

1 Q. Please provide the most recent version of Nalcor's MFLTA and LIL analyses that
2 analyze the impact of extending the depreciable lives of each of the Muskrat Falls
3 Projects to 75 years. Please include the "delta impact" on revenue requirements
4 and on dividends for the 2019-2039 forecasts, and provide an explanation of how
5 these changes specifically impact the calculation of revenue requirements and
6 dividends for MFLTA and LIL.

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9 A. The information and "delta impact" provided in this response is based on Nalcor's
10 January 2019 forecast, as aligned to the information provided in Nalcor's responses
11 to PUB-Nalcor-201 and PUB-Nalcor-203. Refer to PUB-Nalcor-264, Attachment 1
12 and Attachment 2 for details on the results of the MFLTA and LIL impact analysis
13 respectively. It is assumed that the statement "extending the depreciable lives" as
14 referenced in the question above, is referring to extending the current 50 year
15 working assumption of both the "Supply Period" per the definition and section 13.2
16 of the Power Purchase Agreement (PPA), and the "Service Life" as per the definition
17 and section 11.2 of the LIL Lease (Lease), to 75 years. These extensions would
18 require that certain commercial agreements be amended and could require the
19 consent of Canada, the Province and other effected parties.

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21 For MFLTA, based on current interpretations of the agreements provided in Nalcor's
22 responses to PUB-Nalcor-016 to PUB-Nalcor-019, the extension of the Supply Period
23 to 75 years will result in a lower Base Block Capital Supply Price, as defined in
24 Schedule 1 of the PPA, in order to achieve the 8.4% project IRR over the longer
25 supply term. This will result in a decrease in the Energy Sales component of the
26 revenue requirement and a corresponding reduction in the cash available for
27 dividends.

For LIL, based on current interpretations of the agreements provided in Nalcor's responses to PUB-Nalcor-016 to PUB-Nalcor-019, the extension of the LIL Service Life to 75 years will impact the revenue requirement and dividends predominantly in two areas:

- a) The commercial depreciation as a component of the revenue requirement will be reduced on an annual basis (see "Service Life Impact" section below); and,
- b) The repayment of the Class A and Class B equity to the LIL partners, as defined in Section 5 of the LIL Limited Partnership Agreement will be over a longer period, and the corresponding return on equity (ROE) will be higher in total dollar terms as a result (see "ROE & Partnership Unit Repayment" section below).

Service Life Impact

The "Annual Depreciation on the LIL" (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. The extension of the Service life will cause the periodic depreciation component to be lower, which directly reduces the LIL revenue requirement in any given period.

The Depreciation component of the TFA Payment is required to fund the existing debt servicing and return of equity over the project life. In the case of the extended Service life, the analysis provided shows that the reduction in cash received will not impact the cash available to service existing debt but the impact will be fully against cash available for dividends to the partners.

1 ROE & Partnership Unit Repayment Impact

2 Refer to “Return on Equity (ROE)” paragraph on Page 8 of the Access to Information
3 and Protection of Privacy Act (ATIPPA) responses PB-144-2018 and PB-147-2018
4 (Attachment 2 of Nalcor’s response to PUB-Nalcor-260), for a detailed explanation
5 of the LIL ROE calculation. The reduction in cash available for dividends on a
6 periodic basis, as noted above, slows the repayment of the Class A and B equity to
7 the LIL Partners. As a result, by maintaining a higher equity balance over a longer
8 term, the amount of ROE will be higher as compared to the 50 year Service life
9 scenario.

10
11 Over the 2020 to 2032 period, the reduced Depreciation has a greater impact on
12 the LIL revenue requirement as compared to the increased ROE and results in an
13 overall reduction in revenue requirement, and corresponding dividends. By 2033,
14 the impact of maintaining a higher cumulative balance of the Partnership equity
15 over an extended period causes the higher ROE earned to outweigh the reduction
16 of depreciation and causes the overall revenue requirement and dividends to
17 increase going forward.

PUB-Nalcor-264, Attachment 1

Rate Mitigation Options and Impacts Reference, Page 1 of 1

MFLTA Revenue Requirement and Dividends Impact

Based on the Nalcor January 2019 Forecast

\$ Millions		Total	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
In Response to: PUB-Nalcor-201 (a) & PUB-Nalcor-202 (d) PUB-Nalcor-201 (b) PUB-Nalcor-201 (c) PUB-Nalcor-201 (d) PUB-Nalcor-201 (f)	Revenue Requirement																					
	Energy Sales ⁽¹⁾	9,729	121	288	304	319	344	372	392	413	435	457	495	535	560	586	613	640	669	698	728	760
	Operating Costs	905	12	37	38	39	40	41	42	43	44	45	47	48	49	50	51	53	54	55	57	58
	Water Power Rental	362	5	16	16	16	17	17	17	18	18	18	19	19	19	20	20	21	21	22	22	22
	IBA	116	2	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
	Sustaining Capital	23	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10	13
	Revenue Requirement	11,137	140	346	364	381	407	436	458	480	503	527	567	608	635	662	690	720	750	781	823	860
Revenue Requirement Impacts																						
	Change in Energy Sales ⁽²⁾	(591)	(1)	(19)	(15)	(16)	(21)	(30)	(29)	(25)	(26)	(28)	(30)	(32)	(34)	(35)	(37)	(39)	(40)	(42)	(44)	(46)
	Adjusted Revenue Requirement	10,546	139	327	349	365	385	406	428	455	477	499	537	575	601	627	653	681	710	739	779	814
Dividends Impacts																						
	Dividends as per PUB-Nalcor-201	5,097	4	29	48	65	92	123	145	169	193	228	358	292	320	349	378	409	440	455	484	518
	Change in dividends	(592)	(1)	(19)	(15)	(16)	(22)	(30)	(29)	(25)	(26)	(28)	(30)	(32)	(34)	(35)	(37)	(39)	(40)	(42)	(44)	(46)
	Adjusted Dividends	4,505	2	9	32	49	71	93	116	144	167	201	328	259	286	313	341	370	400	412	440	472

(1) Includes Revenues and PPA/GIA adjustments (repayments) as stated in PUB-Nalcor-201 Attachment 1.

(2) Includes changes to Revenues and PPA/GIA adjustments (repayments).

PUB-Nalcor-264, Attachment 2

Rate Mitigation Options and Impacts Reference, Page 1 of 1

LIL Revenue Requirement and Dividends Impact

Based on the Nalcor January 2019 Forecast

\$ Millions

In Response to:

	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	491	-	2	4	7	10	12	15	18	21	23	26	28	31	34	37	39	42	45	47	50
Interest Earned	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Coupon Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation	(625)	(11)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)	(32)
Operating Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sustaining Capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	(2)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2)
Change in Revenue Requirement	(136)	(11)	(31)	(28)	(25)	(23)	(20)	(17)	(15)	(12)	(9)	(6)	(4)	(1)	2	4	7	10	12	15	15
Adjusted Revenue Requirement	6,722	116	349	349	349	349	348	348	348	348	350	347	347	347	346	343	342	342	341	348	366

Dividends 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
Change in dividends	(132)	(8)	(31)	(28)	(25)	(23)	(20)	(17)	(15)	(12)	(9)	(7)	(4)	(1)	1	4	7	10	12	15	18
Adjusted Dividends	2,408	9	114	116	117	118	119	120	121	122	123	124	125	126	131	152	134	135	135	135	135