Q. Consumer Question: What would be the rate, blended and unblended, if the return on equity were 12%?

A. Nalcor interprets this question as a continuation of the preceding Requests for Information CA/KPL-Nalcor-144 and CA/KPL-Nalcor-145 wherein the 2017 rate for Muskrat Falls only under a cost of service approach of 214/$MWh was referenced.

The rate of $214/MWh was originally provided in response to PUB-Nalcor-46 and incorporated an 8.4% cost of capital, which was consistent with the cost of capital used for the Muskrat Falls PPA pricing approach. For the purposes of answering this question, Nalcor has interpreted the 8.4% return on capital used to derive the $214/MWh rate in 2017 as equivalent to a regulated weighted average cost of capital. Within this framework, an increase in the return on equity to 12% would have the effect of increasing the weighted average cost of capital from 8.4% to 8.9%, based on a 25% equity weighting and an increase in the cost of equity from 10% to 12%. Using this 8.9% weighted average cost of capital, the 2017 cost of service rate for Muskrat Falls energy (only) would increase to $228/MWh from $214 /MWh.

Please note that Nalcor does not intend to use a cost of service approach for pricing Muskrat Falls energy. For the reasons outlined in Exhibit 36, Nalcor intends to use an escalating supply price model.