Q. Does Stone and Webster disagree with the marginal cost methodology used by NERA? If so, identify the areas of disagreement with the methodology. (Cost of Service Evidence, page 17, lines 1 to 3)

A. Stone & Webster accepts the results of NERA's marginal cost study, but notes that the relatively small hydraulic plants in the NERA study represent near-term opportunistic options, rather than longer-term sustainable resource options for Hydro. In the not so distant future, with the possibility of Labrador Interconnection aside, Hydro may need to rely on larger thermal generating plants with high capacity costs and no fuel offset effect. Therefore, from a policy perspective, in order to reduce future need for limited power resources (conservation of natural resources and capital) it is necessary to provide both an energy (natural resources) and demand (capital) pricing signal well in advance of the need for the next resource. This will defer investment through customer lifestyle changes and promote adoption of more efficient equipment. For this, and other reasons discussed in the Cost of Service Evidence, Stone & Webster believes it to be imprudent to significantly lower demand rates based on short-term options with volatile marginal capacity costs only to have to ramp them up sharply based on the longer term outlook.