

1 Q. Consumer Question: On June 17, 2009 the NL Gov issued a press release "Province
2 Positions Hydro To Make Critical Investments in infrastructure" to permit Hydro to
3 earn a a(sic) return on equity equal to Newfoundland Power". The previous Hydro
4 return was 4.47 % Nalcor uses a 10 % return in the Muskrat study (see p 17 Nalcor
5 Presentation to PUB in July 2011). Please provide a detailed analysis by year of the
6 impact of the increase in rate of return from 4.4 7 % to 10 % (an increase of 5.53 %)
7 on the consumer power rates over the 50 years project analysis period?

8

9

10 A. Consistent with the Terms of Reference and the Reference Question, Nalcor's
11 analyses for this proceeding have considered the Cumulative Present Worth (CPW)
12 of the Interconnected Island alternative and the Interconnected Island alternative.
13 The rate analysis requested does not assist consideration of the Reference
14 Question.

15

16 The reference in line 6 to "rate of return" should refer to "regulated return on
17 equity". Please note the following rates of return, including return on equity and
18 cost of debt, are used in Nalcor's analyses:

19

20 Regulated Assets

21 The rate of return for regulated assets in this analysis is 8.0%¹. This rate of return is
22 based on the following formula:

23

24 Cost of debt x percentage of debt + cost of equity x percentage of equity

25 7.4% x 75 % + 10% x 25% = 8.0 %

¹ Nalcor's presentation to the Board, July 2011, page 17

1 Non-regulated Assets

2 The rate of return for the Muskrat Falls generation facility (non-regulated asset) in
3 this analysis is 8.4%².

4
5 The return on equity used in the analysis completed by Nalcor (i) is consistent with
6 the direction given by the Province, as announced on June 17, 2009, and (ii) was
7 established based on the advice of Nalcor's financial advisors, who have advised
8 that a return on equity in the range of the rate used for modeling for both the
9 Labrador Island Transmission Link and Muskrat Falls would be required in order to
10 obtain financing for the assets under construction.

11
12 Based on these considerations, using a return on equity which would preclude
13 access to capital to construct either Muskrat Falls or the Labrador Island
14 Transmission Link, and which would be inconsistent with previous direction
15 provided by the Government of Newfoundland and Labrador, would not assist
16 consideration of the Reference Question.

² Nalcor's presentation to the Board, July 2011, page 22