

**Reference from the Lieutenant-governor in Council
On the Muskrat Falls Project
(the “Muskrat Falls Review”)
REQUESTS FOR INFORMATION**

1 CA/KPL-Nalcor-116 Will Nalcor please prepare a table and graph showing capital and
2 operating cost estimates for each year of the full period of the final
3 analyses (through 2067), as they are incurred, for both the Isolated and
4 the Interconnected Alternatives, all expressed in 2010 dollars. This data
5 will present the total (cumulative) cost as it increases with time, both in
6 present day (2010) and CPW terms. The presentation will be similar to
7 Figure 30 of the November Submission to the Board, except that the
8 vertical axis will be cost as opposed to \$/MWh, and there will be no
9 financial “balancing” through assumed provisions of PPAs or other
10 financing arrangements.

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12 CA/KPL-Nalcor-117 Consumer Question: Emera has a 12 member Board of Directors.
13 Fortis Inc. has an 11 member Board of Directors. Newfoundland Power,
14 a subsidiary of Fortis, has a 10 member Board of Directors. The Board
15 members of Fortis and the Board of Newfoundland Power are different
16 people. Nalcor has 5 lines of business: (1) Hydro, (2) Churchill Falls,
17 (3) Oil and Gas, (4) Lower Churchill Project, (5) Bull Arm Fabrication.
18 Nalcor has five Board members. Hydro has five Board members. The
19 Nalcor Board of Directors and the Hydro Board of Directors have the
20 same five people as members (four are independent Directors). One of
21 the key governance functions of a board is to supervise the management
22 of the business. Nalcor should consider expanding the Nalcor Board to
23 ten members and also expanding the Hydro Board to ten members, with
24 different independent members of the two Boards. These expanded
25 boards would help provide better corporate governance by sharing the
26 independent director’s workload amongst more people. Could Nalcor
27 provide comment?

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2 CA/KPL-Nalcor-118 Consumer Question: One director of Nalcor and Hydro resigned on
3 March 30, 2011. Why has this position not yet been filled?
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5 CA/KPL-Nalcor-119 Consumer Question: The position of Chair of CFI (co) is vacant. Why
6 has this position not yet been filled?
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8 CA/KPL-Nalcor-120 Consumer Question: The Memorandum of Agreement between the
9 Government of Canada and the Government of Newfoundland and
10 Labrador and the Government of Nova Scotia to support the Lower
11 Churchill River Hydroelectricity projects was signed on August 19, 2011.
12 *"The Government of Canada will provide or purchase a loan guarantee*
13 *for the Lower Churchill River hydroelectricity projects".* The projects
14 include the Muskrat Falls hydroelectric generation facility; Labrador
15 Transmission assets, Labrador-Island link, Maritime Link. *"The term of*
16 *the guarantee will extend to both the construction and post-construction*
17 *periods. . . The guarantee for the project will apply to the aggregate*
18 *construction debt and the initial long term debt arranged with lenders at*
19 *financial close for each project, based on commercially reasonable capital*
20 *structures arranged by Nalco and Emera."* Nalcor has stated in
21 CA/KPR-25, *"The analysis for the MF generating facility is based on*
22 *100% equity with no debt. Since IDC only accrues against debt, no IDC*
23 *is applicable."* The Federal guarantee requires "commercially
24 reasonable capital structures". The Labrador-Island Link is financed with
25 75% debt/25% equity with IDC of \$400 million included in the in service
26 cost of \$2.5 billion (\$2.1 billion + \$400 million IDC).

27 (a) If Nalcor uses 100% equity financing it will lose the benefit of the
28 interest savings on the Federal loan guarantee. Please confirm.

29 (b) If Nalcor uses 75% debt/25% equity capital structure for the Muskrat
30 Falls generation site and uses a traditional utility cost of service

approach, not a power purchase agreement approach for power pricing (same method as used for the \$2.5 billion TL):

(i) What is the Muskrat Falls site in service capital cost on July 1, 2017 (with IDC included)? (The Muskrat Falls site has \$2.9 billion in service capital cost with no IDC; the TL has a \$2.5 billion in service capital cost - \$2.1 billion + 400 million IDC)

(ii) What is total stand alone, direct cost (unblended) in cents per kWh of Muskrat Falls power delivered to Soldiers Pond (use a traditional utility cost of service approach not the power purchase agreement approach)?

(iii) What is the retail power rate in cents per kWh on the in service date of July 1, 2017

CA/KPL-Nalcor-121 Consumer Question: Based upon MHI-Nalcor 58, it appears that Nalcor is considering 100% equity financing by the Province of the Muskrat Falls generation project and that Nalcor will be the owner of the generation facility. Please confirm that this is the intention and respond to the following questions:

(a) Will the equity injection be borrowed by the Province?

(b) If so, will this decision result in the largest generation facility in the Province, other than Churchill Falls, being removed from regulatory oversight by the PUB?

(c) If so, will the money be raised on the general credit of the Province or will the bond prospectus state that the funding is earmarked for financing of the Muskrat Falls project?

(d) Does this preclude financial participation by the federal government, through a loan guarantee? Would such exclusion add to the cost of the project?

(e) Will such high equity financing increase the overall weighted average

1 cost of capital (WACC)?

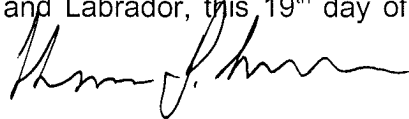
2 (f) Has this decision been made in consultation with the federal financial
3 advisor, Blair Franklin Capital Partners?
4

5 CA/KPL-Nalcor-122 Consumer Question: Does the reported \$2.2 billion preference for the
6 Muskrat Falls option fully take into account the cost of transmitting power
7 to the island from Muskrat Falls?
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9 CA/KPL-Nalcor-123 Consumer Question: Please provide the cost of electricity on a cents per
10 kWh basis for each electricity generating facility on the existing Island
11 Interconnected System.
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13 CA/KPL-Nalcor-124 Consumer Question: Further to the answer provided to CA/KPR-Nalcor
14 28 which refers to Nalcor's response to PUB-Nalcor-5, please show and
15 explain how Nalcor arrives at its Retail Rate Projections in the right hand
16 column given the cost of electricity on a cents per kWh basis for each
17 existing electricity generating facility on the existing Island Interconnected
18 System.
19

20 Dated at St. John's in the Province of Newfoundland and Labrador, this 19th day of January,
21 2012.
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23
24 Thomas Johnson
25 Consumer Advocate
26 323 Duckworth Street
27 St. John's, NL A1C 5X4
28 Telephone: (709)726-3524
29 Facsimile: (709)726-9600
30 Email: tjohnson@odeaearle.ca
31