Q. Consumer Question: The presentations under review mandate are all referenced to DG2. However, there are many different cost figures currently spoken in the public. For DG2, is it $5.0 B in capital cost for the project that is discounted and used for CPW or, is it something else, e.g. $6.2 B?

A. For DG2, the capital cost for Muskrat Falls plus the Labrador Island Transmission Link, inclusive of direct dollars plus contingency and escalation allowance, is $2,869 million and $2,060 million respectively for a total of $4,929 million[1], frequently rounded to $2.9 and $2.1 billion respectively. This project cost estimate excludes any applicable interest during construction which is subsequently accounted for in the economic and financial analysis that underscores the cumulative present worth (CPW) analysis.

As noted on page 38, Volume 1, Nalcor Submission, all monetary costs were modeled in Canadian current dollar (i.e. as spent nominal dollars) inclusive of applicable allowance for funds used during construction (AFUDC) and discounted to present value in 2010$ using a discount rate of 8%.

For the Muskrat Falls investment, the analysis framework was the financial metric of internal rate of return (IRR) wherein a power purchase price was set for NL Hydro which provided the shareholder with a project IRR of 8.4%. The base price of $76 /MWh was escalated at 2% annually to establish the annual nominal purchase price which was then multiplied by the annual energy requirement for NL Hydro. The resulting annual power purchase expense stream for Muskrat Falls energy entered

[1] See Table 2, page 72, Volume 2, Nalcor Submission.

the CPW analysis as a power purchase expense for NL Hydro and discounted to present value.

Generally, the CPW metric includes a present value analysis of all incremental operating and capital related costs associated with NL Hydro's generation expansion plans for the Isolated and Interconnected and Island alternatives as shown on Table 22[2] and Table 26[3] respectively of Nalcor's Submission. The annual nominal costs that enter the CPW analysis for each generation expansion plan have been provided in Nalcor's response to MHI-Nalcor-1 and accompanying Exhibit 99.

[2] Page 106, Volume 1 of Nalcor's Submission.
[3] Page 117, Volume 1 of Nalcor's Submission.