

1 Q. Please provide any documents and related analysis establishing target capital
2 structures for Nalcor from 2008 to the present.

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5 A. Nalcor has not located any documents or related analysis dealing with the
6 establishment of a targeted capital structure specifically for Nalcor Energy (Nalcor).
7 The consolidated capital structure of Nalcor reflects the combined capital structures
8 of all of its subsidiaries. As a stand alone parent corporation, Nalcor is 100% equity
9 financed through contributions from the Province of Newfoundland and Labrador.
10 Nalcor's various subsidiaries manage their capital structures based on the financing
11 arrangements and operating strategies of the individual businesses. The following
12 commentary addresses the key subsidiaries that impact Nalcor's consolidated
13 capital structure:

- 14 - LCP maintains a capital structure as per the requirements of the Project
15 Finance Agreements, and various shareholders and partnership agreements,
16 as provided in Nalcor's responses to PUB-Nalcor-016 to PUB-Nalcor-019. For
17 Muskrat Falls and the Labrador Transmission Assets, the current capital
18 structure permits a maximum Debt to Equity Ratio (DER) of 65/35. For the
19 Labrador-Island Link, the current capital structure permits a maximum DER
20 of 75/25.
- 21 - Currently the capital structure of Hydro is above the 75/25 target that has
22 been established. As a result, Hydro continues to retain its earnings and is
23 not permitted to pay dividends until such time as the targeted capital
24 structure is achieved. The targeted capital structure of 75/25 was
25 established in 2009, and early 2017, Nalcor and Hydro examined the
26 potential of increasing the amount of equity in the Hydro capital structure to
27 allow it to borrow without the Provincial Guarantee. No changes to the

1 target capital structure for Hydro were made and it remained at the 75/25
2 level previously discussed.

3 - Currently the capital structure of Nalcor Energy – Oil and Gas Inc. (OilCo)
4 reflects that it has no long-term debt and is 100% equity financed. At this
5 time there are no plans to change OilCo’s capital structure. OilCo has never
6 had any long-term debt in its capital structure.

7 - Currently the capital structure of Churchill Falls (Labrador) Corporation
8 Limited (CF) reflects that it has no long-term debt and is 100% equity
9 financed. At this time, there are no plans to change CF’s capital structure.

10 The original capital structure of CF did include long-term debt but this was
11 fully repaid in 2010.

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13 Please refer to PUB-Nalcor-214, Attachment 1, which is the Order in Council
14 detailing the Government direction in 2009 regarding Hydro’s capital structure.

Executive
Council



Newfoundland
and Labrador

*Certified to be a true copy of a Minute of a Meeting
of the Committee of the Executive Council of Newfoundland and
Labrador approved by His Honour the Lieutenant-Governor on*

2009/03/17

OC2009-063

MC2009-0140. NR2009-002. TBM2009-062.

Under the authority of section 5.1 of the Electrical Power Control Act, 1994, the Lieutenant Governor in Council is pleased to direct the Board of Commissioners of Public Utilities to adopt policies as follows for all future General Rate Applications by Newfoundland and Labrador Hydro, commencing with the first General Rate Application by Newfoundland and Labrador Hydro after January 1, 2009:

- i) in calculating the return on rate base for Newfoundland and Labrador Hydro, to set the same target return on equity as was most recently set for Newfoundland Power through a General Rate Application or calculated through the Newfoundland Power Automatic Adjustment Mechanism;
- ii) that Newfoundland and Labrador Hydro is entitled to earn annually, a rate of return equal to the weighted average cost of capital, as ordered from time to time, on the entire rate base as fixed and determined by the Board of Commissioners of Public Utilities, including amounts used solely for the provision of service to its rural customers; and
- iii) that the capital structure approved for Newfoundland and Labrador Hydro should be permitted to have a maximum proportion of equity as was most recently approved for Newfoundland Power.

A handwritten signature in cursive script, appearing to read "Emily Newson".

Clerk of the Executive Council