

1 Q. Please provide the DG-3 Operating Expense Forecast for the Muskrat Falls Project.

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4 A. The DG3 Operating Expense Forecast was originally prepared during the time
5 leading up to the Sanction decision for the project. It was finalized in July 2012 to be
6 part of advancing through the Sanction Decision Gate in December 2012. It was
7 prepared in a spreadsheet with reference notes for each of the project components
8 - Muskrat Falls (MF), Labrador Transmission Asset (LTA), and the overland
9 transmission and switchyard/stations components of the Labrador-Island Link (LIL).
10 In addition, it included separate estimates for Corporate Support, the Energy
11 Control Center (ECC)/Newfoundland & Labrador System Operator (NLSO), and the
12 Strait of Belle Isle (SOBI) cable component of the LIL which were allocated to the
13 associated project components. The estimate was prepared under the assumption
14 that field operations staff would be integrated into Hydro's field operations, and
15 corporate support would be integrated into the Nalcor corporate services
16 departments. Please find attached the spreadsheet, PUB-Nalcor-268, Attachment 1
17 DG3 OPEX Estimate - MF, LTA, LITL - 26-Jul-2012, with reference notes
18 incorporated. At that time the total cost estimate for the first full year of operation
19 was \$28.4 Million, in 2017 dollars, exclusive of IBA and water power rental
20 payments.

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22 Subsequent to the preparation of the DG3 package, in October 2013, an update to
23 the operating cost estimate was completed. This estimate included the same
24 organizational structure as used for DG3, with the field operations integrated into
25 Hydro. The October 2013 estimates for MF/LTA and the above noted allocated
26 costs, along with the DG3 LIL estimate, were used as the baseline at that time and
27 in subsequent rate projections until the 2017 update. The use of the DG3 LIL

1 assumptions in the 2013 rate projections and subsequent updates was the result of
2 a tight timeline for the long-term financial model update in 2013 and the relatively
3 small increase for the LIL operating cost forecast. The updated operating cost
4 forecast using the original DG3 LIL estimate and October 2013 updated amounts for
5 the other items resulted in a first year cost estimate of \$34.4 Million, in 2018
6 dollars, exclusive of IBA and water power rental payments. The second spreadsheet
7 attached, PUB-Nalcor-268, Attachment 2 OPEX Framework with Escalation 2013-10-
8 08, provides the revised estimates including the revised LIL amount. With the
9 revised LIL amount incorporated the first year cost estimate would have been \$37.4
10 Million, in 2018 dollars, exclusive of IBA and water power rental payments.