

1 Q. Consumer Question: Can you please clarify that compounded interest on debt for
2 both options under consideration have been included in the cost/benefit analysis of
3 each? I note that to construct Muskrat Falls an immediate debt of approximately
4 \$5 billion will be required, while the Isolated Island option capital requirements are
5 spread over a 50 year period – the majority of which appear some 35-40 years
6 down the road. My concern is a large debt incurred between now and 2017 gathers
7 enormous interest, while a progressive build, with substantial capital requirement
8 30 years down the road, gathers much less interest. Has this been factored into the
9 cost/benefit of each of these projects?
10
11

12 A. Capital project costing for both alternatives reflects a total cost of capital and return
13 of capital over the full analysis period, including construction periods. In the case of
14 regulated assets, the cost of capital is explicitly capitalized during construction (i.e.
15 compound interest expense) as a project cost, and included as part of the recovery
16 of fixed charges over the life of the asset through depreciation expense and return
17 on rate base.
18

19 For the Muskrat Falls generating facility, the accounting for the compounded cost of
20 capital was accomplished by establishing revenues to provide an 8.4% internal rate
21 of return over the full analysis period. The opportunity cost of capital during
22 construction is implicitly included in the IRR calculation as it covers the full analysis
23 period.
24

25 Nalcor agrees with the observation that there is a difference between the
26 Interconnected Island and Isolated Island alternatives relating to the timing of
27 capital outlays and their associated financing. The accounting for the compounding

1 of the cost of capital, either directly or indirectly, reflecting the timing of projects
2 over the construction and operating analysis period, has been properly reflected in
3 Nalcor's CPW analysis through escalation, financing and discounting, and the
4 appropriateness of this methodology has been reviewed and confirmed by both
5 Navigant and by MHI.