

Q. **Reference: Response to CA-NLH-044, part b**

Further to CA-NLH-044(b), Tables 2 and 3, please explain the annual changes in total LTA Payments from \$49.4 million in 2027 to \$54.5 million in 2030, separating supply-price escalation, Base Block Energy growth, adjustment interest, operating costs and sustaining-capital costs. State whether Hydro expects similar annual growth after 2030 and provide the basis for that expectation.

A. The annual changes in the total Labrador Transmission Assets (“LTA”) Payments are presented in Table 1.

Table 1: Annual Changes in Total LTA Payments (\$ Millions)¹

	2028 vs 2027	2029 vs 2028	2030 vs 2029
LTA Capital Cost Recovery			
Supply Price Escalation (2% increase annually)	0.8	0.9	0.9
Base Block Energy Growth	1.3	1.3	1.4
Interest on LTA Capital Cost Recovery Adjustment	-	-	0.4
Total LTA Capital Cost Recovery	2.1	2.2	2.7
Other Costs			
Operating Costs	0.3	0.2	0.2
LTA Sustaining Capital Costs	(0.4)	(1.5)	(0.5)
Other	(0.1)	0.0	0.0
Total Other Costs	(0.2)	(1.4)	(0.3)
Total LTA Payments	1.9	0.8	2.3

Supply Price Escalation – The supply price escalates annually by 2% and will continue to escalate annually to the end of the term of the Muskrat Falls Power Purchase Agreement (“PPA”) in accordance with the PPA payment schedule to achieve the target internal rate of return.

¹ Numbers may not add due to rounding.

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

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

17 **LTA Sustaining Capital Costs** – The decrease in the LTA Sustaining Capital Costs from 2028 to
18 2029 is primarily due to the completion of the right-of-way clearing and improvements project
19 in 2028. Please refer to Hydro’s response to CA-NLH-200 of this proceeding for further details.
20 Fluctuations in the annual sustaining capital costs are expected in line with the long-term asset
21 management plan, which identifies annual requirements to sustain the Labrador Transmission
22 Assets in accordance with *Good Utility Practice*.

23 No material annual changes are forecasted for the other components of the LTA Payments.