Q. Consumer Question: Nalcor has used a CPW approach which uses costs only to compare the 2 options over a 50 year period. The costs of the MF site have been kept artificially low in the early years by Nalcor by use of the PPA method for MF sales to Hydro (which is then used in the CPW). At p.185, vol. 2, MHI states, "Other types of analysis that are commonly used include Net Present Value (NPV) and internal rate of return (lRR)". The NPV & the IRR method use both revenue & costs. (a) Has Nalcor used the NPV &IRR method to compare to the CPW result of $2.2B? (b) If not, can Nalcor prepare the NPV & IRR method-uses revenue & costs to compare to the CPW (costs only)?

A. Nalcor notes that the costs of the Muskrat Falls site have not been artificially lowered in the early years by use of the PPA method for Muskrat Falls sales to Hydro. The PPA and the cost of service approaches to establishing prices are both financially valid cost based pricing methodologies with the difference being the pattern of project returns on fixed costs across time.

Nalcor has not used the NPV and IRR method to compare to the CPW. For a regulated utility, rates are set to generate revenues that equal or recover its cost of service. Accordingly, the CPW analysis concerns itself with just the cost side of the equation where annual cost of service calculations for Hydro include operating expenses, fuel expense, power purchases, depreciation and return on rate base as described in Section 9 of Nalcor's Submission. For a regulated utility, the NPV of an investment option will essentially equal 'zero' and the IRR, after accounting for monetary timing differences, will more or less equal the approved weighted cost of capital for the utility, given that the utility is entitled to recover no more, and no less, than its costs.