Q. Further to PUB-Nalcor-030, please provide the impact each year on the forecast domestic electricity rate provided in PUB-Nalcor-029 if the returns forecast for each year are applied to the forecast unmitigated domestic electricity rates.

A. The impact of applying the forecast dividends noted in Nalcor's response to PUB-Nalcor-030 to the forecast domestic electricity rates presented in PUB-Nalcor-029 is provided in Table 1 below. The impact on rates has been presented starting in 2021 as it is the first full year of in-service.

For further context regarding the general methodology and approach to rate mitigation analyses prepared by Nalcor, please refer to PUB-Nalcor-031, Attachment 1.

Equity returns are comprised of the return on and return of invested capital and refer to the dividends to be paid out to Nalcor and the Province over the term of the Power Purchase Agreement and Transmission Funding Agreement. The forecast domestic electricity rate is assumed to refer to the Island Interconnected domestic electricity rate for a residential customer.

The estimated rate impact is determined based on the assumption that approximately $66 million of rate mitigation applied to Hydro's revenue requirement will result in a 1¢/KWh impact on the forecast domestic electricity rates (pre HST).

Table 1

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Forecast Unmitigated Domestic Electricity Rate (¢/KWh)	21.0	21.1	21.5	21.9	22.5	22.7	22.9	23.5	23.8	24.2	25.0	25.3	25.7	26.3	26.7	27.2	28.2	29.0	29.7
Muskrat Falls Dividends ($millions)	90.4	109.0	125.9	154.5	182.4	204.3	227.0	250.6	285.1	414.1	347.0	374.5	404.3	442.2	463.8	494.5	507.5	535.8	569.1
Muskrat Falls Dividend Rate Impact (¢/KWh)	**(1.4)**	**(1.7)**	**(1.9)**	**(2.3)**	**(2.8)**	**(3.1)**	**(3.4)**	**(3.8)**	**(4.3)**	**(6.3)**	**(5.3)**	**(5.7)**	**(6.1)**	**(6.7)**	**(7.0)**	**(7.5)**	**(7.7)**	**(8.1)**	**(8.6)**
Adjusted Rate (¢/KWh)	19.7	19.5	19.6	19.6	19.8	19.6	19.5	19.7	19.5	17.9	19.7	19.6	19.5	19.6	19.6	19.7	20.5	20.9	21.1

Amounts may not add due to rounding.

Methodology and Approach to Rate Mitigation Analyses

The following information provides important context regarding the methodology and overall approach used by Nalcor in developing the rate mitigation analysis outlined in many of the responses to the questions raised by the Board.

At the request of the Province, Nalcor developed analyses to provide a preliminary view of the relative impact that several potential changes to the commercial and financing agreements for the Muskrat Falls Project could have on available rate mitigation, and the indicative rates for a residential customer on the Island Interconnected System that could result under each scenario considered. This information was developed to assist the Province with rate mitigation discussions and Nalcor has not made any specific recommendations regarding what course of action should be taken.

The following assumptions underpin the rate mitigation analyses presented:

- The rate mitigation impact analyses are based on Nalcor's Muskrat Falls Project models as of May 2018 and are used to adjust the rate and revenue requirement information, which is based on Nalcor's forecast prepared in October 2018;
- Nalcor Dividends are assumed to exclude any dividends from Oil and Gas and Bull Arm, as the Province intends to separate these entities from Nalcor to form a separate stand-alone Crown Corporation;
- The analyses are based on a load forecast assuming a phased-in 17¢ rate by 2023 for residential customers on the Island Interconnected System, with escalation at 2% per annum thereafter; and
- The analyses assume that approximately $66M of rate mitigation applied to Hydro's revenue requirement will result in a 1¢/KWh impact on the forecast rate of a residential customer on the island interconnected system. This is a simplification for indicative purposes as in reality any changes in forecast rates would require re-iteration of the load forecast and resulting rates.

It is important to note that many of the scenarios examined would require amendments to the existing Commercial Agreements and/or Project Finance Agreements and as such would require the consent of the parties to the agreements including, among others, Nalcor, the Province, the Government of Canada or Emera. Absent such consent to amend the existing agreements, some of the scenarios examined would result in a default under these arrangements.

It should be noted that none of the scenarios contemplate any changes to the principal and interest payment obligations of the Muskrat Falls/Labrador Transmission Assets (MF/LTA) and the Labrador-Island Link (LIL) Funding Trusts which have issued $7.9 billion in bonds that are guaranteed by the Government of Canada. These payment obligations are directly funded by the payment obligations of the MF, LTA and LIL entities under the Project Finance Agreements. Additionally, the Canada Guarantee provides for an irrevocable, absolute and unconditional guarantee of all of the payment obligations of the Funding Trusts to the bondholders. Any changes to either of the Master Trust Indentures through which the bonds are issued or the Canada Guarantee must be authorized by a special resolution of the bondholders representing more than 95% of the outstanding principal amount of the widely held bonds. So in scenarios where changes were made that would impact principal or interest payments due under these bonds, it was assumed the payments would have to come from sources other than the Muskrat Falls Project or Newfoundland and Labrador ratepayers, such as the Government of Canada making up any differences in payments to the bondholders.

Additionally, the preliminary analyses conducted does not consider all of the potential impacts on other agreements that Nalcor might be party to, such as the Lower Churchill Innu Impacts and Benefits Agreement (IBA). Depending on the scenario, or combination of scenarios, selected for further consideration the impact of these changes on other agreements such as the IBA would need to be examined in greater detail.

Any potential financial reporting issues, as well as potential impacts on the credit metrics of the Province, that might arise under each of the various scenarios outlined have not been considered.