

1 **Q. Reference: Volume I, Section 4.3, Table 4-3 and NP-NLH-068, Issue Topic: Rate Mitigation.**

2 Hydro’s response to part a) of CA-NLH-032 does not provide the requested information.

3 Please provide a breakdown of the Base Block Capital Costs Recovery amounts for 2024 to 2027
4 test year by component, including return on equity, interest and depreciation.

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7 **A.** While the cost recovery model for the Labrador-Island Link through the Transmission Funding
8 Agreement follows a more traditional cost of service model, allowing for a clear distinction of
9 annual amounts for return on equity, interest and depreciation through the annual Rent
10 calculation, the cost recovery model for the Muskrat Falls Hydroelectric Generating Facility
11 (“Muskrat Falls”) and Labrador Transmission Assets (“LTA”) through the Muskrat Falls Power
12 Purchase Agreement (“PPA”) is not designed as a cost-of-service model. As a result, a
13 breakdown of the Base Block Capital Costs Recovery into return on equity, interest, and
14 depreciation is not available.

15 Under the Muskrat Falls PPA, the cost recovery model incorporates the total project costs, debt
16 servicing costs, preferred dividends and equity internal rate of return to determine the total
17 costs to be recovered. The total cost is then used to derive the escalating supply price applied to
18 Base Block Energy per Schedule 2 of the Muskrat Falls PPA to calculate the Base Block Capital
19 Costs Recovery. The supply price escalates each year based on the energy profile outlined in
20 Schedule 2 of the Muskrat Falls PPA.

21 The Base Block Capital Costs Recovery ensures full cost recovery of the construction and net
22 financing costs of Muskrat Falls and LTA plus a return on equity¹ over the life of the Muskrat
23 Falls PPA.

¹ Return on Equity of 8.4% on common equity related to the original budgeted costs at sanction and a 3% return on the preferred equity related to cost overruns.