost of Holyrood fuel oil.

Developing an alternate rate design for the IC, with an inclining block, where the tail block is reflective of only fuel oil costs, is not a straight-forward exercise. As discussed in Hydro's "Review of Industrial Customer Rate Design[1]" report (IC Rate Design Report), January 2008, there are industrial customers of varying sizes and varying load factors such that different first block sizes are required for each customer. The Rate Design Report provides a detailed discussion of the principles that would be used to calculate first block sizes along with illustrative rates. At the time that the IC Rate Design Report was developed, one advantage was that an inclining energy rate structure with Holyrood fuel oil at the margin would provide a price signal for conservation of energy. However, as discussed in Section 3 of

[1] Exhibit 12 in Hydro's GRA filing.

Hydro's Exhibit 9, a two-block rate structure for the IC may now not be appropriate in light of Hydro's current CDM efforts. Also, a two-block rate structure introduces a level of complexity and lack of transparency with respect to the determination of block sizes for Vale's increasing power requirements. Lastly, there is the question as to whether transitioning to a two-block rate structure for the IC is appropriate at this time in light of the proposed Labrador Interconnection.

	Test Year Fuel Oil			
1	$/bbl	$ 108.74		
2	Holyrood Conversion Rate (kWh/bbl)	612		
3	Mills/kWh	$ 177.68		
4	Total Holyrood Fuel Costs	$ 200,692,615	Sch. 1.1, Ln 2 Col. 3	
5	NP Transmission Allocation Ratio	0.8673	Sch. 3.1A, Ln 14 Col 4	
	NP Revenue Requirement			
6	Total Revenue Requirement	$ 453,005,298	Sch. 1.2, pg 1, Ln 1, Col 7	
7	Demand Revenue Requirement incl. Rural Deficit & Rev. Cr. Allocation	$ 144,196,335	Sch. 1.3.1, pg 1, Ln 1, Col 7	
8	Energy Revenue Requirement incl. Rural Deficit & Rev. Cr. Allocation	$ 303,813,630	Sch. 1.3.1. pg 1, Ln 1, Col 8	
9	Customer Revenue Requirement incl. Rural Deficit & Rev. Cr. Allocation	$ 4,995,333	Sch. 1.3.1. pg 1, Ln 1, Col 9	
10	NP Allocated Holyrood Fuel Costs	$ 174,067,395	Ln 4 * Ln 5	
11	Non-Fuel Energy & Customer Costs, incl. Rural Deficit & Rev. Cr. Allocation	$ 134,741,568	Ln 8 + Ln 9 - Ln 10	

	Rate	kW/kWh	Rate	Revenue	
		(A)	(B)	(C)	
12	Demand	13,929,036	$ 10.35	$ 144,165,523	kW: Sch 1.3.2, pg 1, Ln 1, Col 2; Rate: Ln 7 / Ln 12 rounded; Revenue: Ln 12 Col A * Col B
13	Energy				
14	First block (First 280 GWh/mo.)	3,360,000,000	$ 0.04010	134,742,720	kWh: 280 GWh * 12 * 1,000,000; Rate: Ln 11 / Ln 14 Col A, rounded; Revenue: Ln 14 Col B * Col C
15	Second block (Over 280 GWh/mo.)	2,234,300,000	$ 0.07792	174,097,056	kWh: Ln 15 Col A - Ln 13 Col A; Revenue: Ln 6 - Ln 12 Col C - Ln 14 Col C; Rate: Col C/Col A
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16	Total	5,594,300,000		$ 453,005,298	kWh: Sch. 1.3.2, pg 1, Ln 1, Col 3; Revenue: Sch. 1.3.1, pg 1, Ln 1, Col 6