Q. Consumer Question: Considering the considerable risk associated with the Interconnected option (lower than expected domestic sales) should a hurdle approach, or risk premium approach, be adopted by NALCOR. They have actually taken an opposite view in accepting a lower rate of return for the interconnected island option. It should be noted that such a penalty should not be adopted to isolated option, as in the event of HIGH oil prices a future decision can be made to construct MF.

A. Please see CA/KPL-83. Nalcor notes that it is not "accepting a lower rate of return for the interconnected island option" as indicated above. All capital contained in the Interconnected Island alternative has the same weighted cost of capital as in Isolated Island option with the exception of the Muskrat Falls investment. For Muskrat Falls, the base return on equity has been defined at 8.4% with the acknowledgment, as stated in MHI-Nalcor-58 (e) "While this return on equity is below the long-run projected average for Newfoundland and Labrador electrical utilities, Nalcor deemed this acceptable because Muskrat Falls may have opportunities for additional revenues over and above those from the Island market, for the first part of the operational period before Island demand fully subscribes Muskrat Falls' output."