

1 Q. Please document and describe the complete set of escalators and their values that
2 are shown in Exhibit 3.

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5 A. The escalators in Exhibit 3 consist of:

6 ○ General inflation as per Conference Board of Canada forecast as of January
7 2010.

8 ○ Composite construction project escalators. These fixed weight indices are
9 used by Nalcor primarily to escalate constant dollar cost estimates to future
10 nominal dollars. The indices are derived by combining project cost weights
11 across various producer price indices (PPI) with historical and forecast
12 producer price index data as provided by Global Insight (see proprietary
13 information request # 2 as requested by the Board dated July 12, 2011). The
14 weights used by Nalcor represent information from project cost breakouts
15 available internally, linked to Statistics Canada's prior detailed work on
16 utility construction price indices and/or industry intelligence. See
17 attachment for Nalcor's current project weights for typical regulated capital
18 projects¹.

19 ○ Composite project escalator weights for the Muskrat Falls and Labrador -
20 Island Transmission Link projects. These variable weight escalators are
21 based directly on the analysis and classification of costs by PPI "bin" across
22 the respective project schedules. Variable weighting is derived from the
23 project schedule with variable weights attributed to each cost bin by year.

24 The resulting escalators are the weighted average of each applicable index

¹ The weights reported for Nalcor composite indices are those in use as of 2011. The actual weights used in 2010 would have been essentially the same but were modeled within a Global Insight software platform. Starting in 2011, Nalcor moved from the Global Insight modeling platform to an Excel platform for flexibility and transparency.

1 per year based on the share of total costs for each bin each year and their
2 respective annual escalators. For critical cost components, Nalcor
3 supplements the standard Global Insight service with custom indices or cost
4 information (i.e. local labour agreements for major projects) that tie more
5 closely to market conditions. See Attachment CE-45 for the Lower Churchill
6 Project's construction cost escalators, bin weights, and Nalcor's corporate
7 cost escalators.

8 ○ General Operating and Maintenance escalators. These indices are used to
9 derive nominal dollar estimates for future operating expenditures. The
10 starting point is a pure labour cost escalator currently represented by Nalcor
11 as 3% per year. From there corporate users are directed to select an O&M
12 escalator that matches their understanding of their particular needs where
13 there the composition of O&M costs in question could be more labour and
14 less materials and vice-versa. The Oil and Gas Operations escalator is a
15 forecast contained in the Global Insight service package.