

July 31, 2019

VIA EMAIL

s. 40(1)

Attention:

[REDACTED]

Dear

[REDACTED]

s. 40(1)

Re: Your request for access to information under Part II of the Access to Information and Protection of Privacy Act, 2015 (File #: PB/519/2019)

On July 3, 2019, Nalcor Energy received your request for access to the following records:

The Power Purchase Agreement between NL Hydro and the Muskrat Falls Corporation signed November 29, 2013 provides for a return on equity and a return of equity. Section 1 of Schedule 1 includes the following Definition:

“Base Block Capital Costs Recovery” or “BBCCR” means the recovery over the Supply Period of the following costs, without duplication:

- (a) Development Capital Costs, which shall provide for the repayment of principal under the Financing and the return of equity capital to the equity holder;*
- (b) Development Financing Costs; and*
- (c) Distributions to equity holders sufficient to enable Muskrat to achieve its Assigned IRR;”*

Please provide the following:

- 1. The latest update to the Muskrat Falls Revenue Requirements similar in format to PB-954 but disclosing for each year, from 2021 to 2069, the distribution of return on equity separately from the return of equity capital to the equity holder, showing each equity holder (i.e., Emera Energy, Nalcor Energy and GNL) separately.*
- 2. For MF and LTA, Return on Equity is deferred to later years, resulting in the distribution of return on equity being far below 8.4% IRR in the early years of the 50-year payback period. Are these deferrals simply added to the equity accounts and interest compounded at the IRR? If not, explain how the deferrals are calculated and repaid. Please provide the total value of equity including the deferrals over the full payback period.*
- 3. The latest update on project financing costs, showing the distribution of AFUDC and IDC, as well as other financial costs, among project components.*
- 4. Please advise if the expensing of depreciation varies depending upon which cost recovery method is chosen, cost of service versus escalating supply prices, or if the treatment of depreciation is unaffected by how recovery is achieved.*

5. The latest allocation of equity and debt among each project component, similar in format to MFI Exhibit P-01557, but with more significant digits.

I am pleased to inform you that your request has been granted in full, where information responsive to this request exists. Please see Appendix A attached hereto for the responses.

It is the goal to publish this letter following a 72 hour period after it is sent electronically to you or five business days in the case where the letter has been mailed to you.

Please be advised that you may ask the Information and Privacy Commissioner to review the processing of your access request, as set out in section 42 of the Access to Information and Protection of Privacy Act (*the Act*). A request to the Commissioner must be made in writing within 15 business days of the date of this letter or within a longer period that may be allowed by the Commissioner. Your appeal should identify your concerns with the request and why you are submitting the appeal.

The appeal may be addressed to the Information and Privacy Commissioner is as follows:

Office of the Information and Privacy Commissioner
2 Canada Drive
P. O. Box 13004, Stn. A
St. John's, NL. A1B 3V8
Telephone: (709) 729-6309
Toll-Free: 1-877-729-6309
Facsimile: (709) 729-6500

You may also appeal directly to the Supreme Court Trial Division within 15 business days after you receive the decision of the public body, pursuant to section 52 of the Act (a copy of this section of the Act has been enclosed for your reference).

If you have any further questions, please feel free to contact the undersigned by telephone at (709) 733-5346 or by e-mail at granthiscock@nalcorenergy.com.

Sincerely,

A handwritten signature in black ink, appearing to read "Grant Hiscock". The signature is written in a cursive style with a large loop at the beginning.

Grant Hiscock
Access and Privacy Officer

Access or correction complaint

42. (1) A person who makes a request under this Act for access to a record or for correction of personal information may file a complaint with the commissioner respecting a decision, act or failure to act of the head of the public body that relates to the request.

(2) A complaint under subsection (1) shall be filed in writing not later than 15 business days

(a) after the applicant is notified of the decision of the head of the public body, or the date of the act or failure to act; or

(b) after the date the head of the public body is considered to have refused the request under subsection 16(2).

(3) A third party informed under section 19 of a decision of the head of a public body to grant access to a record or part of a record in response to a request may file a complaint with the commissioner respecting that decision.

(4) A complaint under subsection (3) shall be filed in writing not later than 15 business days after the third party is informed of the decision of the head of the public body.

(5) The commissioner may allow a longer time period for the filing of a complaint under this section.

(6) A person or third party who has appealed directly to the Trial Division under subsection 52(1) or 53(1) shall not file a complaint with the commissioner.

(7) The commissioner shall refuse to investigate a complaint where an appeal has been commenced in the Trial Division.

(8) A complaint shall not be filed under this section with respect to

(a) a request that is disregarded under section 21;

(b) a decision respecting an extension of time under section 23;

(c) a variation of a procedure under section 24; or

(d) an estimate of costs or a decision not to waive a cost under section 26.

(9) The commissioner shall provide a copy of the complaint to the head of the public body concerned.

Direct appeal to Trial Division by an applicant

52. (1) Where an applicant has made a request to a public body for access to a record or correction of personal information and has not filed a complaint with the commissioner under section 42, the applicant may appeal the decision, act or failure to act of the head of the public body that relates to the request directly to the Trial Division.

(2) An appeal shall be commenced under subsection (1) not later than 15 business days

(a) after the applicant is notified of the decision of the head of the public body, or the date of the act or failure to act; or

(b) after the date the head of the public body is considered to have refused the request under subsection 16(2).

(3) Where an applicant has filed a complaint with the commissioner under section 42 and the commissioner has refused to investigate the complaint, the applicant may commence an appeal in the Trial Division of the decision, act or failure to act of the head of the public body that relates to the request for access to a record or for correction of personal information.

(4) An appeal shall be commenced under subsection (3) not later than 15 business days after the applicant is notified of the commissioner's refusal under subsection 45(2).

Appendix A: Response

- 1) The latest update to the Muskrat Falls Revenue Requirements similar in format to PB-954 but disclosing for each year, from 2021 to 2069, the distribution of return on equity separately from the return of equity capital to the equity holder, showing each equity holder (i.e., Emera Energy, Nalcor Energy and GNL) separately.

Response:

We currently have no responsive records that address all aspects of the request; however, we are able to provide information related to the first portion of the request.

Please find attached as Table 1 the Muskrat Falls revenue requirements for each year between 2021 and 2069 in a format similar to that provided in response to PB-954. This information is based on the project assumptions as at January 28, 2019. This information includes the return on equity for each of Muskrat Falls, the Labrador Transmission Assets and the Labrador-Island Link.

- 2) For MF and LTA, Return on Equity is deferred to later years, resulting in the distribution of return on equity being far below 8.4% IRR in the early years of the 50-year payback period. Are these deferrals simply added to the equity accounts and interest compounded at the IRR? If not, explain how the deferrals are calculated and repaid. Please provide the total value of equity including the deferrals over the full payback period.

Response:

Internal Rate of Return (IRR) is defined as the interest rate at which the net present value of **all** the cash flows (both positive and negative) from a project or investment is equal to zero. As a measure, IRR must include **all** of the cash flows for the entire project cycle to be valid. MF and LTA do achieve an 8.4% IRR over the total life of the project as dictated by the Power Purchase Agreement and the Generator Interconnection Agreement.

While much of the return on equity for MF and LTA is paid in the later years, there is no actual deferral. The pattern of return is based on the available cash flow dictated by the debt servicing requirements and the escalating supply price is set to achieve the targeted 8.4% IRR over the project life.

Please find attached as Table 2 a summary of the projected ending equity account balances for each year between 2021 and 2069. This information is based on the project assumptions as at January 28, 2019.

- 3) The latest update on project financing costs, showing the distribution of AFUDC and IDC, as well as other financial costs, among project components.

Response:

Please find attached as Table 3 the latest forecast of the LCP financing costs. This information is based on the project assumptions as at January 28, 2019.

- 4) Please advise if the expensing of depreciation varies depending upon which cost recovery method is chosen, cost of service versus escalating supply prices, or if the treatment of depreciation is unaffected by how recovery is achieved.

Response:

No, the expensing of depreciation does not vary based on the cost recovery method chosen. The depreciation expense will be determined for financial reporting purposes in accordance with International Financial Reporting Standards on a straight-line basis over the useful life of the assets, currently assumed to average 50 years.

- 5) The latest allocation of equity and debt among each project component, similar in format to MFI Exhibit P-01557, but with more significant digits.

Response:

Please find attached as Table 4 the latest allocation of debt and equity among each project component. This information is based on the project assumptions as at January 28, 2019.

**Table 1: Nalcor Energy's Projection of Revenue Requirement - Labrador-Island Link, Muskrat Falls, Muskrat Falls-Churchill Falls Transmission Link (\$'000)
As at January 2019 Forecast**

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
LIL¹																
Return on Equity	125,022	123,343	121,651	120,291	118,258	116,564	114,865	113,483	111,466	109,763	108,060	106,655	104,653	102,102	98,663	96,583
O&M ²	38,548	39,502	40,479	41,480	42,506	43,558	44,636	45,740	49,576	48,031	49,219	50,437	52,900	54,209	55,551	56,927
Depreciation	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934
Interest	119,101	116,922	114,730	112,336	109,952	107,823	105,602	103,432	101,383	99,048	96,607	94,384	89,473	85,744	84,126	82,193
	<u>379,605</u>	<u>376,699</u>	<u>373,794</u>	<u>371,040</u>	<u>367,651</u>	<u>364,879</u>	<u>362,036</u>	<u>359,589</u>	<u>359,358</u>	<u>353,776</u>	<u>350,820</u>	<u>348,410</u>	<u>343,960</u>	<u>338,989</u>	<u>335,274</u>	<u>332,636</u>
Muskrat¹																
Return on Equity	(3,320)	16,224	34,365	57,729	81,925	101,997	122,832	144,626	169,793	207,253	242,986	268,105	293,963	320,614	348,036	376,251
O&M ²	29,407	30,077	30,764	31,468	32,189	32,927	33,684	34,194	34,416	35,231	36,065	36,921	37,798	38,696	39,616	40,560
Innu	5,818	5,937	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049
Water Power Rental	15,553	15,872	16,197	16,529	16,868	17,214	17,567	17,927	18,294	18,669	19,052	19,443	19,841	20,248	20,663	21,087
Depreciation	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280
Interest	122,441	120,004	117,491	114,842	112,079	109,427	106,581	103,627	98,209	93,691	92,061	88,558	84,995	81,340	77,633	73,869
	<u>293,179</u>	<u>311,394</u>	<u>328,146</u>	<u>349,897</u>	<u>372,389</u>	<u>390,894</u>	<u>409,993</u>	<u>429,703</u>	<u>450,040</u>	<u>484,172</u>	<u>519,493</u>	<u>542,355</u>	<u>565,926</u>	<u>590,227</u>	<u>615,276</u>	<u>641,095</u>
LTA¹																
Return on Equity	(2,889)	(2,823)	(2,723)	1,494	8,590	11,962	15,467	19,090	23,295	29,555	35,407	39,631	43,977	48,457	53,064	57,802
O&M ²	10,716	10,972	11,233	11,501	11,776	12,058	12,346	12,642	12,945	13,255	13,573	13,899	14,233	14,576	14,926	15,286
Depreciation	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076
Interest	24,220	23,740	23,241	22,715	22,165	21,639	21,073	20,486	19,415	18,537	18,258	17,567	16,863	16,142	15,410	14,667
	<u>53,123</u>	<u>52,964</u>	<u>52,827</u>	<u>56,786</u>	<u>63,606</u>	<u>66,735</u>	<u>69,963</u>	<u>73,293</u>	<u>76,730</u>	<u>82,423</u>	<u>88,314</u>	<u>92,172</u>	<u>96,150</u>	<u>100,250</u>	<u>104,476</u>	<u>108,831</u>

1 Revenue Requirement provided for the full years of operation for 2021 - 2069 as requested.

2 O&M includes an allowance for Sustaining Capital.

Table 1 Continued:

	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052
LIL¹																
Return on Equity	93,962	91,611	89,260	87,155	84,558	82,208	79,857	77,723	75,152	72,745	69,646	67,275	64,715	62,344	59,974	57,768
O&M ²	56,992	65,897	87,771	110,592	113,396	116,198	118,948	121,714	124,349	126,994	129,478	132,107	134,689	137,321	139,956	142,645
Depreciation	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934	96,934
Interest	80,589	78,884	76,959	75,030	73,098	71,256	69,385	67,451	64,889	56,210	54,562	52,741	50,898	49,054	47,208	45,361
	<u>328,476</u>	<u>333,325</u>	<u>350,924</u>	<u>369,711</u>	<u>367,986</u>	<u>366,595</u>	<u>365,124</u>	<u>363,822</u>	<u>361,324</u>	<u>352,882</u>	<u>350,619</u>	<u>349,057</u>	<u>347,235</u>	<u>345,653</u>	<u>344,072</u>	<u>342,708</u>
Musktrat¹																
Return on Equity	407,286	438,631	469,423	501,093	533,666	567,138	605,912	639,311	671,704	704,959	739,090	772,199	805,140	826,104	847,511	869,660
O&M ²	41,940	51,528	48,390	49,527	50,692	51,886	53,108	54,360	55,643	56,957	58,303	59,681	61,094	62,540	64,022	64,674
Innu	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049	6,049
Water Power Rental	21,519	21,960	22,410	22,870	23,339	23,817	24,305	24,803	25,312	25,831	26,360	26,901	27,452	28,015	28,589	29,175
Depreciation	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280
Interest	68,044	62,687	58,683	54,621	50,501	46,346	42,124	37,837	33,491	29,085	24,625	18,926	4,302	2,022	(327)	(2,171)
	<u>668,117</u>	<u>704,135</u>	<u>728,234</u>	<u>757,440</u>	<u>787,526</u>	<u>818,515</u>	<u>854,778</u>	<u>885,640</u>	<u>915,478</u>	<u>946,160</u>	<u>977,707</u>	<u>1,007,035</u>	<u>1,027,317</u>	<u>1,048,010</u>	<u>1,105,324</u>	<u>1,134,696</u>
LTA¹																
Return on Equity	63,073	68,378	73,546	78,859	84,322	89,932	96,411	102,015	107,456	113,040	118,769	124,377	130,260	133,763	137,341	141,114
O&M ²	15,654	16,583	25,053	25,622	26,204	26,800	27,410	28,034	28,672	29,326	29,994	30,679	31,379	32,096	32,829	33,348
Depreciation	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076
Interest	13,516	12,457	11,667	10,865	10,052	9,232	8,399	7,553	6,695	5,825	4,944	3,815	925	476	12	(353)
	<u>113,319</u>	<u>118,494</u>	<u>131,341</u>	<u>136,422</u>	<u>141,653</u>	<u>147,040</u>	<u>153,296</u>	<u>158,677</u>	<u>163,899</u>	<u>169,266</u>	<u>174,783</u>	<u>179,947</u>	<u>183,640</u>	<u>187,410</u>	<u>191,258</u>	<u>195,185</u>

1 Revenue Requirement provided for the full years of operation for 2021 - 2069 as requested.

2 O&M includes an allowance for Sustaining Capital.

Table 1 Continued:

	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069
LIL¹																	
Return on Equity	55,234	52,808	47,591	44,397	41,835	38,413	35,658	33,331	30,813	28,390	25,968	23,615	21,123	18,701	16,278	13,898	10,573
O&M ²	145,298	148,048	150,156	152,741	155,500	158,115	160,918	163,863	166,819	169,853	172,948	176,120	179,329	182,621	185,991	189,443	192,771
Depreciation	96,991	97,280	97,280	97,280	97,293	97,299	97,299	97,299	97,299	97,299	97,299	97,299	97,299	97,299	97,299	97,299	97,299
Interest	44,817	56,672	53,541	49,773	51,189	50,996	46,445	41,854	37,263	32,672	28,081	23,490	18,899	14,309	9,718	5,127	1,523
	342,340	354,808	348,569	344,192	345,816	344,822	340,319	336,347	332,194	328,215	324,296	320,524	316,650	312,929	309,286	305,767	302,166
Muskrat¹																	
Return on Equity	890,255	910,525	991,575	1,024,437	1,058,168	1,092,790	1,128,323	1,164,792	1,202,219	1,240,627	1,280,042	1,320,487	1,361,989	1,404,574	1,448,268	1,493,099	1,539,094
O&M ²	65,610	67,203	68,835	70,506	72,218	73,972	75,768	77,609	79,494	81,425	83,403	85,429	87,505	89,631	91,809	94,040	96,326
Innu	50,725	51,739	55,795	57,440	59,128	60,861	62,639	64,464	66,338	68,260	70,232	72,257	74,334	76,465	78,652	80,895	83,197
Water Power Rental	29,774	30,384	31,007	31,642	32,291	32,953	33,629	34,318	35,021	35,739	36,472	37,220	37,983	38,761	39,556	40,367	41,194
Depreciation	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280	123,280
Interest	(2,319)	(2,366)	(2,551)	(2,626)	(2,703)	(2,783)	(2,864)	(2,947)	(3,033)	(3,121)	(3,211)	(3,304)	(3,399)	(3,496)	(3,596)	(3,699)	(3,804)
	1,157,324	1,180,766	1,267,940	1,304,679	1,342,382	1,381,073	1,420,775	1,461,515	1,503,318	1,546,210	1,590,217	1,635,369	1,681,692	1,729,215	1,777,968	1,827,982	1,879,287
LTA¹																	
Return on Equity	144,545	147,857	161,102	166,472	171,984	177,641	183,448	189,407	195,523	201,799	208,240	214,849	221,631	228,590	235,730	243,055	250,571
O&M ²	33,951	34,737	35,541	36,364	37,206	38,068	38,951	39,853	40,777	41,723	42,691	43,681	44,694	45,732	46,793	47,879	48,991
Depreciation	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076	21,076
Interest	(379)	(387)	(417)	(429)	(442)	(455)	(468)	(482)	(496)	(510)	(525)	(540)	(555)	(571)	(588)	(604)	(622)
	199,193	203,283	217,302	223,482	229,824	236,331	243,006	249,854	256,880	264,088	271,481	279,066	286,845	294,825	303,011	311,406	320,017

1 Revenue Requirement provided for the full years of operation for 2021 - 2069 as requested.

2 O&M includes an allowance for Sustaining Capital.

**Table 2: Nalcor Energy's Projection of Year End Shareholder Equity Account Balances for Muskrat Falls Corporation and Labrador Transmission Corporation (\$000)
As at January 2019 Forecast**

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
MF	2,635.10	2,606.04	2,577.49	2,549.50	2,522.13	2,495.45	2,469.52	2,444.39	2,414.07	2,313.35	2,301.17	2,290.01	2,279.93	2,270.97	2,263.17	2,256.59
LTA	362.67	360.24	357.92	355.70	353.61	351.65	349.85	348.20	345.26	326.76	327.68	328.80	330.13	331.68	333.46	335.48
MFLTA	2,997.77	2,966.28	2,935.40	2,905.20	2,875.74	2,847.10	2,819.36	2,792.59	2,759.33	2,640.12	2,628.85	2,618.81	2,610.06	2,602.64	2,596.63	2,592.07

	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052
MF	2,268.48	2,286.59	2,306.07	2,326.96	2,349.30	2,373.16	2,398.57	2,425.58	2,454.25	2,484.62	2,516.73	2,474.18	2,417.38	2,362.46	2,309.48	2,179.11
LTA	341.25	348.16	355.34	362.80	370.55	378.60	386.95	395.63	404.63	413.96	423.64	417.06	409.15	401.60	394.44	371.17
MFLTA	2,609.73	2,634.76	2,661.41	2,689.76	2,719.86	2,751.76	2,785.53	2,821.21	2,858.88	2,898.58	2,940.38	2,891.25	2,826.52	2,764.06	2,703.93	2,550.28

	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069
MF	2,055.83	1,932.55	1,809.27	1,685.99	1,562.71	1,439.43	1,316.15	1,192.87	1,069.59	946.31	823.03	699.75	576.47	453.19	329.91	206.64	83.36
LTA	350.09	329.02	307.94	286.87	265.79	244.71	223.64	202.56	181.49	160.41	139.34	118.26	97.18	76.11	55.03	33.96	12.88
MFLTA	2,405.92	2,261.57	2,117.21	1,972.86	1,828.50	1,684.15	1,539.79	1,395.43	1,251.08	1,106.72	962.37	818.01	673.66	529.30	384.95	240.59	96.24

**Table 3: Nalcor Energy's Projection of LCP Financing Costs (\$000)
As at January 2019 Forecast**

	MF	LTA	LIL	Total
Net IDC	587	130	633	1,349
Nalcor AFUDC	-	-	224	224
Emera AFUDC	-	-	201	201
Other ¹	306	66	138	511
Total	893	196	1,196	2,286

¹ Includes: Soft costs, DSRA funding, LRA funding, Hedge loss funding

**Table 4: Nalcor Energy's Projected Allocation of Equity and Debt for the LCP Project Components (\$000)
As at January 2019 Forecast**

	<u>MF</u>	<u>LTA</u>	<u>LIL ¹</u>	<u>Total</u>
Total Capital Cost	6,431	1,113	4,959	12,504
Debt	3,714	736	3,450	7,900
Equity	2,717	377	1,509	4,604
Total Funding	6,431	1,113	4,959	12,504
Nalcor/GNL Equity	2,717	377	645	3,739
Emera Equity	-	-	865	865
Total Equity	2,717	377	1,509	4,604

¹Equity contributions for LIL includes AFUDC of \$224 and \$201 for Nalcor and Emera respectively. The actual split of equity will be based on the final cost of the Maritime Link, Labrador-Island Link and the Labrador Transmission Assets which will be determined once all projects are completed.