Q. Further to Nalcor's response to PUB-Nalcor-263, please provide the potential "delta impact" under any Lower Churchill Project commercial agreements (i.e. potential true-ups to Emera) assuming that none of the Water Power Rental payments are made to the Province.

A. The elimination of the Water Power Rental payments would reduce the Operating and Maintenance (O&M) expenses incurred by Muskrat Falls Corporation (MFC). As a result of the treatment of O&M costs as flow through expenses under the Power Purchase Agreement between Hydro and MFC, the overall Revenue Requirement for MFLTA noted in Nalcor's response to PUB-Nalcor-263 would be reduced on a dollar for dollar basis. There would be no impact on the MFLTA dividends presented as the elimination of both the expense and the associated revenue would net to zero thereby resulting in no dividend impact.

There would be an impact on the "Adjustments Regarding Operating and Maintenance Costs" outlined in section 5.5 of the Joint Operations Agreement (JOA) between Nalcor Energy and Emera Inc. (Emera) if this change is known prior to the completion of all commissioning. In essence, this provision allows for a one-time payment within 30 days of finalizing the In-Service LTAMP Cost Estimates that is equal to the Present Worth of any annual differences between the O&M that Emera expects to pay associated with the Maritime Link (ML) and 20% of the total expected O&M associated with the ML, Muskrat Falls, Labrador Transmission Assets and the Labrador-Island Link over the term during which Emera will own and operate the ML. That term begins on the ML Commercial Operation Date and ends 35 years after Nalcor starts to deliver the Nova Scotia Block under the terms of the Energy and Capacity Agreement (ECA) between Nalcor and Emera. While the actual calculation of the “true-up” cannot be determined until the in-service LTAMPs are finalized after all commissioning is complete, the mechanics for the adjustment are defined in the agreement and as such, the elimination of the Water Power Rental payments would have a negative impact on Nalcor as either an increase in the amount due to Emera or as a reduction in the amount due from Emera. The financial impact on the one-time JOA “true-up” payment of the elimination of the Water Power Rentals payments for the 35 year term of the ECA, currently estimated to be approximately $48 million, would be equal to the Present Worth of 20% of the annual Water Power Rental payments expected over the term as measured on the ML Commercial Operations Date.

There would also be an impact on the amount of Supplemental Energy to be delivered by Nalcor to Emera under the terms of the ECA. The Supplemental Energy is delivered to Emera during the first five years of the period in which Emera receives the Nova Scotia Block in order to provide Emera with a levelized unit energy cost over the 35-year period equal to the levelized unit energy cost over a 50-year period, the assumed life of the ML. The amount of Supplemental Energy is determined in accordance with Schedule 4 of the ECA. The elimination of the Water Power Rental payments for the 50-year period will result in an increase in the amount of Supplemental Energy, resulting in less energy from Muskrat Falls being available for sale by Nalcor into export markets during the five-year period following the start of Nova Scotia Block delivery.