Q. **[J.W. Wilson Evidence, page 3]**

Dr. Wilson observes that Hydro's proposal to set Newfoundland Power's second block rate at 10.4 cents per kWh would weaken the energy price signal in Newfoundland Power's rate. Dr. Wilson suggests the adoption of a two-block energy seasonal differential would permit the retention of a marginal cost energy price signal in Newfoundland Power's two block energy rate.

Would Dr. Wilson agree that maintaining the Newfoundland Power demand rate at its current level instead of setting it at the full embedded cost would also assist in retaining a marginal cost price signal in Newfoundland Power's second block, even if seasonal rates were not adopted?

A. Yes.

Q. [J.W. Wilson Evidence, page 24]

Dr. Wilson states:

"...there is little evidence that marginal cost capacity rates have as significant an impact on efficient capacity demand as marginal energy rates do on efficient energy demand."

Given this observation, is it Dr. Wilson's opinion that Hydro's focus on Newfoundland Power's demand price signal is misplaced at this time?

A. Yes. However, this is a matter of relative importance. Dr. Wilson stated that "*while a case can be made for a demand rate that reflects the incremental cost of capacity expansion, especially at the present time when Hydro must deal with increased capacity costs as a result of growing demand, there is little evidence that marginal cost capacity rates have as significant an impact on efficient capacity demand as marginal energy rates do on efficient energy demand.*" (Report at 24.)

Q. [J.W. Wilson Evidence, pages 21, 22 and 29]

On page 29, Dr. Wilson states:

"... if the load variation costs are to be covered by the RSP we agree that Hydro's proposed allocation of these costs based on customer energy ratios is an equitable allocation method."

On page 21, Dr. Wilson describes the distorting effect that the difference between the Industrial Customer and Newfoundland Power tail block energy rates has on load variation adjustments to the RSP.

If the combination of the proposed allocation of the portion of load variation costs covered by the RSP and the portion of load variation costs covered by tail block energy rates were to result in Newfoundland Power paying the incremental cost of its load variation and also paying a majority of the incremental costs of the Industrial Customer class load variation, would Dr. Wilson agree that such result is inequitable?

A. Yes.