

1 Q. Consumer Question: See p. 197, vol. 2, MHI states that if the total capital costs for
2 the TL & for the MF site increase by 25% the CPW would be reduced by \$577m. MF
3 generating site has in service cost of \$2.9 (no IDC because of 100% equity
4 financing). What is the impact on the CPW if the MF site has in service capital cost
5 of \$3.5b?

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8 A. Nalcor interprets this question as a request to comment on the CPW if the in-
9 service capital cost were increased as a result of debt leverage and the inclusion of
10 IDC.

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12 In Nalcor's DG2 modelling framework using a targeted internal rate of return (IRR)
13 and 100% equity, the opportunity cost of capital is accounted for because the IRR
14 calculation covers the full analysis period including the construction period.

15 Assuming the return on equity was maintained at 8.4%, the inclusion of a
16 sustainable level of debt financing for Muskrat Falls would reduce the PPA price for
17 Muskrat Falls energy. This outcome will result because the cost of debt is less than
18 the cost of equity and therefore the leverage of debt would moderately lower the
19 overall cost of capital while maintaining a targeted return on equity.