Q. Further to PUB-Nalcor-203, LIL forecast for dividends. Please provide the "delta impact" on revenue requirements and on dividends for the 2019-2039 forecasts for LIL, assuming an additional $500 Million in CAPEX is spent in 2022 post-commissioning, and the LIL is out of service for 12 months at this time. Please also give an explanation of how this change specifically impacts the calculation of revenue requirements and dividends for MFLTA and LIL.

A. The information and "delta impact" provided in this response is based on Nalcor's January 2019 forecast, as aligned to the information provided in Nalcor's response to PUB-Nalcor-203.

Refer to PUB-Nalcor-261, Attachment 1 for the "delta impact" on revenue requirements and dividends for the 2020 to 2039 LIL forecast with an additional $500 Million in CAPEX spend in 2022, and the LIL being out of service for the full 12 months of 2022.

Based on current interpretations of the agreements provided in Nalcor's responses to PUB-Nalcor-016 to PUB-Nalcor-019, and assuming the additional $500 Million in CAPEX spend is for a "Sustaining Activity" as defined in the Transmission Funding Agreement (TFA) and the LIL Lease (Lease) and is not covered by any warranty, insurance or other third party claim, the additional CAPEX would impact the revenue requirement and dividends over the forecast period predominantly in two areas:

a) The increased capital will result in an increase in annual commercial depreciation over the remaining service life of the LIL assets, assuming that the full cost is added to the asset with no write-down of the existing capital cost incurred; and,

b) For purposes of this analysis, and given the timeline for submission, a simplifying assumption has been made that these costs will be funded by Nalcor Class A equity. This will increase the equity account and will result in an increase in both the return on equity (ROE) and the required repayment of the equity over the term of the Lease.

Commercial Depreciation Impact

The "Annual Depreciation on Sustaining Costs" (Depreciation) is considered part of the "Rent" component, both of which are defined in the definitions section of the Transmission Funding Agreement (TFA) and the Lease. The "Rent" is included in the "TFA Payment" as defined in section 3.2 of the TFA which is considered part of the LIL revenue requirement. Any additions to Sustaining Activities after the commissioning date will have a direct impact on the commercial Depreciation over the remaining service life, which directly impacts the LIL revenue requirement in any given year.

The Depreciation component of the TFA Payment is required to fund the existing debt servicing and return of equity as required over the project life. In the case of additional CAPEX that is assumed to be fully funded by equity, as is the assumption for this response, the additional Depreciation recognized will be available for dividends. It is important to note that a funding structure different than the one assumed above would result in a different dividend impact, as the utilization of any debt would require a portion of the additional revenue be allocated to debt servicing rather than dividends.

Funding Impact

Refer to "Return on Equity (ROE)" paragraph on Page 8 of the Access to Information and Protection of Privacy Act (ATIPPA) responses PB-144-2018 and PB-147-2018 (Attachment 2 to Nalcor's response to PUB-Nalcor-260), for a detailed explanation of the LIL ROE calculation. By assuming that the additional CAPEX is being funded by 100% equity, the additional ROE as a result of the contributed equity would be included in the LIL revenue requirement and would be available for payment as dividends.

Refer to PUB-Nalcor-261, Attachment 1 for the impact on revenue requirement and dividends as a result of the change in commercial depreciation and ROE due to the additional $500 Million of CAPEX.

This scenario would have no impact on the MFLTA revenue requirement or dividends.

The 12 month outage of the LIL is assumed to be a result of a "Force Majeure" event, as defined in the definitions section of the Lease. Under this assumption, Hydro would continue to be obligated to make the required Rent payments over the outage period and any energy required to be supplied from Muskrat Falls would be delayed/deferred to future years.

This response deals exclusively with the impact on LIL revenue requirement and dividends, and does not consider any other potential operational or financial impacts on Nalcor, Hydro or Emera for the 2022 operating year. Also, this response does not consider the potential impacts on contractual energy deliveries or export revenues as a result of the unavailability of the LIL for all of 2022.

LIL Revenue Requirement and Dividends Impact
Based on the Nalcor January 2019 Forecast

In Response to:	$ Millions	Total	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
	Revenue Requirement																					
PUB-Nalcor-203 (a)	Return on Equity	2,108	42	125	123	122	120	118	117	115	113	111	110	108	107	105	102	99	97	94	92	89
PUB-Nalcor-203 (b)	Interest Earned	(229)	(1)	(5)	(7)	(8)	(10)	(12)	(14)	(16)	(17)	(19)	(21)	(22)	(24)	(12)	(4)	(5)	(6)	(7)	(8)	(9)
PUB-Nalcor-203 (c)	Coupon Payments	2,129	41	124	124	123	123	122	122	121	121	120	120	119	118	102	90	89	88	88	87	86
PUB-Nalcor-203 (d)	Depreciation	1,874	32	97	97	97	97	97	97	97	97	97	97	97	97	97	97	97	97	97	97	97
PUB-Nalcor-203 (e)	Operating Costs	933	12	39	40	40	41	43	44	45	46	47	48	49	50	52	53	54	56	57	58	60
PUB-Nalcor-203 (f)	Sustaining Capital	41	-	-	-	-	-	-	-	-	-	3	-	-	-	1	1	1	1	-	7	26
PUB-Nalcor-203 (g)	Taxes	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2
	Revenue Requirement	**6,858**	**127**	**380**	**377**	**374**	**371**	**368**	**365**	**362**	**360**	**359**	**354**	**351**	**348**	**344**	**339**	**335**	**333**	**328**	**333**	**351**
Revenue Requirement Impacts																						
	Return on Equity	631	-	-	-	45	44	43	42	41	40	39	38	37	36	35	34	33	32	31	31	30
	Interest Earned	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Coupon Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Depreciation (1)	187	-	-	-	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11
	Operating Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Sustaining Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Adjusted Revenue Requirement	**7,676**	**127**	**380**	**377**	**429**	**426**	**421**	**418**	**414**	**411**	**409**	**403**	**399**	**396**	**390**	**384**	**380**	**376**	**371**	**375**	**392**
Dividend Impacts																						
	Dividends as per PUB-Nalcor-203	**2,540**	**17**	**145**	**144**	**142**	**141**	**139**	**137**	**135**	**134**	**132**	**130**	**129**	**127**	**129**	**148**	**127**	**125**	**122**	**120**	**118**
	$500 Million Additional Capex in 2022	818	-	-	-	56	55	54	53	52	51	50	49	48	47	46	45	44	43	43	42	41
	Adjusted Dividends	**3,358**	**17**	**145**	**144**	**198**	**195**	**192**	**190**	**187**	**185**	**182**	**179**	**177**	**174**	**175**	**193**	**171**	**168**	**165**	**162**	**158**

(1) Total PPE impact includes $500 Million in CAPEX and $25 Million in AFUDC incurred over the construction period in 2022.

Assumptions:
$500 Million in Capex is incurred evenly over the period of January 1, 2022 to December 31, 2022.
Equity contributions related to additional costs are spread evenly over the period of December 2021 to November 2022.
Assumes "Force Majeure" as defined in the TFA. Full revenue requriement required to be paid by NLH during the 2022 out of service period.
Assumes no insurance or warranty funds available to assist in funding the $500 Million additional CAPEX.
No change to the operating and maintenance expenses during the 2022 out of service period.