Q. Consumer Question: In the reply to PUB-Nalcor-46 regarding a cost of service (COS) price for Muskrat Falls power in year 1, Nalcor states that an internal rate of return (IRR) of 8.4% was used "On this basis the cost of service in year 1 would be $214/ MWh".

(a) Is the cost of the TL from Labrador included in the $214 /MWH?

(b) If so, provide a breakdown of the $214 /MWh cost between the Muskrat Falls site and the TL.

(c) Provide the in service capital costs (separately for the Muskrat Falls site and for the TL) used to calculate the COS $214 MWh year 1 price.

(d) Please provide a breakdown on debt/equity ratios/interest rates/return on equity used for the $214 MWh cost (separately for Muskrat Falls site and TL).

(e) Instead of using the 8.4% IRR, can Nalcor provide the COS Muskrat Falls power price in year 1 (for the Muskrat Falls site plus TL) using the same assumptions as used for TL COS pricing regarding debt/ equity ratios same interest rate for debt and the same return on equity)?

A. (a) The cost of the Labrador Island Transmission Link is not included in $214 /MWh provided in response to PUB-Nalcor-46. The cost of service price in year 1 of operations is based on an 8.4% return on equity coupled with the sales profile for the Island to be comparable to Nalcor's alternative pricing model for Muskrat falls of $ 76 /MWh ($2010, escalating at 2% annually).

(b) Please refer to Nalcor's response to (a) above.

(c) The in-service capital cost for Muskrat Falls assuming an AFUDC rate of 8.4% is $3.6 billion.

(d) The key financial parameters used in the calculation of the alternative cost of service for Muskrat Falls were 100% and an 8.4 % return on equity in order to maintain comparability with Nalcor's pricing approach and model.

(e) In an escalating supply price analysis framework, leverage of 75% debt is not financeable because the initial low sales volumes and associated revenues would result in inadequate debt service coverage as required in capital markets.[1] During the first 6 years of commercial operations there was insufficient cash flow for debt servicing as the debt service coverage ratio was below 1.0. For years 7 through 12, the debt service coverage ratio was below the minimum threshold of 1.4 times recommended by Nalcor's financial advisors.

[1] This information is available to the Board and its Consultant in Confidential Exhibit CE-64.