Q. Further to the responses to PUB-Nalcor-027 and 029 which gives a 2021 forecast average domestic rate of 21.05 cents/kWh, please explain how this rate relates to the forecast of 22.89 cents /kWh for 2021 provided in the Reference Questions issued by the Government of Newfoundland and Labrador and by Nalcor in the response to PUB-Nalcor-026. In the response confirm what is the current forecast for the 2021 average unmitigated domestic electricity rate and provide a reconciliation explaining all differences between the forecast of 22.89 cents /kwh given in September 2018 in the Reference Questions and in the June 2017 Project Update provided in the response to PUB-Nalcor-026.

A. For 2021, the pre-tax electricity rates of 21.05 cents/kWh noted in Nalcor's responses to PUB-Nalcor-027 and PUB-Nalcor-029, as well as the 22.89 cents/kWh noted in Nalcor's response to PUB-Nalcor-026 both refer to the unit rate of supplying electricity to retail customers on the Island Interconnect System. The rate of 22.89 cents/kWh reflects the assumptions at the time of the June 23, 2017 Muskrat Falls Project Update, whereas the rate of 21.05 cents/kWh was based on the October 2018 Nalcor forecast.

The 1.84 cents/kWh decrease in the 2021 forecasted electricity rate for the retail customers on the Island Interconnected System between June 2017 and October 2018 is predominantly driven by the items noted below:

<u>Reductions in Costs ($111 million)</u>

- A reduction in Return on Equity for LIL of $12 million;
- A reduction in estimated LCP Operating and Maintenance costs of $44 million;

- A reduction in the repayment of the PPA/GIA amounts of $20 million, offset by a change in the classification of the PPA/GIA adjustment as part of revenue requirement of $18 million, for a net reduction of $2 million;
- An increase in the value of excess energy exports credited to Hydro of $28 million, mainly driven by the fact that recall power is now being applied directly into rates; and
- A reduction in depreciation of $25 million associated with a revised capital plan by Hydro.

Increases in Costs ($11 million)

- An increase in fuel costs for Hydro of $6 million; and
- An increase in non-LCP power purchases by Hydro of $5 million.

The total of the above changes between June 2017 and October 2018 is a net reduction of $100 million. Based on the estimate that a $66 million change in revenue requirement produces a one cent change in the projected retail rate for customers on the Island Interconnected System, the above items account for 1.52 cents/kWh, or 83% of the total 1.84 cents/kWh increase between June 2017 and October 2018.

The remainder of the change is due to movement in the load forecast between June 2017 and October 2018, as well as a number of smaller items that are not individually material and thus have not been highlighted.

The current forecast of the average electricity rate for domestic customers on the Island Interconnected System for 2021, based on Nalcor's January 2019 forecast is

21.16 cents/kWh, an increase of 0.11 cents/kWh from the 21.05 cents/kWh forecast based on Nalcor’s October 2018 forecast. The only significant change between October 2018 and January 2019 is a reduction of $8 million (0.12 cents/kWh) in net export revenues earned by Hydro, driven mainly by the forecast reduction in energy available for export as a result of increased domestic load in Labrador.