Q. **Re: Wilson Pre-Filed Testimony, page 18. Dr. Wilson indicates that "From an economic efficiency perspective it cannot be concluded that the addition of the Labrador interconnection will mean that a marginal cost price signal is unneeded. Indeed, as discussed below, the incremental fuel price may very well continue to be a good proxy for marginal energy cost, even when the Labrador interconnection comes on line." [underlining added]**

Please provide further details on the above statement (or alternatively indicate where "below" in the Pre-Filed Testimony this is addressed). In particular, please address how Holyrood fuel costs might be an appropriate long-term marginal cost for the Island when Holyrood is scheduled to be decommissioned. If Dr. Wilson has any analysis to quantitatively support this conclusion, please provide same.

A. Hydro's most recent estimate of its future marginal energy cost for the Island Interconnected system is in the range of 15.5 and 17.6 cents per kwh for the years 2013 through 2017. In 2018, if the Labrador Interconnection comes online, Hydro estimates that its marginal energy cost may drop to between 5.4 and 7.2 cents per kwh, which is still above the proposed marginal energy rate of 4.782 cents per kwh for industrial customers. At least for the next four years there is no economic justification for the proposed 4.782 cent industrial energy rate. In fact it may be the case that even with the Labrador interconnection on line, a better estimate of Hydro's marginal energy cost will still be the marginal cost of fuel. That is so because (as in the case of Island Hydraulic power) a large portion of the cost of Labrador purchased power costs will logically have to be considered an energy cost rather than a capacity cost. Thus, whether or not Holyrood remains in service following the Labrador interconnection, the running cost of a fossil fuel plant may be a reasonable proxy for marginal system energy cost.