Wesley Hawe

From: Fred Martin
Sent: Monday, January 16, 2012 9:46 AM
To: Maureen Greene; Sam Banfield
Subject: FW: Changes to the CPW section(s)

Categories: Referral

For your information.

From: Paul Wilson [mailto:plwilson@mhi.ca]
Sent: January-13-12 8:44 PM
To: Fred Martin
Subject: FW: Changes to the CPW section(s)

Hello Fred, as a result of the conference call with Nalcor on Thursday, Rick Horocholyn has revised the report and we are now in agreement with Nalcor's findings. Rick has outlined the changes made to Volume 2 which I will review this weekend.

For Volume 2, Al Snyder and I completed section 1 through 8 and will continue with 9 through 12 on Monday.

Have a good weekend and stay warm and dry.

Regards,
Paul Wilson

From: Horocholyn, Rick [mailto:rhoro@hydro.mb.ca]
Sent: January-13-12 1:40 PM
To: Paul Wilson
Cc: 'Mack Kast (mkast@[redacted])'
Subject: Changes to the CPW section(s)

Paul, I updated volume 1, Section 7.2 PPA vs COS Approach. The last sentence:

"Final results will be assessed following a review of RFI responses."

has been replaced with:

"Using an 8% interest rate for calculating AFUDC, the CPW using a COS approach is approximately 70m lower than by using the PPA approach, but also results in relatively higher unit energy costs to NLH ratepayers from Muskrat Falls in-service in 2017, to 2028. From 2029 and on, the COS approach has lower rates."

Volume 2 was also updated. The description text and figures related to Table 34 were revised to reflect an Infeed Option CPW of 6.58, instead of the original 5.87 in the COS column, with the resulting gap revised to be 2.23 (70m different than the PPA column). The text description for the COS column in Table 34 now reads:

"Column 2 reflects including all assets on a cost of service basis, including the capital expenditures associated with MF, and AFUDC at 8% (column 1 is unchanged for the Isolated Island Option as this was already an entirely COS-based calculation)."

I updated Figures 23 and 24 (Comparative Annual Costs, and Comparative NLH Rates) to reflect the higher fixed cost (COS option) with the inclusion of AFUDC in the in-service amount for MF, and made a few small wording changes in the paragraph describing these Figures. The last paragraph in Section 12.3 Basis for Discounting Costs, now reads:

"Nalcor has argued that the PPA approach for MF costing is preferable because the PPA formula ensures that the ratepayer is not overly burdened in the earlier years by **a rate shock resulting from the use of** the COS methodology. The COS approach front-end loads the capital costs and can only spread them over a smaller energy load that is only 40% of MF's firm energy in 2017. **The COS approach allows no recognition for export revenues available from Muskrat Falls capacity in excess of NLH's own requirements.** Also since the MF plant is not owned by NLH, it is consistent for NLH to treat power supplied from this facility no differently than power that is supplied by other independent providers, which is purchased under PPAs. "

The bold-face text in the above paragraph is used in this email only, to mark the new wording I've added. (not visible if you read this email in plain text mode)

Rick