

1 Q. (Reference Application Volume 1, page 1.11) It is stated (lines 6 – 9): *“Nalcor’s June*
2 *23, 2017 project update stated that average island residential electricity rates are*
3 *expected to increase to 22.89 cents (¢) (plus HST) per kilowatt hour (kWh) in 2021 as*
4 *a result of the Muskrat Falls Project. The present average rate for these customers is*
5 *11.7 ¢ per kWh (plus HST), a gap of 11.19 ¢ per kWh.”* Does the estimated rate
6 increase take into account elasticity effects? What reduction in demand does Hydro
7 expect from this increase in price, and what is the estimated impact on rates of this
8 load reduction? For example, has Hydro estimated the impact of the rate increase
9 on electric heating demand? Have any of the Island Industrial Customers indicated
10 that they will be forced to reduce or shutter operations in response to the expected
11 rate increase?

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14 A. The estimated rate increase to 22.89 cents (plus HST) per kilowatt hour (kWh) in
15 2021, primarily as a result of the Muskrat Falls Project, takes into account elasticity
16 effects.¹

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18 The reduction in customer load in the short term associated with price changes is
19 measured by price elasticity. The short term price elasticity associated with
20 residential load on the Island Interconnected System is estimated at -0.3, which
21 means a ten percent increase in residential prices in real dollar terms results in a
22 three percent decrease in average annual consumption levels by residential
23 customers. Hydro’s estimate of price elasticity reflects the expected overall change
24 in average annual electricity consumption, including heat and non-heat related

¹ For the purposes of Nalcor’s June 23, 2017 Project Update, Hydro provided a load forecast reflecting an elasticity effect of a residential rate of 18 cents/kWh, escalating at 2.2% per year.

1 load. Hydro expects that average consumption level changes associated with price
2 changes is more likely to impact substitutable end uses such as electric heating.

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4 The rate referenced of 22.89 cents (plus HST) per kWh in 2021 is a domestic
5 customer rate and therefore is not applicable to Island Industrial Customers.

6 Further, it does not contemplate potential rate mitigation activities. Hydro has not
7 formally surveyed Island Industrial Customers to ascertain the impact of future rate
8 increases.