Q. Please explain the difference for the Island Pond total development costs (Jan 2010 dollars) in Exhibit 5 from what was provided in the SNC Lavalin engineering report Exhibit 5b Rev. 1, page 80 (Dec 2006 dollars).

A. The costs from the SNC Lavalin engineering Exhibit 5b Rev. 1 report were used as a basis for costs entered in NL Hydro's *Capital Cost Estimate & Cash Flow Requirements* sheet, from which the $166,220,000 in Exhibit 5 is derived. The costs reported in Exhibit 5 are in January 2010 dollars and are direct costs, while the costs reported in the SNC Lavalin engineering report represent in service costs and include escalation and AFUDC. As well, the SNC Lavalin contingency was adjusted for conformance to Nalcor's standards, which was 10% applied to all direct costs.

These numbers may be reconciled by taking the SNC Lavalin estimate, deducting escalation and AFUDC, adjusting the contingency, and then escalating the December 2006 amount to January of 2010:

SNC Lavalin Estimate	173,592,362
Less escalation	(8,700,000)
Less AFUDC	(16,530,000)
Plus Contingency Adjustment to 10% of Direct costs	1,945,671
Direct 2006 $	150,308,033

Applying escalation from December 2006 (January 2007) to January 2010, the resulting amount is $150,308,033 X 1.1075 = $166,464,952 or $166.5 million (direct

costs - January 2010$). This compares to the Exhibit 5 estimate of $166.2 million (direct costs - January 2010$). There is a $0.3 million difference due to rounding.

The 1.1075 escalation factor was slightly different than the corporate escalation factor and was established by Nalcor's engineering staff based on their understanding of the project at that time.