

1 Q. Reference: The Brattle Group Deferral Account Report and NLH-NP-124.

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The Brattle Group states in Recommendation 3 on page 14:

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If the Board wishes to incentivize reductions in peak demand, incentives to specific demand reduction programs through the existing Conservation and Demand Management Program should be considered instead.

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a) If the recommendation to modify the Demand Management Incentive (“DMI”) Account is approved to eliminate the DMI threshold, what alternative could provide the incentive to Newfoundland Power to undertake reasonable initiatives to minimize peak demand?

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b) Would lowering the threshold to the requested +/- \$500,000 with a review to eliminate in the next general rate application be a reasonable approach?

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c) If the DMI threshold was eliminated, is it appropriate to have additional costs passed on to customers if the appropriate incentive to manage demand was not achieved through the existing Conservation and Demand Management Program?

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A. a) The recommendation to eliminate the incentive threshold on the DMI Account was made due to the limitation of Newfoundland Power to manage their demand costs, and incentives related specifically to demand cost management are not common among investor-owned Canadian electric utilities. As is typically the case among other investor-owned Canadian electric utilities, specific targeted programs through Newfoundland Power’s Conservation and Demand Management Program may better and more effectively manage system peak requirements. A potential incentive that could be put in place to incentivize a reduction in peak system demand could be a lost energy revenue adjustment mechanism, also known as a decoupling mechanism, which allows a utility to recover revenues that are reduced specifically as a result of energy efficiency programs.

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b) While a complete analysis of modifying the threshold to +/- \$500,000 has not been conducted, having any threshold in place would still place Newfoundland Power in a similar situation, with a lack of ability to effectively manage system peak requirements. While in our Report, we have recommended removing the DMI threshold, it would also be a reasonable approach to modify the threshold to +/- \$500,000 with a more in-depth review in the next general rate application, in conjunction with a review of Newfoundland Power’s weather normalization approach.

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- 1           c)    As outlined in response to NLH-PUB-002 a), further incentives, such as a  
2                    decoupling mechanism, could be implemented to incentivize demand  
3                    management further.