

1 Q. Further to the response to PUB-Nalcor-050, please explain in detail the reasons for
2 the increase in O&M for the Muskrat Falls Project from \$34 million to \$107 million.

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5 A. The amount outlined in the June 23, 2017 Muskrat Falls Project Update was actually
6 \$109 million, not \$107 million. The O&M cost forecast in the June 2017 update
7 increased from previous forecasts as a result of a reassessment of the basis of
8 estimate, taking into consideration (i) current industry benchmarks relating to O&M
9 costs as a percent of installed asset base and HVdc staffing models; (ii) the decision
10 in 2016 by Nalcor to create a functionally-separate Power Supply organization to
11 manage non-regulated electricity assets independently of regulated Hydro assets;
12 (iii) an evolution to an operating philosophy for the LCP assets to support a high
13 degree of reliability and availability to island customers, given these assets will be
14 the single largest source of capacity and energy to the island; (iv) the knowledge
15 obtained regarding the O&M requirements of the assets installed; and (v) early year
16 requirements for additional contracted HVdc experienced resources to support the
17 building of internal expertise in HVdc operation.