



Exhibit _____

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4 **NEEDS FOR AND ALTERNATIVES TO (NFAT)**

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6 **POWER Undertaking # 116**

7
8 **SUBJECT:** Transmission – Escalation Rate

9
10 **REFERENCE:** Pages Page 6632 Line 6

11
12 **UNDERTAKING:** POWER Engineers to advise what escalation rate was included in its
13 transmission line cost estimates.

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15 **RESPONSE:**

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17 The rate POWER used to escalate costs based on 2012 or 2013 point estimates is 1.25% per year.
18 This rate was intended to combine cost escalation and capitalized interest. We did not seek to use
19 year by year anticipated escalation rates for materials and labor. POWER based our escalation on
20 data in Appendix 11.1, page 10. The Keeyask transmission lines showed a combined escalation
21 and capitalized interest that was equal to 29% of the 2012 cost. In levelized terms, this is a
22 combined rate of approximately 2.5% for 10 years. $(1.025^{10} = 1.28)$. POWER expects the
23 expenditures for the transmission line projects that occur within the same general time frame to
24 be escalated at the same 2.5% combined escalation and capitalized interest rate. This is a
25 simplified approach, rather than using year-by-year escalation of the expenses for each year.
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