

Q. **Reference: Response to CA-NLH-032, part b**

Further to CA-NLH-032(b), Tables 2 and 3, please explain the annual changes in total Muskrat Falls PPA Supply Costs from \$315.3 million in 2027 to \$366.4 million in 2030, separating supply-price escalation, Base Block Energy growth, adjustment interest, other costs and sustaining-capital deferrals. State whether Hydro expects similar annual growth after 2030 and provide the basis for that expectation.

A. The annual changes in the total Muskrat Falls Power Purchase Agreement (“PPA”) Supply Costs are presented in Table 1.

Table 1: Annual Changes in Total Muskrat Falls PPA Supply Costs (\$ Millions)¹

	2028 vs 2027	2029 vs 2028	2030 vs 2029
Base Block Capital Cost Recovery			
Supply Price Escalation (2% increase annually)	4.5	4.7	4.9
Base Block Energy Growth	7.1	7.2	7.4
Interest on Base Block Capital Cost Recovery Adjustment	-	0.1	2.8
Total Base Block Capital Cost Recovery	11.5	12.0	15.0
Other Costs			
Operating Costs	1.5	0.6	0.6
Impact and Benefit Agreement	0.6	0.3	0.3
Water Power Rental	0.5	0.3	0.4
Other	0.0	0.0	0.0
Muskrat Falls Sustaining Capital Costs	(4.4)	0.5	3.2
LTA ² Payments	2.0	0.8	2.3
Total Other Costs	0.2	2.4	6.7
Muskrat Falls PPA Power Purchases per Agreement	11.7	14.4	21.8
Muskrat Falls PPA Sustaining Capital Deferral	4.8	1.1	(2.7)
Total Muskrat Falls PPA Supply Costs	16.5	15.5	19.1

¹ Numbers may not add due to rounding.

² Labrador Transmission Assets (“LTA”).

1 **Supply Price Escalation** – The supply price escalates annually by 2% and will continue to escalate
2 annually to the end of the term of the PPA in accordance with the PPA payment schedule to
3 achieve the target internal rate of return.

4 **Base Block Energy Growth** – Newfoundland and Labrador Hydro’s (“Hydro”) Base Block Energy
5 entitlement by year is outlined in Schedule 2 of the PPA. The entitlements increase each year
6 until the final year of the PPA term. The Base Block Energy is the annual amount of energy from
7 the Muskrat Falls plant forecasted to be required at the signing of the PPA to meet the
8 anticipated customer load requirements on the Island Interconnected System. As customer load
9 requirements were forecasted to increase over time, the Base Block Energy entitlement also
10 increases in accordance with Schedule 2.

11 **Interest on Base Block Capital Cost Recovery Adjustment** – The increase in the interest related
12 to the Base Block Capital Cost Recovery Adjustment is driven by the increase in the balance of
13 the Base Block Capital Cost Recovery Adjustment owing to Hydro. The Base Block Capital Cost
14 Recovery Adjustment is an adjustment applied monthly, as required, to allow Muskrat Falls
15 Corporation to meet its debt servicing obligations for that month and accrues interest at a rate
16 equal to Hydro’s prevailing regulated weighted average cost of capital. The balance in the Base
17 Block Capital Cost Recovery Adjustment increases in 2030 due to the requirement to commence
18 sinking fund payments late in 2029 in relation to Tranche B of the debt incurred to finance the
19 construction of the Muskrat Falls assets.

20 **Muskrat Falls Sustaining Capital Costs** – The driver for the change in the Muskrat Falls
21 Sustaining Capital Costs is the same driver for the change in the Muskrat Falls PPA Sustaining
22 Capital Deferral. Fluctuations in the annual sustaining capital costs are expected in line with the
23 long-term asset management plan, which identifies annual requirements to sustain the Muskrat
24 Falls assets in accordance with *Good Utility Practice*.

25 Please refer to Hydro’s response to CA-NLH-243 of this proceeding for annual changes in the LTA
26 Payments. No material annual changes are forecasted for the other components of the Muskrat
27 Falls PPA Supply Costs.