

1 Q. Please provide the “rental royalty” dollar amounts paid by Churchill Falls to the
2 Province, the purpose of the royalty and when it was initiated.

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5 A. The “rental royalty” as referred to in the question relate to amounts that Churchill
6 Falls pay to the Newfoundland and Labrador provincial government as per the May
7 16, 1961 Statutory Lease. These are charges by the crown to the developer and
8 while the Lease does not specify their purpose, it is our understanding that they are
9 for the use of the water resources. The amount of the rental and royalty paid in
10 2018 was \$4.0 million and \$2.7 million, respectively, for a total of \$6.7 million.

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12 The calculation of the royalty is as per the Lessee’s Covenants in Part II, clause 1,
13 subclauses (1) and (2) per the Statutory Lease:

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15 *1.—(1) The Lessee shall during the term created by this Lease pay to*
16 *the Minister of Mines, Agriculture and Resources for the said*
17 *Province a royalty to be determined and paid in the manner and at*
18 *the times prescribed by this clause.*

19 *(2) The Government shall determine the rate of royalty, applicable*
20 *to each development or stage thereof, for the supply of electricity*
21 *from the Upper Hamilton: Provided that the rate so determined shall*
22 *not exceed the maximum-rate of 50 cents (Canadian) per*
23 *horsepower year generated and sent out of the station and for the*
24 *purpose of this clause 6535 kilowatt hours shall constitute one*
25 *horsepower year.*

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27 The calculation of the rental is as per the Lessee’s Covenants in Part II, clause 8,

1 subclauses (1) and (2) per the Statutory Lease:

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3 *8.—(1) The Lessee shall pay a rental in each year during the term*
4 *created by this Lease equal to eight per centum(8%) of the net*
5 *profits of the Lessee as hereinafter defined.*

6 *(2) For the purpose of this Lease, the expression "net profits" means*
7 *the net profits less losses of the Lessee and*
8 *its subsidiary companies in so far as they are attributable to the*
9 *Lessee's holding therein computed in accordance with generally*
10 *accepted Canadian accounting principles and as shown in the*
11 *Consolidated Accounts approved by the auditors of the Lessee in any*
12 *financial year of the Lessee excluding any profit or loss arising on*
13 *the disposal of fixed assets of the Lessee or of any subsidiary*
14 *company of the Lessee otherwise than in connection with the*
15 *assignment, sublease, licence or alienation of any of the rights and*
16 *liberties granted to or hereby to be granted to the Lessee and after*
17 *charging all usual and proper expenses, other than the rental*
18 *payable pursuant to this clause but including the royalty payable*
19 *under subclause (2) of Clause 1 of this Part II, interest payable in*
20 *respect of borrowed moneys, provisions for depreciation, depletion*
21 *and amortization based on but not exceeding amounts expended*
22 *and all other provisions as charged in the Consolidated Accounts-in*
23 *respect of such financial year but before making any charge or*
24 *provision for Federal and Provincial Income Tax or any other taxes*
25 *on income whether of a Federal or Provincial nature and before*
26 *charging any dividends paid or payable on any class of shares of the*
27 *Lessee and before making any appropriations for reserves of a*

1 *capital or revenue nature not allowable for the purposes of*
2 *Canadian Federal taxation: Provided, always, that if the Lessee or*
3 *any of its subsidiary companies shall carry on any activities other*
4 *than operations the subject of the rights and liberties granted or to*
5 *be granted under this Lease the net profits or losses attributable to*
6 *such activities shall be excluded.*

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8 Amounts forecasted for 2019 - 2039 are contained in Nalcor's response to PUB-
9 Nalcor-144 on the Income Statement as an expense and on the Balance Sheet as a
10 liability.