

1 Q. Re: Wilson Pre-Filed Testimony, page 18. Dr. Wilson indicates that "From
2 an economic efficiency perspective it cannot be concluded that the addition
3 of the Labrador interconnection will mean that a marginal cost price signal
4 is unnneeded. Indeed, as discussed below, the incremental fuel price may very
5 well continue to be a good proxy for marginal energy cost, even when the
6 Labrador interconnection comes on line." [underlining added]
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8 Please provide further details on the above statement (or
9 alternatively indicate where "below" in the Pre-Filed
10 Testimony this is addressed). In particular, please address how
11 Holyrood fuel costs might be an appropriate long-term
12 marginal cost for the Island when Holyrood is scheduled to be
13 decommissioned. If Dr. Wilson has any analysis to
14 quantitatively support this conclusion, please provide same.
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17 A. Hydro's most recent estimate of its future marginal energy cost for the Island
18 Interconnected system is in the range of 15.5 and 17.6 cents per kwh for the years
19 2013 through 2017. In 2018, if the Labrador Interconnection comes online, Hydro
20 estimates that its marginal energy cost may drop to between 5.4 and 7.2 cents per
21 kwh, which is still above the proposed marginal energy rate of 4.782 cents per
22 kwh for industrial customers. At least for the next four years there is no economic
23 justification for the proposed 4.782 cent industrial energy rate. In fact it may be
24 the case that even with the Labrador interconnection on line, a better estimate of
25 Hydro's marginal energy cost will still be the marginal cost of fuel. That is so
26 because (as in the case of Island Hydraulic power) a large portion of the cost of
27 Labrador purchased power costs will logically have to be considered an energy
28 cost rather than a capacity cost. Thus, whether or not Holyrood remains in service
29 following the Labrador interconnection, the running cost of a fossil fuel plant
30 may be a reasonable proxy for marginal system energy cost.