

Q. In NP’s opinion, on what basis should Hydro determine the amounts of “economically available” interruptible power from Industrial Customers (see page iii of Board’s May 15, 2014 Interim Report on Supply Issues and Power Outages on the Island Interconnected System) and what process should Hydro follow to gain approval of these interruptible contracts considering that the 2013 General Rate Application has been temporarily withdrawn?

A. The determination of the amounts of interruptible power to obtain from Industrial Customers should be guided by the Criteria of a Sound Rate Structure described by James Bonbright (“Bonbright”) in *Principles of Public Utility Rates*.¹ The “economically available” amount should be determined based upon Bonbright’s efficiency principle.²

In principle, the amount of “economically available” interruptible power from Industrial Customers should be based on a comparison of the economic benefits of the interruptible power to the economic cost of obtaining the interruptible power from Industrial Customers.³ The amount of “economically available” interruptible power will be determined by the extent to which the benefits from increasing the amount of interruptible load will exceed the costs of adding additional interruptible load.

The Board has indicated that a contract for interruptible load should be in place by December 1, 2014.⁴ Gaining approval from the Board for the interruptible contracts for Industrial Customers requires an application to the Board by Newfoundland and Labrador Hydro. Neither this application, nor its approval, is necessarily dependent upon Hydro’s 2013 General Rate Application.

¹ Principles of Public Utility Rates, Bonbright, Columbia University Press, 1961, Chapter 16. Summarized, the principles are: (i) Practicality – rates should be understandable, publicly acceptable and feasible in their application; (ii) Effectiveness – rates should yield total revenue requirements under the fair-return standard; (iii) Stability – rates should ensure revenue stability for the utility and also stability in the charges to customers; (iv) Efficiency – rates should discourage wasteful use of service and promote economic use of service; and (v) Fairness – rates should be fair in the apportioning the total cost of service among customer classes and avoid undue discrimination.

² Pricing based on economic efficiency can lead to rates that are considered fair. However the Board’s practices often include the allocation of embedded costs when assessing fairness.

³ The economic benefits typically are determined by the amount of generation cost or costs to customers that would be avoided if the interruptible load was not available. The economic costs typically include amounts paid to obtain the interruptible power and administration costs.

⁴ See page iii of the Board’s Interim Report, *In the Matter of an Investigation and Hearing into Supply Issues and Power Outages on the Island Interconnected System*, May 15, 2014.