Q. Consumer Question: Please provide the likely capital structure for the Muskrat Falls generation project which was used to examine the Bruce power type rate profile, over time, with forgone equity income matched with higher future returns, in order to prevent rate shock and to create lower rates than would apply under cost of service?

A. As indicated in Exhibit 36, the reference to Bruce Power was included as an example of a power contract with a general escalator such as Consumer Price Index (CPI) and not as an example of an approach to pricing as analyzed for Muskrat Falls.

Nalcor notes that in its PPA pricing approach equity income is not forgone in the early years but rather it is lower than it otherwise would be if a traditional rate base cost of service pricing model was followed for pricing. While both the cost of service and PPA are cost based approaches for price determination, the pattern of fixed cost recovery is different.

In year 1, the cost of service approach calculates revenue requirement based on in-service capital costs irrespective of output produced and sold. Because the Island cannot initially absorb the full output of Muskrat Falls, using a cost of service approach for pricing would result in high unit costs as indicated in PUB-Nalcor-46. Under a PPA approach the focus shifts from a revenue requirement calculation based on depreciation and return on rate base to achievement of a targeted internal rate of return on equity investment across the PPA term. This PPA approach would be more aligned with valuation and price determination in the private or non-regulated sector as opposed to administered pricing in the regulated utility sector. With respect to capital structure for Muskrat Falls, please see Nalcor's response to CA/KPL-Nalcor-235. The final capital structure for Muskrat Falls will be established and optimized for market conditions post DG3.