Q. 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 cost of capital (WACC)?

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

A. For the purpose of DG2 analysis, Nalcor has assumed the Muskrat Falls facility will be financed with 100% equity, and that the regulated assets of the Labrador Island Transmission Link will be financed 75% debt and 25% equity. As indicated in

Nalcor's response to CA/KPL-Nalcor-120, the final financing terms will be established at Financial Close. Nalcor expects it, or a non-regulated subsidiary of Nalcor, will be the owner of the generation facility.

(a) Nalcor's analysis indicates the Province can expect to earn an 8.4% rate of return assuming Muskrat Falls is constructed to meet only the Island's needs with the remainder of the production spilled. While this would be sufficient to support borrowing by the Province for its equity, the decision of whether to borrow for Muskrat Falls or other purposes is within the purview of the Government of Newfoundland and Labrador.

(b) Please refer to Nalcor's response to CA/KPL-Nalcor-114.

(c) The approach for raising funds for the Province’s equity investment is within the purview of the Government of Newfoundland and Labrador.

(d) Nalcor's DG2 analysis has assumed no federal loan guarantee, but this assumption does not preclude financial participation by the federal government through a loan guarantee. As indicated in Table 29 of Nalcor's submission, a loan guarantee is expected to reduce the baseline cost of financing by $600 million.

(e) Only the Muskrat Falls component of the Lower Churchill project used a 100% equity financing assumption for DG2 analysis purposes. This assumption and level of equity financing does not materially increase the overall weighted cost of capital because the Muskrat Falls investment had a return on equity of 8.4% which is below the forecasted return on equity for regulated utilities in the province of 10%. Moreover, this return on equity of 8.4% is only marginally higher than the forecast cost debt of 7.3% used in DG2 analysis.

(f) A decision on the capital structure for Muskrat Falls and the Labrador Island Transmission Link would be made by Nalcor, the Government of Newfoundland and Labrador, and their respective financial advisors. While the federal financial advisor would be expected to provide advice to the Government of Canada, it would not be expected to provide advice to the Province or Nalcor.