

1 **Q. 2013 General Rate Application, Deferral and Recovery Mechanisms**

2 Page 4.25, lines 3-5 - It is stated that Hydro does not propose to account for volume
 3 variances in diesel costs that are due to load changes. If Hydro receives additional
 4 revenue as a result of variances in load in isolated systems from the test year, how
 5 does Hydro propose that such additional revenue be treated?

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8 **A.** Overall, there is no net benefit to Hydro resulting from increased load on the
 9 isolated systems, as the cost of the marginal supply exceeds the marginal revenue.
 10 The table below illustrates the impact, using the average cost of energy as a proxy
 11 for the marginal cost.

Line No.		Island Isolated	Labrador Isolated	Comment
1	Fuels - Diesel (\$)	2,558,555	14,697,487	COS, Schedule 1.1, Line 3
2	Total Energy at Generation (kWh)	7,958,000	41,909,000	COS, Schedule 3.1B and 3.1C, Line 12
3	Average Cost per kWh (\$)	0.32151	0.35070	Line 1 / Line 2
4	Estimated Tail Block Rate based upon 2013 Test Year (\$/kWh)	0.18675	0.18675	
5	Difference (\$/kWh)	0.13476	0.16395	Line 3 - Line 4

12 It can be assumed that the marginal supply source in L'Anse au Loup is diesel, with a
 13 similar average cost, but with marginal revenue at \$.1060 /kWh, with a difference
 14 of over \$.20 /kWh for every extra kWh sold.

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16 Additionally, revenue changes related to both increases and decreases in rural load
 17 have two components. Revenue from the load change at test year rates falls to
 18 Hydro's bottom line, while the actual load and the difference between Hydro's test
 19 year rates and those charged to customers is used to calculate the amount of the

- 1 Rural Rate Alteration. Hydro is not proposing to account for volume changes
- 2 whether positive or negative.