Q. Consumer Question: The Memorandum of Agreement between the Government of Canada and the Government of Newfoundland and Labrador and the Government of Nova Scotia to support the Lower Churchill River Hydroelectricity projects was signed on August 19, 2011. *"The Government* of *Canada will provide or purchase* a *loan guarantee for the Lower Churchill River hydroelectricity projects':* The projects include the Muskrat Falls hydroelectric generation facility; Labrador Transmission assets, Labrador-Island link, Maritime Link. *"The term of the guarantee will extend to both the construction and post-construction periods. . . The guarantee for the project will apply to the aggregate construction debt and the initial long term debt arranged with lenders at financial close for each project, based on commercially reasonable capital structures arranged by Nalco and Emera."* Nalcor has stated in CA/KPR-25, *"The analysis for the MF generating facility is based on 100% equity with no debt. Since IDC only accrues against debt, no IDC is applicable."* The Federal guarantee requires "commercially reasonable capital structures". The Labrador-Island Link is financed with 75% debt/25% equity with IDC of $400 million included in the in service cost of $2.5 billion ($2.1 billion + $400 million IDC).

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

(b) If Nalcor uses 75% debt/25% equity capital structure for the Muskrat 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

A. (a) For the purposes of its DG2 analysis, Nalcor did not assume the federal loan guarantee to be in place, and Muskrat Falls was assumed to be financed with 100% equity. With the successful conclusion on negotiations with the Government of Canada, however, the capital structure (debt/equity ratio) for the Muskrat Falls facility will be established so as to take advantage of the benefit from the loan guarantee while maintaining acceptable debt service coverage for lenders.

The benefits of a federal loan guarantee were analyzed as a sensitivity analysis. The availability of a federal loan guarantee is expected to reduce the CPW of Muskrat Falls and the Labrador Island Transmission Link by $600 million.[1]

[1] Nalcor's Submission, Table 29 Revision 1.

(b) The analysis requested does not assist consideration of the Reference Question, as Nalcor does not intend to use a cost of service approach for the supply of energy from Muskrat Falls. Please refer to Exhibit 36.