Q. Report of J.W. Wilson & Associates, Part IV: CFB Goose Bay Credit, pages 34-1 36 of 97.

The report of J. W. Wilson & Associates states at pages 35-36:

> In setting new rates in this case, Hydro is proposing to fully apply the CFB Goose Bay 4 revenue credit directly to the rural deficit. Because this revenue credit would be fully applied to the rural deficit in setting new rates, the Rural Rate Alteration calculation (Rural Labrador Interconnected Automatic Rate Adjustment) related to the Labrador Interconnected system would be removed from the RSP. See *GRA Application, Section 8 4.6.1 Hydro's Application at page 4.20.*
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> This treatment of the CFB Goose Bay secondary sales revenue credit benefits NP. Before 2004, the credit was used to offset the Labrador Revenue requirement. From 2004 through 2006 the credit was partially used to offset the Labrador Interconnected system's share of the rural deficit subsidy and partially to phase in uniform rates for customers on the Labrador Interconnected System. As noted above, in 2007 the credit was partially used to maintain existing (2006) rates paid by Customers on the Labrador Interconnected system and the remainder was applied directly to the rural deficit balance. In subsequent years the credit continued to be partially used to phase-in uniform rates, based on the 2007 test year revenue requirement, for all Rural customers on the Labrador Interconnected system by 2011, with the balance being directly applied to the rural deficit. Under the present filing the full CFB Goose Bay revenue credit would be applied directly to the rural deficit burden, so that a large portion of the benefit of that credit (88.7%) goes to NP. This is so because the rural deficit burden is allocated between NP and the Labrador Interconnected system in proportion to energy consumption on each system.
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> The combined impact of allocated cost increases and this treatment of the CFB Goose Bay revenue credit produces relatively large percentage rate increases (generally greater 26 than 20 percent) for Labrador Interconnected System customers.

Specifically, the report states (at line 10 of the above citation) that "[t]his treatment of the CFB 29 Goose Bay secondary sales revenue credit benefits NP". In Mr Wilson's view, is this treatment of the CFB Goose Bay revenue credit fair or equitable to Labrador customers? Why or why not??

A. Other than the historical fact that the CFB Goose Bay revenue credit has been wholly or partially used to offset certain Labrador revenue requirements in the past, Dr. Wilson is aware of no economic or other logical reason why it would be more fair or equitable to assign this credit more significantly to Labrador customers than to Island customers. However, as Dr. Wilson has noted, because the proposed rate increases in this case are exceptionally large for Labrador Interconnected System customers, the Board may wish to consider moderating the immediate rate impact for these customers by phasing in Labrador Interconnected system rate increases. This could be done by applying a portion of the CFB Goose Bay revenue credit to accomplish a phase-in.