

1 Q. **Reference: Cost Relationship to Changes in Newfoundland Power’s Return on Equity**

2 a) Please confirm if the equity component of the Muskrat Falls assets is projected to
3 increase over the life of the Muskrat Falls contracts.

4 b) Please explain any impact an increase in the equity component of the Muskrat Falls
5 assets would have on Hydro’s costs in relation to changes in Newfoundland Power’s
6 return on equity.

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9 A. a) There is no current obligation or forecasted need to provide the Muskrat Falls Corporation
10 or the Labrador Transmission Corporation with additional equity. Sustaining capital for both
11 entities is billable to Newfoundland and Labrador Hydro (“Hydro”) under the Muskrat Falls
12 Power Purchase Agreement¹ as operating and maintenance costs. Additional equity will be
13 required in the Labrador-Island Link Limited Partnership to fund future sustaining capital
14 costs. These costs are initially funded by equity and recovered from Hydro under the terms
15 of the Transmission Funding Agreement (“TFA”).²

16 b) As stated in Hydro’s response to PUB-NLH-002 of this proceeding, there is no impact on the
17 cost of equity with respect to the Muskrat Falls Hydroelectric Generating Station or the
18 Labrador Transmission Assets pursuant to the Muskrat Falls Power Purchase Agreement as a
19 result of a change in Newfoundland Power Inc.’s (“Newfoundland Power”) Return on Equity
20 (“ROE”). With respect to the Labrador-Island Link, rent collected from Hydro through
21 payments under the TFA includes a ROE that is used to fund sustaining capital. This ROE will
22 change prospectively should there be a change in Newfoundland Power’s ROE.

¹ “Power Purchase Agreement,” Newfoundland and Labrador Hydro and Muskrat Falls Corporation, November 29, 2013.

² “Transmission Funding Agreement,” Labrador-Island Link Limited Partnership, Labrador-Island Link Operating Corporation, and Newfoundland and Labrador Hydro, November 29, 2013.