

1 Q. Consumer Question: Based upon MHI-Nalcor 58, it appears that Nalcor is
2 considering 100% equity financing by the Province of the Muskrat Falls generation
3 project and that Nalcor will be the owner of the generation facility. Please confirm
4 that this is the intention and respond to the following questions:

5

6 (a) Will the equity injection be borrowed by the Province?

7

8 (b) If so, will this decision result in the largest generation facility in the Province,
9 other than Churchill Falls, being removed from regulatory oversight by the PUB?

10

11 (c) If so, will the money be raised on the general credit of the Province or will the
12 bond prospectus state that the funding is earmarked for financing of the Muskrat
13 Falls project?

14

15 (d) Does this preclude financial participation by the federal government, through a
16 loan guarantee? Would such exclusion add to the cost of the project?

17

18 (e) Will such high equity financing increase the overall weighted average cost of
19 capital (WACC)?

20

21 (f) Has this decision been made in consultation with the federal financial advisor,
22 Blair Franklin Capital Partners?

23

24

25 A. For the purpose of DG2 analysis, Nalcor has assumed the Muskrat Falls facility will
26 be financed with 100% equity, and that the regulated assets of the Labrador Island
27 Transmission Link will be financed 75% debt and 25% equity. As indicated in

1 Nalcor's response to CA/KPL-Nalcor-120, the final financing terms will be
2 established at Financial Close. Nalcor expects it, or a non-regulated subsidiary of
3 Nalcor, will be the owner of the generation facility.

4
5 (a) Nalcor's analysis indicates the Province can expect to earn an 8.4% rate of
6 return assuming Muskrat Falls is constructed to meet only the Island's needs
7 with the remainder of the production spilled. While this would be sufficient to
8 support borrowing by the Province for its equity, the decision of whether to
9 borrow for Muskrat Falls or other purposes is within the purview of the
10 Government of Newfoundland and Labrador.

11
12 (b) Please refer to Nalcor's response to CA/KPL-Nalcor-114.

13
14 (c) The approach for raising funds for the Province's equity investment is within the
15 purview of the Government of Newfoundland and Labrador.

16
17 (d) Nalcor's DG2 analysis has assumed no federal loan guarantee, but this
18 assumption does not preclude financial participation by the federal government
19 through a loan guarantee. As indicated in Table 29 of Nalcor's submission, a
20 loan guarantee is expected to reduce the baseline cost of financing by \$600
21 million.

22
23 (e) Only the Muskrat Falls component of the Lower Churchill project used a 100%
24 equity financing assumption for DG2 analysis purposes. This assumption and
25 level of equity financing does not materially increase the overall weighted cost
26 of capital because the Muskrat Falls investment had a return on equity of 8.4%
27 which is below the forecasted return on equity for regulated utilities in the

1 province of 10%. Moreover, this return on equity of 8.4% is only marginally
2 higher than the forecast cost debt of 7.3% used in DG2 analysis.

3

4 (f) A decision on the capital structure for Muskrat Falls and the Labrador Island
5 Transmission Link would be made by Nalcor, the Government of Newfoundland
6 and Labrador, and their respective financial advisors. While the federal financial
7 advisor would be expected to provide advice to the Government of Canada, it
8 would not be expected to provide advice to the Province or Nalcor.

1 Q. Consumer Question: Does the reported \$2.2 billion preference for the Muskrat
2 Falls option fully take into account the cost of transmitting power to the island from
3 Muskrat Falls?
4

5
6 A. Yes. The fixed costs of the Labrador Island Transmission Link can be seen in Exhibit
7 99. Please refer to pages 49, 55, 61, and 67, where the fixed charges associated
8 with the Labrador Island Transmission Link are under the heading "INFEED". The in-
9 service year, in-service month, in-service capital cost, depreciation term, and
10 insurance rate (if applicable) are shown to the right of the heading INFEED.

11
12 Operating costs are included in the 'Total Operating Costs' on pages 54, 60, 66, and
13 72.

1 Q. Consumer Question: Please provide the cost of electricity on a cents per kWh basis
2 for each electricity generating facility on the existing Island Interconnected System.

3

4

5 A. The analysis requested does not assist consideration of the Reference Question. NL
6 Hydro does not record costs for each electric generating facility on a cents per kWh
7 basis. Please refer to Nalcor's response to CA/KPL-Nalcor-124 for an explanation of
8 how rates are established from NL Hydro's costs.

1 Q. Consumer Question: Further to the answer provided to CA/KPR-Nalcor-28 which
2 refers to Nalcor's response to PUB-Nalcor-5, please show and explain how Nalcor
3 arrives at its Retail Rate Projections in the right hand column given the cost of
4 electricity on a cents per kWh basis for each existing electricity generating facility
5 on the existing Island Interconnected System.
6

7

8

9 A. The analysis requested does not assist consideration of the Reference Question. NL
10 Hydro does not derive its rates from the costs, on a cents per kWh basis, for each
11 electric generating facility. As outlined in section 9 of Nalcor's Submission to the
12 Board, an annual requirement is prepared on a system wide basis and is comprised
13 of the aggregate of the operating costs, fuel costs, purchase power expenses and
14 annual capital charges which are comprised of depreciation, interest expense and
15 return on equity. Rates for NL Hydro are set at a level to recover those costs and
16 provide the approved return on equity.

17

18 Please refer to notes 1 through 5 accompanying PUB-Nalcor-5 for the methodology
used to translate the wholesale annual revenue requirement to retail rates.

1 Q. Consumer Question: Nalcor has used a power purchase agreement with pricing
2 based on the Bruce Power model (to create lower rates in the early years than
3 there would be if a traditional utility cost of service pricing (COS) model had been
4 used) for the Muskrat Falls generating site (using 100 %equity financing). Nalcor
5 has used a traditional utility cost of service (COS) pricing for the TL from Labrador
6 (with 75% debt/25% equity). Based on this Nalcor preferred pricing model Muskrat
7 Falls power is delivered to Soldiers Pond at a cost of 14.3 cents per kWh (or if not
8 14.3 cents per kWh please provide correct rate in cents per kWh). Please confirm.

9
10

11 A. The capital structures and pricing models for Muskrat Falls and the Labrador Island
12 Transmission Link presented in the question are consistent with Nalcor's
13 assumptions.

14

15 Please refer to Nalcor's response to CA/KPL-Nalcor-27 Revision 1 for discussion
16 about the cost of Muskrat Falls energy.

1 Q. Consumer Question: In the reply to PUB-Nalcor-46 regarding a cost of service (COS)
2 price for Muskrat Falls power in year 1, Nalcor states that an internal rate of return
3 (IRR) of 8.4% was used "On this basis the cost of service in year 1 would be \$214/
4 MWh".

5

6 (a) Is the cost of the TL from Labrador included in the \$214 /MWh?

7

8 (b) If so, provide a breakdown of the \$214 /MWh cost between the
9 Muskrat Falls site and the TL.

10

11 (c) Provide the in service capital costs (separately for the Muskrat Falls
12 site and for the TL) used to calculate the COS \$214 MWh year 1
13 price.

14

15 (d) Please provide a breakdown on debt/equity ratios/interest rates/return on
16 equity used for the \$214 MWh cost (separately for Muskrat Falls site and TL).

17

18 (e) Instead of using the 8.4% IRR, can Nalcor provide the COS Muskrat
19 Falls power price in year 1 (for the Muskrat Falls site plus TL) using
20 the same assumptions as used for TL COS pricing regarding debt/
21 equity ratios same interest rate for debt and the same return on
22 equity)?

23

24

25 A. (a) The cost of the Labrador Island Transmission Link is not included in \$214 /MWh
26 provided in response to PUB-Nalcor-46. The cost of service price in year 1 of
27 operations is based on an 8.4% return on equity coupled with the sales profile

1 for the Island to be comparable to Nalcor's alternative pricing model for
2 Muskrat falls of \$ 76 /MWh (\$2010, escalating at 2% annually).

3

4 (b) Please refer to Nalcor's response to (a) above.

5

6 (c) The in-service capital cost for Muskrat Falls assuming an AFUDC rate of 8.4% is
7 \$3.6 billion.

8

9 (d) The key financial parameters used in the calculation of the alternative cost of
10 service for Muskrat Falls were 100% and an 8.4 % return on equity in order to
11 maintain comparability with Nalcor's pricing approach and model.

12

13 (e) In an escalating supply price analysis framework, leverage of 75% debt is not
14 financeable because the initial low sales volumes and associated revenues
15 would result in inadequate debt service coverage as required in capital
16 markets.¹ During the first 6 years of commercial operations there was
17 insufficient cash flow for debt servicing as the debt service coverage ratio was
18 below 1.0. For years 7 through 12, the debt service coverage ratio was below
19 the minimum threshold of 1.4 times recommended by Nalcor's financial
20 advisors.

¹ This information is available to the Board and its Consultant in Confidential Exhibit CE-64.

1 Q. Consumer Question: On a COS basis Nalcor will sell Muskrat Falls power to Hydro at
2 \$214 MWh in year 1. Based on the \$214 /MWh COS price what is the price in \$ per
3 MWh that Hydro will sell Muskrat Falls power to Newfoundland Power in year 1?
4

5
6 A. Nalcor does not propose to sell Muskrat Falls power to Hydro at \$214 /MWh in year
7 1. Nalcor will sell Muskrat Falls power to Hydro at \$76 /MWh in \$2010, escalating
8 at 2% annually. In Year 1 this escalating selling price will be \$87 /MWh. Please
9 refer to MHI-Nalcor-49.2 for additional details.
10

11 Hydro will not sell Muskrat Falls power to directly to Newfoundland Power or its
12 industrial customers. Rather, the cost of Muskrat Falls power will be blended into
13 all of Hydro's other regulated costs to arrive at an overall average cost such as has
14 been presented in PUB-Nalcor-5.

1 Q. Consumer Question: Nalcor has provided a \$214/ MWh cost for Muskrat Falls in
2 year 1 on a COS basis. Can Nalcor provide the cost in \$ per MWh in year 1 using
3 their preferred pricing model? (Power Purchase Agreement for Muskrat Falls site
4 and COS for the TL)?

5

6

7 A. Please refer to Nalcor's response to CA/KPL-Nalcor-127 and MHI-Nalcor-49.2.

1 Q. Consumer Question: In PUB/Nalcor-46 in the reply, " Nalcor has
2 prepared an annual cost of service model".

3

4 (a) Can Nalcor provide a copy of the annual cost of service model?

5

6 (b) Can Nalcor provide the detailed sections of the model used for the
7 \$214 MWh COS price calculation (or the detailed working papers)?

8

9

10 A. The material requested does not assist consideration of the Terms of Reference or
11 the Reference Question. Nalcor has selected an escalating price model as an
12 alternative to the cost of service model for the pricing of Muskrat Falls energy for
13 the reasons outlined in Exhibit 36.

1 Q. Consumer Question: Nalcor is the developer of the \$6.2 Billion Muskrat Falls
2 project. Nalcor sells Muskrat Falls power to Hydro. Hydro sells Muskrat Falls power
3 to Newfoundland Power (NP). NP sells Muskrat Falls power to the consumer. Based
4 on the projected consumer retail rate of 16.4 cents per kWh in 2017, please provide
5 a breakdown in cents per kWh of each of the 3 profits included in the 16.4 cents per
6 kWh retail consumer power rate.

7

8 (a) On the Nalcor sale of Muskrat Falls to Hydro provide in cents per kWh
9 the Nalcor profit included in the 16.4 cents consumer retail rate.

10

11 (b) On the Hydro sale of Muskrat Falls power to NP provide in cents per
12 kWh the Hydro profit included in the 16.4 cents consumer retail rate.

13

14 (c) On the NP sale of Muskrat Falls power to the consumer provide in
15 cents per kWh the NP profit included in the 16.4 cents per kWh
16 consumer retail rate.

17

18

19 A. The analysis requested does not assist consideration of the Reference Question, as
20 neither the Terms of Reference nor the Reference Question addresses
21 Newfoundland Power's operations. In general terms, the return on equity for Hydro
22 and Newfoundland Power are as prescribed by the PUB for utility operations in the
23 Province.

24 (a) Please refer to Nalcor's response to CA/KPL-Nalcor-26.

25 (b) Please refer to Nalcor's response to CA/KPL-Nalcor-26.

26 (c) Please refer to Nalcor's response to CA/KPL-Nalcor-26.