Q. Consumer Question: Nalcor is deferring receiving its equity return payment in the early years of the project to keep power rates low in early years of the project. Does the effect of this compounding of the 10 % equity while unpaid have any adverse impact on consumers? The projected debt cost at 7.4 % for the project is lower than the 10 % equity burden. What are the negative consequences for consumers of Nalcor's deferral of its equity return?

A. For the purposes of DG2 analysis, Muskrat Falls was assumed to be financed at 100 percent equity. The timing of the returns to equity for the Muskrat Falls investment itself is related solely to the alternative approach to pricing and not to the percentage cost of equity. The pricing arrangement for energy from Muskrat Falls does not have any adverse effect on consumers. As indicated in Exhibit 36, this pricing arrangement provides rate payer benefits.

The internal rate of return for the Muskrat Falls investment, based on a power purchase price of $76 /MWh ($2010, escalating at 2 percent per year) applied on the Island’s requirement for Muskrat Falls energy, is projected to be 8.4 percent. This internal rate of return is calculated based on the equity returns over a fifty year term. There is no financing of deferred equity payments, and payments are made based on the funds available for equity returns.