Q. Consumer Question: The discount rate used in the CPW analysis is 8% which is the WACC for the interconnected island. This has been used for the isolated option as well. Is this valid, or should a separate discount rate be used for the isolated alternative, which reflects the thermal generation.

A. The weighted average cost of capital (WACC) for all regulated utility capital during Decision Gate 2 analysis was 8%, based on a 75:25 debt to equity capital structure with debt and equity costs of capital at 7.3% and 10% respectively. Regardless of the generation expansion alternative, the utility WACC of 8% applies.

For any two or more alternative generation expansion plans, the deliverable product to the power grid are the same, namely, that there is a sufficient and reliable supply of electric power and energy. Therefore, what matters is the least cost selection between the alternatives. Under either expansion alternative, a regulated utility would generally not bear any risk associated with the full recovery of its capital and operating costs. The fact that there is uncertainty regarding key inputs to the generation expansion analysis identifies a need to use best estimates as a starting point and a requirement for sensitivity analysis. In addition, the presence of uncertainty in one alternative can give rise to strategic pubic policy considerations for investments such as the use of local indigenous resources and infrastructure with known fixed costs for power supply versus a progressive reliance on international priced thermal fuels[1].

Uncertainty on inputs does not change the discount rate for two alternative utility expansion plans producing the same product and benefit to the economy. A

[1] See for example, Newfoundland Labrador Energy Plan, pages 30 to 41.

different discount rate amongst competing projects might be applicable where a company was engaged in diverse lines of business such as oil and gas versus regulated utility operations versus mining.