

1 **REFERENCE: Undertaking #145, Transcript Page 10,280**

2 **QUESTION:**

3 a) MIPUG panel to provide the Board with an indication as to the dollar amount of
4 the required foregone government benefit determined in their analysis over the
5 first fifteen years of in-service of Conawapa would be sufficient to change the
6 economics to a more positive approach.

7 **ANSWER:**

8 **(a)**

9 Mr. Bowman's evidence provides an illustrative example of foregone government
10 benefits that could be necessary to permit Plan 14 (the Preferred Development Plan) to
11 show a beneficial profile for ratepayers. The calculation was performed on the 2012
12 estimates provided in the original NFAT filing.

13 The present value of the foregone government benefits under this calculation, over the
14 period to 2040, is \$1.398 billion (with no further relief after this date). This is on the order
15 of 60%¹ of the full PDP government benefit from Water Rentals, Capital Taxes and Debt
16 Guarantee Fees (not including the other government benefits in the form of larger
17 shareholder equity in Hydro, income and other taxes arising from the construction
18 activity, and other economic development arising from construction and operation).

19 To be clear, Mr. Bowman is not recommending this precise approach to benefit sharing,
20 simply noting that a revised benefit sharing is needed to make the Preferred
21 Development Plan beneficial for ratepayers, and secondly that such a revised sharing is
22 feasible within the scale of government benefits that would otherwise arise from the
23 PDP.

24 **CALCULATION**

¹ The above calculation is based on the values from the original NFAT filing, Appendix 11. Comparing this to the consistent economic analysis of 78 year government benefits, this is shown in the Executive Summary Figure 2, at \$1.129 billion plus \$1.285 billion (equals a total of 2.287 billion). The \$1.398 billion value shown above is approximately 60% of the total government benefits from the PDP.

1 To estimate a dollar amount of foregone government benefit that would make the PDP a
2 beneficial project for ratepayers the following approach was used:

- 3 • The government charges (water rentals and assessments, capital and other
4 taxes and debt guarantee fees) from Plan 14 (PDP) were replaced by the
5 amounts from Plan 1 (All Gas) from the start of the analysis to 2033/34
6 to represent the period through Keeyask is in-service (2019/20) plus 15 years.
- 7 • From years 2034/35 to 2039/40, once Keeyask has been in-service for 15 years,
8 the government charges from Plan 14 (PDP) were replaced by the amounts from
9 Plan 6 (K19/Gas/750MW) to represent the state where government would now
10 be charging for Keeyask and the 750MW US Interconnection, but still providing
11 relief for Conawapa.
- 12 • After 2039/40, 15 years after Conawapa comes in-service in 2025/26, the
13 government reverts to charging fully for water rentals and assessments, capital
14 and other taxes and debt guarantee fees.

15 Table 1 below shows the calculated relief per year under this scenario.

16 Data used in the calculation includes:

- 17 • The original financial information, provided in Appendix 11.4 of the NFAT
18 Business Case for the REF-REF-REF scenario and Plans 1 (All Gas), 6
19 (K19/Gas/750MW) and 14 (PDP). Additionally, debt guarantee fees per year
20 were used as provided in Attachment 1 to PUB/MH I-073a.
- 21 • A nominal discount rate of 7.05% was used to calculate the present value (5.05%
22 real rate with 1.9% inflation), as were the reference scenario conditions for
23 capital costs, economic conditions and energy prices.

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Table 1: Calculation of Example Government Relief Scenario per Year (\$ Millions)

REF-REF-REF 7.05% Nominal Discount Rate	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	
Plan 14 PDP - Appendix 11.4																													
Water Rentals and Assessments	117	116	112	112	112	112	112	114	124	127	128	128	127	135	148	150	151	151	152	153	153	154	154	154	154	155	155	155	
Capital and Other Taxes	87	95	101	109	119	127	134	141	149	158	166	174	181	187	190	192	195	197	201	202	203	204	206	207	208	210	212	214	
Debt Guarantee Fee	93	102	114	131	149	168	186	199	211	224	236	250	266	276	281	283	284	285	283	276	276	273	255	253	249	246	243	243	
Plan 1 - All Gas - Appendix 11.4																													
Water Rentals and Assessments	117	116	112	112	112	113	112	112	114	114	113	113	113	114	115	115	114	114	118	117	116	116							
Capital and Other Taxes	87	95	99	104	108	110	110	110	111	113	114	116	118	119	121	123	128	132	135	137	139	142							
Debt Guarantee Fee	93	102	114	129	141	150	156	157	158	160	158	159	162	164	162	162	164	168	168	162	162	160							
Plan 6 - K19/Gas/750MW - Appendix 11.4																													
Water Rentals and Assessments																								132	131	132	132	134	133
Capital and Other Taxes																								170	172	175	179	183	185
Debt Guarantee Fee																								204	201	200	201	205	209
Total Relief	-	-	2	7	19	34	54	75	101	122	145	164	181	201	221	225	224	219	215	215	215	213	109	110	104	99	88	85	
Total 2014/15 Present Value of Relief Applied to Ratepayers	-	-	2	9	25	53	94	147	214	290	374	463	555	650	747	840	927	1,006	1,078	1,145	1,209	1,267	1,295	1,321	1,344	1,365	1,382	1,398	

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